ONE STOP
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FINANCEMATTERS
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MORTGAGE MARKET UPDATE

After a strong showing in 2015, the signs indicate that the UK property market has yet to run out of steam in 2016.

The highly-publicised launch in December of the Help to Buy Individual Savings Account, with its attractive incentives and the increased provisions for London buyers under the government's Help to Buy scheme are just two of the many factors creating further demand and upward price pressure in a market where first-time buyer properties remain in short supply.

In a report issued in December by property website Rightmove, they predict that new seller asking prices will rise by 6% in 2016. They believe that this may be the year when many young urban professionals finally leave London and head to buoyant cities like Manchester, Leeds, Cardiff and Edinburgh. Although these areas are becoming more expensive, by comparison with the London property market they may seem more affordable.

Buy-to-Let surcharge looms

Following the announcement of the stamp duty surcharge, would-be landlords will be trying hard to secure suitable properties and complete the purchase before the April 2016 deadline. First-time sellers may find that there is a surge in interest in their properties from potential investors.

On the other side of the coin, some landlords will be worried about the upcoming changes to mortgage interest tax relief and may consider this is the right time to sell up.

The Council of Mortgage Lenders (CML) in their December 2015 market commentary reported that they expect to see further remortgaging activity, whilst interest rates remain low and lenders continue to compete against each other for business with attractive fixed-rate deals. Second and subsequent buyers are expected to be in the market, as they are able to secure better deals as a result of rising house prices improving their equity positions.

2015-16 ISAs
COUNTDOWN TO THE END OF THE YEAR

As we approach the end of the 2015-2016 financial year, you still have time to make contributions up to the maximum allowable limit.

ISA type	Maximum contribution per person per year
CASH and/or STOCKS & SHARES ISA	£15,240
JUNIOR ISA	£4,080
HELP TO BUY ISA	£2,400* +£1,000 one-off contribution when the account is opened

*If you have contributed to a Cash ISA within the 2015-2016 tax year, you won't be able to open a Help to Buy ISA until April 2016 as you can only pay into one Cash ISA per tax year.

Can I get a mortgage?

Following a lull in the market in April 2014, caused by the introduction of stricter lending criteria introduced under the terms of the Mortgage Market Review, the level of transactions in the mortgage market has risen back to previous levels.

However, lenders still require to see that your finances are in order and well-managed. You can expect to face a lengthy set of application questions and should be prepared to answer some probing questions.

Interest rates

Following the recent rise in interest rates in the US, attention has been focused on the likelihood of a UK rate rise in 2016. It is certainly worth reviewing your mortgage if your current deal is coming to an end, or if you want to fix your mortgage interest rate now ahead of any potential rate rise announcements. Your adviser will be well equipped to review your current deal and inform you if there's a better deal on offer, either from your current lender or from another provider.

Your home or property may be repossessed if you do not keep up repayments on your mortgage.

THIS ISSUE: WHAT EVERY CHILD SHOULD LEARN ABOUT MONEY | PENSIONS | BUY-TO-LET – WHERE ARE WE NOW?

WHAT EVERY CHILD SHOULD LEARN ABOUT MONEY

From September 2014, financial education officially became part of the national curriculum. Parents and grandparents can play a major role in ensuring that as children grow up, they learn good money habits that will stand them in good stead for the future.

What should children be taught from an early age?

Financial independence

Many experts recommend opening a bank account for a child so that they can manage their own cash. If they get their pocket money paid into a bank account and know how to run it, the chances are they will learn how to take financial decisions responsibly. With appropriate guidance, they will quickly learn why balancing saving with spending matters in adult life.

Saving even small sums is worthwhile

Junior Individual Savings Accounts (JISAs) show children how their savings can grow, and can be opened for any child under 18. Those children with a Child Trust Fund now have the option of transferring this into a JISA.

They work in a similar way to adult ISAs in that interest on cash is paid tax-free, and there's no Capital Gains Tax to pay on stocks and shares on encashment, and no further tax to pay on income.

One significant advantage of a JISA is that once it has been opened by the parent or guardian, anyone can make contributions within the child's annual JISA limit, including grandparents, friends and family. Children gain control of their JISA at age 16, but cannot withdraw the money until they turn 18. At that point, the account is automatically rolled over into an adult ISA, a valuable facility for those who, having acquired the savings habit, want to continue saving or investing tax-efficiently.

Show them how money can grow

Another good lesson to teach children is how compound interest works. If they can see how they can gain interest on their savings and on past interest from their savings too, they will appreciate how valuable regular amounts saved over a lifetime can become. If children grasp this concept, they will have a better understanding of how wealth is created.

Explain how credit cards and loans work

Older children may not realise how credit cards work, or how interest and charges are calculated, but need to be aware before they take out a credit card for the first time. When it comes to borrowing money, they need to know that all loans are not created equal, and that there is a big difference between a payday loan and, say, a car loan. It is also worth explaining to older children the value of having a good credit score and how this can improve their financial chances when the time comes to enter into big financial transactions like taking out their first mortgage.

Children gain control of their JISA at age 16, but cannot withdraw the money until they turn 18.

The value of the investment can go down as well as up and you may not get back as much as you put in.

PENSIONS – TAX RELIEF, USE IT OR LOSE IT?

2016 looks set to be yet another year of fundamental changes in the pension industry. New tax rules come into force in April, and following the recent industry-wide consultations on the future structuring of pension tax relief, further announcements are expected in the spring Budget set for 16 March.

April tax changes

The changes coming into force in the new tax year cover the Lifetime Allowance and maximum contributions eligible for tax relief. For the tax year 2016-17, the Lifetime Allowance is to be reduced from £1.25 million to £1 million. While £1 million still seems a high figure, those who have been in a scheme for a long period of time or have large salaries may feel the impact this restriction imposes, if they are not eligible for Fixed (or Individual) Protection 2016. Also the annual allowance taper for high earners will potentially reduce the maximum annual contributions eligible for tax relief to £10,000, although this only applies to those with six-figure salaries.

The new state pension

The new state pension will come into operation for people retiring from 6 April. This has been fixed at £155.65 a week. However, this is the maximum, and many people are set to receive far less. Pensions Minister Ros Altmann admitted in a recent interview with the BBC that only 37% of people reaching state pension age in 2016 will qualify for the full amount. This underlines the view that the government sees the state pension purely as a safety net, not a means of securing a comfortable retirement.

Auto-enrolment

With the UK state pension being amongst the lowest in Europe when compared to pre-retirement earnings levels, and the age at which it can be taken set to rise over the coming years to 68, the government continues its efforts to encourage everyone to save for their own retirement. Workplace pensions are set to grow rapidly in 2016 as many more firms reach their staging dates under auto-enrolment. This means that by the end of the year, more workers in the UK than ever before will be in a pension scheme.

Everyone needs a plan

Whilst the pension legislation landscape continues to alter, the key message remains clear; we all need to ensure we're making adequate pension provision by taking advantage of each year's tax relief while we can. It could be a case of 'use it or lose it'.

It's always easier to plan if you have the facts. It's important to know your state pension age and to get a state pension forecast. If you are eligible to join a workplace pension scheme, you should seriously consider doing so. Opting out of auto-enrolment would cost you your tax relief and your employer's contribution.

If it's been a while since you discussed your pension planning with your adviser, this could be a good time to schedule a review.

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BUY-TO-LET – WHERE ARE WE NOW?

Buy-to-let landlords could be forgiven for feeling that the last few months have placed them in the firing line. The Chancellor, George Osborne, has introduced a variety of measures that look set to have a major impact on their finances.

In December 2015, Mark Carney, Governor of the Bank of England, expressed his concerns that the buy-to-let sector could become a source of risk in financial markets. He argued that landlords might decide to sell off their properties if interest rates rise or house prices go into sharp decline, destabilising the property market and having severe consequences for banks and home owners.

The Treasury has announced a consultation period that runs until 11 March. The outcome of this consultation might mean that the Bank of England is given more power to regulate the market. It could, for instance, see the introduction of limits being placed on high loan-to-value mortgages taken out by buy-to-let landlords.

Autumn Statement announcement

Prior to launching the consultation, the Chancellor had already announced other changes in his Autumn Statement. From April 2016 there will be a new stamp duty charge on the purchase of additional properties such as buy-to-lets and second homes; these buyers will pay an extra 3% in stamp duty.

This comes on top of measures in the Summer Budget which will reduce the tax relief available on buy-to-let mortgage interest payments.

Tax changes

Landlords who had been able to claim tax relief worth 40% or 45% will find their relief restricted to 20% once the changes are fully implemented. Currently, those with buy-to-let mortgages can deduct all finance costs (such as mortgage interest, interest on loans taken out to furnish the property, and fees) in arriving at their rental income. From April 2017 this will no longer apply. They will instead receive a basic rate reduction from their income tax liability for their finance costs. In addition, from April 2017 the 10% wear-and-tear allowance will not be available; landlords will from then on only be able to deduct costs they have actually incurred.

However, the new rules will not be fully implemented until 2020 as the relief will be gradually tapered down. For example, in tax year 2017-18 the deduction from property income will be restricted to 75% of finance costs, with the remaining being available as a basic-rate reduction. For higher and additional rate tax payers, the groups most affected by the change, there are ways they can reduce the impact, such as setting up a company and putting their buy-to-let properties into it, though this may have some disadvantages and needs careful consideration.

Indirect property investment

If you want to invest in commercial and residential property but don't want to buy, you can do so through investing in unit trusts, open-ended investment companies (OEICs) and real estate investment trusts (REITs).

The value of the investment can go down as well as up and you may not get back as much as you put in.

The level of fees will vary according to individual circumstances but will typically be £350 and we are also paid commission from the lender. Alternatively, you could receive the commission from the lender and pay us an estimated fee of 1.5%.