e-news

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Buy-to-let: a taxing issue

April will mark the start of another measure designed to increase tax for buy-to-let investors.

A third unwelcome tax change will soon be hitting buy-to-let (BTL) investors. From 6 April 2017, only three quarters of interest on any BTL mortgage will be offset-able against rent for tax purposes, with a 20% tax credit given for the remaining quarter. By 2020/21 there will be no offset and in its place will be a 20% tax credit for all interest paid, equivalent to basic rate relief.

If you are a higher or additional rate taxpayer, this will lead to a drop in net income. By 2020/21, your full rental income (less expenses) will be taxable, meaning an increase to your total taxable income. The new calculations could also mean you cross an income threshold triggering extra tax.

And before you think "I'll sell up", remember that there was no cut in the capital gains tax (CGT) rates for residential property: they stay at 18% within the basic rate band and 28% above. Worse still, from April 2019, CGT on residential property will be payable within 30 days of sale.

All these tax changes have significantly reduced the appeal of BTL for many, even before you consider the possibility that interest rates could start rising in the future.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it. Think carefully before securing other debts against your home. Business buy-to-let and commercial mortgages are not regulated by the FCA. Think carefully before securing other debts against your home.

Estate planning with your pension

It may sound strange, but your pension could be the last thing you should draw on in retirement.

Over the last five tax years the amount paid in inheritance tax (IHT) has risen by over 70%. However, there is one area where the IHT rules have become noticeably more favourable: pensions.

A range of reforms have made defined contribution (money purchase) pensions, such as personal pensions, a valuable tool in estate planning.

The broad rules now mean that pension death benefits – lump sum and income – are generally free of IHT and, if death occurs before age 75, also free of income tax.

Those tax freedoms mean that from an estate planning viewpoint leaving your pension untouched until at least your 75th birthday will often be the sensible course of action.

If you are thinking "Good idea, but what do I live on?", then the answer depends upon a variety of factors. Drawing on existing non-pension investments could be one solution, as it reduces your IHT liable estate while preserving your IHT-free pension.

Please get in touch if you think you may be affected.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

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Deposit protection increase

The Financial Services Compensation Scheme protection limit for deposits with banks and building societies returned to £85,000 on 30 January 2017.

The £10,000 increase, which has been subject to regulatory consultation, is the result of the recent decline in the value of the pound against the euro. Under EU law, deposit protection is set at €100,000 or its currency equivalent. If you are holding such high levels of cash, you should first review how much money you need on deposit. At best, instant access accounts offer a sub-inflation 1%, but many pay considerably less.

Automatic enrolment fines escalate – don't join the list

More than 700,000 small employers (generally those with under 30 employees) will see their workplace pensions duties start in 2017, according to the Pensions Regulator.

The latest data about compliance with the automatic enrolment rules show that the regulator has been busy chasing those employers who have missed their deadlines.

In the three months between August and September 2016, over 15,000 compliance notices were issued, as well as more than 3,700 fixed penalty notices of £400.

There were some 576 penalty notices involving fines of up to £10,000 per day in the quarter, more than three times the total figure for the nine months up to June 2016.

If your firm is one of those embarking on auto-enrolment this year, don't end up on the Regulator's list.

Occupational pensions are regulated by The Pensions Regulator

Curtains for the Autumn Statement

The 2016 autumn statement was the new Chancellor's first set piece, but it did not contain much good news.

Mr Hammond's Autumn Statement (which he announced would be the last) contained a range of measures which marginally raised tax income, including:

Salary sacrifice schemes The income tax and national insurance advantages of salary sacrifice schemes, such as exchanging salary for a tax-free mobile phone, will largely disappear from April. This will reduce the benefits of pick-and-mix remuneration packages, although there will be transitional protections for existing arrangements and salary sacrifice to boost pension contributions will be unaffected.

Money purchase annual allowance This reduced annual allowance was introduced last April to limit the scope for recycling flexible pension income as fresh, tax-relieved pension contributions. It was initially set at £10,000, but from 2017/18 it will be just £4,000. If you are planning to phase your retirement, this reduction could complicate matters.

Tax evasion and avoidance The usual raft of measures were aimed at increasing tax revenue, some of which had already been trailed by the Chancellor's predecessor George Osborne. One important new rule will be a legal "requirement to correct" by 30 September 2018 any "offshore tax non-compliance" existing on 6 April 2017.

If any of these measures could affect you, please contact us for further information and advice.

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ISAs and estate planning

ISAs have traditionally been seen as a foundation for good financial planning because of their general tax efficiency. However, they have had a negative effect on estate planning because they form part of the deceased's estate for inheritance tax (IHT) purposes.

Two recent changes could make ISAs more useful for estate planning.

A spouse or civil partner can now effectively inherit their deceased person's ISA savings. This is helpful for general tax planning but on its own it will not save IHT, because this tax would normally only be charged when the survivor eventually dies.

More important, ISAs can benefit from business property relief (BPR) to the extent that they are invested in qualifying AIM (Alternative Investment Market) stocks. Once you have owned BPR-qualifying shares for at least two years, you can pass them on death free from IHT. AIM stocks are generally much higher risk than a typical stocks and shares ISA portfolio. But the higher risk needs to be considered against a potential loss of 40% IHT (for those with larger estates).

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