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YOUR HOME FINANCE WINTER 2019

INSIDE THIS ISSUE

TAX RELIEF ON SHARED OWNERSHIP PURCHASES

Shared ownership has become increasingly popular over the last few years, especially amongst first-time buyers. It involves buying a share in a property and renting the rest, making it a more a cost-effective way to get a foot on the property ladder.

STAMP DUTY ANOMALIES

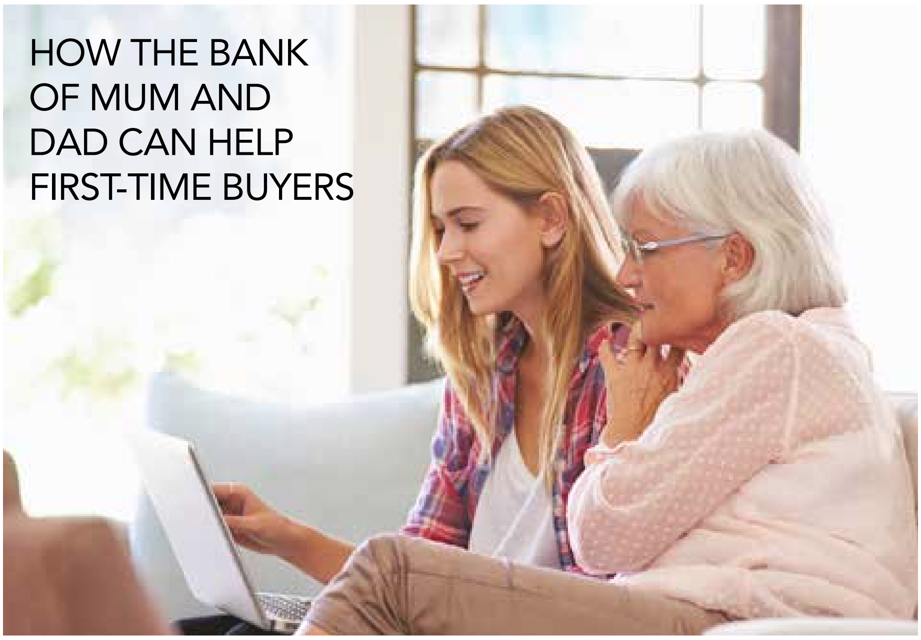
In his 2017 Budget, the Chancellor raised the 0% Stamp Duty threshold from £125,000 to £300,000 in order to help first-time buyers. However, the way in which it was applied to shared ownership purchases differed, meaning that they didn't benefit to the same extent as other purchasers. This has now been addressed.

The Chancellor's 2018 Budget corrected the anomaly from his previous Budget, by cutting Stamp Duty for first-time buyers of shared ownership properties worth up to £500,000.

WELCOME NEWS

And there was more good news. The Chancellor applied the relief retrospectively from his 2017 Budget to shared ownership properties bought in England and Northern Ireland. Searching Stamp Duty Land Tax on www.gov.uk gives details of how to contact HMRC if you're one of the many shared ownership buyers who are now entitled to a refund.

HOW THE BANK OF MUM AND DAD CAN HELP FIRST-TIME BUYERS



With property prices out of sync with wages, high rents and living costs rising, it comes as little surprise that first-time buyers are finding it hard to afford the deposit for a home. Unsurprisingly, many find they need to turn to the Bank of Mum and Dad for some additional financial help. The challenge facing parents wishing to lend or gift money to their children is to decide quite how best to do this.

Firstly, it's really important that parents don't compromise their own financial security; they need to think about the long-term implications of giving their wealth away. Taking financial advice will help them consider their options.

LOANING THE MONEY

It might suit some families better to loan rather than give their children money to help them buy a home. Although it may seem bureaucratic to do so, it is worth drawing up a contract that stipulates what the repayment terms are to be. Not only does this prevent future arguments as to whether the money was a loan or a gift, it also means that the parents know when they can expect to get their cash returned. If a parent loans their child money, and the child pays interest to the parent, then this is taxable.

TAX MATTERS

A parent can gift any amount of money to a child without it giving rise to an immediate liability to tax. However, you may need to consider the Inheritance Tax (IHT) implications of doing so. Gifting a child more than £3,000 in a tax year means that the money will be classed as a 'potentially exempt transfer' and if the donor dies within seven years, the money will be considered to be part of their estate for IHT purposes, which may have an impact if their estate is valued at more than £325,000, and is not all passing to a surviving spouse. The normal IHT rate of 40% tapers down to 8% during the seven-year period.

A gift of up to £3,000 a year is exempt from IHT, as is a gift of £5,000 made when a child marries. Parents can also make regular gifts out of income provided that certain criteria are met, and the amount given away doesn't affect the parents' standard of living.

IN THE NEWS...

YOUNG ADULTS PRICED OUT OF PROPERTY MARKET

Around four in 10 young adults can't buy one of the cheapest homes in their area even with a 10% deposit, according to research[1]. The Institute for Fiscal Studies figures show that, in real terms, house prices in England have risen by 173% over two decades, whilst the average pay for 25 to 34-year-olds has grown by just 19% over the same period.

PEOPLE UNDERESTIMATING LIFE INSURANCE NEEDS BY AS MUCH AS £140,000

A recent survey[2] has shown that many people underestimate the amount of life insurance they need; 49% of those questioned thought that a sum in the region of £113,000 would be enough. However, with the average mortgage standing at £123,423 this figure is unlikely to be sufficient for a family's needs. Everyone's circumstances are different, but a figure of 10 times annual salary is a general rule of thumb.

STUCK WITH A 'ZOMBIE' BANK? FCA CALLS ON LENDERS TO HELP HOMEOWNERS

Prior to the financial crisis, many homeowners took out mortgages when lenders failed to complete strict checks on income. These customers are finding they no longer pass affordability checks and are unable to qualify for new loans. With 140,000 homeowners saddled with mortgages from unauthorised or inactive lenders, the FCA are looking at ways of improving the regulation, so it isn't a barrier to customers switching.

A mortgage is a loan secured against your home or property. Your home or property may be repossessed if you do not keep up repayments on your mortgage or any other debt secured on it.

[1]Institute for Fiscal Studies, Oct 2018
[2]MoneySuperMarket, Oct 2018

RETIREMENT MORTGAGES: WHAT YOU NEED TO KNOW

Banks and building societies are increasingly aware that people want to borrow later in life, and many are developing new ways to support them.

The rules on retirement mortgages have been changed and lenders can now grant interest-only mortgages on the basis that the property will be sold to repay the loan when the borrower dies or moves into care. This means that, for instance, retired borrowers can now re-mortgage their interest-only loan when it comes to an end, using one of the newer mortgage products on offer.

The money borrowed through retirement mortgages can be used to pay off an existing loan, boost pension income, fund home improvements, travel the world or help a family member onto the housing ladder.

RETIREMENT INTEREST-ONLY MORTGAGES

Similar in many ways to standard interest-only mortgages, you pay interest on the loan each month. Borrowers are required to meet affordability criteria and be able to demonstrate that they have sufficient income to be able to make regular interest payments for life. There is no set end date and the loan is redeemed when you die, go into care or sell the property.

LIFETIME MORTGAGES

Lifetime mortgages, also known as equity release mortgages, are available to those aged 55 and over. The loan is secured against your home, allowing you to release some of the equity, the cash value you've built up in your property. The mortgage loan and the accumulated interest is paid off when the last surviving owner of the property dies, sells the home or goes into residential care.

PROFESSIONAL ADVICE PAYS

If you're an older borrower looking for a mortgage, it makes sense to work with us. We know the market well and can recommend the right deal for your circumstances.

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Think carefully before securing other debts against your home.

START THE NEW YEAR WITH THE PROTECTION YOU NEED

Many people take out policies and forget about them, trusting to luck that over the years they still have the cover they need. Or maybe they rely on the life cover provided by their job, which might not be enough for their needs.

If you haven't looked at your policies in a while, this could be a good time to have them checked out, especially if you've had additions to your family, a new home or an extension, a new job or a change of lifestyle.

Income protection (with no investment link) has no cash in value at any time and will cease at the end of the term. If you stop paying premiums your cover may end.

DON'T BUY A MONEY PIT

Buying a home is an exciting time, but it's important not to get carried away when you find your dream property. It really pays to get a structural survey carried out by a professional surveyor, as they will take an objective view and report on any problems they may uncover.

THERE MAY BE TROUBLE AHEAD

A surveyor will have a list of things to check on your behalf to prevent you buying a money pit. Missing tiles, roofs that sag, window frames that have seen better days, floors and walls that need attention will all be noted in the report they provide. So too will any water damage, damp or signs of condensation. Getting boilers and central heating systems checked makes sense too, as replacing these can be expensive.

A BARGAINING TOOL

Your survey will provide an approximate figure for any repairs needed; if you still want to go ahead with the purchase of the property, you can use this as a bargaining tool to try to get the price of the property reduced.

TWO MORE YEARS OF HELP TO BUY WILL BENEFIT FIRST-TIMERS

The 2018 Budget contained measures aimed at tackling housing issues, including welcome news that the Government's Help to Buy scheme was to be extended.

Help to Buy was launched back in 2013 and is designed to make home ownership more accessible to first-time buyers and home movers. Under the scheme, the government offers a loan of up to 20% of the price to buy a new-build property of up to £600,000. A London-only version of the scheme provides 40% equity loans.

CHANGES TO THE SCHEME

In the 2018 Budget, changes were announced to the scheme. Until 2021, anyone taking advantage of a Help to Buy equity loan to boost their purchasing power can buy a property worth up to £600,000. After this period, and for a maximum of two years, only first-time buyers will be eligible to buy through the scheme. The maximum property values will be restricted, with varying limits in place around the country.

LONDON RULES

After 2021, first-time buyers in London will still be able to buy properties up to the value of £600,000 using the scheme. All other regions will see the implementation of a cap on maximum prices, reflecting regional differences in average house prices. So, for properties in the south west, the new limit will be £349,000, but in the north east the figure is £186,100. The south east cap is a more generous £437,600.

NO NEW SCHEMES

The Budget document reveals that the scheme will not be extended beyond 2023. However, in the meantime first-time buyers still have the opportunity to access the scheme. In addition, house builders have a time-frame in which to plan and build the homes that are so desperately needed around the country.

NEW HOMES? WE'RE RAISING THE CEILING

The number of new homes registered with the UK's largest warranty provider in the third quarter of 2018 shows that the pressure to build more houses is being maintained.

National House Building Council figures show 43,578 homes were registered between July and September 2018, 15% higher than the same period in 2017, and the highest number recorded since 2007. Of these 10,058 were affordable homes, a year-on-year increase of 12%.

Although good progress is being made, many in the construction industry are worried about the potential effects of Brexit.

THE 'PREFAB' MAKES A COMEBACK

The older generation will fondly remember the prefabricated homes that were a feature of post-war Britain. They played an important role in easing the housing crisis – now they're back! Modular homes, made in factories and then delivered in sections that are assembled on site, are becoming increasingly popular as a way of beating the current housing crisis, offering a contemporary housing solution.

Firms manufacturing them point out that today's modular homes are built to high quality standards and putting them together represents a greener building option.

IF YOU WOULD LIKE ANY ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.