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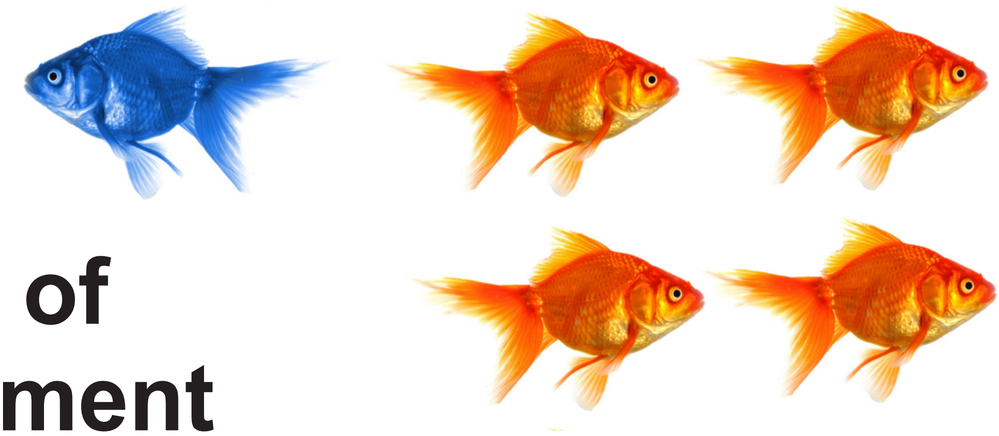
Financial Viewpoint

Your latest newsletter from Financial Planning Hub



Opting out of Auto-enrolment

Saving into a pension is an important financial step we should all be taking to ensure a comfortable lifestyle when we stop work.

When it comes to workplace pensions, all employers will have been required to enrol their eligible workers into a scheme by 2018, if they:

- are not already in one
- are aged between 22 and the State Pension age
- earn more than £10,000 a year
- work in the UK

You can choose to opt out of the scheme, but your employer is obliged to enrol you back in automatically every three years. You can opt out again if you still don't think it's for you, but you should think carefully before you do – especially if you don't have any other pension savings. After all, what will you live on when you retire?

Don't rely on the State

Many people over estimate how much they will receive from the basic State pension, which is currently just £115.95 a week plus any means-tested benefits. This will rise to a maximum flat rate of £155.65 from April 2016 – but only for those that have paid 35 years of National Insurance – providing an income of just over £8,000 per year.

Saying no to free money

Take 30 year old Miss Brown earning £26,500 per year with no current pension savings, who wants to retire at 60.

If she pays in £300 a month in to a private pension scheme until retirement she will receive an estimated pension income of just £3,960 per year.

If Miss Brown is opted into an auto-enrolment scheme where her employer contributes 5% per month (the minimum employer contribution is currently 1% which will increase over time), her estimated income at retirement rises to £5,420 per year. That's nearly £1,500 a year more with no additional cost to her.

What will you live on when you retire?

Relying on the State pension alone could mean a drop in your income when you retire. Saving into a pension, including a workplace pension scheme, means you will have more money to continue doing the things you enjoy when you retire.

A pension is only one form of retirement planning and it's a good idea to combine it with other methods. To find out more about auto-enrolment, pensioans and other types of retirement planning, please get in touch.

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Taxation changes impacting Buy to Let landlords

In last year's Summer Budget, George Osborne announced changes to the way landlords can claim tax relief on their mortgage finance costs. In his Autumn Statement, the Chancellor then announced proposed changes to Stamp Duty Land Tax on properties purchased for Buy to Let purposes.

Tax relief on interest costs

Landlords can currently deduct mortgage interest from their rental income before calculating how much tax they should pay.

From April 2017, tax relief on Buy to Let mortgage interest will gradually be reduced. The restrictions will be phased in over four years, resulting in tax relief only being available at the basic rate of income tax (currently 20%) from April 2020:

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LANDLORD COPY

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- 6 April 2017 – higher rate relief can be claimed on the first 75% of the Buy to Let mortgage interest costs. The remaining 25% will have the basic rate of tax relief applied.
- 6 April 2018 – higher rate relief can be claimed on the first 50% and the remaining 50% will attract the basic rate of tax relief.
- 6 April 2019 – higher rate relief can be claimed on the first 25% and the remaining 75% will attract the basic rate of tax relief.
- 6 April 2020 – Tax relief can only be claimed at the basic rate level.

Wear and Tear Allowance to go

Up until April 2016 only landlords of fully-furnished residential properties could claim tax relief for wear and tear on furnishings.

This 'Wear and Tear' Allowance has been replaced with a relief that enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings in the property, such as:

- sofas
- televisions
- fridges and freezers
- carpets and floor-coverings
- curtains
- crockery or cutlery
- beds and other furniture

The initial purchase of furniture, furnishings, appliances and kitchenware won't be eligible for the tax relief.

Changes to Stamp Duty Land Tax

Stamp duty on properties purchased for Buy to Let purposes will increase by 3% for each band from April 2016. This will mean that even properties up to the value of £125,000 that would previously have attracted 0% stamp duty will now attract the 3% Buy to Let / second home rate.

Some Buy to Let mortgages are not regulated by the Financial Conduct Authority.

If you let a property and would like to know more about these changes, please get in touch.

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

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