



Sovereign

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Established 1981

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While the politicians battle over Brexit in 2018, most of us are probably best off just working hard, helping others and enjoying life. The Bank of England did make the first interest rate rise in over 10 years in response to the increase in inflation, but it was only 0.25% and they were careful to clarify that they did not foresee needing to make further increases for some time.

2018 brings Sovereign Finance's 37th year of trading. We look forward to continuing to service existing and new clients to help them achieve their objectives and gain financial security.

Assisting our clients to successfully achieve their objectives and enjoy financial security

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Proprietors TB Shuster BA, FHD Dip PFS and MJ Shuster BA (Hons) Cantab



AUTUMN BUDGET

There was not much excitement in the Chancellor's Autumn Budget but the removal of Stamp Duty for First Time Buyers on purchases of up to £300,000 (£500,000 in the London area) should help boost the property market. Many tax matters were not changed. For example, the total that can be put in ISAs (Individual Savings Accounts) each year was not changed. There were some other tweaks in the Budget and here is a brief summary:

The Personal Tax Allowance is increasing from the 6th of April 2018 from £11,500 to £11,850. This is the amount you can earn before you have to pay any tax. You will pay tax at 20% on earnings you make above this £11,850 up to a further £34,500. This means that in the tax year 6 April 2018 to 5 April 2019 you would not start paying higher rate tax (40%) until your total earnings exceeded £46,350 (£11,850 plus £33,500). Those with earnings in excess of £100,000 still face the progressive loss of their Personal Tax Allowance and those earning over £150,000 will pay the Additional Rate (45%) on any income they have in excess of £150,000.

Some additional changes were:

- Pension Lifetime Allowance increasing from £1,000,000 to £1,030,000;
- Capital Gains Tax Annual exemption increasing from £11,300 to £11,700;

- The Inheritance Tax nil-rate band will stay at £325,000 but the Residence Nil-Rate Band (the rather complicated allowance for those who, when they die, pass their private residence on to family members) was increased to £125,000. So a couple who die and pass the property they have lived in to their family would not have to pay any Inheritance Tax unless the value of their joint estate exceeded £900,000.
- Those receiving the State Pension will be pleased at the 3% increase in their pension payments. If they also have savings, the Bank Base Rate increase could mean that they also might receive a bit more income from their savings.

One useful allowance that has been continued is the Rent-A-Room scheme whereby you can rent out furnished rooms in the home you live in and make up to £7,500 free of tax. You can let as much of the house as you wish as long as you live there as your residence.



MORTGAGES FOR THE OVER 55s

There is more flexibility now for those over 55 to be able to take out a mortgage. You still need to meet the lender's income requirements but earned income in many cases can be accepted up to age 70. Beyond age 70 the income the lenders will take into account usually needs to be pension income or income from property rental or investments.

MORTGAGES WITH NO MINIMUM INCOME

The Lifetime Mortgage provides a facility for borrowing based solely on your age and the value of the property. The older you are, the more you can borrow and you have the options of either paying just the interest for as long as you wish; making payments now and then; making regular payments so as to reduce the amount borrowed (as with a standard repayment mortgage); or letting the interest build up and be paid from the eventual sale of the property. Here is a sample of the maximum borrowing possible at various ages on a property with a value of £200,000:

Age 55	21% of value £42,000
Age 60	26% of value £52,000
Age 65	31% of value £62,000
Age 70	36% of value £72,000
Age 75	41% of value £82,000
Age 80	46% of value £92,000

**SPECIAL
NOTICE!**

Note: These are not guaranteed levels of borrowing. In some cases it may be possible to borrow somewhat more than shown above, and in other cases, the borrowing may be less.

WHY DO PEOPLE TAKE OUT A LIFETIME MORTGAGE?

A recent survey was done for those taking out Lifetime Mortgages as to how they used the monies raised:

- 55%** to help their family
- 63%** to pay for home improvements or renovations
- 17%** to take a holiday
- 19%** for getting care provided at home
- 57%** to meet a shortfall in income.

We have also seen a number of people taking out a Lifetime Mortgage to clear an existing mortgage – particularly an interest-only one which is reaching the end of its term and where the money is not available to pay it off, and where the people do not want to have to sell their property.

WORKPLACE PENSIONS – PAYMENTS TO INCREASE

If you are employed and paying into a Workplace Pension, you should be advised by the provider or your employer that the minimum payments will increase from 6 April 2018.

Currently the minimum payments have been 1% of salary by the employee and 1% by the employer. These will increase to 3% by the employee and 2% by the employer. A person earning £20,000 per annum (and with a scheme where the full pay is used to calculate the payment) would see an increase in their deduction from about £14.00 per month to about £40.00 per month. While that is a large increase, if you take into account what the Government adds and what the employer adds, that £40.00 paid in would mean a total of about £84.00 going into the pension – a return of 210%! It is something to be aware of and budget for.

Menu



RETIREMENT MENU (for Personal Pensions only)

Minimum age 55

Cash please

Those who are 55 and older can now draw out all (!) of their pension fund as cash where they have one or more personal pensions. So they can ask to have it all as cash (!) **BUT...**

Tax! The downside is that with each pension only 25% of the fund can be taken tax-free. Any amount that you take out over and above this tax-free 25% is subject to tax. It will be taxed as if you had earned it in the Tax Year in which you draw it out. That amount is added to your other income and is taxed accordingly.

Income Options

(Note: all of these options assume that you take out the tax-free cash.)

Option 1:

Leave the balance invested with the option to take out further funds in the future whenever you wish to do so – either when your need is greater or your tax position is more advantageous. This is called a Flexi-Drawdown arrangement as it provides the flexibility for you to draw out whatever sums you want at any time you want them. But remember that once you have taken the tax-free element, any other monies you take out will be subject to tax. Such an arrangement also involves investing your pension fund, so you would need to consider both

the risk that comes with such investments as well as the provider's charges for running the pension.

Option 2:

Use the balance left over to set up a guaranteed income for life (an "annuity"). The amount of income received would depend on your age – the older you are, the more you would get. The amount of income you can achieve also depends on your state of health. For example, if you are a regular smoker or have/had significant medical conditions, you are likely to be able to receive a higher income. This "annuity" can be set up just on your life or so that it provides an income to your spouse/partner after your death. The idea of guaranteed income is attractive but the current annuity rates are quite low so the amount of income you can obtain may be disappointing.

Option 3:

Take a short-term guaranteed income (a "temporary annuity"). This pays out a guaranteed level of income for a fixed number of years and then pays out a guaranteed sum on maturity – which then can be used again in Option 1 or 2 above or to repeat Option 3 for a further term of years.

Do contact us if you would like to explore your options.

CLIENT COMMENTS

We seek to use our experience and expertise to help our clients achieve their objectives and enjoy financial security. Here are some recent client comments:

"They were so kind and helpful and very professional and most of all knew their job and the laws involved." – *Mr & Mrs ST of Surrey*

"Amazing service from Arie. His friendliness and advice has been fantastic." – *Mrs TM of Kent*

"I was very impressed with how Tom handled the whole process. He was very efficient and conscientious in his approach, and was extremely genuine in ensuring that I had the best product for me." – *Mr CR of Tonbridge*

Best wishes, Tom Shuster

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