Sovereign

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Established 1981

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Sovereign Finance enters its 38th year of trading in 2019. We look forward to a busy year helping our clients achieve their objectives and enjoy financial security.

It will be an interesting year as BREXIT is the focus of most political attention in the UK and, to some degree, also in the EU. However for most people life will continue to consist of working hard producing services and products which earn them the money they need to support themselves, their family and their other activities.

THE AUTUMN STATEMENT!

There was not much announced in the Chancellor's October statement that was new, but it is worth taking note of the key tax changes from the 6th of April 2019.

Personal Tax And Benefits Changing From 6 April 2019

- The Personal Allowance (the amount that you can earn before you have to start paying any tax) increases from £11,500 to £12,500.
- The amount you can earn over and above this Personal Allowance and pay only 20% tax increases to £37,500. This means that in the new Tax Year you will only pay 40% tax on earnings you make in excess of £50,000 per annum.
- Earnings you have in the new Tax Year above £150,000 will be subject to 45% tax, the "Additional Tax Rate". (Note: if you earn £100,000 or more, your entitlement to the £12,500 Personal Allowance will be lost progressively until it is gone completely for those earning £122,000 or more.)
- The Individual Savings Account (ISA) contribution limit will remain the same at £20,000. This includes the total of all payments in the year to any ISA.
- The Capital Gains Tax allowance increases from £11,700 to £12,000.
- The Inheritance Tax Allowance nil-rate band remains the same at £325,000. For those married or in a civil-partnership each can claim this allowance, so effectively, their joint estate would have to be worth more than £650,000 before Inheritance Tax would have to be paid. However, for those with residential property that they are leaving to direct descendants there is also the additional "Residence Nil-Rate Band" which increases in the new Tax Year from £125,000 to £150,000. This is a rather complicated calculation and you should take tax advice regarding it. The Inheritance Tax rate remains at 40%.
- The Pension Lifetime Allowance will increase from £1,030,000 to £1,055,000.
- We understand that the Rent-A-Room relief will continue at the level of £7,500 per annum so those renting up to two rooms in their own home can earn up to this amount without a tax liability.

MORTGAGE SOLUTIONS FOR OLDER GENERATIONS

There are many more options now for those who are 60 or older. Where the incomes are guaranteed, such as income from pensions or investment income, more lenders will now offer normal residential interest rates and terms. Where the incomes are not guaranteed or not at a high-enough level, there are the Lifetime Mortgage options. These are not based on income. They are calculated on age and property value only. The money raised can be for any purpose. You have the option of making payments or simply letting the interest be added to the original borrowing – to be paid from the eventual sale of the property. The interest rate is fixed for the life of the mortgage. Do contact us if you would like to know what options might be available to you.

MORE OBSTACLES FOR LANDLORDS

The Government does seem to be making it as difficult as possible for those seeking to rent out residential properties. The latest hurdle are the new rules governing houses in multiple occupation (HMO) which came into force on 1 October 2019. These rules affect any property which is occupied by five or more people, forming two or more separate households. The landlord must obtain a licence from the local authority which will include meeting the rules regarding minimum bedroom sizes.

THE MIDDLE ROAD FOR PENSIONS!

For the last few years those with personal pensions have found that they have a wide freedom of choice as to how they can take their pension benefits from age 55. The new Flexi-Drawdown Pension arrangement allows you to keep your pension fund invested indefinitely and still have the option of taking out money from the pension at any time – whether that means taking it all at once, or monthly, or annually, or just bit by bit as needed. By leaving it invested in this way there is a chance of making a good return on your pension investment so that it lasts longer (although the value of the fund can go down as well as up, so it could also shorten the time the pension fund lasts).

The traditional way of taking pension income – the Lifetime Annuity, is also still available. In this way you can secure an income for life by exchanging some or all of your pension fund for a guaranteed income for life with a fixed rate of return. This provides the certainty of income for those who need that sort of certainty, but does mean that the lump sum used to "buy" the annuity is gone forever.

There is a middle road option which not everyone is aware of. This is the "Fixed Term Annuity".

This arrangement guarantees an income for a period of time – usually 5 years – with a guaranteed lump sum at the end of the fixed term. This provides the certainty of income for the fixed period which, for example, might be needed to cover a shortfall of income until one's State Pension comes into payment. Additionally it guarantees a fixed lump sum on maturity. At that point you have the chance of making your choice all over again – whether that choice is to put the lump sum in a Flexi-Drawdown pension or purchase a Lifetime Annuity, or even purchase another Fixed Term Annuity. So this middle way provides some of each – guaranteed (!) – some income and some lump sum.

All of these choices have their advantages and disadvantages and so it is important to choose the one that best matches your income and investment needs. We can assist you to choose the option that best suits your situation.

GETTING OLD

It happens. A useful checklist for putting matters in order when dealing with someone who is getting old (even yourself!) could be as follows:

1. Get a Will made. Dying without a Will leaves a problem for those left behind.
2. Get a Lasting Power of Attorney made. Most people have had the experience with a family member or friend where they reached a point where the friend or family member could no longer deal confidently with key decisions regarding their health or finances and would benefit from help from someone they can trust. The Lasting Power of Attorney (LPA) puts an arrangement in place so that the named person or persons can act on behalf of their friend or family member.
3. Make a plan regarding any Inheritance Tax that might have to be paid when you die. For those who add up the value of their estate including property value and find it is less than £325,000, a simple note showing what you added up – the items and their values, would probably be enough of a plan.

COUNTING THE COST OF CHRISTMAS

Those who are very forward thinking will have worked out their Christmas budget and earned the money well in advance. They then have no surprise credit card bills greeting them in the New Year. There are many, however who are not so well organised and credit card bills will be an unwelcome visitor in their households in January and February. Credit cards are a useful way to shop and pay and are valuable – providing that the balance is paid in full when it comes due. If you have had to use credit cards and do not have money to pay them off in full, we would advise that you take out a loan to pay them off. In this way you know they will eventually be paid off in full and end up costing you much less overall.

EXPERIENCE AND EXPERTISE DO MAKE A DIFFERENCE!

We do seek to use our experience and expertise to help our clients achieve their objectives and enjoy financial security. Here are what a few clients have written to us recently regarding their experiences with us:

"I must place on record my sincere appreciation of the kindness and the thoroughness of your preparation of the proposed mortgage."
— *Mr RJ of Burgess Hill*

"Thank you for all you have helped us with over the years!" — *Mr & Mrs AM of East Sussex*

"Thank you for all your help. I hope I didn't give you too many headaches sorting this out for me."
— *Mr MM of Kent*

Best Wishes,
Tom Shuster

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