RELEASE FREEDOM

VIEWPOINT

RELEASE FREEDOM LTD

Thanks for reading our newsletter. If you want to discuss any of the articles in more detail, please get in touch.

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Is your deposit enough?

When James and Allison first started renting together, they were determined it would be a temporary move.

Fresh out of university, they turned their attention immediately to homeownership, putting away as much of their money as their rent and living costs would allow.

Allison had always been careful with my money and imagined with both of them saving they would be able to get a foot on the property ladder sooner rather than later.

Along came COVID

Fast forward six years with a budget of £250,000 and a carefully scrimped and saved £25,000 deposit and the couple finally started house hunting.

Then along came 2020. A global pandemic, the closure of the property market, a failing economy and widespread job losses. James, a hotel manager, was placed on furlough. Allison was fortunately able to work from home. With government support and the hope that the situation would be temporary, the couple remained optimistic.

> **It was widely reported that lenders were pulling hundreds of mortgage products for buyers with 5% and 10% deposits**

Mortgage lenders took a more cautious approach, however. In the months that followed, news that lenders were pulling hundreds of mortgage products for buyers with 5% and 10% deposits was widely reported in the media.

The struggle to find a mortgage

Just before lockdown hit, James and Allison had managed to secure a mortgage in principle with a 10% deposit. Now, like many others, they faced being denied a mortgage despite having an agreement in principle. Through no fault of their own, they found themselves thousands short on their deposit

Difficult, but not impossible

Reporting shows first-time buyers are set to lose their 'share-of-sales stronghold' by the end of the year, James and Allison are far from alone in their experiences. And, while 56% of first-time buyers under the age of 35 have received financial assistance from the Bank of Mum and Dad, not everyone is in the same position.

Getting a mortgage may still be possible for the many despite the difficulties in the market. That's where we come in. We can help people like James and Allison to get a grip on their finances and find a mortgage that suits their circumstances. We're here to consider all the options available to you.

Latest news

Boris Johnson recently announced his intention to develop plans to allow more low deposit mortgages to be made available. Ministers are scoping plans to allow more mortgages to be offered with a 5% deposit. We will keep you up to date with developments.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

Buy to let as a private company

April 2020 marked the final stage of phased changes to Income Tax relief rules for landlords. Up until the 2016/17 tax year, landlords were able to deduct all mortgage interest payments and other allowable costs from their rental income before being taxed on the rest (tax paid depends on the landlord's Income Tax band).

Now, though, landlords are only entitled to a basic rate 20% tax credit on mortgage interest payments.

20%

Wait, so what's the difference?

Under the old system, a landlord might have made £12,000 in annual rental income but have paid £8,000 in mortgage interest. Now, let's say they were subject to the additional Income Tax rate of 40%. They would be looking at paying 40% of £4,000 – tax bill of £1,600.

Since April 2020, a landlord earning the same rental income and paying the same mortgage interest now faces paying 40% tax on the full £12,000 – i.e. £4,800 – and then deducting the 20% tax credit on their mortgage interest payments – i.e. £1,600 – leaving them with a higher tax bill of £3,200, double what they would have paid previously.

What about operating via a private limited company?

Well, that's what a lot of people have been talking about doing since the tax relief changes were announced. The new system only affects private landlords, which is why so many aspiring property investors are considering this option. If you set up and buy through a company, you'll be subject to Corporation Tax on your profits at a rate of 19%.

It's not for everyone

There are some downsides to operating in this way. For example, if you're trading as a company, you'll have to complete a Company Tax Return and file accounts with Companies House each year, which can be stressful to do yourself, and expensive if you hire an accountant. It can also be more difficult (and costly) to access your profits – for example, should you choose to pay it to yourself in dividends, you'll face additional tax on anything over the £2,000 dividend allowance.

Some buy to let mortgages are not regulated by the Financial Conduct Authority

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

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

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Protect your peace of mind when moving home

Moving home can be a hectic and exciting time, but don't forget about protection – taking out the appropriate policies can save you a lot of stress in the long term.

If you've just moved home or are about to, it probably feels like you've been caught up in a bit of a whirlwind over the past few months. With searching for a property during a pandemic, making the move before the stamp duty holiday ends and potentially getting caught up in the resulting conveyancing backlog, protection policies are probably not top of your priority list.

Yet it's important to take the necessary precautions to ensure your new home and possessions are looked after – now more than ever. Here are some of the main types of protection you should be thinking about.

Mortgage protection

If you're unable to work due to illness or injury or because you've lost your job, mortgage payment protection will cover the cost of your mortgage each month. These policies usually last for a year or until you return to work – whichever is soonest.

You can pick how much you want your policy to pay out each month, and this can include a buffer for other expenses, such as bills. It's important to bear in mind though that providers usually set monthly limits of between £1,500 and £2,000. You won't always be able to claim straight away, and there's usually a waiting period of one or two months. The cost of mortgage protection will depend on:

- your salary;
- the size of your mortgage repayments;
- the type of policy you choose; and
- how soon you want to be covered.

Income protection

Income protection provides you with a regular income if you've lost your job or are unable to work due to illness or injury. There's usually a minimum wait of four weeks before you can start receiving payments. There are different types available:

- A short-term plan covers you for involuntary redundancy, but is usually limited to a set time period.
- A long-term plan will usually cover you until you return to work, retire, die, or the policy ends – whichever is soonest.

Buildings insurance

If you've got a mortgage, you're likely to have buildings insurance to cover the cost of repairing damage or rebuilding the structure of your home if it's damaged. But have you looked carefully through the policy and made sure that it definitely covers everything you need it to? Once you've moved, you may realise that your new home has a slightly more complex structure than you first realised, and it's important to make sure your buildings insurance takes this into account. If you're lucky enough to not have a mortgage, it's still a sensible idea to invest in this type of insurance for peace of mind.

Contents insurance

If you've bought new furniture and gadgets for your home, you might need to review your contents insurance. This type of insurance covers the cost of replacing possessions in your home if they're stolen, destroyed or damaged. It's a good idea to double check which of your items are covered so that you're not caught out if something does go wrong.

Act now

When you're caught up in the excitement of moving, thinking about protection might be the last thing on your mind. But remember that your circumstances can change quickly and it's important to make sure you're prepared now in case things don't go to plan in the future. For more information about protection and to talk about whether your current policies are right for your situation, speak to your financial adviser today.

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