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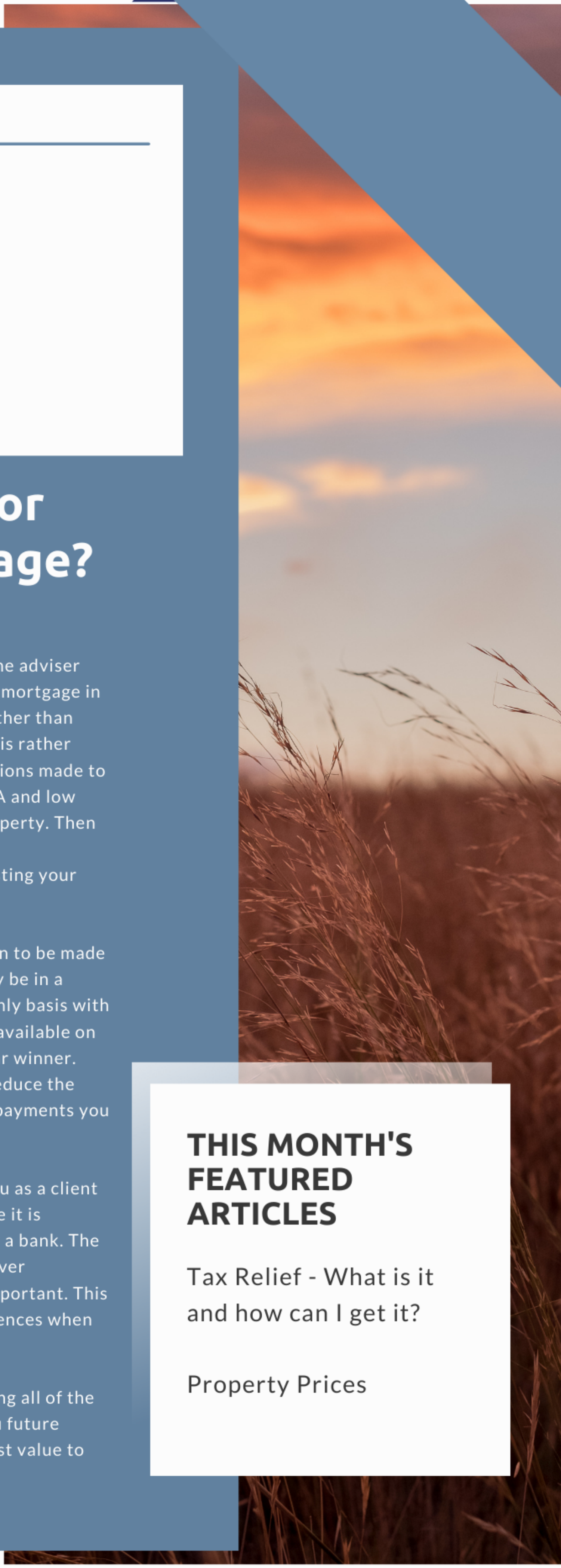
FINANCIAL FOCUS

OBJECTIVE WEALTH



Pay off the mortgage or not pay off the mortgage? - that is the question

Pay off your mortgage or do not pay off your mortgage. In the adviser community there is generally a consensus that keeping your mortgage in place when you have money to invest is the better option rather than paying off your mortgage. There are many reasons behind this rather generic opinion which include gaining tax relief on contirbutions made to a pension at your marginal rate, tax effcient returns in an ISA and low interest rates (for the moment) on loans secured against property. Then you consider the potential long term returns in tax efficient environments when looking at long term planning then investing your money is even more attractive.

It doesn't just need to be lump sums where there is a decision to be made on paying down a mortgage as opposed to investing, you may be in a position to make overpayments to your mortgage on a monthly basis with spare cash. Again longer term growth options and tax relief available on investing should suggest that the investing option is the clear winner. However, when you look at the data on how much you will reduce the interest over the lifetime of the mortgage with making overpayments you may think differently.

At Objecitive Wealth, our view is very much in support of you as a client and your personal preferences. We understand that for some it is important for their home to be their home and not owned by a bank. The security that you have a roof over your head virtually whatever unforseen financial circumstance befalls you is incredibly important. This is why it is important to understand each individual's preferences when putting together a financial plan.

Financial planning is the juxtaposition between understanding all of the generic elements of your finances and what allays any of you future financial concerns. We feel that this is where we add the most value to you and all of our clients. JW

THIS MONTH'S FEATURED ARTICLES

Tax Relief

What is it and how can I get it?

By definition, tax relief is a reduction in the amount of tax that a person or company has to pay. Sounds good, doesn't it. Please do not get this confused by the definition, tax exempt. Tax exempt is where no tax is required to be paid and your most traditional example of this is an ISA which most people are familiar with.

So how do you go about attaining tax relief? There are a number of ways of attaining tax relief but the simplest and most common is using a pension. For every personal contribution you make, the Government will automatically add 20% to your contribution effectively reducing the amount of tax you are paying.

Example
John, a basic rate taxpayer wants to add £1,000 to his pension. He sends a bank transfer of £800 to his pension provider, the Government adds tax relief of £200 so what is invested on day one is £1,000. The £1,000 invested has cost John, £800.

Tax relief is even more beneficial to higher rate taxpayers. It works in the same way as a normal pension contribution in the above example. You pay a personal pension contribution and you automatically get the Government tax relief added in the same way of 20%. However, as a higher rate taxpayer, you can claim further tax relief of 20% effectively reducing your tax bill.

Example
Jenny is a higher rate taxpayer and wants to add £1,000 to her pension. She sends a bank transfer of £800 to her pension provider (the same as a basic rate taxpayer) and again automatic tax relief of £200 is added to make the investment £1,000 on day one. However, Jenny can claim a further £200 tax relief via her tax return meaning her £1,000 actually costs £600.

If you are a parent who receives child benefit, you may have to give some of it back in tax if you or your partner earns over £50,000pa and you lose all of it if earnings are over £60,000. However, you can make pension contributions to reduce your Adjusted Net Income to get some of this tax back along with the normal tax relief.

Example
Jacob, has two children and earns £65,000pa. Normally, he would have to pay his full child benefit of £1,885 back in tax. However, Jacob does a bank transfer of £8,000 to his personal pension. He gets £2,000 in automatic tax relief so £10,000 is invested into the pension on day one. He can also claim further tax relief of £2,000 as he is a higher rate taxpayer so the contribution costs £6,000. However, crucially, Jacob's Adjusted Net Income is reduced to £55,000 so he gets £943 child benefit back. Therefore, Jacob's effective rate of tax relief for making the pension contribution is 49.43%

Finally, people earning over £100,000pa start to see their Personal Allowance (£12,570 tax free income) being tapered down and people earning over £125,140pa lose it entirely. This equates to an extra £5,028 paid in tax. Earners in this scenario can make a pension contribution to reduce their Adjusted Net Income and get their personal allowance back. This is a significant amount of tax relief.

Example
Julie, earns £120,000pa so her Personal Allowance is reduced to £2,570. She makes a bank transfer of £16,000 into her personal pension. Automatic tax relief is added of £4,000 so £20,000 is invested into the pension on day one. In her tax return, she can claim higher rate tax relief of a further £4,000. In turn, she has reduced her Adjusted Net Income to £100,000 so she gets her full Personal Allowance back which reduces her tax bill by another £4,000. Therefore, the £20,000 invested into the pension actually costs Julie £8,000 which is an effective rate of tax relief of 60%.

You can see how effective pensions can be in financial planning and it is also obvious that everyone's situation is different. In this article, we haven't even factored in the Pension Annual Allowance, Lifetime Allowance, Money Purchase Annual Allowance or the difference between Relief at Source and Net Pay pension schemes.

There are also other ways of generating tax relief such as Venture Capital Trusts (VCTs), Enterprise Investment Schemes (EISs) or Seed Enterprise Investment Schemes (SEISs) but these are higher risk, more complex products. However, we will always try to default to using pensions when we can, as tax relief is our most valuable finanical planning tool. **MJ**

Property Prices

Just when you thought property prices couldn't rise any more, they continue to rise at record levels

It will come as no surprise that there continues to be an increase in house prices with March 2022 providing record increases with the average house price coming to market in the UK breaking through the £350,000 barrier for the first time according to Rightmove. This is a 1.7% monthly increase which pushed the annual rate of increase to 10.4% nationally. To give you more focus on the southeast of the country, we experienced a 3.3% monthly increase and a 12.6% year on year increase. London is the only area of the country that had a negative monthly change suggesting that confidence in the requirement for city living, is still reasonably low following the pandemic and flexible working environments.

Demand is still heavily outweighing supply within the property industry with the average 'time to sell' taking just over a month at 36 days in the South East showing that an accurately priced property will sell very quickly.

There are an increased amount of larger family properties coming to the market as the cost of living increases. Elder and retired homeowners are looking to downsize to ensure that their lifestyle remains affordable amid rising utility bills with a third of UK homes experiencing a recent decrease in disposable income.

Anyone on a tracker or variable rate mortgage could have seen a recent increase in their mortgage payments with the three consecutive increases to the Bank of England base rate being reflected in their current rate. If you are one of these people, then please get in contact to discuss if this mortgage remains suitable for your needs and requirements. Interest rates, in general, are on the increase although stability is expected over the coming months. In November 2021, the lowest 5-year fixed rate re-mortgage product available was 0.99%, this is now 2.24%. However, whilst there have been increases at all loan to value brackets, it has not been severe at the higher end with 2.34% available at 80% and 2.45% at 90%. The mortgage market remains very fluid and these rates are only applicable at the time of writing and subject to an affordability assessment. **JC**

> *Demand is still heavily outweighing supply.... the average 'time to sell' taking just over a month at 36 days in the South East....*

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