Autumn 2013

Property Agent Matters

Opening the doors to future prosperity

Property Market Heating Up

So, the UK has actually experienced a summer with prolonged bursts of hot weather. OK, so that's been interspersed with thunderstorms and flash floods, but that's the price you pay for being on a tropical island!

But it's not only been the UK weather that has heated up over the past few months, the property market appears to be following suit. The press are actually being positive, with constant reminders of increases in house prices, increases in mortgage lending and forecasting further growth over the next few years.

As I have mentioned previously, this is synonymous with the views of my Property Agent clients, who have been pretty positive throughout 2013. This is all good news, isn't it? In the short term, absolutely, but I do wonder whether we are creating problems for the longer term.

A number of high profile individuals, the latest being Vince Cable, are now echoing my comments in the Budget edition of Property Agent Matters, that the Government's Help to Buy scheme is causing house prices to rise and may well be causing a bubble that will inevitably burst when the scheme is completely withdrawn in January 2017. Will that cause the Government at that time to extend it? What impact will that have on the Treasury's finances, bearing in mind how popular it has been in the first few months (and will continue to be so, particularly when the mortgage guarantee element comes into force from January 2014).

On top of this, sub-prime mortgages are making a reappearance. Magellan Homeloans will offer mortgages up to £400,000 to people who have had county court judgements, individual voluntary arrangements or even bankruptcy orders against their names. Yes, the interest rates are high, starting at 8.55%, but remember it was the sub-prime mortgages that were widely blamed as the cause of the financial crisis, so their reappearance should sound the warning bells.

It would truly be a sad state of affairs if we haven't learned lessons from the past. The UK economy as a whole is showing signs of improvement and property is a key part of that. But, I for one, would not be impressed if we are making short term gains at the expense of another long period of suffering in the future.

Stamp Duty Land Tax – reform on the cards?

Stamp Duty Land Tax (SDLT) has often been cursed by Property Agents unable to find anyone willing to pay in the bracket of £250,000 to £275,000, £500,000 to £525,000, £1m to £1.1m and £2m to £2.1m. The reason being the significant hike in SDLT that arises when you move into the next banding.

This is all down to the "slab" basis of taxation we have with SDLT, as opposed to a "progressive" basis. So, as soon as you move into the next bracket, the

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entire property price is subject to the higher SDLT rate, rather than the first £125,000 being subject to SDLT at 1%, then the next £250,000 at 3% etc, as you would get with income tax.

So, a £1 increase above £250,000 will cost the buyer an additional £5,000 in SDLT. The same increment applies at £1 over £500,000, but then the cost of an additional £1 at the £1m and £2m levels result in increased liabilities of £10,000 and £40,000 respectively.

Scotland may force a reform in England, Wales and Northern Ireland. In June, the Scottish Parliament voted to abolish the slab system and replace it with a progressive system, as with income tax, meaning that those problem bands should be no more. This has been made possible with Scotland devolving power from Westminster in respect of its tax system.

The question is whether this will force a rethink in Westminster. SDLT avoidance has been aggressively targeted by the current Government, but perhaps a move to a progressive system, which would be considered to be a fairer way of calculating the tax, will reduce the number of buyers seeking to mitigate it. Furthermore, it will give rise to a more sensible property market, where houses actually sell for, say, £260,000.

We will have to wait and see, but for a Government that will be seeking election in its own right, rather than as a coalition, in a little under two years, such a reform could certainly prove a vote winner.

Simple remuneration planning

"Tax doesn't have to be taxing" – that's the HMRC mantra. When you see details of some of the complex tax avoidance schemes that are on the market, together with trying to make sense of the various tax return forms that you have to complete, you would be well within your rights to question that saying.

But, it is true that there are simple things that can be done to reduce your family's tax bill, a few examples of which are detailed below:

Maximising basic rate bands

Each individual has a tax free personal allowance of at least £9,440 and a basic rate band of £32,010. Income between £41,450 and £150,000 is charged to tax at 40%. Where an individual has taxable income over £100,000 they will start to lose their personal allowance, giving an effective income tax rate of 60% on income between £100,000 and £118,880. A rate of 45% applies on income exceeding £150,000.

You should consider ways to ensure that both spouses utilise their basic rate bands and also their £100,000 bands, to maintain personal allowances. Ways this could be achieved include bringing your spouse in as a partner or a shareholder in your business to allow a profit share or dividends to be allocated to them. Alternatively, consider the transfer of other income producing assets, such as rental property, share portfolios or deposit accounts.

Don't forget child benefit

Child benefit will be restricted where one individual in a household has an income over £50,000. Where possible, income should be equalised between spouses, civil partners or partners, to ensure that the child benefit restriction is minimised.

Pension contributions

The rules relating to tax relief on pension contributions now allow an individual to contribute up to 100% of earned income (salary or partnership profit) subject to an annual limit of £50,000 (reducing to £40,000 from 6 April 2014). Unused relief can be carried forward for up to three years. Therefore, pensions can be a useful planning tool to reduce the amount of income suffering higher rates of tax. As mentioned above, if your earnings are between £100,000 and £118,880, pension contributions can achieve tax relief at 60%.

It's not all simple

Of course, not everything tax planning related is simple and your particular circumstances may call for a more detailed restructuring of your financial affairs. This does not mean aggressive tax avoidance schemes, as have been so popular with the press and the Government, but a detailed review and legitimate restructuring can still offer significant tax savings, without the risk that attaches to the tax avoidance schemes. We would, of course, be happy to discuss your circumstances to see if there are ways we can help.

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