# Future Directions 2

*October 2017*

Welcome to our second newsletter of 2017.

We have put together a few articles that we hope you may find useful.

I hope that you have a fabulous last few months of 2017!

From all at Future Directions.

## Easing the burden of IHT

Inheritance tax (IHT) is charged on your taxable estate at 40%. Before you look to offset IHT, however, it is important to establish what is likely to accumulate as a potential liability. For most people, the key contributor to their estate will be the value of their home and, even if this lies below the IHT threshold, other elements can push an estate over the limit. For example, although Individual Savings Accounts (ISAs) shelter investors from capital gains tax and income tax, they are not sheltered from IHT.

Nevertheless, there are steps you can take, particularly if your liability is relatively small. Many people do not realise, for example, that they have an annual exempted amount that they can gift to someone. At £3,000 per year, this could go some way to reducing the overall estate.

For the tax year 2017/18, the IHT nil-rate band stands at £325,000 for individuals and – with the option to transfer any unused threshold to a spouse or civil partner – a total of £650,000 for legally joined couples. Moreover, an additional “main residence nil-rate band” (MRNRB) of £100,000 per person was introduced in April 2017.

Looking ahead, as the Government looks to close potential tax loopholes, it is important to seek expert advice on how you can ease the potential burden of IHT.

Levels and bases of reliefs from taxation are subject to change. The FCA does not regulate some forms of IHT planning.

## How higher interest rates can affect you

A change in interest rates is likely to turn many people's thoughts to their mortgage interest payments. Most mortgage repayments tend to be variable, so the amount you pay will fluctuate as base rates change.

A primary catalyst for a change in interest rates is the control of inflation. Mortgage repayments form part of the inflation statistics, and the housing market is a key consideration for the Bank of England when determining interest rates. Rising interest rates can be used to help to cool demand if the market appears to be overheating, because higher mortgage costs can help to deter people from moving.

If you believe interest rates are likely to rise – or simply prefer the certainty of knowing how much you will be paying each month – a fixed-rate mortgage can help you to plan. Your repayments will be set for an agreed period of time and hence will not be vulnerable to interest rate rises – although you will also not benefit from cuts. Another possibility is a capped-rate mortgage, which means that not only will your rate not increase above a specific level but also you will receive the benefit of any cuts. Either way, once the agreed period finishes, the mortgages will revert to the bank's standard variable rate.

As mortgages are held over long periods of time, even minor changes in repayments can add up to substantial sums over time. It is therefore always worth discussing a new mortgage with your financial adviser once a discount or lock-in period has ended.

If you are a saver, rising interest rates are good news, as higher rates mean higher income. However, some banks are slow to pass on increases, so you should ensure you are enjoying the best deal and perhaps consider a move if you are missing out. A reduction in rates, however, means a reduction in income; similarly, therefore, it is worth keeping an eye on alternative deals or bonus options in order to maximise your return.

Interest rates also have an impact on those buying an annuity because they lock you into a long-term income stream based on current rate expectations. Higher rates are consequently generally good news, while cuts tend to be less well received. However, there are many different options for those heading into retirement so the best idea is to seek expert advice.

REMEMBER – YOUR HOME IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

## The benefits of regular savings

In the complex world of investment, timing might appear to be crucial. However – unless you are gifted with foresight – it is impossible to second-guess the market. Nevertheless, there is a solution: by saving regularly, investors can benefit from what is known as 'pound-cost averaging'. This mitigates the risk of buying your entire investment at a single price; instead, smaller sums are regularly invested at a variety of different prices, reducing the risk of investing at the wrong time. Most investment products offer regular savings schemes as an option, including investment funds, Individual Savings Accounts (ISAs), life assurance and pension plans.

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