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Property Owner

Lenders cut mortgage rates but what next?

Several high street banks have slashed mortgage rates after Bank of England governor Andrew Bailey told lenders that costs did "not need to rise as they have done". Despite the Bank announcing the largest jump in interest rates in 33 years, lending giant Halifax said it would reduce several re-mortgage rates by up to 0.24% from mid-November, with rates now starting below the 6% threshold. Clydesdale Bank, an arm of Virgin Money, has also cut rates on its two and five-year mortgages by up to 0.3 percentage points, which will push some rates down to 5.44%. A number of smaller lenders have also cut rates. Money Saving Expert founder Martin Lewis warned that mortgage holders could face a £500 shock to their bills as a result of the bump to interest rates, imploring policymakers to look at ways to "mitigate the damage" of the cost-of-living crisis and recessionary shocks to those most vulnerable to them. In terms of the future, banks and building societies are expected to further cut the costs of UK fixed-rate mortgages after financial markets pared back their expectations of future rises in the Bank of England's main interest rate, brokers and lenders have predicted. Mortgage brokers said the current high costs of fixed rates were set when markets had expected aggressive future rises in the base rate to counter soaring inflation, but those expectations had already subsided before the BoE signalled a more dovish outlook for interest rates in the wake of its most recent base rate rise.

All

Energy firms face investigation

Whitehall officials have launched a probe into alleged profiteering by energy firms, with claims they are not passing on the benefits of recent government interventions. The government last month launched a six-month energy price cap for businesses to help them survive the continued increases in global energy prices. The Sunday Times reports that the Department for Business, Energy and Industrial Strategy (Beis) is now investigating claims that some energy suppliers "have set prices that undermine the benefits of the Energy Bill Relief Scheme". UKHospitality, a hospitality sector lobby group, has said the difference between what energy firms are paying on the wholesale market and the amount they are charging businesses has soared, despite the government package. The group said there was "no reasonable explanation for this colossal increase in margins" and is calling for an investigation by the Competition & Markets Authority (CMA). A Beis spokesperson said: "We are aware a small minority of businesses have reported that some energy suppliers have set prices that undermine the benefits of the Energy Bill Relief Scheme. "We are working with Ofgem to ensure licence conditions have not been breached and businesses are able to see the full effects of the support." Businesses receive a discount until April 2023 on their energy bills as a part of the government support package, with a cap moving on a weekly basis depending on wholesale market energy prices. The cap was set at 53p per kWh last week, however some businesses were being quoted 80p per kWh by energy suppliers. The government has said the scheme will likely be extended past April for sectors deemed the most vulnerable to further energy price increases, such as hospitality and manufacturing.

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Fewer rental properties as landlords are squeezed

Renters could find it more difficult to find properties in the next year or two as landlords struggle with higher mortgage rates, MPs have heard. Ray Boulger, from mortgage broker John Charcol, said landlords may be more reluctant to hold on to buy-to-let properties which could have a "serious impact" on the availability of homes. He said the situation was particularly acute in London and Southeast England. The Commons Treasury Committee has been hearing from mortgage experts. The session was designed to review the state of the market during and following the upheaval of recent weeks, partly as a result of former chancellor Kwasi Kwarteng's mini-budget. New fixed-rate mortgages have risen sharply in cost during the year and jumped in the aftermath of the mini-budget, when investors were spooked by big tax cut pledges that were set out without specifying how they would be paid for. Mr Boulger said that the buy-to-let sector was likely to see more "stress" than other areas of the mortgage market. He said that some landlords would find it difficult in some areas to secure a mortgage of more than 50% or 60% of a property's value. That, added to tax changes which have led some landlords to consider selling up and would reduce availability for tenants, he said. About 40% of landlords have a mortgage on their rental properties. Recently, the Nationwide Building Society said that UK house prices fell by 0.9% month-on-month in October, the first monthly decline in 15 months. The drop was the largest since June 2020, at the height of the pandemic, the mortgage lender said. Chris Rhodes, chief finance officer from the Nationwide, said that the outlook for the housing market was "very uncertain". Mr Boulger forecast a 10% to 15% drop in house prices from peak to trough, partly because the ability to borrow was being curtailed. Joanna Elson, chief executive of debt charity the Money Advice Trust, called for a public awareness campaign to urge people to seek help if they were struggling to make mortgage repayments. She also called for some of the requirements on financial support to help with mortgage payments to be eased. There is also significant pressure on renters, which made up the majority of those seeking help from the charity, she told MPs. People tended to prioritise paying for "the roof over their heads", she said. Figures seen recently by the BBC suggest that people under 30 are now spending more than 30% of their pay on rent - marking a five-year high. Experts said this level of rental costs is unaffordable and warned that younger tenants could face a difficult winter as costs and energy bills mount.

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Government urged to scrap holiday let tax breaks

A government adviser is urging the scrapping of tax perks for holiday lets which could see tax bills increasing by thousands of pounds every year for landlords. The Office for Tax Simplification (OTS) is recommending that the government stops the owners of a furnished holiday let from offsetting mortgage interest payments against their income tax bills. The ending of the so-called 'furnished holiday let system' would then bring to an end one of the last tax-efficient forms for small-scale property investment. It would also force the owners of holiday lets to pay tax on their earnings in the same way that a traditional BTL landlord does. Buy to let landlords had, until 2017, the same perk but this was phased out and then replaced with the 20% tax credit in 2020. However, holiday let landlords kept the relief. One accountancy firm has calculated that a landlord in Cornwall renting out a four-bedroom house as a holiday let will be forking out an extra £2,000 every year in tax. Accountancy firm RSM says that a landlord with a holiday let who earns £24,000 every year, will have an income tax bill of £5,775 – assuming that the property is jointly owned by a couple who are also higher rate taxpayers If the government decides to follow the OTS advice and scraps the furnished holiday let system, the owners of the holiday let would see their tax bill rising to £7,687. Experts claim that If the benefit is scrapped, the ultimate result is that people will sell up because their properties will become commercially unviable. In a report, the OTS says there are around 127,000 furnished holiday lets owned by individuals with the income being declared on their HMRC personal tax returns. The organisation says that short-term rentals enjoy a more favourable tax treatment than the main property income tax rules with more tax relief available for costs, including interest. There's also, potentially, a reduced capital gains tax bill when the property is sold. Now, the OTS recommends that the government considers whether there is a benefit in having a separate tax regime for furnished holiday lets and if the rules are abolished there will be a need to determine whether some property letting activities that are subject to income tax should be treated as trading activities.

Retired / Tax Planner

Avoiding the risk of being overcharged inheritance tax

House prices in the UK are expected to fall dramatically over the next year which could have an effect on the amount of inheritance tax people pay. Lloyds Banking Group has warned that house prices could fall by as much as a fifth next year due to the hit to mortgage lending amid mounting interest rates. According to Nationwide's October House Price Index, house prices fell by 0.9% between September and October this year. This was the first monthly fall since July last year and the biggest since June 2020. If house prices were to fall even further, such as the 20% predicted by Lloyds Banking Group, people who are inheriting property from someone who has died could end up paying a lot more inheritance tax than they may anticipate. This is because, when calculating the value of a deceased person's estate, HM Revenue and Customs (HMRC) uses the property value at the date of death and not when it is sold. This means if a property on the date of death is worth £1million, but it is sold several months later at £850,000 if the market price drops by 15%, then a person would have to pay inheritance tax on the value of £1million. This could possibly add tens of thousands of pounds to an inheritance tax bill. Inheritance tax is a tax people pay on the estate of someone who has died and the estate is made up of the property, money and possessions of the person who is deceased. Currently, Britons pay a tax of up to 40% on the value of an estate above the current nil rate band threshold of £325,000. However, there is a way that people can try and get their money back and this is through HMRC's IHT38 relief scheme. This little-known scheme allows the value of the sale price to be swapped for the value of the property at the time of death. To apply for this, a person must make a claim using HMRC's IHT38 form which can be found on GOV.UK. On this form, people will need to give information about the property, how much it was sold for, whom it was sold to, and the sale date. But before going ahead, it is very important to think carefully, because once submitted, a claim cannot be withdrawn.

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UK house prices fall after mini budget

British house prices fell in October at the fastest monthly rate since February 2021, a fresh sign of weakness in the housing market that reflects the fallout from the September "mini-budget", mortgage lender Halifax has said. House prices dropped 0.4% month-on-month last month, after a 0.1% fall in September, Halifax said and with the slowdown in part a consequence of the mini-budget, which sent British financial markets into a free-fall. Commentators say that while a post-pandemic slowdown was expected, there's no doubt the housing market received a significant shock as a result of the mini-budget which saw a sudden acceleration in mortgage rate increases. In annual terms, house prices were 8.3% higher in October, slowing from 9.8% in September. The decline in the average price to £292,598 was the third in the past four months and the steepest since February 2021. The annual rate of growth in house prices slowed to 8.3% in October from 9.8% in September. The mini-budget caused financial market turmoil that pushed up borrowing costs and eventually resulted in Liz Truss's replacement by Rishi Sunak. Sunak and his chancellor, Jeremy Hunt, responded to the chaos by signalling tax rises and government spending cuts are likely, which could add to the downward pressure on house prices, Halifax said. Experts said the mini-budget had added to other trends that could push prices down, including the rising cost of living and the high level of house prices compared with earnings. Higher unemployment during an expected long recession would also add to downward pressure on prices. The Halifax report echoed Nationwide, which last week said house prices dropped by 0.9% in October. Economists said the price declines likely marked the start of a period of extended drops. NatWest Group last month forecast that prices will drop by 7% next year. Martin Beck, the chief economic adviser to the EY Item Club, an economic forecaster, said he expected price declines of between 5% and 10% – in part because the government's change in policy under Sunak and Hunt had lowered expectations for interest rate increases.

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Interest rates are returning to the old normal

We are back to normal interest rates, and with a bang. All the talk about the new normal being different from the old normal – that rates would be permanently lower – is wrong. The surprise is the speed at which it has happened. Look at mortgage rates back in the spring of 2007, before the collapse of Northern Rock that autumn gave an early warning of the banking crash to come. The average cost of a two-year fixed mortgage on 75% loan-to-value ratio was, according to the Building Societies' Association, just over 6%. That is pretty much where it is now, if you can get one. And the yield on 10-year gilts was around 4.5%, not far from the 4.25% on Friday. What is different is the Bank of England's base rate, which at the end of March 2007 was 5.25%, and now 2.25%. But market projections are that it will go up to more than 5% next year, a relief for savers with spare cash. The Bank, in the jargon of the markets, is behind the curve. The markets have done the job of tightening monetary policy which the Bank failed to do. The markets have acted with characteristic brutality. There is a general rule in finance that things always take longer to happen than you would expect, but when the markets do move, they move much faster. That is exactly what happened. However, these sudden movements are usually in equities, not in bonds. That is what led to the Bank's rescue of the gilt market on September 28. As Sir Jon Cunliffe, deputy governor, has disclosed to MPs, the rise in yields on long-dated gilts over a four-day period was twice as big as any previous experience since 2000. Among the many victims have been the pension funds that were large holders of gilts. When the dust settles there will have to be a total rethink of the way these funds have been regulated. In particular to look at the requirements for them to have large holdings of low-yielding fixed-interest securities in a time of high inflation, and the ways they used complex – but ultimately catastrophic – financial devices to try to increase that yield. Right now, one key question is whether gilt yields have gone up enough. Probably 'yes' - if the world's central banks can get inflation down to something close to 2%, as they are mandated to do, a 4.25% yield for 10 years is not too bad. That does assume that the central banks will succeed, but there is such huge political pressure on them to get inflation down they will probably do so. Maybe yields will go up a bit more, but the big point here is that at least they are back to their historically normal range. If that is right there are reasonably positive implications for other asset prices, particularly for the UK. The UK is bargain basement territory – one of the reasons why canny investors are pumping money into the country.

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