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**Investor / Saver**

## Premium Bond prize rate now at highest since 2007

Provider NS&I said there will be "more prizes, more excitement and more life changing wins" from the August prize draw, with prize fund rate increasing to 4.00% from 3.70% – its highest level since 2007. The odds will improve to 22,000 to one from 24,000 to one. NS&I said the move means that each £1 bond will have its best chance of winning a prize in nearly 15 years. It estimates that the changes will see an extra £30 million added to the prize fund from August, with an estimated 460,000 extra prizes up for grabs. The estimated number of £1 million prizes will remain at two, the same as in July. There will be an estimated 77 £100,000 prizes in August, up from 71 in July. And an estimated 154 £50,000 prizes will be available, jumping from 141 in July. The interest rates that NS&I pays on its direct saver and income bonds accounts increased to 3.40%, from 2.85%, effective from July 13. NS&I chief executive Dax Harkins said: "Premium Bonds are one of the nation's favourite savings products and I'm delighted that we're able to improve the odds to the best they have been in almost 15 years, with more prizes, more excitement and more life-changing wins for savers up and down the country. "These changes will benefit millions of NS&I's savers who have money in Premium Bonds, direct saver and income bonds." On July 13, NS&I increased the interest rate that it pays on its investment account to 0.85% from 0.60%. NS&I, which is backed by the Treasury, said the changes will help ensure its products remain attractive to customers and that it continues to balance the interests of savers, taxpayers and the broader financial services sector.

**Parents**

## How paying private school fees could help you avoid inheritance tax

The cost of a private education in the UK is soaring, with day fees up almost 6% year-on-year. On average, families can now expect to pay over £5,000 per term for a day school and £13,000 for boarding, according to data from the Independent Schools Council, with the most expensive schools charging in excess of £50,000 a year. Prices could be about to rise even further, with Labour threatening to remove the VAT exemption on fee-paying schools. These huge increases have left many middle-class parents unable to cover the cost without the financial support of wealthy grandparents. But you should think twice before tapping up the bank of grandma and granddad. Depending on who makes the transfer, and when, paying school fees could result in an unexpected inheritance tax bill. No inheritance tax is due on transfers made for the education of children under the age of 18 or in full-time education. However, there are a few important things to note here. The transfers will only be considered free from inheritance tax if they were made by the parent – except in cases where the child is not in the parent’s care. In other words, grandparents and other relatives of the child generally will not benefit from the exemption. Even if the transfer is made directly to the school, it will count as a gift and could pose an inheritance tax liability. This seemingly limits how much help parents can expect to get from other family members. However, there are ways around this. Everyone can give away £3,000 a year without paying inheritance tax on the gift. If you have never used this allowance before, then in the first year you can give away £6,000. This means grandparents could contribute up to £12,000 between them in year one, and then £6,000 for every year after that. While this will make a dent in the fees, it obviously will not cover the annual cost in full. For those who can contribute more – and want to – there are other options. You can give away sums of unlimited value without paying inheritance tax, as long as you survive the gift by seven years. Therefore, if possible, it may make sense to pay a larger lump sum towards higher education earlier, rather than cover the fees in instalments every year. Even then, whether the transfers would be subject to inheritance tax depends on how much of the £325,000 nil-rate band you have by the time you pass away, plus the size of your estate.

**Retired**

## Tax tactics for the Bank of Gran and Grandad

If your estate is worth more than £325,000 (or £650,000 for married couples and civil partners), some of it may pass to HMRC in inheritance tax when you pass away. One of the most straightforward ways to avoid inheritance tax is to consider giving away assets while you are still alive. You're allowed to gift some of your money away each year without any tax being due after your death. This includes gifts to your spouse or civil partner, or if you'd like to leave money to a charity. It usually also includes gifts to individuals made more than seven years before your death. However, if you make a gift within seven years of your death, it will generally be included in your estate for inheritance tax purposes. There may also be inheritance tax due if you put your money into a trust, or if you're passing on ownership or shares in a business (although you may be able to get business relief. The list below explains some of the key details for making tax-free gifts.

- **£0** - The amount of tax due on gifts to your spouse or civil partner
- **Seven** - Number of years you have between gifting something to an individual that isn't your spouse and your death to ensure it is tax-free
- **£3,000** - The total amount you can gift tax-free in a tax year (your 'annual exemption')
- **£250** - Maximum amount you can gift tax-free to an individual that hasn't benefited from your annual exemption each year
- **£0** - Amount of tax due on gifts given for maintenance of old or infirm relatives
- **18** - The age up to which you can gift your children with maintenance for their education or training tax-free
- **£5,000** - The amount a parent can gift their child tax-free for their wedding
- **£0** - Amount of tax due on gifts to charities or political parties.

If you wish to leave money to other family members, such as your children, it's a good idea to plan how you want to do this. Some gifts are best to give while you're still alive rather than leave in your will. Most gifts to people made more than seven years before your death are tax-free (they must be to people as opposed to trusts or businesses). These gifts are called 'potentially exempt transfers', because tax might be payable, depending on whether you survive seven years after making the gift. Potentially exempt transfers are explained further below. Another way to gift money to your children is through a mortgage deposit, but you should take independent advice before going ahead with this.

**Property Owner**

## Landlords sell their high-yield properties amid surging mortgage rates

Landlords are now scrambling to sell their high-yielding rental properties as rocketing mortgage rates hit profit margins on even the most lucrative investments, the Daily Telegraph reports. In data provided by Hamptons estate agents, the report reveals that 25% of buy to let (BTL) properties sold this year have boasted yields of 7% or higher. That is a significant increase from 19% of BTL homes being sold last year. With more than one in seven properties sold in 2023 previously classified as buy to let, investors are now rapidly exiting the sector. Aneisha Beveridge, the head of research at Hamptons, told the newspaper: "This reflects how higher interest rates are affecting the profitability of higher-yielding homes, putting more landlords who used to earn healthy returns under pressure." However, while the volume of sales remains consistent with last year's numbers, the types of properties landlords are offloading have notably shifted. In 2022, just 42% of properties sold by landlords had a rental yield that was below 5%. This figure has now dropped to 34%, highlighting a big shift in investor focus. The proportion of landlord sales featuring yields between 5% and 10% has risen from 56% to 63%. Buy-to-let mortgage rates have experienced a sharp increase, with the average two-year fixed rate reaching 6.21%, up from 5.62% at the end of May, according to data company Moneyfacts. This rise has significant financial implications for investors, as the annual cost of a typical £150,000 BTL loan on an interest-only basis has surged by £885 in under three weeks. The situation is even more dramatic for investors nearing the end of their fixed-rate deals, the Telegraph says. A landlord who secured a two-year fixed rate in June 2021 at an average rate of 2.96% will face a rate that is more than double when refinancing. Consequently, a typical interest-only borrower can expect their yearly payments to rocket by £4,875.

**Property Owner**

## House prices fall for the first time this year

Average monthly house prices have fallen for the first time this year, new Rightmove data shows – dropping by £82 in June. This is the first monthly decrease seen in 2023, the property website said, in a further sign there is a house price correction under way – with some experts threatening we could even see a crash. The fall took the average asking price to £372,812, the first price drop at this time of year since 2017. On average over the previous 10 years, Rightmove has seen an increase of 0.6% in asking prices at this time of year. Mortgage rate rises and stubbornly high inflation piling pressure on to stretched budgets are to blame, experts say. Currently, the two-year fixed average mortgage rate is hovering around 6%, as more mortgage providers increased the cost of their home loans in response to rising swap rates – the rate at which lenders price longer-term lending such as fixes. Cabinet minister Michael Gove said that help for people struggling with their mortgages is being kept "under review" despite the former deputy governor of the Bank of England, Charlie Bean, saying this would be "risky territory" for the Government.

Tim Bannister, Rightmove's director of property science, said: "Average new seller asking prices, the first and leading indicator of new trends in the market, have dropped slightly this month, signalling the belated spring price bounce has quickly turned into an earlier-than-usual summer slowdown." Rightmove expects asking prices to edge down during the second half of the year, which is the normal seasonal pattern while current trends suggest that its original forecast of a 2% annual drop in asking prices at the end of 2023 is still valid. It said that its figures indicate no effect on demand but a modest impact on sales activity as movers navigate the latest mortgage rate rises. Mr Bannister added: "It is likely to feel very frenetic for those taking out a mortgage right now, as they try to quickly lock in the best rate that they can find."

**Property Owner**

## Home repossessions on the rise

More than 1,000 homes were taken into repossession in the first quarter of the year as owners struggled to keep up with mortgage repayments. Data shows that 750 homeowner mortgaged properties were repossessed in the first part of 2023, which is a leap of 50% on the previous quarter, according to UK Finance, the trades association for the banking industry. And an additional 410 buy-to-let were taken into possession as well, bringing the total to 1,160. Figures also show that growing numbers of homeowners behind on payments, with 76,630 in arrears of more than 2.5% between January to March – a jump of 2%. The numbers show the extent that the higher cost of interest rates in recent months, plus the rising cost of living, is having an impact on households. Economists have suggested that the majority of the extra cost to homeowners in rising interest rates is still to be passed on, as many are on fixed rate deals that have not yet expired. A repossession is a last resort after mortgage payments are missed, but experts have suggested that there are various ways borrowers could try and avoid falling into difficulty. As mentioned, many will currently be unaffected by rate rises, as they are on fixed-term deals signed before mortgage rates began to increase. For these customers, keeping their deal under close review and trying to lock in a good deal before their fix ends and they are shunted on to a more expensive standard variable rate (SVR) mortgage could be a good move, with most lender offers valid for up to 6 months.

**All**

## Majority of Britons are 'against' inheritance tax, Martin Lewis poll suggests

Britons are calling for the death of inheritance tax a poll by Money Saving Expert founder Martin Lewis has revealed. In the poll of more than 113,000 people on Twitter 72% of people said they were "against" the tax. Amongst respondents aged 40 and over, 44% of people said they were "against inheritance tax", compared with 16% in favour of it. Among those under 40, 28% of those polled said they did not support the levy. Lewis then posted a follow-up poll, asking Twitter users how often inheritance tax is paid. The consumer champion said: "I want to know what percentage of UK deaths in a year you'd think involved someone paying inheritance tax?" More than 43,500 people replied to the second poll with the majority (almost two-thirds) saying they believed at least 10% of deaths resulted in an inheritance tax bill. A fifth (18%) said they thought it affected more than half of all deaths and another fifth (19%) said they thought the percentage was 26% to 50%. Just over a quarter (27%) voted for 10% to 25%. The Telegraph reports that 37% got the right answer, by guessing that the levy was paid in less than 10% of deaths. Lewis responded by quoting the latest official statistics which show that 4% of all UK deaths resulted in an inheritance tax charge in the 2019-2020 tax year. This is up by 0.02% on the previous year. He pointed out that this was the first time there had been an increase in this proportion since the 2016-2017 tax year. But it is likely that thousands more families will be caught by the tax as the £325,000 threshold remains frozen. The allowance has not risen since 2009 despite years of inflation and house price growth.

**Property Owner**

## BTL mortgage drought hits UK expats

A growing number of UK homeowners working overseas are finding themselves grappling with skyrocketing mortgage rates when renting out their properties, the Financial Times reports. The newspaper says that these individuals are often required by lenders to switch from standard residential loans to 'consumer buy-to-let mortgages' – usually at higher interest rates. In recent months, these rates have experienced a sharp increase, fuelled by the expectation that the Bank of England will push up rates to tackle inflation. The situation is further complicated by the falling number of products in the expat mortgage sector. The FT says that many major banks discontinued expat mortgages in early 2020, as the UK's exit from the EU imposed fresh regulatory challenges for British banks providing financial services throughout the bloc. When expat borrowers reach the end of their fixed-rate agreements and seek refinancing, they may encounter interest rates as steep as 8% or 9%, according to lenders and mortgage brokers. Some banks have even started rejecting expat re-mortgage applications or requests for larger mortgages. And while some banks continue offering mortgage transfers – where borrowers receive a new rate offer from the same lender – the rates are significantly higher than before. The FT article says that when the UK left the single market for financial services, UK-based lenders lost the 'passporting' rights that saw them to do business in any EU country with minimal extra authorisation. One director at a major lender told the newspaper that before Brexit, lenders in the UK lending to EU or UK citizens across the EU had to show they were following lending rules in the UK. Now they must follow the regulations in the borrower's country of residence – and lenders don't have the appetite or capacity to do this. The lender was offering transfers on expat buy-to-let mortgages, the director said, but no longer offered loans to new expat customers and did not allow expanded mortgage borrowing for current customers.

**Investor / Saver**

## Private wealth advisers call for tax loopholes to be closed

A legal challenge against the UK’s tax authority demanding the closure of the so-called carried interest tax loophole has been launched by the not-for-profit Good Law Project and the entrepreneur and Labour party donor Dale Vince. The loophole allows private equity executives to be taxed on their profits at the capital gains rate of currently 28% rather than as trading income which is taxed at the top 45% rate of income tax. A pre-action protocol letter, the first formal step in legal proceedings, has been sent to HMRC saying that the group intends to seek a judicial review of the tax authority’s approach to the private equity industry. The reduced rate of tax has existed since 1987 when the private equity industry successfully lobbied the Inland Revenue, now HMRC, to pay less tax. The Good Law Project claims that the agreement was unlawful, pointing to research which shows that the loophole never existed at all and that the HMRC isn’t allowed to give sweetheart deals. If the loophole was closed, as the Labour party is threatening to do in the UK and the Democrats would like to do in the US, tax campaigner and lawyer Dan Neidle calculates that the HMRC could collect an estimated £600m more in revenue each year, from just a couple of thousand people. Last week research by the City law firm Macfarlanes showed that 255 private equity dealmakers in the UK earned £2.7bn in carried interest in the 2020/21 tax year. The legal action follows a petition organised by the Good Law Project that has so far gathered over 70,000 signatures. The rules exist to take more tax from private equity investors, but some experts believe HMRC are not using them. Their argument follows that the revenue could be in the region of £600m, so why should wealthy private equity investors be allowed to pay a lower rate of tax than a nurse or bus driver. Last week a group of 100 private wealth advisers and members of the recently launched Progressive Advisors’ Movement called for the industry to set up a unit to inform the HRMC of ways in which tax law is being exploited, saying that an “anti-tax” culture pervades the industry.

**All**

## UK's pension lifeboat fund slashes equity allocation

The UK government-backed fund designed to protects savers in company pension plans has slashed its exposure to equities by one-third and moved money into infrastructure and forestry, as it tries to protect itself against persistently high inflation. The Pension Protection Fund, one of the largest pension funds in the UK with £39bn in assets, has in recent months reduced its equities target, which includes global and UK holdings, from 9% to 6%, its chief investment officer told the Financial Times. The 'stickiness' of inflation continues to worry commentators. The argument goes that the longer inflation stays high, the longer interest rates stay high, the more of a challenging environment it will be for many of the assets we hold. The asset shake-up comes as central bankers around the world struggle to tame inflation, which remains well above target despite a series of sharp interest rate rises. High inflation has historically often hurt equity returns, particularly growth stocks. The move also comes as the UK government considers ways to try to increase pension funds' backing of UK companies, including increasing tax incentives for investment in UK business or pooling funds to generate greater investment scale. The pension lifeboat, which has 300,000 members and whose investments are managed independently of the government, takes over the assets and liabilities of failing pension schemes. At the same time the PPF has increased its infrastructure allocation from 2.5% to 4.5% and its forestry, farms and agriculture holding from 2% to 3%, taking the latter to more than a billion pounds invested.



**END**