

# CHURCH'S UPDATE

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Insurance  
portfolio

## SCHOOL FEES PLANNING

It's never too early to start

Could you be a  
**BUSINESS ANGEL?**

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Achieving a  
comfortable retirement  
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## Pensioners gain freedom at last New Government plans

Pensioners will no longer have to spend their retirement funds on poor-value annuities, when they reach 75 under plans published recently by the new Government.

This represents the end of a long campaign by those in the industry and pensions experts. Presently, if you die before 75 you can leave what is left of your pension fund to your spouse or family, minus 35 per cent tax. However, when you reach 75 you have to convert the fund into an annuity, an income for the rest of your life. This will cease on your death, and will only transfer to your widow if you have paid extra for widow's benefit.

An option is to move into an "alternatively secured pension". This allows you to withdraw, 90 per cent, at most, of the value of a level single-life lifetime annuity, with a minimum of 55 per cent, as set by the Government Actuary Department. When you die, the fund can be passed on, but will attract a tax charge up to 82 per cent, making this option unappealing.

Pensioners who are now 75 will be able to keep their pension fund as it is. They will still have to draw a minimum income but any unused funds can be passed on with a tax charge of only 35 per cent. This change will stimulate people to build up their pension funds with the thought to leave the fund to their children.

The new Government also announced that they will restore the earnings link for the basic state pension from April 2011, with a "triple guarantee" that pensions are raised by the higher of earnings, prices or 2.5 per cent.

Additionally, the age at which the basic state pension is paid will rise to 66 by 2016 for men and 2020 for women.

As yet, there are no plans to withdraw tax relief on pension contributions made by those earning more than £130,000 from April 2011.

There is still time to make extra pension contributions ahead of next year and continue to benefit from tax relief at your highest rate, which is 50 per cent for some people. You will be able to contribute a maximum of only £20,000 this tax year, unless you have an established pattern of contributions in place which you can continue for the time being.

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# Child Trust Funds To be abolished

**Child trust funds will be scrapped in January 2011, the new Government has announced. So what does it mean for those already with an account, and those expecting a baby?**

The new coalition Government plans to introduce legislation cutting the money newborn children receive from 1 August 2010, with all payments stopped from the beginning of next year.

CTFs were designed to give children a financial head start, and there are now around 5 million active accounts. At the moment, every baby born after 31 August 2002 receives at least £250 in the form of a voucher, with youngsters getting a top-up payment from the Government typically £250 when they turn seven.

**What is the new plan?**

Ministers have announced that they intend to reduce and then stop all Government contributions into CTFs.

Subject to legislation being approved by parliament, the Government intends to reduce the money children receive at birth from £250 to just £50 from 1 August, with children from lower income households receiving £100, down from £500 previously. At the same time, it is planned that all government top-up payments at age seven will end.

HM Revenue & Customs will then stop issuing new vouchers from 1 January 2011.

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**What will happen to existing CTFs?**

CTFs already in existence will continue to operate as they do now. That means it is likely they will continue to be CTF accounts until the child's 18th birthday, and will carry on benefiting from tax-free investment growth. But once the legislation is in place there will be no further entitlement to government contributions.

**I have not used my child's voucher. Am I too late?**

No. You will be able to use it up to the expiry date shown on the voucher, and if you do not use it HMRC will open an account for your child and tell you about this.

**Can my family still pay into a CTF account?**

Yes. There are no plans to change this, family and friends will continue to be able to top up accounts to £1,200 a year.

**Can I or my child withdraw the money in his/her account?**

I'm afraid not. No withdrawals will be permitted until the child turns 18.

**Children turning seven this year, will they still get their top-up payment?**

HMRC says all government contributions at age seven will stop for children that reach this age after 1 August 2010.

**When Government contributions cease, can I still open a CTF?**

When the relevant legislation is in place, the thinking is that no more vouchers will be issued, and it will not be possible to open an account (other than for those who have already received their voucher before this date).

**I'm expecting my first child, will I still get a CTF voucher when my child is born?**

Yes, if your child is born before the legislation to stop issuing CTF vouchers is in place and you meet the other eligibility requirements.



# School Fees Planning

## It's never too early to start

Planning your child's path through independent education requires a great deal of care, it is important to take appropriate advice. It is vital that parents or grandparents are fully aware that the school fees will increase over the term and must ensure they can afford the fees throughout the term.

There are options which can be taken, spreading the cost of fees, investing a lump sum and setting up a regular savings scheme.

As many parents find it difficult to fund school fees direct from taxed income, there are schemes which spread the cost, the purpose being to assist cash flow and make the fees more affordable. It may be possible to take out a drawdown equity plan over 10, 15 or even 25 years to, but it is dependent on your circumstances.

If you are in the envied position of having a lump sum to invest, you can take advantage of a range of plans open to you. If you invest the capital early you can avoid the need to use income for providing fees during the later stages of education. Such plans consider tax efficiency and ensure flexibility when they are tailored around an individual's need, your attitude towards risk will also be taken into account.

Your personal fees plan will take into consideration investments such as offshore investments for non UK tax payers or non UK residents. It can make effective use of trusts and can manage your plan by considering composite fees paid directly to the school and professional management of your capital.

School fees planning is something that requires a great deal of early thought and preparation. The earlier you start planning the greater the potential to benefit from

investment gains and the greater the choice available to you about how you can invest in your child's future education.

Of course, any regular savings you can make towards school fees will help future costs. The sooner they are started the better. Many parents now have school fee saving plans in place before their child is born. There are many regular saving plans that can be constructed, leaving the individual with the flexibility to use the funds at their discretion; options such as tax free ISA's, monthly saving into a tax efficient offset mortgage account, university specific plans can all be considered.

Trust planning can help grandparents who would like to contribute to school fees and achieve Inheritance Tax benefits at the same time. Trusts offer the benefit of transferring tax liability on future income and capital gains to the children to utilise their annual personal allowance. Chargeable gains on life policies could also be re-assigned, which may avoid a higher rate tax charge.

It may also be possible, in certain circumstances, to transfer an existing capital gain to the Trust avoiding the need to pay the tax bill on transfer. The capital gain will later be assessed against the beneficiaries or the trustee; however indexation relief will be lost. Trust planning is not suitable for everyone and it is vital to take professional advice on the correct trust arrangement for the investments held.

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# Are you COVERED?

What would you do if a close family member was to die? Could you cope financially? What if you became ill or lost your job? Is it time to take stock and consider insurance or add some additional cover?

## Review your insurance portfolio

To assess your ability to cope you need to calculate your expenditure versus your income. This will help you gauge how you would cope if had to pay for replacing items that were stolen or damaged, or how you would manage if you lost an income.

There are many insurance products that can help in a number of circumstances. For instance, if you or your partner became ill, a protection insurance policy that pays out in these instances could be a consideration. Generally they only pay out for a limited time, and don't cover all illnesses, so always check the exclusions before you take out a policy.

Life insurance plans, provide some financial security for people who depend on you if you died.

Are you a home owner? What if your home was involved in an accident, flood or fire, adequate buildings insurance must provide enough to rebuild your house – mortgage providers insist that it does!

Don't forget your valuables or belongings. Contents insurance covers the loss of or damage to the contents of your home – for example, furniture, electrical items such as TVs, computers, and smaller items like cameras, jewellery, briefcases and other items you carry outside of your home. It is an easy mistake to undervalue and underinsure your goods, so always be as accurate as possible when you estimate the value.

Your car is another area where basic cover is not enough. The law insists that you have basic motor insurance if you drive but you may want to increase your cover, for example to replace a written-off car.

With the holiday season under way, travel insurance is a must, as it can cover you against mishaps while you're abroad, from lost luggage and theft to flight delay and medical bills. Always take time to read the policy summary for exclusions, as there are bound to be some. Before you take out any insurance always remember to

check the details of the policy so you are sure it covers you for what you need it to.

Your pets can also present you with a hefty vet bill when it is least expected. Pet insurance can pay towards a vet bill and some will also pay for you to advertise if your pet has been lost; or for kennel/cattery fees if you suddenly have to go into hospital.

When you have recognised your need to buy insurance, it is important to compare like for like quotes from different companies and don't buy on price alone, check what it covered and what is excluded.

As most insurance is not compulsory, it is your choice to put in place what cover you feel is necessary but you should always consider financial advice to help you do this.

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# Balancing Act

## The Emergency Budget

The new coalition Government promised to reveal its budget within 50 days of taking power and now they've told us what they're going to do:

### So what's changing?

We take you through the key points of the new Chancellor George Osborne's emergency budget.

#### Taxes

- Corporation tax, currently 28 per cent, to fall by 1p in the pound a year for four consecutive years until it reaches 24 per cent.
- Small companies tax to fall to 20 per cent.
- New firms outside south-east/east to be let off employer national insurance contributions, up to £5,000, for each of first 10 employees recruited.
- VAT to increase to 20 per cent on 4 January next year, this is expected to generate over £13bn a year of extra revenues.
- Government to work with local authorities to freeze council tax for one year from April next year.
- Capital gains tax, currently 18 per cent, to increase for higher earners to 28 per cent from midnight on 22 June 2010. Low and middle-income savers will continue to pay 18 per cent.
- Personal income tax allowance to be raised by £1,000 from April 2011 to £7,475. This will take 880,000 people out of paying income tax altogether.

- 50p-a-month levy on phone lines to pay for the rollout of superfast broadband scrapped.
- Planned tax-relief for video games industry to be scrapped.
- Higher rate income tax threshold frozen until 2013.
- The standard rate of insurance premium tax to rise from 5 per cent to 6 per cent and the higher rate to increase from 17.5 per cent to 20 per cent.

#### Economy

- Growth is forecast to be 1.2 per cent this year taking into account today's budget measures. It is forecast to be 2.3 per cent next year, 2.8 per cent in 2012, 2.9 per cent in 2013 and 2.7 per cent in both 2014 and 2015.
- Debt will be falling and structural current deficit should be balanced by 2014.
- Consumer price inflation is expected to reach 2.7 per cent by the end of the year returning to target in the medium term.
- Unemployment rate forecast to peak at 8.1 per cent this year and then fall for each of the next four years to reach 6.1 per cent in 2015.
- 77 per cent of total consolidation to be achieved through spending reductions and 23 per cent through tax increases.
- Public sector net borrowing will be £149bn this year, £116bn next year, £89bn in 2012-13, £60bn in 2013-14, £37bn in 2014-15, falling to £20bn in 2015-16.

- Public sector net debt as share of GDP will be 62 per cent this year and will peak at 70 per cent in 2013-14. It will then begin to fall reaching 67 per cent in 2015-16.
- Additional current expenditure reductions of £30bn a year by 2014-15.
- No further reductions in capital spending totals.

#### Public sector

- Two year public sector pay freeze on staff earning more than £21,000.
- People earning less than £21,000 will each receive a flat pay rise worth £250 in each of the two years.
- Operational allowance for troops in Afghanistan doubled to £4,800.
- Rise in the state pension age to 66 will be accelerated.
- Government will seek private capital injection into the Royal Mail Group.

#### Pensions

- From April next year the basic state pension will be re-linked with earnings.
- Basic state pension will increase every year by highest of earnings, inflation or 2.5 per cent.

#### Businesses

- Regional Growth Fund to provide finance for regional capital projects over the next two years.
- The 10 per cent Capital gains tax rate for entrepreneurs, which currently applies to the first £2m of qualifying gains made over a lifetime, will be extended to the first £5m of lifetime gains.
- Annual Investment Allowance to fall to £25,000 a year to April 2012.

#### Welfare

- Benefits, tax credits and public service pensions will increase in line with consumer prices rather than the retail price index.
- Child benefit to be frozen for the next three years.
- Caps on housing benefit to be introduced - from £250 a week for a one-bedroom property to £400 a week for a four-bedroom or larger. Together with other measures this will reduce costs of housing benefit by £1.8bn a year by the end of the parliament.
- Sure start maternity grant will go to the first child only.
- Eligibility for child tax credits to be reduced for families with a household income of more than £40,000 from April next year.
- The baby element of child tax credit will be abolished from April next year.
- Child element of the child tax credit to increase by £150 above indexation next year.

#### Bankings and savings

- Bank levy to be introduced in January next year, to apply to the balance sheets of UK banks and building societies and to the UK operations of banks from abroad. This is expected to raise over £2bn of annual revenues.

#### Drinks, cigarettes and fuel

- No increase in duties.
- Reversal of government decision to increase duties on cider by 10 per cent above inflation confirmed, this will take effect at end of month.

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# Structured products

## What are they and how do they work?

### What are they?

Structured products can be any one of a wide range of investments and can offer income, capital growth, or a combination. Structured products tend to be open to new investment for a short period of time. Your investment will then usually need to be tied up for between one and ten years. Some structured products offer full capital protection, but others offer partial or no capital protection.

### How do they work?

Structured products offer returns based on the performance of underlying investments. Many products are linked to a stock market index like the FTSE 100. Also the underlying investments may involve different companies based around the world.

A typical structured product will have two underlying investment components:

**Notes** - A form of debt security, which is used to provide capital protection. It may pay interest at a specified rate and interval,

and may repay some or all of your original money at maturity; and

**Derivatives** – A financial vehicle linked to the value of something else, such as a stock market index or the price of another asset, like gold or oil. This component is used to provide the potential growth element that you could receive at maturity.

Investors are usually offered only a share of any increase in the level of the index or asset price which occurs during the term of the investment.

### How is my capital protected?

Structured products offer two broad types of capital protection.

**Full** – described as 100% capital protection, capital security or a ‘capital guarantee’. This aims to return all the original money invested at the end of its term, regardless of any fall in index level or asset price. Remember, though, that the cost of offering this protection will affect the returns you get, and there is still a

chance you could lose some or all of your original money.

**Partial** – Usually offered by ‘structured capital-at-risk products’ (known as ‘SCARPs’). This aims to return the original money invested at the end of the term unless the index or asset price to which the product is linked has fallen below a predetermined threshold. If this happens then you can quickly lose your original money.

**Structured products are often complex and complicated. You should seek professional advice if you are in any doubt about the potential risks and returns involved.**

**You could lose some or all of the money you put in to these products, so make sure you understand the risks before investing. Returns may be subject to income tax or capital gains tax, depending on the product.**

The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

# Achieving a comfortable retirement

People are now saving £1bn less into their pensions, and the consequences could see many fall short of their expectations.

It has emerged that employees scaled back the amount they contributed to a pension by a total of £1bn last year as the recession took hold. The official figures from HM Revenue & Customs coincided with research showing that people have wildly unrealistic expectations about the income they would receive in retirement.

A typical 43 year old on average earnings and saving about 6 per cent of their salary into a pension, expected a retirement income of about £15,000. These expectations are misguided; saving 6 per cent of their salary would produce an income of just £5,900 a year. The estimated total expectation gap in pension savings is around £1.2 trillion.

Financial advisers understand that pension savings could be the first to go as families cut spending in the economic downturn, however, reducing contributions would significantly affect the value of a pension fund.

A typical 40-year-old saver who takes a two-year break from contributing £200 a month to a pension will typically find his or her pension pot depleted to the tune of £19,200 at the age of 65. This would mean a loss of income of about £1,270 a year at typical annuity rates.

A key benefit of a pension is the upfront tax relief you get. For example, a higher-rate taxpayer effectively pays just £600 for every £1,000 in their pension fund, because they get 40 per cent tax relief. Basic-rate taxpayers pay £800 for every £1,000 because they get 20 per cent tax relief.

It is thought that most of the missing £1bn has moved into ISAs, which have greater flexibility. Sales of ISAs have reached their highest level since 2002 and do have some benefits over pensions, as you can get your hands on your cash almost immediately.

There are two considerations if you switch contributions away from a pension and into

an ISA. You lose out on tax relief, potentially higher-rate tax relief – and you may also miss out on employer contributions. That said, gains within an ISA are still free from income and capital gains tax, so you still have very important tax protection. With a pension, 25 per cent can be taken as a tax-free lump sum, while the rest provides a taxable income via an annuity.

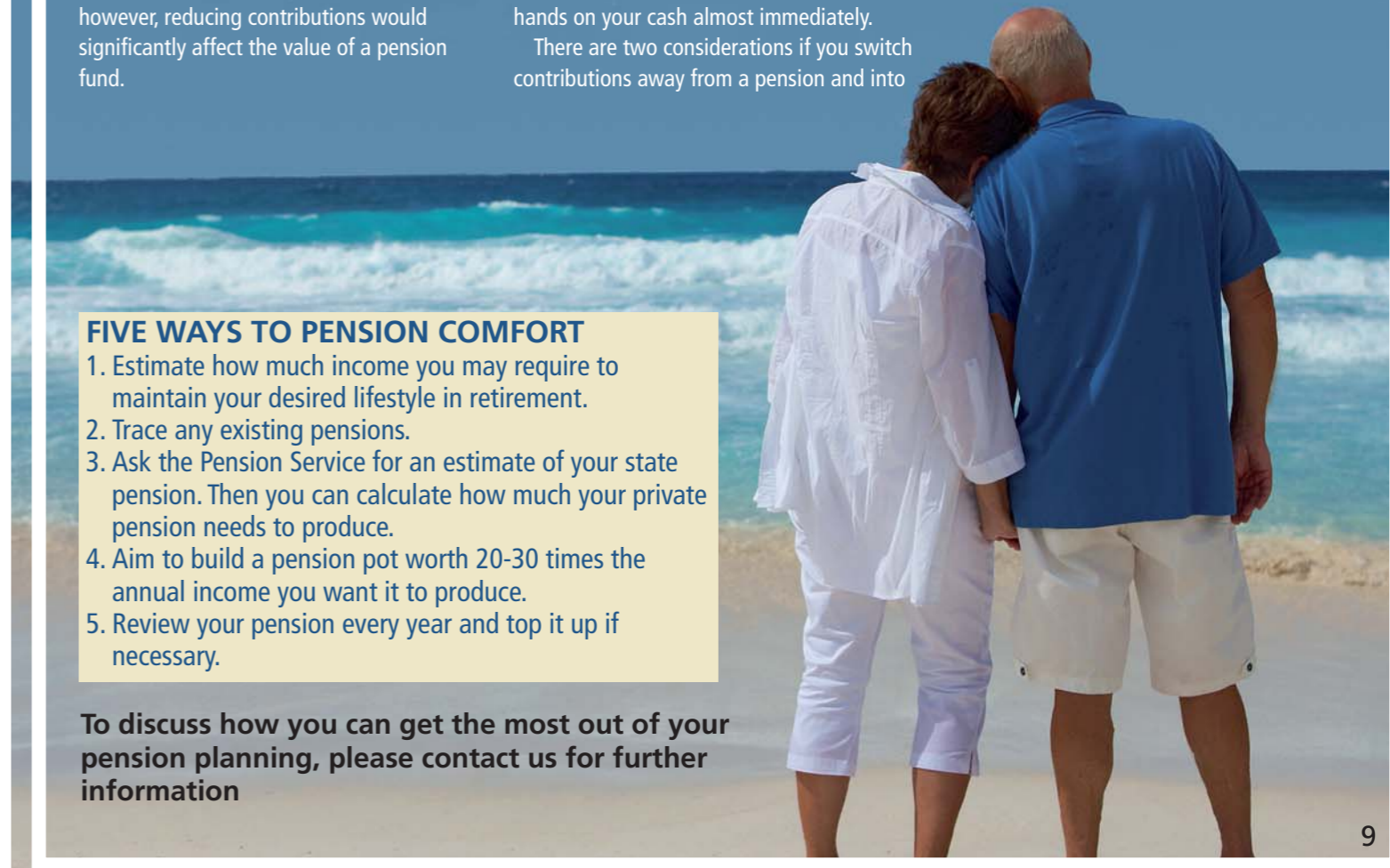
However, because most people earn less in retirement than when they worked, the way pensions are taxed can mean even greater benefits: they can get higher-rate tax relief on contributions, but pay just the basic rate on the pension income.

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### FIVE WAYS TO PENSION COMFORT

1. Estimate how much income you may require to maintain your desired lifestyle in retirement.
2. Trace any existing pensions.
3. Ask the Pension Service for an estimate of your state pension. Then you can calculate how much your private pension needs to produce.
4. Aim to build a pension pot worth 20-30 times the annual income you want it to produce.
5. Review your pension every year and top it up if necessary.

To discuss how you can get the most out of your pension planning, please contact us for further information





## Help your children financially without giving to the taxman

Parents who encourage their children to buy their first home should be careful about how they provide financial support. On average first time buyers have to find a deposit of around £25,000 and many ask their parents for help. Offering a loan for all or part of the deposit is sometimes the only way to get children to leave home!

Anyone considering such a plan should take legal advice on how to provide the deposit and whether or not to take a share in the ownership of the property. There's a big difference between lending and gifting money to your offspring and you need to be aware of the implications.

There are various ways for parents to help out their children, through a gift, such as a loan on which interest may, or may not, be charged, or as an investment where the parent takes a stake in the offspring's new home. All have tax implications.

Should a parent gift, and if the parent dies within seven years of providing the gift the child may have a potential Inheritance Tax liability. Where the parent provides money for the deposit as a loan, it is important to have

a legal agreement in place. The most common way of doing this is for the parent to grant an interest-free, or low-interest, loan, repayable when the property is sold.

A problem area here is that it pre-supposes that the value of the property will increase by the time the child wants to move house and that there is sufficient equity to repay the parent. If, at this point, the parent writes off the loan, it then becomes a gift and potentially subject to IHT if the parent dies within the next seven years.

A formal loan agreement helps because there may be unforeseen problems in the future. Drawing up a loan document doesn't have to be complicated and just needs to be signed by both parties. It should contain details of the basis on which the loan has been made, what will happen to the money if one of the parties dies, or the child and spouse or partner split up, or if the parent needs the money back. The situation is simpler if a parent is lending to a single child.

Some parents prefer to have a stake in the property. If you adopt this approach you will need to sort out the proportions in which the

property is owned. This can be done with a "Deed of Trust" which sets out the details at the time of purchase. In the case of a single child buying a home, most parents will choose to own the property with their offspring as 'joint tenants' so in the event of either owner dying, the property reverts to the survivor. If they decide to own the property as 'tenants in common' both parents and child can leave their share in their respective Wills.

The downside with this arrangement is that mortgage lenders usually require all the owners of a property to sign any mortgage agreement, which means that the parents are jointly and severally liable if the child defaults on the mortgage repayments.

Whatever situation you decide upon, it will pay to take good legal advice.

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# Could you be a Business Angel?

It seems that forward investing in small to medium businesses is no longer just an activity dominated by large corporations or private equity firms. Small Business Investors or "Business Angels" have become increasingly popular over recent years.

Business Angels are individuals who invest on their own, or as part of a network, in growing businesses in return for a shareholding. Typically, Business Angels invest between £10,000 and £750,000 in to their chosen business venture and many make these investments in the hope of a financial return. However, there are many other reasons and motives; many investors can provide through their business acumen, past experience and their own personal skills in order to contribute towards the growth of the business, whilst gaining more control over the success of their investment. Many also enjoy taking part in the entrepreneurial process and many aspiring entrepreneurs are grateful for more than just the financial input.

Business Angels are an important, yet under utilised source for new or developing

businesses. Business Angels invest across many industrial sectors and at various stages of the business development; although most are conducted in the early or expansion-stages. Typically a Business Angel will make one or two investments in their chosen developing business over a three year period. Depending on the choice of investment, some additional funding could be required more or less frequently.

The methods adopted by Business Angels when deciding which businesses to invest in, can vary greatly. Before any final decision is made, the following should be considered:

- The competitive edge or "Unique Selling Point" of the business.
- The expertise of the founder(s) or management teams.
- The growth potential and market trends.
- The contribution from both the business proposer and the Business Angel and the compatibility of their investment preferences.
- The financial commitment from the business proposer themselves.

Some Business Angels may be eligible to have their investment funds matched by the Government under its Enterprise Capital Funds (ECFs) within its Finance for Business product.

As an investment vehicle Business Angel investing can prove to be higher risk, therefore, the value invested should always be an amount which could be traded against the risk. By becoming an Angel, you can influence the outcome of your investment in a way that is often impossible with most other forms of investment, by helping and advising the businesses being funded.

By becoming a Business Angel, it provides you with the opportunity to seek out the golden wheat from the chaff, and if you are successful, the financial gain can prove highly rewarding. However, you are still taking a risk with your money, so acquiring professional financial advice before choosing such an investment is essential.

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The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment. This type of investment is not regulated by the FSA.

# Be free earlier

## Overpay your mortgage NOW!

Low interest rates have tempted many borrowers to pay more off their mortgage each month and make long-term savings.

With savings rates continuing to offer poor returns, many people are turning to mortgage overpayments as a way to save money. The potential benefits are attractive but repayment penalty charges can be costly. There's also the risk of locking cash away when you may need it.

Overpaying cuts back on the overall interest a borrower has to pay over the term of the mortgage and actually reduces the length of the term, meaning further savings and a chance to be mortgage-free much sooner.

Most mortgage lenders will let you overpay by up to 10 per cent per annum without penalty. On average approximately one in four consumers are already choosing to overpay their mortgage, half say they overpay their mortgage to reduce the term while just over a

fifth suggest they overpay in order to pay less interest.

Overpaying can particularly benefit first-time buyers should they have any spare money. Loans with an overpayment facility often allow unlimited overpayments which can also be beneficial for borrowers requiring a high loan-to-value (LTV) loan but who wish to make additional payments. This kind of deal will allow a first-time borrower to purchase a property with a lower deposit before house prices increase and also chip away at their LTV in readiness to remortgage to a better, lower LTV deal in future.

Borrowers should check their lender's rules concerning mortgage overpayments. If overpaying more than the lender allows, the borrowers will be penalised for doing so.

People constrained by the terms of their current mortgage should carefully do their calculations before jumping to a more flexible deal.

If you have to pay an early repayment charge to exit your existing deal and end up switching to a higher mortgage rate, work out whether it is in your interests to do so in order to increase your overpayments.

Borrowers need to be cautious as it is unlikely they will be able to access the money after they have overpaid. While in the past lenders have allowed overpayers to also underpay, take payment holidays or draw down from the amount that has been

overpaid, this is now rarely the case.

In the current market, securing new borrowing facilities can be more difficult. It is wise to retain a larger amount of spare cash before overpaying the mortgage as an extra safety net.

There are alternatives to making overpayments, especially for borrowers who are likely to need that money in the future. One option is to save it in a cash ISA, effectively keeping the funds liquid, while an ISA wrapper will ensure they do not pay tax on interest earned. Of course those with an offset mortgage have the best of both worlds in that their savings are being used to overpay plus they are able to access those savings at any time, although they should be prepared to pay a slightly higher mortgage rate to access this type of product.

Another option to overpaying for anyone who is able to commit to higher regular payments is to shorten the term if on a repayment mortgage or if on interest-only switch to repayment, that said, not all lenders will let you switch back to interest only if you subsequently want to reduce payments. Similarly, while all lenders will allow you to shorten the mortgage term they may not allow you to lengthen it again, even to the original term.

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**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE**

For more information on any subject that we have covered in this issue, or on any other subjects, please tick the appropriate box or boxes, include your personal details and return this section to us.

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- Tax efficient investments
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