

News & Views



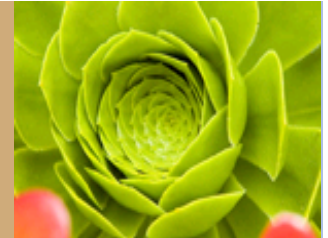
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The Economic Aftershocks

There has been only one story in Japan since the end of February – the earthquake and its aftershocks, both human and economic. Whilst news analysts have contemplated the human devastation, markets have focused their attention on the costs of the disaster, ie: the rebuilding, its effects on economy and the extent to which companies may be affected.

The market's immediate response was to assume the economic impact would be catastrophic. In many ways it was a fair assumption – Japan's economy was already on its knees, with government debt standing at over 200% of GDP (the highest of any developed nation). Economists seriously questioned how a Japanese government in an already weak position could support the colossal rebuilding costs required. However, towards the end of the month, more sanguine assessments emerged. Goldman Sachs estimated the impact on real GDP could be to reduce it by 0.5% or more in 2011. The group thinks the final figures will depend on how long the power outages continue. If they are all but over by the end of April, the impact will be far lower than if they continue into June or July.

Certainly, the majority of economists expect what impact there is to be short and sharp. A number have even suggested that, once the immediate difficulties are dealt with, the rebuilding of infrastructure in Japan may provide a much needed boost to the economy.



Welcome to the latest edition of our newsletter, our update on developments in the world of financial services.

If you have any questions about the issues raised in this issue, please do not hesitate to contact us.



Q: How much tax...

...do I really pay on an ISA investment?

A: There is no liability to personal income or capital gains tax on the profits made by any ISA investment after it has been paid out to you. Similarly, no tax is paid on interest earned by your cash ISA or on interest payments from corporate bonds and gilts within stocks and shares ISAs. You do not even have to declare its existence on your tax form. However, tax of 10% will be deducted from all dividends and 20% from any interest earned on uninvested cash within a stocks and shares ISA, before either is paid out - and this cannot be reclaimed.

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Use your allowance

People often leave any thoughts of Individual Savings Accounts (ISAs) until the last minute, driven by the 5th April deadline. This date focuses the mind on taking advantage of one of the few tax breaks investors get. However, you do need to take some time to consider whether the tax benefits are appropriate and how you can use your allowance to meet your objectives most appropriately.

Your allowance for 2011/12 has been increased for everyone to £10,680 and this can be invested either as a single lump sum, a series of smaller amounts or even via regular monthly savings. Although the tax year has only just got underway, now is the time to start planning where that might go.



Check out the small print

Mortgages should be simple: bank lends borrower the money they need, and sets an interest rate which must be paid on that money until it is paid back. If the borrower doesn't pay the money back when it is due, the bank gets the house. Easy, right?

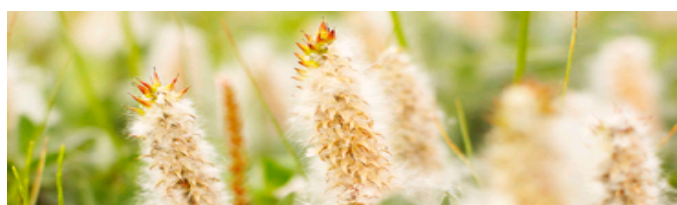
Wrong. Mortgages are far more complex than they look and, because of the huge sums involved, picking the wrong deal can prove extremely costly. Low interest rates can be deceptive and borrowers need to make sure any 'great deal' really do add up. Headline interest rates are a guide – but they are little more than that. Of course, you should ensure that the interest rate you are paying is competitive; however, a number of other factors can outweigh any seemingly amazing deals. For example, charges.

Various charges are connected to a mortgage; these will vary between providers and between mortgages, and it is very important not to ignore their impact when considering your overall costs. First, almost every provider will charge an arrangement fee, and fixed-rate mortgages in particular, often incur a reservation fee. In addition, a survey usually costs upwards of £300, whereas some lenders might offer this free. Offset and current account mortgages usually appear more expensive but they offer features that could actually save you money - overpayments without penalty, for example, daily interest recalculation - but you then need to be sure you are going to take advantage of those features or yes, you may find a better option in something simpler.

Early Repayment Charges are also an important and controversial area. Mortgage providers may charge you a hefty fee for redeeming before the expiry of a pre-set period (usually the term of their discount or fixed rate offer). However, some of these fees might continue beyond any promotional deal and some other lenders charge exit fees regardless of how long you have been with them. Finally, if you borrow with no deposit or the lender gives back some of your deposit, you will undoubtedly be paying to cover those costs and additional risks elsewhere.

A good rule of thumb therefore is, you don't get something for nothing. A lender has to make a profit and also has to cover the risk of people defaulting. A good mortgage adviser will help you through the maze of different costs and charges - and help make sure you end up with a mortgage that is right for you.

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



'LEVELS & BASES OF & RELIEFS OF TAXATION ARE SUBJECT TO CHANGE'

Issued by Dumfries Mortgage & Property Shop. For mortgages we can be paid by commission from the lender, or usually a fee of £500.

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