Route to happiness

Record numbers of Britons are moving abroad, but before you do, check your pension and taxes, says **Lorna Bourke**

From £171,000: the Humber Valley Resort, Newfoundland, Canada, is a four-season residential scheme set in woodland, with a mix of flats and houses, and a golf course. A variety of water sports on the Humber River are available, as is skiing in winter. Call 020 8605 9540, or visit www.newfoundproperty.com

MORE Britons than ever are buying property abroad, a trend set to continue this year. Nobody knows how many families and individuals own a foreign property, but Mintel Reports estimates it at 800,000, although the real figure is almost certainly higher.

An estimated 5.5 million people have already left the UK and another million are planning to go. Research from the Institute of Public Policy Research showed that more than 1.3 million have left to live in Australia; 600,000 to Canada; 215,000 now live in New Zealand and a similar number in South Africa.

But do you know what will happen to your pension if you go to live in one of our former colonies? It will be paid at the rate in force at the time you leave the UK if you are already retired, or the date you retire. You will not be entitled to any future increases. However, if you retire to a country within the EU you will not be penalised and your increases will be paid in full.

Bear in mind, too, that you might not like "abroad" when you get there so, especially if it is outside the EU, rent for the first year until you are certain you want to stay, and cut yourself off from a valuable income stream.

If you let your UK home while you are away, it will probably cover the cost of renting abroad as rent is higher in the UK than in most of the popular retirement areas.

If you sell up and buy in the new country, only to find you don't like it, currency fluctuations and rising house prices in the UK may make it impossible for you to return.

Mark Bodega, marketing director for currency specialist HiFX, points out: "Australia, New Zealand and Canada all feature in the top 10 places for Brits to emigrate to. Our analysis of sterling's performance against the currencies of the main emigration destinations most favoured by Britons has found that sterling has appreciated in value across all of the top 10 countries."

In less than a year, sterling has appreciated by 12.6 per cent against the New Zealand dollar, which means that if you take into account buying and selling costs, you would probably have to trade down to a house worth about 20 per cent less than the one you sold in the UK if you wanted to return. The appreciation is also 11.75 per cent against the Canadian dollar and 5.82 per cent against the Australian dollar over the past year.

Many Britons have bought abroad with a view to retirement overseas or generating rental income. Although property arouses more interest than any other investment, home-owners can still be surprisingly ignorant of the basics. Not everyone knows, for example, that if you have more than one home, you can nominate whichever house you like as your principal private residence. Provided you have actually lived in it for a period of time as your principal private residence — even only for a few months — the last three years of ownership are free from capital gains tax. Clearly it pays to nominate the more expensive home or the one with the greater capacity for price growth.

'Paying off your home loan might not be the best move'

Even fewer people know that you can nominate a foreign property as your principal private residence, without having to become non-resident — and this, too, is free from capital gains tax for the last three years of ownership — provided you have actually lived in it for a period of time. If, for example, you owned a second home for five years, which had once been your principal private residence, and sold for a capital gain of £150,000, at least three-fifths of the gain, or £90,000, would be tax-free. If you are thinking of selling a home abroad, move into it for a few months before you do so.

So what other financial tips would you be wise to follow in 2007?

Paying off the mortgage has traditionally been the home-owners' ambition. But with inheritance tax kicking in at 40 per cent on all assets in excess of £285,000, paying off your home loan might not be the best move.

If, for example, you have a mortgage and expect to receive a lump sum from an inheritance or a big bonus, it is worth considering setting up an offset mortgage rather than using the windfall to reduce the debt.

This gives you the flexibility of access to the lump sum that just sits on deposit, but reduces the mortgage interest payments. The money you would have spent on mortgage repayments can be used to take out investment schemes for children or grandchildren — all free from inheritance tax. When you die, the outstanding mortgage reduces the inheritance tax due on the family home.

"We offer interest-only offset mortgages and you can wipe out all repayments if you are able to deposit a sum large enough to cover the mortgage," says a spokesperson for the Woolwich, one of the pioneers of offset loans.

It works like this. The amount of the deposit wipes out all interest charges on the same amount of the mortgage. So if you have a £200,000 home loan, a deposit of £200,000 will cover all interest charges — but you still have control of the cash.

Many City high-fliers do this with their big bonuses because of the flexibility it offers and the potential to reduce inheritance tax at a later date. And Woolwich has launched a product specifically for this market. City Mortgage 2 is Woolwich's lowest lifetime tracker offset, at bank base rate plus 0.34 per cent for the life of the loan, with an initial rate of 5.34 per cent.

ALL homebuyers should consider remortgaging to save money. Anyone being charged more than 5 per cent interest on their mortgage is paying too much. There are plenty of remortgage deals around at less than 5 per cent, and if you are paying the standard variable rate of 6.75 per cent or thereabouts, the annual saving in interest on a £100,000 home loan would be at least £1,750.

If you have large credit card debts that you cannot afford to pay off, it will probably pay to remortgage for a larger amount and get rid of the expensive credit card borrowing. You are likely to be paying 15 per cent for credit card borrowing but it can be more than 20 per cent. Always pay off credit card debt, overdrafts and personal loans before your mortgage. Get rid of the most expensive borrowing first.

Tell us your story

IF YOU would like to be considered for a cash clinic, where experts will give you advice on managing your finances better, send a brief outline of your current situation, adding a daytime phone number, to Cash Clinic, Homes & Property Editorial, Evening Standard, 2 Derry Street, W8 5EE. Please do not enclose documents. If we can follow up your story, we will contact you.

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