



# ROSE

Financial Planning

## **SPAIN – FINANCIAL TROUBLE SHOOTING 2012**

Spain is not the UK, and that applies to most elements of life, whether it is financial or otherwise!

A rather obvious statement you might say, but then you may be surprised at how many folk make assumptions and act without any research into the mechanisms of financial life here, and then wonder why things go pear-shaped.

Whether your involvement in Spain is comprehensive (you have moved here as a permanent resident) or partial (perhaps owning a holiday or investment home), we have seen developments over the last year or so that would have likely impacted your wallet hard! But what to do to ease the pain, if that is possible?

Whilst not all things are, or can ever be, under your control, certain elements to your financial make up are, and it is these key elements that we need to focus on. Any improvement can remove or, at least, ease the position you are in and, not least, the anguish and stress that invariably come with financial pressures!

There's an old saying that says 'sometimes you cannot see the wood for the trees'. Translated into financial terms today it can be interpreted as the stress of dealing with everyday worries needs to be stepped back from. You can do but you certainly need to think differently than perhaps you have ever done before. Or get someone to help you!

So here are the areas to look at with the view to reducing costs and/or increasing income!

### **1) Existing Mortgages – Payments high or hurting?**

All Spanish mortgages work on a periodic rate review basis, and those borrowers who have found themselves in the unfortunate position of having a high rate at the last review are probably hurting and wondering what they can do to reduce the monthly cost. For those who receive their income in Sterling £ this has been exacerbated by the demise of the Sterling against the Euro.

Firstly, the good news! Come the next review date, with bank lending rates having fallen in recent months, you should see a much lower payment. At least, the majority will! It's a question of what to do until then. The bad news though, is that the cost of going into arrears is punitive and the consequence not positive. The lender may not pass the full benefit of reduced rates on if this were so due to the penalty clauses within the mortgage contract.

Understand though that lenders here are under a great deal of pressure viz the number of mortgages in arrears and repossessions. They will not want more and that fact, ironic as it may seem, is your strength. They will not want more! So, if you are finding it hard to maintain mortgage payments, talk to the lender (this is critical) with the view of achieving i) a 'window' of reduced payments (to the next review date preferably), and ii) a switch to 'Interest Only' (thus delaying capital repayments). It may even apply that iii) extending the term of the mortgage may help but be aware that this could involve legal costs in changing the contractual terms. Also iv) if the basis of the interest calculation is using the IRPH index this is not good news for the foreseeable future as the rate reductions we have seen will not be passed on quickly enough to you. Look to switch to the Euribor index where rate reductions have washed through already.

## 2) **Bank Assurances**

Be mindful that banks in Spain have, historically, made certain protection policies mandatory alongside mortgage provision. This cannot be enforced any longer and therefore it may offer a saving to find an open market equivalent if the policy is required, either by you or the bank.

You need to be aware of what it is you are actually paying for and whether this is truly needed. For example, you may have alternative Life Assurance in place which is sufficient for your own protection purposes, so an extra policy may be superfluous. Alternatively, Buildings Insurance will be required by the lender but the probability is that you get it cheaper! The bank will still require their name added as a beneficiary, of course!

But the savings to elect for an alternative policy could be a sizeable chunk ... annually!

## 3) **Savings gone – Eaten away due to reduced income?**

There are many reasons why a mortgage should always, always be taken when buying a property and this crisis has driven that fact home to many albeit too late! A mortgage is tremendously tax efficient but, above all else today, it would have ensured that you had savings and investments to use as a back up; 'rainy day' money if you like!

So many Brits buy for cash and then rue the day, and we are at that point now! But there is no harm in reversing that move i.e. you are sat on bricks and mortar with significant value which you cannot use ... unless you take a mortgage to some degree. That will restore your liquidity ... and sanity and remove the stress of life today!

So many folk are even considering selling up and moving back home! But why, when a simple mortgage can provide sufficient funds to get through this recession. If you decide in a few years still to sell, at least you stand a chance of getting fair value for the property! Today you are likely to have to give it away!

And neither will your end beneficiaries (children) expect you to scrimp and save to pass the property whole to them on your demise. They will certainly expect you to use the equity so that you can enjoy your life in Spain. After all, wasn't that why you bought here?

If you haven't considered this before – to release some cash from your home in Spain – perhaps now is the time to do so!

## 4) **Deposit rates through the floor and investment markets down ... along with your income?**

With the average bank deposit rate earning as little as 2% these days, and then taxed, coupled with the demise of the Sterling £/Euro exchange rate, many folk lucky enough to have capital to fall back onto are still struggling as their income has been decimated. Along with their pension income!

But, staying away from the highly volatile Stock Markets, returns can still be earned in excess of 7% per annum if not more and yet these investment are low risk. Surprising I know but a fact!

So, if your income has been pummeled of late, it's time to take a fresh look at where your money is placed!

## 5) **'Paid Up' UK Pension funds**

Many such funds are often of a low value due to the owner's relatively short period of employment with the provider.

For some holders it may be possible to encash these in full and, especially where you have broken UK Tax Residency, an added flexibility can certainly be made available to allow you to access part or all of the value, perhaps immediately.

Time to revisit your pension arrangements?

## 6) Spanish Tax

You may think a bit of an oddity this as it has seemingly no bearing on the immediate subject of reducing your costs or increasing income .... or does it? The short answer is yes, it could, especially where unknowing property owners are paying Non Resident 'Wealth Tax' and where certain Spanish tax breaks are being lost. And tax laws broken incidentally!

The fact is that you may be paying taxes that you shouldn't, whether it is now or in the future and as taxes are a constant cost, annually, the cumulative effect of getting it right could add up to a small fortune. And you will be legal!

So whether you think you are set up correctly or not, check your status out and the effect on the various taxes of Income Tax, Capital Gains Tax and Inheritance Tax.

There ends the message of the day!

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