

# WHAT THE AUTUMN BUDGET MAY MEAN FOR YOU

30 OCTOBER 2024

In one of the most anticipated Budgets in recent history, Chancellor Rachel Reeves raised £40 billion of taxes, which will fall predominantly on businesses and the wealthy. With a Labour manifesto that promised to protect “working people” and boost economic stability and growth, there was much speculation over how the £22 billion black hole in the nation’s finances would be filled.

Increases in Income Tax, VAT and National Insurance (NI) were explicitly ruled out in the government’s manifesto, all of which could have gone a long way to solving the problem. Instead, the government had to make hefty increases to taxes that historically have generated modest amounts of revenue, but paid by those who are deemed to have the broadest shoulders.

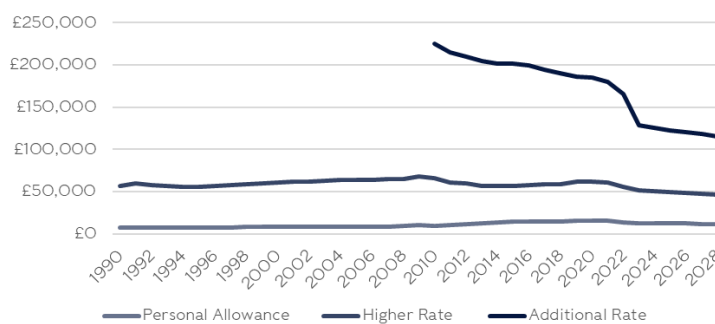
Meanwhile, the Chancellor has changed the fiscal rules inherited from the last Conservative government which constrain the amount the government can borrow. One of those rules is that the nation’s debts relative to GDP must fall over the five-year parliamentary term. By using a broader measure of net public debt – all the nation’s liabilities less its assets – which includes relatively more assets (like, for instance, student loans, public sector pension funds and equity stakes in private companies) than liabilities, it creates more headroom to borrow. The government is using this to borrow £142bn over the next five years, and will use £100bn for public investment.

## Income Tax

Despite honouring the election pledge to “not increase taxes on working people”, continuing with the freeze to tax-free allowances and tax-rate thresholds implemented by the former Conservative government will mean working people will continue to pay more tax. However, the Chancellor has pledged to raise the thresholds by inflation from April 2028. As inflation has reduced the value of a pound, more people have crept into higher bands as wages increased to keep up with the rising cost of living. As you can see from the chart, the initial £150,000 threshold for Additional Rate tax that was implemented in 2010 would be the equivalent of £225,000 today. The return to inflation uplifts for thresholds is welcome, but there’s a long way to go to rebuild them.

This reinforces the importance of reducing your taxable income wherever possible. Working people can do this by saving more into their pension, which is deposited before tax. This avoids both Income Tax and NI, so the savings can be significant. Married people can shift income from one spouse to another, although the rules are complicated, so advice is a necessity. Everyone can

## BEING WEALTHY AIN'T WHAT IT USED TO BE Real Income Tax thresholds in today's prices



Source: HMRC, ONS, Rathbones; thresholds adjusted by CPI to Q2 2024; 2025 to 2028 assuming 2% inflation

reduce their taxable income by giving to charity as well. Any interest-paying investments held outside an ISA also count as income, so be careful that they don’t tip you over into a higher tax band. These could be swapped for lower-yielding alternatives, but there may be broader investment implications on doing this, so always speak to your adviser.

People approaching an income of £100,000 should be extra careful. Because of quirks in how the tax-free allowance is tapered, the effective tax rate paid between £100,000 and £125,140 is 60% (in Scotland, it’s even higher at 68%). It is more punitive for parents with young children: the Child Benefit is tapered to nothing between £60,000 and £80,000 and if one spouse earns more than £100,000, they lose the annual £2,000 Tax-Free Childcare Payment per child as well.

Investing in alternative investment vehicles, such as Venture Capital Trusts and the Enterprise Investment Scheme, can also give you an element of Income Tax relief on investment. However, these are higher risk and should not be invested in unless you are prepared to lose all of the money you invest. Again, we would urge you to seek advice before making any such decisions.

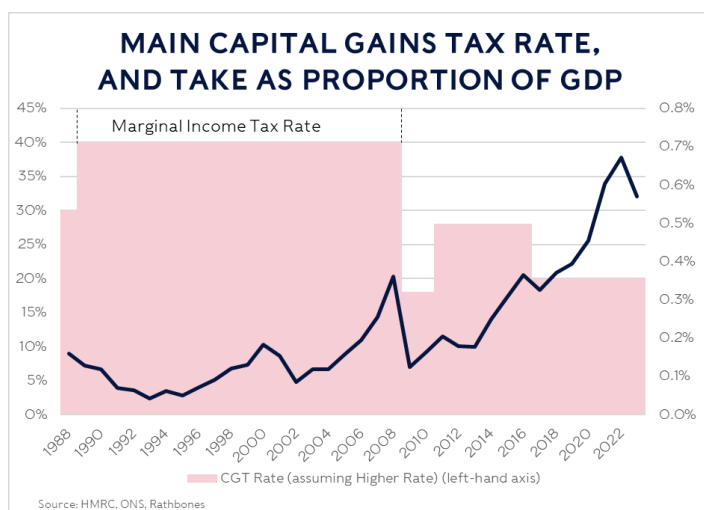
## Capital Gains Tax

Capital Gains Tax (CGT) rates are still at a historic low, so an increase in CGT rates was viewed as a done deal heading into Labour’s first Budget; the question was only by how much. Everything from a small increase to an alignment to marginal Income Tax rates had been bandied around, so the Chancellor’s increases aren’t as bad as they could have been. From 30 October, the main rates of CGT rise from 10% to 18% for lower rate payers and from 20% to 24% for higher rate payers. The basic rate taxpayer will pay almost twice as much CGT as before, with the effective rate on the £5,100 average gain rising from 4.1% to 7.4%.

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There were a lot of transactions, particularly in real estate, in anticipation of an increase in CGT rates. Crystallising gains at lower rates ahead of 30 October will likely create a big boost to the tax take in the first year. But if the increase in rates is too onerous, the danger is that it will encourage investors to change their behaviour to mitigate paying tax and therefore a potential loss of revenue (and dampened investment). Exactly where that level is, however, can only really be known in hindsight.

Business Asset Disposal Relief is an important CGT relief available to individual businessowners who are planning their retirement, or a sale or exit from their business. If a disposal qualifies for this relief, the tax on the gain will increase from 10% to 14% from next year and again in 2026 to 18%.



### National Insurance

While increases to employee NI Contributions (NICs) were ruled out, *employer* NICs have appeared to be fair game. Employers currently pay NI on top of employees' earnings above £9,100 at 13.8%. Because Employer NICs don't appear on your pay slip, it's easier for the government to push increases that could go unnoticed, it makes it a helpful tax for politicians. From 6 April, the Chancellor is increasing Employer NICs by 1.2 percentage points to 15%, reducing the threshold for Employer NICs to £5,000 and adjusting the allowance cap. Reeves expects the changes will generate an additional £122bn in revenue over this Parliament. Increasing employer NICs makes it more expensive to employ staff, which in turn could lead to slower jobs growth, stagnant wages or job cuts.

### Inheritance Tax

For what is perhaps the most loathed tax on the statute books, IHT doesn't actually raise all that much revenue. Only £7.5bn is forecast for the current tax year, according to the OBR. That's less than 1% of all government receipts. Of course, that small amount is levied from a small share of the population. However, as thresholds were frozen and older people became wealthier, many more people have been caught in the net. The Institute for Fiscal

Studies (IFS) believes the number of estates liable for IHT will rise to 7% by 2032-33. It was less than 4% in 2020-21. The property market means that will be heavily skewed, with the IFS estimating that almost a quarter of all Londoners (or their surviving spouse) will pay IHT in 10 years' time, compared with roughly 5% in the North East.

Inheritance Tax thresholds have been frozen since 2009, although the Residence Nil Rate Band was introduced in 2017-18 to mitigate a main home from becoming subject to IHT. It has subsequently increased to £175,000, which brings the tax-free element of a couple's estate up to £1 million. However, that level of relief is frozen until April 2028. As silly as it sounds, £1 million isn't what it used to be. Financial advice and IHT planning could help you avoid falling into this net.

There were fears ahead of the Budget that Business Property Relief and Agricultural Property Relief would be repealed. Before, all eligible assets were exempt from IHT as long as they had been held for at least two years. Now, a £1 million nil-rate band will be implemented for eligible assets, with anything over that taxed at half the usual IHT rate (so, at 20%). As for AIM stocks that are eligible for Business Property Relief, they will not benefit from the £1m nil-rate band; instead IHT will be levied on the total value at the reduced 20% rate.

### Pensions

The Lifetime Allowance was abolished by former Chancellor Jeremy Hunt at the last Budget. That said, a caveat in the small print limited the amount of tax-free cash that could be taken as a lump sum to £268,275 (25% of the old Lifetime Allowance). There was huge speculation in the lead up to this Budget that tax-free lump sums would be limited further, which would have been a very bold move. Instead, the Chancellor retained the status quo.

The government also ruled out reducing the higher rates of tax relief on pension contributions, following a warning from the unions stating it would adversely affect many of their members and wipe out the recent pay increases. The introduction of a flat rate of 30% for everyone or removing the 40% rate of tax relief completely could have generated £2.7bn and £10bn of revenue respectively each year.

More importantly, pensions will be brought back into the estate again from April 2027. They used to be exempt from IHT, allowing people to pass them on unfettered. We believe this will increase the amount of estates liable for Inheritance Tax by almost a quarter. A lot of our clients use their pensions as IHT vehicles, so it's important to revisit these plans now the goalposts have been shifted.

### State Pensions

We all know that the State Pension is costly to provide. The International Longevity Centre has suggested that State Pension age needs to rise to 70/71 by 2050 to remain affordable. With the

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triple-lock annual increases of the higher of 2.5%, inflation or earnings growth, it has become even more expensive. The State Pension has increased 8.5%, 10.1% and 3.1% over the previous three years. The triple lock is here to stay and the new rate of State Pension will be close to £12,000 per year, not far off the £12,570 Personal Allowance. At relatively mild levels of inflation, the state pension is likely to exceed the Personal Allowance by 2028, meaning that if this doesn't increase as expected a huge number of pensioners will pay tax.

### **Dividend Tax**

The Dividend allowance has been left at the almost rock bottom level of £500, having been steadily cut from the £5,000 of 2017-18. Some had speculated that taxes on dividends would be aligned with Income Tax (like interest on savings and bonds). That would have been a very unpopular move and could have discouraged investment in the UK stock market. Making sure dividend-producing assets are held in tax-efficient vehicles will help to reduce the tax paid on dividends that fall above the dividend allowance.

### **Corporation Tax**

The fourth big tax freeze alongside Income Tax, NICs and VAT is Corporation Tax, which the Chancellor has pledged to cap at 25%, its current rate, for the duration of this Parliament. It's hoped that this certainty will provide some stability and support to businesses as they grow.

### **Non-Dom Tax**

Several measures had been under consultation prior to the Budget to try to crack down on tax avoidance. The whole concept of domicile will be removed from the tax code. The government will be releasing details later.

### **Carried Interest Tax**

Private Equity fund managers were already aware that their loophole of taxing part of their earnings, or carried interest, as capital gains rather than income was under threat. This will be raised to 32% from April and will generate an insignificant £300m a year by 2028-29.

### **School Fees**

In a heavily trailed policy, the government has confirmed it will go ahead with the introduced VAT on private school fees. This is expected to raise £1.6bn in tax revenue each year, which is to be spent on state education, including the hiring of 6,500 more teachers.

### **Stamp Duty**

The surcharge on stamp duty applied on additional homes rises from 3% to 5% on 31 October. The levy on properties worth more than £500,000 that are bought by companies will also increase, from 15% to 17%.

### **DIY is for homes, not taxes**

There's a great deal of detail to digest from this Budget and this note can only address the initial headlines. Over the coming weeks, we will provide more detail on the various changes. Tax policy is fiendishly complicated and the rules change often. Tax treatments depend on your personal circumstances as well, which also change. It's important to speak with a tax adviser if you're unsure. Please get in touch with your usual contact with any individual questions and concerns.

# ADDITIONAL INFORMATION

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