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NEWSLETTER – 1st NOVEMBER 2024

This is the first of two newsletters and looks at the changes in the recent Budget and what they could potentially mean for you. The second will cover Altorfer's plans for 2025 and beyond and will follow shortly.

Some clients will not be affected by the changes within the Budget, but most will see some changes in respect of capital gains and/or inheritance tax planning. I am pleased to say that some of the areas we were concerned about were not mentioned, including reducing ISA allowances or the total amount that can be held within ISAs, reducing the tax-free cash sum from pensions and increasing the rate of income tax on dividends. Aside from financial matters, there was no increase in fuel duty and a reduction for draught beer.

If you are retired, with all your pensions in payment outside of any form of Drawdown arrangement, and you have dividend income of less than £500, savings interest of less than £1,000 and pension income less than the higher rate threshold of £50,270, then the Budget will not immediately affect you. However, the freezing of the income tax thresholds until 2028 and the inheritance tax threshold until 2030 may mean you, or your family, are impacted in the longer term. Savings interest and dividends are paid gross, so if the amounts you receive are more than your allowances, it is your responsibility to both inform HMRC and pay any tax due.

There were no changes to Income Tax or employee National Insurance in the Budget, so everyone receiving a weekly or monthly wage will not see any changes to their payslips. However, employer NI will increase from 6th April 2025 and the threshold at which this is paid will reduce. This, plus the increase in the National Minimum Wage, may mean that companies either have to increase prices, which leads to higher inflation, or cut back in other areas, such as hiring new staff or salary increases. Class 2 and 3 NI also change on 6th April 2025, with both the rates paid and thresholds increasing.

There were no changes to ISA, Lifetime ISA or Junior ISA allowances, although these are frozen until 2030 and the proposed British ISA has been scrapped. There are also no changes to pension allowances, so non-earners can still contribute up to £2,880 net (£3,600 gross) per year and earners the lower of 100% of salary or self-employed earnings or £60,000 gross (£48,000 net). All personal contributions to pensions receive tax relief of 20% of the gross amount (25% of the net) and higher and additional rate taxpayers can claim a further rebate via self-assessment. We see this as an opportunity for parents and grandparents to make gifts, both reducing their IHT liability and building a pot that will be appreciated later in life.

The changes to Capital Gains Tax and Stamp Duty Land Tax on second properties came into effect immediately. Sales of investments or any non-property assets are now taxed at 18% for basic rate taxpayers and 24% for higher and additional rate taxpayers, bringing them in line with property sales. The CGT allowance was reduced from £12,300 to £3,000 by the previous government, so more people will be subject to tax when selling non-tax-sheltered investments. This may mean that we cannot fully fund your ISA and/or pension contributions by transferring assets from your General Investment Accounts without you incurring a tax liability, but we will discuss the options with you before making sales.

Stamp Duty Land Tax increased from 3% to 5% for anyone purchasing an additional property, irrespective of whether this is for your own use or rental purposes. This is reclaimable if you sell your current home within three years of buying the additional property, as long as you apply within a year of the sale.

Private school fees will be subject to VAT from 1st January 2025. This will result in costs increasing for those clients funding fees for children or grandchildren, or considering doing so in future.

Other changes come into force from 6th April 2025 or later. The interest rate paid on late payments to HMRC increases from 7.5% to 9% so please ensure you complete self-assessment tax returns in good time and take account of the High Income Child Benefit Charge if your, or your partner's, income is above £60,000 and you receive Child Benefit. You also need to take account of the loss of your Personal Allowance if your income exceeds £100,000, which is an effective 60% income tax rate. Making pension contributions could help reduce your income below the thresholds, so please talk to your adviser if you believe you are affected.

The major changes relate to Inheritance Tax. From 6th April 2027, assuming the legislation is passed in full, pensions that have a residual value, both those where no benefits have been taken and those in Drawdown, will form part of your estate for IHT purposes. There is still no IHT on transfers between spouses, but leaving the pension to a descendent, or anyone else, on the second death will see up to 40% of the value paid to HMRC. Charitable donations from pensions remain exempt. There is a consultation running until 22nd January 2025, after which we will have more information.

Additionally, there are changes to Agricultural Property Relief and Business Relief from 6th April 2026. Business owners and farmers will receive an allowance of £1 million but the remainder of the assets will be subject to 50% relief from IHT, an effective rate of 20%. This rule also applies to unquoted shares, such as the Octopus Inheritance Tax Service, but not AIM shares where there is no allowance before 20% tax becomes payable. This still means that investing money in AIM is more tax efficient than other assets but will increase the liability for those clients holding them. We will discuss individual circumstances with affected clients as part of our next review meetings.

We feel there are opportunities to mitigate some of the tax increases by using your annual allowances (ISAs, pensions, gifting, capital gains etc.). If you feel that you are affected by the Budget, please contact your adviser to discuss your concerns. Post-Budget planning will form part of our normal annual reviews and I will follow up with a second newsletter shortly outlining Altorfer's plans for 2025 and beyond and the ways in which we may be able to help.

Kind regards

Daniel Wackett
Managing Director
Altorfer Financial Management Limited