Autumn 2024

The Premier Partnership Limited

Your Family Office

NewsLETTER

The Pothole Budget

The Chancellor, Rachel Reeves (Lab: Leeds West and Pudsey), has duly delivered the biggest tax raising Budget in history, eclipsing even ‘Badger’ Lamont’s monumental event in 1993 and Dennis Healey’s Budget in 1974. Raising approximately £40 Billion and declaring she will borrow a further £140 Billion, makes a bit of a mockery of her pre-election statement that ‘I will not be an old style tax and spend Labour Chancellor’. So she has made a big bet that by raising such a huge war chest she can spend her way into economic growth. Our bet is that further tax rises will be needed before the end of this Parliament.

While the Chancellor’s measures included important changes to Inheritance Tax (IHT) and increases to the rates of Capital Gains Tax (CGT), well rumoured changes to Pension Tax Free Cash and Individual Savings Accounts, did not appear.

We will deal with the things that matter to you, our clients, in this Autumn Budget Special Newsletter, so we will not be dwelling on increases to employers National Insurance, but concentrating instead on pensions, CGT, IHT and Business Property Relief.

We would however caveat our comments herein by stating, like all advisers, we only have the Government Policy Papers to work from and not the actual legislation that will appear in the Finance Act. So fine detail at this point on tax is not actually known, and there could be amendments to taxation rules as currently stated later in the year.

Significant Points

- **Personal tax thresholds and allowances on income continue to be frozen at current levels - no increases until 2028/29 when thresholds will rise every year in line with inflation.**
- **Major increases to employer National Insurance contributions from April 2025.**
- **CGT rates raised immediately from 30 October.**
- **Stamp Duty Land Tax for second properties or rental properties increased from 3% to 5% from 30 October 2024.**
- **VAT will apply to private school fees from 1 January 2025 and private schools will now also be liable for business rates from April 2025.**
- **Abolition of non domicile status for taxation purposes from 6 April 2025.**
- **IHT Agricultural and Business Property Reliefs restricted from April 2026.**

Comment:

I think it's fair to say the above list does not fill us with glee, and if the tax rises spur GDP growth then it will be a plan that worked. However, giving vast amounts of money to public services without demanding productivity improvements will definitely not spur GDP ever upwards. So we believe they have missed a big trick by not applying any result based outcome to massive resource spend and above inflation pay rises. It will be entirely possible that further tax raising will be required next year.

Let's deal with the major client effects arising from the Autumn Budget. Again we re-iterate that our understanding and comment could be subject to amendment once full legislation is published.

ISA's

The investment limits for ISA's have not changed since 2017/18 and remain at £20,000 per annum, above age 18 and £9,000 for a Junior ISA.

Annual Tax on Enveloped Dwellings (ATED)

ATED applies to residential property worth over £500,000 which is owned through a company or other corporate structure. The rates rise automatically each year with inflation and will rise by 1.7% from April 2025. Currently for properties between £500,000 and £1 Million the annual charge is £4,400.

Stamp Duty Land Tax

The current temporary reduction in normal SDLT Rates expires on 31 March 2025. Up to that date, the first £250,000 is charged at Nil. From 1 April 2025 the rate of duty will revert to 2% on values between £125,001 and £250,000.

Now for the big changes:

Capital Gains Tax

For gains falling within the basic rate of Income Tax band, the rate will rise from 10% to 18%. For gains above this level, the rate will rise from 20% to 24%. These changes are effective immediately. The annual exempt allowance remains at £3,000 for individuals and £1,500 for most Trusts.

Remedy:

Use full ISA allowance for all individuals and use children's ISA allowances to build up CGT and Income Tax free capital.

Capital Gains Tax changes affect a wide range of areas, not just gains on shares that are sold at a profit. (The Labour Party's definition of a 'Working' person is someone who does not have investments!) How about a workplace pension Sir Kier?

Business Asset Disposal Relief (or BAD Relief as it is known in The Treasury), whilst living to fight another day, is also now to be aligned with the rate rises for CGT, and the former 10% tax rate will now become the lower rate for CGT after 5 April 2026. A transitional 14% tax rate will apply from April 2025. After April 2026 the rate aligns to CGT at 18%.

BADR retained its £1 Million allowance for now, but again, watch this space if you are thinking of selling your business over the next couple of years.

So the end of entrepreneurship in the UK? Not very likely, but there could be a rush to catch the 10% rate before April 2025.

Business Property Relief & Agricultural Property Relief

To remind readers as to what these are, the BPR and APR rules were introduced to assist in succession planning for business and farm owners, to prevent the need to sell a business or area of farmland to fund an Inheritance Tax liability.

The new rules trash this piece of planning to the extent that only those holding assets of £1 Million or less, will obtain 100% relief under these rules. Values above £1 Million will now attract relief at only 50%. Let's face it, most farms are valued at over £1 Million. The kind people at HMRC will allow you to pay the tax over 10 years - whilst charging you a 9% per annum compound interest.

Remedy:

Gifting of assets now becomes relevant much earlier in the planning process, and could bring Trusts back into play again after the tax changes they have suffered over recent Budgets. Also Family Investment Companies that we have discussed previously as vehicles to use in the mitigation process also are in play. The 7 year IHT clock still applies, so early discussion on estate planning is now vital.

The £1 Million allowance applies to each individual and spousal exemption still exists, so couples who are married or in a civil partnership can transfer assets to that value between spouses free of taxation.

The application of the latest Budget changes to agricultural relief in particular we feel could come in for some very close scrutiny, so watch this space for amendments.

And now the one that did make me catch my breath.

Pensions

The rumour mill worked overtime on pensions prior to the Budget, and we strongly advised clients not to act on rumour, but wait for the announcements. This advice worked because the much hyped ending of the 25% tax free cash allowance did not happen.

What did happen however was something that no one expected, where the pension of the member will now fall back into the estate of the deceased for Inheritance Tax calculation, at a 40% rate, from 6 April 2027. So we have some time to consider this and again this is a vastly complex area of change and we expect amendments - so do not panic.

Essentially, pension schemes were a tax and IHT efficient pot of money that could be passed onto beneficiaries after death. The new rules bring the value of any unused pension benefits back into the estate on death. So if you have a £500,000 drawdown scheme where you have only used £250,000, instead of £250,000 being passed tax efficiently and free of IHT to your nominated beneficiary, that value now will fall back into your estate and will be added to all remaining and additional assets, and IHT will now be charged on that value.

Examples:

We currently believe that spousal exemption will still apply to scheme values left to spouses, and so a spouse will inherit the value of the scheme without the levy of IHT being applied to the deceased spouses estate. This is still to be fully confirmed. For all other beneficiaries, such as children inheriting schemes the following example would occur.

Rules For Inheritance by Spouse

Richard dies age 70 and has a value in his pension arrangement of £400,000. the value of his additional estate including property is £1,200,000, which passes to his spouse under spousal exemption rules. Currently, no Inheritance Tax is due on his estate, as both the pension and the estate passes to spouse. From April 2027, there will be no change to this position. The spouse will pay income tax on the drawdown of future benefits at their marginal rate.

Planning Tip

Check thoroughly all nominations for beneficiaries under any and all pension arrangements, then obtain details and discuss with us.

Rules for Inheritance Above Age 75 - Not to Spouse

Fred dies age 80 with a pension fund value of £400,000. the remainder of his estate is valued at £1 Million including his property. Fred has nominated his grandchildren as his beneficiaries.

Currently for IHT purposes Fred's estate is subject to tax. The estate value is £1 Million, and the tax is £270,000. (£1,000,000 less £325,000 Nil Rate Band = £675,000 x 40% IHT = £270,000 tax). The pension fund does not currently form part of the estate.

Post April 2027

The value of Fred's pension scheme will be included in his estate immediately before his death for IHT. The estate therefore becomes £1,400,000 less £325,000 Nil Rate Band = £1,075,000 x 40% tax = £430,000. An additional tax payment of £160,000 is now due on Fred's estate.

These are two simple examples of the forthcoming changes, but we state again there could be some amendments. In certain circumstances the estate could be subject to Double Taxation via IHT on the deceased, and Income Tax on the recipient.

Summary

We do not have the exact rules yet and no-one can predict our date of death, but these pension changes are greater than I have reported on in over 40 years of writing about Budgets, and we will be reporting regularly to clients on amendments, if they come through. The devil is always in the detail.

Planning Tip

We have for many years, advised clients that are in or planning retirement, the order in which they spend and access their assets which has been:

1) Cash

2) ISA's and other investments

3) Pensions

This was because of the very advantageous treatment of UK pensions for IHT purposes.

Now that planning has changed to:

1) Pensions

2) Cash

3) ISA's and other investments

Accurate planning is now required and we encourage discussion about your planning particularly if you are near (55 or over) retirement, or in retirement, so these new tax rules can be accommodated into long term planning.

We would also advise that you now review pension consolidation of former schemes into one, because the administration procedures now required for multiple pension plan arrangements on death are beyond comprehension. Consolidate all previous schemes and we can advise and assist if necessary.

Summary

Financial planning has just taken on a whole new world of nuance, proving even more that everyone is different, no one has the same circumstances, and tax plays a massive part in future planning.

The Budget was not only one of the longest in history, but also its effects will reach far into the future of financial planning for all individuals. With Inheritance Tax reliefs being severely curtailed, financial advice is required more than ever to avoid tax traps, and for the right moves for executors of estates, and beneficiaries of those estates to be made. The change to pensions rules means people may not view them currently as the 'must have' in financial planning, but remember, this Government's life is limited - as are all Governments, and what is done can be undone by a future legislature.

So pensions are still very tax advantaged savings schemes, so if you are below 60 and not thinking of retirement, ride out this particular legislative storm and you will still reap future benefits by maintaining your pension planning.

Tax efficient planning and investment has not ended, as investors still have Venture Capital Trusts (VCT's) and Enterprise Investment Schemes available, as these were not affected by Budget announcements.

Both arrangements invest in early stage, potentially fast growing businesses and come with attractive tax perks. Capital Gains on investments held in VCT's and EIS are tax free, and in addition, EIS investment provides the opportunity to defer Capital Gains made elsewhere. These schemes sit at the riskier end of the investment spectrum, but again, given the correct circumstances can prove to be extremely tax efficient vehicles.

In long term care planning, the use of annuities to remove funds from an estate, but still provide an income to pay the care fees, could come under much more consideration in the future than in the recent past. Such a move could help keep estates within the allowances.

Investing in AIM stocks used to have very beneficial IHT treatment, being completely outside of the IHT net and assessment, if held for two years prior to death. This avenue has now also been closed, with a 20% tax rate being applied to such assets. A bit of a further blow, but a 20% rate is still better than a 40% rate overall.

We think this Budget was harsh, particularly on businesses and employers, and we do not believe the growth required in the UK economy will be achieved via such methods of taxation. We learnt from the 70's and 80's what damage a Labour Government can do in the short term, so the Chancellor may well be back for more direct tax next year, as her predecessors did in the past.

As your advisers we are here to help, so call whenever you require an answer to a question.

Until next time……..

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