prime
WEALTH PLANNING

Autumn Budget 2024

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Clarity

Approved by Best Practice IFA Group Limited on 06/11/2024

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INTRODUCTORY COMMENTS

I must say this has been the most eagerly (though perhaps not in a good way) awaited budget statement in the 20 plus years I have been providing advice to clients. The press have had a field day in speculating as to what might happen across the range of taxes – Income Tax, Capital Gains Tax (CGT), Pensions reform (PCLS, LTA, succession taxes and even the way tax relief is applied), Inheritance Tax (IHT), National Insurance etc. and this has triggered conversation, worry and even fear for many.

We now know the outcome and, although some of the greatest fears have not been realised, the burden of tax has certainly become greater for our clients and those of our professional partners.

We have compiled this guide in concert with our partner, Technical Connection, which seeks to set out the context for the budget, the changes made and how they affect the clients that we support in structuring and managing their wealth. We have tried to section this into helpful categories, though clearly some changes are more generalist and will impact many:

1. Investors and Savers
2. Estate Planners
3. Business Owners
4. Employees
5. Retirees At Retirement
6. Parents

We have also included 'planning points' which we hope you will find useful.

What is absolutely crucial is that any action taken should be well considered and not done in haste. Some of the changes are subject to consultation, the outcome of which could soften the worst outcomes, others will be brought in in the coming years. We advocate taking professional, independent financial advice from a firm such as ours and that this considers your entire circumstances now and in the future. Understanding you and your life as it unfolds in ways expected and unexpected, means our advice can be highly personalised and suitable.

Specialist tax advice will play a part, as will the structure of your estate planning. We work seamlessly with a range of tax and legal partners that acknowledges the need for a multi-disciplinary approach and adds real value to the service we provide. Simply put, we are here to simplify the complex - we are here to help.

We consider it a privilege to support you, your business and your family as the years pass, your circumstances change and the climate changes in which we operate.

Many thanks again for your trust,

Glen Callow
Managing Director
Prime Wealth Planning

THE BUDGET BACKGROUND

The first Budget after a general election has often been the one in which the largest tax increases are announced. From a political viewpoint the timing makes good sense: it is the Budget furthest away from the next election. An added benefit is that the Budget's contents can most easily be blamed on the previous regime, if there has been a change of government. In October 2024, both these factors apply, with an hors d'oeuvre of a newly discovered '£22 billion black hole' already having been served three months ago.

Last March's Budget contained over £13bn of tax cuts for 2024/25, nearly three quarters of which were attributable to personal National Insurance Contributions (NICs) reductions. At the time these cuts were seen by many economists as deferring some difficult tax and spending decisions that would have to be addressed post-election. This gloomy forecast was reinforced by the decision of Jeremy Hunt, the then Chancellor, to delay a Spending Review until after the polls had closed. Consequently, the second Budget of 2024 has been accompanied by part one of that Review (running to April 2026), with part two (covering 2026/27 and 2027/28) due alongside the Spring Statement 2025.

One theory why Jeremy Hunt did not get to present an Autumn Statement was that he and Rishi Sunak were concerned about the outlook for the government finances. An Autumn Statement which revealed the need for spending cuts and/or tax increases would not have been a good election backdrop. In the event, Rachel Reeves' announcements have heralded the largest Budget tax rise seen since 1993:

• In March, the Office for Budget Responsibility (OBR) forecast the UK economy would grow by 0.8% in 2024 and 1.9% in 2025, both figures above the forecast consensus at the time. The OBR now thinks that 2024 growth will be 1.1 % which, with less than three months of the year left, is unsurprisingly close to the pre-Budget forecast consensus. For next year, the OBR has nudged up its projection to 2.0%, well above the pre-Budget forecast consensus of 1.3%. The OBR now projects 2026 growth to be 1.8%, against a previous forecast of 2.0%. The increased growth over the short term is attributable to a jump in government spending.

• At the time of the March 2024 Budget, the latest CPI inflation reading was 4.0% (for January 2024), well down from the October 2022 peak of 11.1%. The latest reading, for September 2024, is 1.7%. The OBR now sees inflation temporarily rising to an average of 2.6% in 2025, slightly higher than the Bank of England's recent forecasts, before dropping back towards its 2% target.

• Government borrowing in the first six months of 2024/25 was £79.6bn, £6.7bn above the OBR's March forecast and £1.2bn above the corresponding figure for 2023/24. The OBR now projects that this year's borrowing will total £127.5bn, £40.3bn (46%) higher than its March 2024 estimate. In September 2024, total public sector net debt, a key figure in the previous government's fiscal targets, was over £2,760bn, just 1.5% away from the 100.0% of GDP figure last seen in the early 1960s. However, as previously announced (to the annoyance of the House of Commons Speaker) Rachel Reeves has changed to a new debt yardstick. The new measure is public sector net financial liabilities (PSNFL - 'the Snuffle'), which gives her more headroom to borrow, most of which she has taken.

• The net cost of servicing the UK government's debt is projected to be £104.9bn in 2024/25 and a similar amount in 2025/26, with the interest bill continuing to rise to £122.2bn by 2029/30. That figure equates to interest costs of about £1 in every £12 of all government expenditure, a reminder of why keeping to fiscal rules and preventing government bond yields from increasing both matter.

Less than four months after Labour's landslide election victory, Rachel Reeves found herself in the position which many independent commentators had predicted before polling day. Her party's commitments to hold income tax, VAT, NICs and corporation tax rates had severely constrained her room for fiscal manoeuvre. The '£22bn black hole' - £9.4bn of which was due to her decisions on public sector pay awards – only added to the challenge she faced. The result was that she resorted to employer's NICs – arguably outside her fiscal no go area – to raise over £25.7bn a year in 2029/30 out of total extra tax revenue of £41.2 bn.

The main measures, most well trailed over the past month, included:

• A 1.2 percentage point increase on the employer's rate of NICs and a £4,100 lowering to £5,000 of the secondary threshold, the level at which employer NICs start to be paid. Both changes will take effect from 6 April 2025.

• An immediate increase in the main rates of capital gains tax (CGT) to 18% and 24%.

• An increase in the Business Assets Disposal Relief CGT rate to 14% for 2025/26 and then 18% for 2026/27.

• A reform of business and agricultural inheritance tax (IHT) reliefs from 2026/27, significantly reducing their cost to the Exchequer.

• From 2027/28, the introduction of an IHT charge on pension death benefits.

• A freeze in the current IHT thresholds for a further two years to 5 April 2030.

• A revised plan for the replacement of the non-domicile tax rules from April 2025.

• A freeze on the subscription limits for all types of ISA up to and including 2029/30.

• An increase, from 31 October 2024, in the Higher Rates for Additional Dwellings (HRAD) surcharge on Stamp Duty Land Tax (SDLT) from 3% to 5%.

In this Newsletter we look at the impact of the changes announced in the Budget on various groups of taxpayers. The categorisation is unavoidably somewhat arbitrary, so it pays to read all sections. Similarly, several of the tax planning points – such as those listed below in our 12 Quick Tax Tips – are universal.

If you need further information on how you will be affected personally, you are strongly recommended to consult your financial adviser:

12 Quick Tax Tips

1. Don't waste your (or your partner's) £12,570 personal allowance or, if it can not all be used, the option in same circumstances to transfer £1,260 of it.
2. Don't forget the personal savings allowance (PSA), reducing tax on interest earned.
3. Don't ignore the dividend allowance, a saving tax of up to 39.35% on £500 of dividends in 2024/25.
4. Don't dismiss NICs - they are really a tax at up to 23.0%
5. Think marginal tax rates- the system creates 60% (and much higher) marginal rates.
6. ISAs should be your first port of call for invetments and then deposits.
7. Even if you're eligible for a lifetime ISA (LISA), you still might find a pension is a better choice.
8. Tax on capital gains is still usually lower and paid later than tax on investment income.
9. Trusts can save IHT, but suffer the highest rates of CGT and income tax.
10. File your tax return on time to avoid penalties and the taxman's attention.
11. If you are entitled to a company car, going hybrid or electric and using salary sacrifice could slash your tax bill.

Tax treatment depends on individual circumstances of each person or entity and may be subject to change in the future.

INVESTORS AND SAVERS

The Personal Allowance

The personal allowance was frozen at £12,570 in the March 2021 Budget and will remain at that level until the end of the 2027/28 tax year, after which the Chancellor said that indexation would resume. Had the allowance received the normal inflationary increase rather than be fixed, for 2025/26 it would be around £15,550. At the other end of the income scale, some taxpayers will have no personal allowance in 2025/26 (or future tax years up to 2027/28) because their income exceeds £125,140. The phasing out of the personal allowance starts at £100,000 and reduces the allowance to nil at £125,140 – also the threshold for additional (45%)/top (48% in Scotland) rate tax.

If you or your partner do not fully use the personal allowance, you could be paying more tax than necessary. There are several ways to make sure you maximise use of your allowances:

- Choose the right investments: some investments do not allow you to reclaim tax paid while others are designed to give capital gain, not income.
- Couples should consider rebalancing investments so that each has enough income to cover their personal allowance.
- Make sure that in retirement you (and your partner) each have enough pension income. On its own, state pension provision is not enough, be it the new state pension (£230.25 a week in 2025/26) or the lower old state pension (if you reached your state pension age (SPA) before 6 April 2016).
- If one of you pays tax at no more than basic rate and the other is a non-taxpayer, check whether it is worth claiming the transferable married allowance (£1,260 in through to 2027/28).

The Personal Savings Allowance (PSA)

The PSA first appeared in April 2016 and has been unchanged since then. Broadly speaking, if you are a:

- basic rate taxpayer, the first £1,000 of savings income you earn is untaxed;
- higher rate taxpayer, the first £500 of savings income you earn is untaxed;
- additional rate taxpayer, you do not receive any PSA.

'Savings income' in this instance is primarily interest, but also includes gains made on investment bonds, including offshore bonds. Although called an allowance, the reality is that the PSA is a nil rate tax band, so it is not quite as generous as it seems. The PSA means that banks, building societies, National Savings & Investments (NS&I) and UK-based fixed interest collective funds all pay interest without any tax deducted, but they do report payments to HMRC. Thus, if your interest income exceeds your PSA –you could have tax to pay.

Until the past couple of years, exceeding the PSA limits required a substantial amount of capital, but as interest rates have risen, the picture has changed. For example, if you are a higher rate taxpayer with an account paying 4.75%, then just over £10,500 is enough to generate annual interest above your PSA. Be warned that if you do not tell HMRC, it will have the data to tell you and ask for any tax due. That is a fact some taxpayers are discovering as HMRC adjusts their PAYE to collect tax due on higher than assumed interest paid in 2023/24.

If you and your spouse/civil partner receive substantial interest income, it is worth checking that you both maximise the benefit of the PSA. At the same time, it is wise to review the interest rates you are receiving. Recent research by the Financial Conduct Authority (FCA) found that deposit accounts open to new investors offered on average 0.4% more than closed accounts. Many banks' easy access account interest rates remain well adrift of the Bank of England's current 5% rate – FCA research in the second quarter of this year found an average rate of just 2.11%.

The Dividend Allowance

The dividend allowance also started life in April 2016 at a level of £5,000 before it was reduced to £2,000 in April 2018. The Autumn Statement 2022 announced two further cuts, leaving it now at just £500.

The allowance means that, in 2025/26, the first £500 of dividends you receive is not subject to any tax in your hands, regardless of your marginal income tax rate. Once the £500 allowance is exceeded, there is a tax charge, at the rates shown in the table below. Like the PSA, the dividend allowance is really a nil rate band, so up to £500 of dividends do not disappear from your tax calculations, even though they are taxed at 0%.

Dividend tax rates 2025/26

Basic rate	Higher rate	Additional rate
8.75%	33.75%	39.35%

The historic yield on UK shares is currently around 3.6% which means, in theory, a UK share portfolio worth more than about £14,000 could attract tax on dividend income in 2025/26, even for a basic rate taxpayer.

Planning Point

The dividend allowance of just £500 underlines the value of the dividend tax shelter provided by ISAs. Beyond ISAs, investment bonds and pension arrangements can also provide some shelter.

The starting rate tax band

The starting rate band for savings income was launched at £5,000 in 2016/17 and at a tax rate of 0% and will remain on that basis for 2025/26. Sadly, most people are not able to take advantage of the starting rate band: if your earnings and/or pension income exceed £17,570 in 2025/26, then that will probably include you. However, if you (or your partner) do qualify, you will need to ensure you have the right type of investment income to pay 0% tax.

Planning Point

If you don't anticipate using all your personal allowance or PSA in the current tax year, think about creating more income by closing deposit accounts before 6 April and crystallising the interest in this tax year. You may even find a better rate with a new provider, but beware of early closure penalties.

For the coming tax year, consider who should own what in terms of investments and savings. The PSA and reduced dividend allowances mean it is not simply a question of loading as much as possible on the lower rate taxpayer of a couple. In theory, you will each be able enjoy an income of up to £19,070 tax free in 2025/26, but only if you have the right mix of earnings, savings income.

Capital Gains Tax (CGT)

CGT is another investment tax which has become more burdensome in the past few years, following a reduction of more than three quarters in the annual exemption to £3,000.

Gains are currently taxed as the top slice of income, but the rates are lower than those that apply to income not covered by allowances. Following the changes announced in the Budget, gains made on or after 30 October 2024 are generally taxable at 18% (previously 10%) to the extent they fall in the basic rate band (£37,700 in 2024/25 through to 2027/28) and 24% (previously 20%) if they fall into the higher or additional rate bands. For gains on residential property these 18% and 24% rates already apply.

The CGT rate on carried interest gains will rise to 32% for all taxpayers for 2025/26. Thereafter all carried interest will be taxed within the income tax framework, with a 72.5% multiplier applied to qualifying carried interest that is brought within the charge. The multiplier implies an effective maximum income tax rate of 36.625% (45% x 0.725) outside Scotland. Class 4 NICs will also apply to the amount charged to income tax.

Planning Point

If you do not use your £3,000 annual exemption by Saturday 5 April 2025, you will lose it and a possible tax saving of £720. If you have gains of over the exempt amount to realise, it could be worth deferring the excess until 6 April or later to gain another annual exemption and defer the CGT bill until 31 January 2027. However, remember that CGT on residential property gains (e.g. buy-to-let) is payable within 60 days of the completion of a sale.

Individual Savings Accounts (ISAs)

Plans for a British ISA, proposed by the previous government, will not go ahead. The annual ISA investment limit for 2025/26 will be £20,000, a figure that has been unchanged since 2017/18 and will now, following the Budget, stay frozen until 5 April 2030. The £4,000 limit for the LISA and £9,000 limit for the Junior ISA (JISA) and Child Trust Fund (CTF) will also remain unchanged until the end of 2029/30.

ISAs have long been one of the simplest ways to save tax, with nothing to report or claim on your tax return. The arrival of the LISA complicated matters, as it sits somewhere between the traditional ISA and a pension plan. If you are thinking of a LISA instead of either of these, you would be well advised to seek advice before taking any action.

Over time, substantial sums can build up in ISAs: if you had maximised your ISA investment since they first became available in April 1999, you would by now have placed over £325,000 largely out of reach of UK taxes. With the cuts in the past two years to dividend allowances and the CGT annual exemption, such long term planning has become more valuable. VCTs and EISs have been subject to many rule changes over the years. The most recent significant reforms changed the nature of schemes by raising the element of risk, which included the introduction of an explicit 'risk to capital' requirement. This has focused the investment made by VCTs, EISs and seed enterprise investment schemes (SEISs) on young companies where there is a real risk to the capital being invested.

Interest in VCTs, EISs and SEISs grew as more aggressive forms of tax planning came under sustained (and largely successful) HMRC attack. However, with the relaxation of some constraints on pension contributions, VCT fundraising fell in 2023/24, although it was still the third highest on record. Most of the long-established VCTs started their 2024/25 capital raising well ahead of the Autumn Budget.

Planning Point

The first CTF accounts matured in September 2020 as their owners reached 18. The tax benefits continue after maturity as a 'protected account' until instructions to deal with the monies are provided. That is just as well because, in September 2024, HMRC reported that 671,000 18-22 year olds had an unclaimed CTF, with an average value exceeding £2,000. For those who do claim, one option is to transfer to an ISA. To trace a missing CTF go to www.gov.uk/child-trust-funds/find-a-child-trust-fund.

Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs)

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Planning Point

The most attractive VCT offers can sell out within a couple of days – well before you read about them in the weekend press. With many offers already open and some with limited remaining capacity, make sure you let us know as soon as possible if you want to make any VCT investment in this tax year.

Non-domicile tax treatment

The current non-domicile tax regime, which benefits UK tax residents who are domiciled abroad will be scrapped from 6 April 2025. Initial proposals for reform were published following the March 2024 Budget, a move that was seen by some commentators as designed to steal Labour's thunder. Subsequently Rachel Reeves said she would tighten her predecessor's proposals to raise additional revenue, notably by expanding the reach of IHT.

In the run up to the Budget there was a steady flow of media stories about non-doms heading for pastures new and suggestions that Treasury calculations showed the Chancellor's extra provisions would make no difference to the total revenue raised. The package that was presented in the Autumn Budget is nevertheless much as Rachel Reeves promised:

- The remittance basis of taxation for non-UK domiciled individuals will be replaced from 6 April 2025 with a residence-based regime. Individuals who opt into the new regime will not pay UK tax on any foreign income and gains arising in their first four years of tax residence.
- The previous government's proposal of a 50% reduction in foreign income subject to tax in the first year of the new regime has been scrapped.
- For CGT purposes, current and past remittance basis users will be able to rebase personally held foreign assets to 5 April 2017 on a disposal, subject to certain conditions.
- A new residence-based system for IHT will be introduced from 6 April 2025 which will end the use of excluded property trusts to shelter assets from IHT.

Pay later, not now?

For the growing number of higher and additional rate taxpayers, there can be a case for considering the options for tax deferral, once the decision on which sector to invest in has been made. The potential advantages and disadvantages of tax deferral include:

- What would be going to the Treasury instead remains invested, enhancing potential returns.

- There is the possibility that tax rates will be lower when the investment is realised. The opposite risk is that the higher tax rates could appear in the future. However, your marginal tax rate could rise anyway because of the impact of tax bands and allowances being frozen until 5 April 2028.

- Some tax liabilities might disappear completely. Under current rules there is generally no CGT on death and although several voices have suggested this relief should be withdrawn, this was one proposed CGT reform that was not taken up by the Chancellor.

- The investor may change their country of residence, giving rise to a lower tax rate or possible tax savings during the period of transition between the old and new homes.

There is a variety of tax-deferral options available but, as ever, advice is needed.

Nil rate band

The nil rate band reached its current level of £325,000 in April 2009 and, following a Budget announcement, will now be frozen until 5 April 2030 - another two years added to the previous ice age. Had the nil rate band been increased in line with CPI inflation since 2010, it would be about £510,000 in 2025/26 - £185,000 higher.

Freezing the nil rate band drags more estates into the IHT net, an effect exacerbated by the recent high inflation. If your estate is already potentially liable to IHT, the prolonged freeze could mean it will suffer more tax in the future if property and/or investment values increase. Since April 2009, average UK house prices are up by over 70%, according to the Nationwide, and UK share prices have more than doubled (March 2009 marked their low point in the wake of the financial crisis).

Residence nil rate band

The residence nil rate band (RNRB) came into effect on 6 April 2017 with an initial figure of £100,000, rising to its current £175,000 in April 2020. Like the main nil rate band, the RNRB will now be frozen until 5 April 2030. The threshold above which the RNRB is subject to a 50% taper reduction is also fixed until 5 April 2030, at £2,000,000, meaning it is lost altogether for estates valued at £2,350,000 or more (£2,700,000 on second death for couples where the RNRB is unused on first death).

IHT yearly exemptions

'The frozen nil rate bands make the yearly IHT exemptions all the more important:

- The £3,000 annual exemption. Any unused part of this exemption can be carried forward one tax year, but it must then be used after the £3,000 exemption for that year. So, for example, if you made a gift of £1,000 covered by the annual exemption in 2023/24, you can make gifts totalling £5,000 covered by the annual exemption in 2024/25 by 5 April 2025.

- The £250 small gifts exemption. You can make as many outright gifts of up to £250 per individual per tax year as you wish free of IHT, provided that the recipient does not also receive any part of your £3,000 annual exempt amount.

- The normal expenditure exemption. Any gift that you make is exempt from IHT if:

  - it forms part of your normal expenditure; and
  - taking one year with another it is made out of income; and
  - it leaves you with sufficient income to maintain your usual standard of living.

Business and agriculture reliefs

It was no great surprise that the Chancellor announced changes to these reliefs:

- From 6 April 2026, where the current 100% rate of relief applies it will remain available for the first £1 million of combined agricultural and business property, whether held by individuals or trusts, except for quoted shares designated as 'not listed' on the markets of recognised stock exchanges, such as AIM. Above the £1 million threshold, and for all 'not listed' shares, the rate of relief will be 50%.

The new rules will apply for lifetime transfers on or after 30 October 2024 if the donor dies on or after 6 April 2026.

- The existing 50% relief rates of business and agricultural relief will continue where they currently apply (e.g. to certain let farmland) and will be unaffected by the introduction of the new allowance.

Planning Point

While the current IHT regime continues to tighten, thanks to what economists call 'fiscal drag' and reduced reliefs, it does remain surprisingly generous in its treatment of some lifetime gifts. How long this will remain so is open to question. Think tanks linked to the current government have long called for reform of IHT to raise more revenue.

BUSINESS OWNERS

Corporation Tax Rate

The main rate of corporation tax is now 25%, a rate which will remain the ceiling throughout this Parliament. Companies with profits of up to £50,000 are subject to a rate of 19%, while for those with profits between £50,000 and £250,000, corporation tax is effectively 19% on the first £50,000 of profits and 26.5% on the excess.

Capital allowances and research and development (R&D) allowances

Capital allowances have been subject to a variety of changes in recent years, ostensibly to encourage an increase in business investment. However, there were only minor technical changes in the Autumn Budget.

The Annual Investment Allowance (AIA), which gives 100% initial relief for investment in plant and machinery (P&M) by businesses, incorporated or otherwise, is now fixed at £1,000,000. However, the AIA has largely been eclipsed for companies by 'full expensing' (100% P&M allowance),

Planning Point

Remember that if your company's profits fall into the £50,000 to £250,000 band, then on each marginal £1,000 of profit, £265 goes to the Exchequer. The corollary is that any tax-allowable costs, such as a salary, investment in plant and machinery or pension contributions gain 26.5% tax relief.

NICs

The Budget announced significant changes to Class 1 employer's NICs from 6 April 2025:

- The rate of Class 1 employer's NICs will rise from13.8% to 15.0%.
- The secondary threshold, above which employer's NICs are payable, will be cut from £9,100 to just £5,000 until 5 April 2028. Thereafter the threshold will be index-linked.
- The employment allowance will rise from £5,000 to £10,500 and the upper eligibility threshold will be scrapped.

In addition, the lower earnings limit will increase to £6,500 per annum (£125 per week) from £6,396. (The lower earnings limit is the minimum level of earnings at which an employee's NICs count towards the state pension.)

The Class 3 voluntary NICs rate will increase to £17.75 per week, from the current £17.45 per week.

For the self-employed, there is a £120 increase in the small profits threshold to £6,845 and the Class 2 NIC rate increases from £3.45 to £3.50 per week.

Pensions

There have been many important pension changes in the past few years, to which new IHT charges on death benefits will be added from 2027/28 (please see Estate Planners above):

The annual allowance, which sets a tax efficient ceiling on total yearly pension contributions, was increased to a maximum of £60,000 from 2023/24. Annual allowance tapering now applies when threshold income exceeds £200,000 and adjusted income exceeds £260,000. The minimum tapered annual allowance is now £10,000 (which operates when adjusted income is £360,000 or more).

- The money purchase annual allowance (MPAA), which is triggered the first time that pension benefits are drawn flexibly, rose to £10,000 from 2023/24.
- The lifetime allowance (LTA) which had set a tax efficient maximum value of pension benefits, was abolished from 6 April 2024.
- At the same time as the LTA was removed from pension legislation, a new cap (the lump sum allowance) on the tax-free pension commencement lump sum was introduced, set at £268,275, unless any of the LTA transitional protections apply.
- Similarly, since 6 April 2024, a new cap on lump sum death benefits (the lump sum and death benefit allowance) of £1,073,100 has applied. Again, this is subject to any higher figure resulting from previous LTA protections.

While these reforms simplify the pensions tax regime in some respects, they have also added another layer of complexity to pension planning.

Planning Point

The demise of the LTA does not automatically mean that pension contributions are the most tax-efficient way to invest. As ever, in this complex area, professional advice is vital before taking any action.

Salary sacrifice

Some years ago, the Treasury introduced measures to curtail the use of optional remuneration arrangements (OpRA), more commonly known as salary sacrifice schemes. Most such arrangements are now subject to employer's NICs (and taxed on the employee) based on the amount of salary given up rather than the notional value (if any) of the fringe benefit received.

However, salary sacrifice for pension contributions remains favourably treated and fully exempt from the rules. Cars with CO2 emissions of 75g/km or less – typically electric or plug-in hybrids – are also exempt, which helps to explain why last year battery electric vehicles were 22% of the business and fleet market purchases but only 9% of the private market. The increase in employer's Class 1 NICs will further add to the appeal of salary sacrifice for low and no emission cars.

Planning Point

The exemption given from the OpRA rules to low emission vehicles makes these worth considering if you offer salary sacrifice scheme for your employees.

VAT registration and deregistration

The VAT registration threshold will remain at £90,000 and the deregistration threshold will also be unchanged at £88,000.

Business rates

In 2025/26 the small business rates multiplier will be frozen at 49.9p, while the standard multiplier will rises by 1.7% to 55.5p. For 2025/26, retail, hospitality and leisure business in England will benefit from a 40% relief business rates on eligible properties, subject to a cap of £110,000 per business. Thereafter, retail, hospitality and leisure properties will enjoy permanently lower multipliers funded by higher multipliers for properties with rateable values over £500,000.

As is often said at Budget time, more changes to business rates and valuations are under discussion.

Dividends or salary...or self-employment?

The choice of whether to run a business as a company rather than as self-employed has often been heavily driven by tax considerations. The company route offers the opportunity to draw income as dividends, free of NICs, and shelter profits at a marginal corporation tax rate that is below the higher rate of income tax (and less than basic rate if profits are below £50,000). The tax mathematics of incorporation has been and continues to be upended by:

- Changes in corporation tax rates from April 2023;
- Reductions in the dividend allowance in 2023/24 and 2024/25;
- Two rounds of cuts to employee NICs (on earnings up to £50,270);
- In Scotland, the introduction in 2024/25 of the 'advanced' income tax rate of 45% (for taxable income between £62,430 and £125,140) and a 48% top rate on earnings. Dividends remain subject to UK-wide rates; and
- The higher rate of Class 1 employer's NICs from 2025/26.

In particular, the latest employer NIC changes mean that the maximum marginal NIC rate for employees will be 23.0% in 2025/26 (15.0% employer plus 8% employee) whereas, for a self-employed individual, the corresponding figure is just 6%. Thus, from a tax perspective, the appeal of incorporation for business owners has been reduced.

However, incorporation is not just about tax and is an area where expert advice is essential.

For existing companies, the increase in employer's NICs does not automatically mean that dividends are to be preferred to salary. When choosing between dividend and salary, advice is essential in considering the combined impact of corporation tax, NIC, income tax and dividend tax rates:

Dividend or salary revisited

Joan's company will make profits of around £85,000 in the financial year to 31 March 2026. She is already an English higher rate taxpayer with income of around £70,000 a year (the majority of which is salary from her company) and wants to draw £20,000 of those profits out of the company. Any dividend she draws in 2025/26 is fully taxable as her dividend allowance is already exhausted. In many previous years she had chosen a dividend rather than a bonus, but that does not make financial sense in 2025/26, despite the increase in the employer's NIC rate:

	Bonus £	Dividend £
Gross profit	20,000	20,000
Corporation tax		(5,300)
Employer NIC*	(2,609)	
Gross pay/dividend	17,391	14,700
Income tax†	(6,956)	(4,961)
Employee NIC	(348)	
Net income	**10,087**	**9,739**

* The £10,500 Employment Allowance is assumed to be used already or unavailable. The £5,000 employer secondary Class 1 NIC threshold is already used on Joan's salary from her company.

...Or nothing at all?

For some private company owners, the ultimate way to limit their tax bill is to choose to leave profits in the business rather than draw them either as dividend or salary. With the top rate of income tax currently at 45% (48% in Scotland) - and marginal rates potentially much higher - there is an obvious argument for allowing profits to stay within the company, where the maximum marginal tax rate is 26.5%.

This strategy has tax risks in terms of eligibility for CGT business asset disposal relief and IHT business relief. There is also a risk of further reform or abolition of CGT business asset disposal relief or there could be moves to recharacterise accumulated profits as income for tax purposes on liquidation or sale of the company. Further, IHT business relief reform might also have an impact. Money left in the company is also money exposed to creditors, so professional advice should be sought before turning a business into a money box.

EMPLOYEE

Company cars

In 2025/26, the scale charges for company cars will mostly be nudged up by one percentage point from 2024/25 levels. The increase harks back to the Autumn Statement 2022, in which:

- The scale percentages for electric and ultra-low emission cars (less than 75g/km CO2) were increased by one percentage point in each year from 2025/26 to 2027/28, subject to a maximum scale percentage of 5% for electric cars and 21% for ultra-low emission cars.
- Rates for all other vehicles bands were increased by one percentage point for 2025/26 up to a maximum appropriate percentage of 37% and then fixed for 2026/27 and 2027/28.

The car fuel benefit base figure for 2025/26 will rise by 1.7%. The latest HMRC data showed that in 2022/23 only 50,000 drivers received this benefit, reflecting both that it requires a very substantial private mileage to make financial sense and the tax-induced popularity of electric vehicles among company car drivers.

The Budget announced further increases to company car tax, starting in 2028/29. These include an increase in the scale percentage for zero emission vehicles to 9% by 2029/30 (compared with 2% in 2024/25) and one percentage point rises in the maximum appropriate percentage in both 2028/29 and 2029/30, taking it up to 39%.

Planning Point

If you are changing your car soon, think ahead to what it will cost you in tax terms. It may make sense to accept cash instead of a new car, switch to a hybrid vehicle or join the growing band of BEV (battery electric vehicle) drivers.

Pensions

The pensions landscape has altered dramatically in recent years and continues to change. As a reminder:

- In 2023/24 there was a £20,000 increase in the maximum annual allowance and the adjusted income level (to £260,000) for tapering. The minimum tapered annual allowance was increased to £10,000 from £4,000 (at an adjusted income of £360,000 or more). The benefit of these threshold increases has already been eroded by subsequent inflation.

- Automatic enrolment for employees is now in its thirteenth year. In 2025/26 it looks likely that the earnings trigger for membership will remain at £10,000 (unchanged since 2014/15), and the lower and upper limits for qualifying earnings will be continue at £6,240 (unchanged since 2020/21) and £50,270 (unchanged since 2021/22). The freezing of these limits drags more lower paid employees into auto-enrolment while simultaneously reducing the real value of contributions for those at the higher end of the earnings scale. In 2023, legislation was passed giving the government power to lower the minimum age for automatic enrolment to 18 and removing the lower qualifying earnings limit. However, the new Pensions Minister has said that increasing automatic enrolment contributions is not a priority.
- The state pension triple lock means that, in April 2025, state pensions will rise in line with the May-July 2024 earnings (including bonuses) annual growth of 4.0%. Had earnings (excluding bonuses) been chosen, the increase would have been 5.1%.

- SPA increases have stopped briefly at age 66, with the next increase to 67 due between April 2026 and March 2028. The subsequent rise to 68 is currently legislated to happen between 2044 and 2046. Early last year the previous government announced that a decision on whether to bring forward that timing would be deferred until a (third) review, to be undertaken after the general election. Thus, the current government has until July 2026 to make an announcement.

- In line with the rise in SPA, from 6 April 2028, the normal minimum age at which you can draw benefits from a private pension will rise from 55 to 57. The one-year addition will not be phased in – bad news if you were born on 6 April 1973.

- The LTA has disappeared completely. Its demise has been accompanied by a range of other changes, some of which have a similar effect to the LTA.

- The latest change, announced in the Budget, is that unused pension funds and pension death benefits will be brought into the IHT net from 2027/28.

Planning Point

The carry forward rules allow unused annual allowances to be carried forward for a maximum of three tax years. Thus, 5 April 2025 will be your last opportunity to rescue unused allowance of up to £40,000 from 2021/22.

Salary Sacrifice

Following the recent cuts to employee NICs and next tax year's increases to employer NICs, it is to be hoped that NICs will settle down from 2025/26 onwards at a maximum marginal rate of up to 23.0% of gross pay – 15.0% for the employer and 8.0% for the employee. The corollary is that avoiding NICs can save up to 23.0% of pay. A widely applied example of turning NICs to an advantage is in the use of salary sacrifice to pay pension contributions. Instead of making personal contributions out of your net pay, you accept a lower salary and your employer makes a pension contribution. If the employer passes on all the NIC saving, the pension contribution could be up to 27.8% higher, as the example shows:

A worthwhile sacrifice

	Personal contribution		Salary sacrifice employer contribution (sacrificed amount + NIC saving)	
Tax rate	**20%**	**40%**	**20%**	**40%**
	£	**£**	**£**	**£**
Gross salary	1,000.0	1,000.0	Nil	Nil
Employer pension contribution	Nil	Nil	1,150.0	1,150.0
Employer NIC (15.0%)	150.0	150.0	Nil	Nil
Total employer outlay	1,150.0	1,150.0	1,150.0	1,150.0
Employee salary	1,000.0	1,000.0	Nil	Nil
Less:				
income tax	(200.0)	(400.0)		
NICs (8.0%/2.0%)	(80.0)	(20.0)		
Net pay = net pension contribution	720.0	580.0		
Tax relief	180.0	386.7		
Total pension contribution	**900.0**	**966.7**	**1,150.0**	**1,150.0**

Planning Point

While the LTA has disappeared, the transitional rules that were introduced between 2006 and 2016 will continue to be relevant in calculating tax free lump sums on death or pension commencement. You may have the opportunity to claim one of the 2016 protections. The deadline to do so is 5 April 2025.

The pension landscape in Autumn 2024

There have been many changes to pensions in recent years, including:

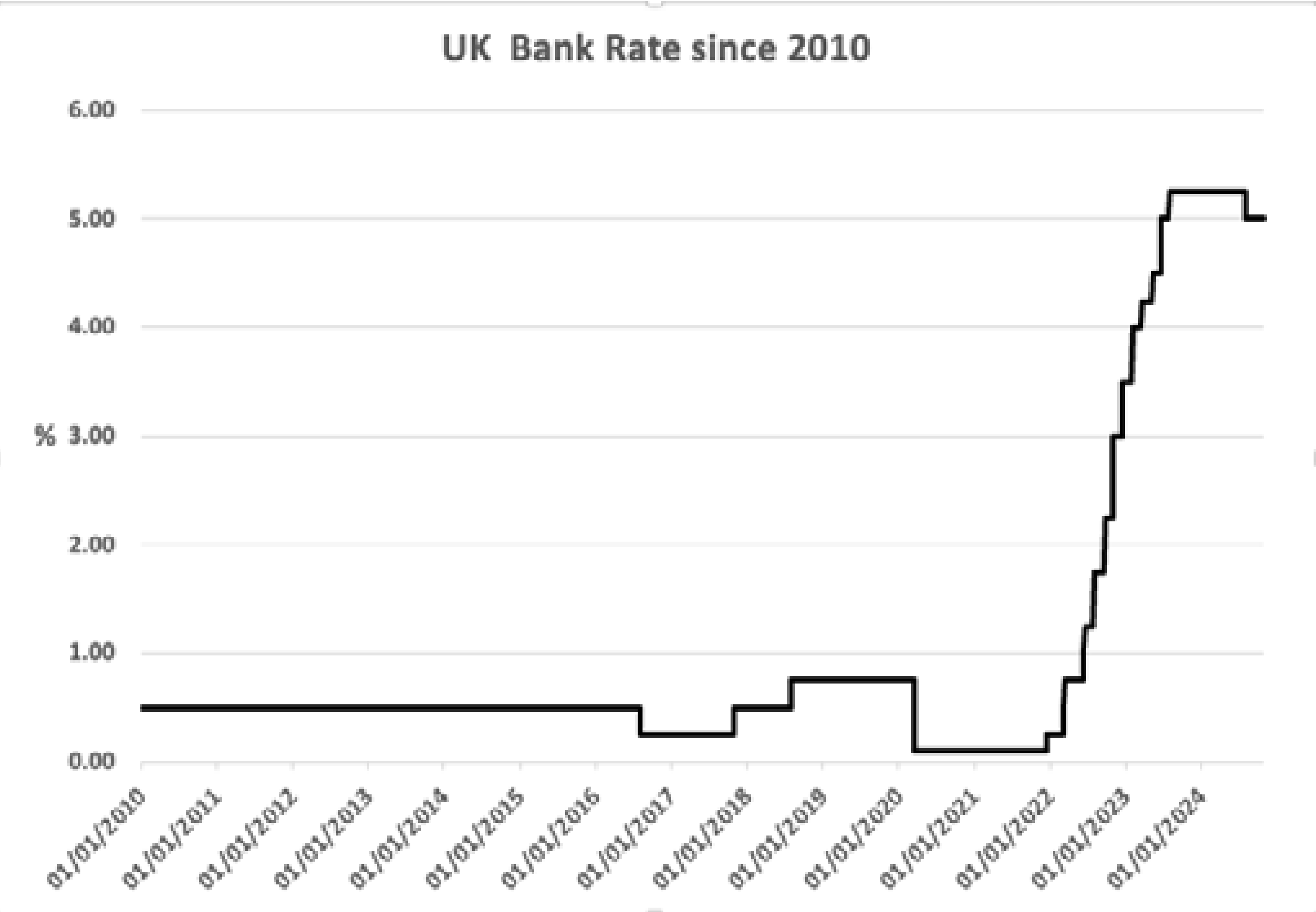
- The abolition of the LTA from 6 April 2024. However, its ghost has continued to haunt the legislation in various complex new limits and special transitional rules.
- An increase in the maximum annual allowance to £60,000 from 2023/24. The was accompanied by a rise from £4,000 to £10,000 in the money purchase annual allowance, which applies once income has been withdrawn flexibly (e.g. by pension fund withdrawal).
- Further increases to the SPA, both legislated for and planned. For men and women, SPA is currently 66. The next step up to a SPA of 67 will start in April 2026. An SPA of 68 is currently scheduled in legislation to be phased in between 2044 and 2046, However, last year the previous government promised a third review of the timing of this increase, now a task for the new government to undertake by July 2026.
- New rules, which have given much greater flexibility in drawing benefits from money purchase schemes, started on 6 April 2015 and have encouraged many people to turn their entire pension pot into (mostly taxable) cash. The enhanced flexibility was accompanied by more generous tax treatment of death benefits, adding to the opportunities that pensions offer for estate planning. However, the increase in long term interest rates since 2022 have prompted a revised interest in annuities rather than drawdown. For a 65-year old, typical level annuity rates at the time of writing were approximately 7.4% for non-smokers and 7.6% for smokers.
- The single-tier state pension started on 6 April 2016. If you are near to SPA, it is worth checking whether your NICs record will gain you the maximum available. If not, you have until 5 April 2025 to pay voluntary contributions to fill any gaps in your contribution record going back to 2006/07. You can also top up after SPA, but in that case there is no backdating of increased pension payments to SPA.
- The triple lock, increases the new and old state pension by the greater of earnings growth, CPI inflation and 2.5% and, after suspension for April 2022, was subsequently reinstated. The April 2025 increase will be 4.0%.
- The latest change, announced in the Budget, is that unused pension funds and pension death benefits will be brought into the IHT net from 2027/28.

Planning Point

If you have gaps in your NIC record that mean you will not (or are not) receiving your full state pension, the latest deadline for filling gaps back as far as 2006/07 is 5 April 2025. Contributions are be based on the voluntary rates applying for 2022/23 (£829.40 per year for Class 3 and £163.80 for Class 2).

Interest rates: going down

Following the recent cuts to employee NICs and next tax year's increases to employer NICs, it is to be hoped that NICs will settle down from 2025/26 onwards at a maximum marginal rate of up to 23.0% of gross pay – 15.0% for the employer and 8.0% for the employee. The corollary is that avoiding NICs can save up to 23.0% of pay. A widely applied example of turning NICs to an advantage is in the use of salary sacrifice to pay pension contributions. Instead of making personal contributions out of your net pay, you accept a lower salary and your employer makes a pension contribution. If the employer passes on all the NIC saving, the pension contribution could be up to 27.8% higher, as the example shows:



Source: Tehcnicalconnection.co.uk, 2024

Pensions

The Bank of England increased its Bank (Base) Rate at fourteen consecutive meetings of the decision-making Monetary Policy Committee (MPC), before pausing at 5.25% for a year. The Bank's first cut, to 5.0%, arrived in August 2024 and its governor, Andrew Bailey, has recently suggested that the Bank could become "more aggressive" on rate cuts if inflation pressures continue to ease.
The one small step down in the Bank Rate to date has not stopped deposit-taking institutions from lowering their rates. National Savings & Investments (NS&I) has been quicker off the mark than usual, having cut the returns on many of fixed rate bonds in September and reducing returns on income bonds and the premium bond prize rate a week before the Budget. If getting the best from current interest rates is a concern to you:

- Make sure you take maximum advantage of your PSA and, where possible, your starting rate band.

- Consider cash ISAs, which pay interest tax free. However, do not assume a cash ISA will always deliver a markedly better return than a taxable deposit, especially if you are a basic rate taxpayer or have some PSA remaining. For example, NS&I's Direct ISA pays 3.00% whereas its Direct Saver pays 4.00% gross, which equates to 3.2% for a basic rate taxpayer with no PSA remaining.

- Regularly check the interest rate on all your deposit accounts. It is especially important to watch accounts with bonus rates – once the bonus period ends, they can look very unattractive. Do not simply wait for the next statement: if you are only earning much below 4.5% on instant access funds, you need to know now. By a curious twist, the best NS&I variable offerings remain Premium Bonds, which have a prize fund (tax-free) rate of 4.40% (although this rate is set to reduce to 4.15% from 1 December).

- If government-backed fixed term investments appeal to you, it is possible government bonds (gilts) will provide higher net returns than NS&I products because much of the return is achieved through tax-free capital gains at maturity. Advice is essential to choose the right gilt.

- Consider investing in UK equity income funds, where yields of 4.5% and more are available. You will lose capital security, but your initial net income would be higher than from most deposits and the dividend allowance in 2025/26 would mean you receive £500 of dividends before paying any dividend tax, regardless of your personal tax rate.

Planning Point

If you have not yet arranged an ISA or invested up to the 2024/25 maximum, think about doing so. If you are unsure where to invest at present, you can always leave your money in a cash fund in a stocks and shares ISA.

Drawing your pension

Bringing unused pension funds and pension death benefits into the scope of IHT is likely to prompt some rethinking of decumulation strategies and dilute the argument that it can be better to draw on – and even run down – non-pensions assets in retirement rather than use your pension arrangements as a source of income. However, the new rules do not apply until 6 April 2027 so there is time to fully consider the changes. In the meantime. the government have issued a consultation paper explaining the changes and seeking views on the processes required to implement the changes.

Planning Point

If you are due to start drawing an income from your pension plan, make sure that you take advice about your options. While the FCA has required providers to offer pointers to guidance and some default investment options, these do not amount to personal advice: the final decisions rest with you. There is no attempt to integrate your pension arrangements with other aspects of your financial planning, e.g. estate planning.

If you think how long you might live with the cost of a wrong choice, it is clear that getting independent advice is the route to take. This is particularly important if you are considering buying a pension annuity, which now offer much more attractive rates than they did just a couple of years ago.

PARENTS

Child Benefit

The much-criticised High Income Child Benefit Tax Charge (HICBC) – the child benefit tax – was revised in 2024/25. The adjusted net income threshold at which the charge is triggered increased to £60,000 and the charge was halved to 1% per £200 of income above that level. Thus, if you or your partner have adjusted net income of £80,000 or more in 2024/25 or 2025/26 there will be a tax charge equal to your total child benefit unless you have chosen to stop benefit payments.

The new structure for 2024/25 means that you could find yourself facing high marginal rates of tax in the £60,000-£80,000 income band. If you have three children eligible for child benefit, the marginal rate could be as much as 55.7% (60.7% in Scotland, thanks to the 45% advanced rate).

In April 2023, the previous government announced it would legislate to introduce a route for parents and carers to apply for national insurance credits for tax years in which they did not claim child benefit. The move is aimed at ensuring that non-claimants' state pension entitlements are not lost. Subsequently, in a January 2024 update, HMRC confirmed that individuals would be able to claim this credit from April 2026, with eligibility being closely based on that for child benefit. Transitional arrangements would ensure those affected since 2013 were still able to claim and, going forward, it would be possible to backdate contributions for up to six years. This was brought into law on 8 June 2024, however, no further information has since emerged.

JISAs

JISAs were launched in November 2011 with an annual investment limit of £3,600, which has since been increased to £9,000. The Budget confirmed that £9,000 limit will remain until 5 April 2030. JISAs can be invested in cash deposits and/or stocks and shares in any proportion and can usually be arranged for any child aged under 18 who was born after 2 January 2011. A child cannot have both a JISA and a CTF account (which has the same investment limits). It is possible to transfer CTF accounts to a JISA, a move that may result in reduced fees and a wider investment choice.

The first CTF accounts, for children born in September 2002, reached maturity in September 2020. By default, matured CTF accounts have continued to enjoy the current UK ISA tax exemptions as a 'protected account'. If instructions are given, they can be transferred to an adult ISA, with any such transfer not counting as a contribution for the tax year, unless it is to a LISA. According to a recent press release from HMRC, 671,000 18-22 year olds have not claimed their CTF funds. Many CTFs are 'lost' with just one payment of £250 having been made by the Government over a decade ago. To trace a CTF, go to https://www.gov.uk/child-trust-funds/find-a-child-trust-fund.

Planning Point

The HICBC is a good reason to check your joint tax planning. If one of you has income above the £60,000 threshold, but the other below, shifting income by, for example, changing investment ownership, could save tax.

University Funding

The £9,250 a year maximum tuition fee for new 2024/25 students in England and Wales is, for now, a fact of student life. However, in autumn 2023 a revised loan repayment system was introduced for English students which means loans start to be repaid at a lower earnings threshold than applies to today's graduates and will only be written off after 40 years, rather than the previous 30 years. The corollary is that the maximum interest rate is RPI, 3% lower than under the former loan scheme.

If you have children likely to go to university, it makes sense to consider your funding options. For example, JISAs are a potentially valuable tool to build up a fund by age 18. For those who prefer a greater degree of control over the student's access to the investment at age 18 (while retaining tax efficiency) collective investments held subject to an appropriate trust can look attractive, as could an offshore investment bond.

Despite these tax-efficient "pre-funding" opportunities, under the latest loan rules it may still sense to take the student fee loans while at university rather than pay fees from capital. That is because, for the latest loan regime, a maximum RPI interest cost is not excessive and there is always the possibility that some of the debt will be written off after 40 years from the April following graduation.

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