Reflections on the Autumn Budget 2024 for financial planners

Paul Squirrell

Head of Retirement and Savings Development

Most of us will be familiar with the quote attributed to Benjamin Franklin that 'Nothing can be said to be certain, except death and taxes'. But it was American vaudeville performer, Will Rogers, that said 'The only difference between death and taxes is that death doesn't get worse every time Congress meets'. After some of the policy announcements in Rachel Reeves' first Budget as Chancellor in October 2024, it is clear that, while death may not have become worse, for some beneficiaries it may have become somewhat more expensive. As we enter 2025 and as the tax year end approaches, here I reflect on one of the most talked about Budgets in recent memory and consider the implications for financial planning.

Adviser Solutions

Fidelity INTERNATIONAL

Before I get into the detail of what changed in the Budget, it is worth reflecting on areas that (despite endless speculation) did not change at all:

- The LTA replacement rules remain as introduced by the previous government (except for the closure of a potential loophole on transfers to QROPS).
- Tax relief on pension contributions.
- The pension annual allowance and tapering rules.
- Employer pension contributions (as before, these will not be subject to National Insurance).
- The permitted maximum amount of PCLS.
- ISA allowances with no limit on the total value held within the wrapper.
- Capital gains revalued to zero on death.
- Capital transfers between spouses on a no gain/no loss basis.

For the purposes of this postcard, my focus is on some of the changes announced that have a direct impact on financial planning considerations for clients.

Pensions

As predicted, and as per Labour's manifesto, the state pension will increase in line with the triple lock guarantee, which for 2025/26 will be the average earnings increase of 4.1%. The pension credit standard minimum guarantee will also be increased at the same rate.

As mentioned, there has been no change to the maximum PCLS available, pension tax relief or annual allowances. In fact, except for a change to the overseas transfer charge for transfers to QROPS in the EEA or Gibraltar (to prevent 'double dipping') and a change to remove furnished holiday let income from relevant earnings, nothing has immediately changed for pensions as a result of the Budget.

The big news, however, is of course the announcement that unused pension funds are to be included in an individual's estate for IHT purposes from 6 April 2027. For some individuals, this announcement is likely to require a reset in the way they approach decumulation. Since the introduction of the pension freedoms in 2015, it has often been a case that you should use the pension annual allowance first – and spend the pension last – if estate planning is a consideration.

What one cannot lose sight of is that funding a pension remains the most tax-efficient way of saving for retirement. According to Retirement Living Standards, a single person requires £43,100 per annum for a comfortable retirement, whereas a couple require £59,000 per annum. Funding this level of annual expenditure requires considerable savings that can be drawn down in retirement. As such, while estate planning will become a greater area of focus for some, for the majority it will remain an aspiration. Therefore, saving into pensions remains the top tier of the retirement savings hierarchy. However, some current decumulation strategies may require a rethink in due course.

Pensions and the Budget

No change

Annual allowances (including carry forward)

PCLS limits

No 'LTA' tax charge

Tax relief

Employer contributions not subject to National Insurance (NI)

Change

State pension to increase by 4.1% **– April 2025**

Furnished holiday lets removed from relevant earnings **– 6 April 2025**

Removal of exclusion for overseas transfer charge for transfers to EEA or Gibraltar **– 30 October 2024**

Pensions fall into estate and subject to IHT **– 6 April 2027**

I cover the changes to pensions and IHT later in this document.

ISAs

ISA allowances have been maintained at their current levels and these will be frozen until 2030. The main ISA allowance has been kept at £20,000 since April 2017 but remains the second tier for retirement savings. As announced before the Budget, the 'British ISA' will no longer be pursued. It remains to be seen whether we will see any further simplification in the world of ISAs.

Income tax

For England, Wales and Northern Ireland, the current rates and thresholds of income tax remain as they are until April 2028. However, there will be no further freezing of the thresholds from this date and will be uprated in line with inflation.

In the Scottish Budget, which took place on 4 December, some increases were announced to income tax thresholds. While the personal allowance remains at £12,570 for 2025/26, the starter income tax band (19%) will be between £12,571 and £15,397, the basic band (20%) will be between £15,398 and £27,491, and the intermediate band (21%) will be between £27,492 and £43,662. The higher, advanced and top bands will remain the same.

The UK government announced they will not proceed with the proposals to base payment of the High Income Child Benefit Charge on household income rather than individual income. As such, consideration may be required to whether pension contributions will help certain families to avoid this charge.

Finally, the Chancellor announced an additional 5,000 HMRC compliance staff will be recruited to 'close the gap' between the tax owed and the tax received. It is estimated this will raise an additional £6.5 billion in tax revenue by 2029/30.

National Insurance (NICs)

The biggest announcement, other than the changes to inheritance tax, was that the rate of employer contributions will be increased from 13.8% to 15% from April 2025. At the same time, the per-employee threshold at which employers become liable to pay National Insurance (the secondary threshold) will be reduced from £9,100 to £5,000.

To soften the blow to smaller employers, the Employment Allowance (which gives employers with NICs bills of £100,000 or less a discount of £5,000) will be raised to £10,500 and the £100,000 threshold will be removed. It is estimated these changes will raise an additional £23.7 billion for the 2025/26 tax year.

It is fair to say the increases to employers' National Insurance will likely lead to an increased use of salary sacrifice for pension contributions and other such arrangements.

Capital gains tax (CGT)

As widely predicted, the Chancellor raised the rates of capital gains tax, although not to the levels that many were fearing. The main rates of CGT were increased from 10% and 20% to 18% and 24% for disposals after 30 October 2024. The mid-year change may create a challenge for some when filing their tax returns. The rates for residential property disposals remain unchanged.

In addition, the rates of capital gains tax that apply to Business Asset Disposal Relief and Investors' Relief will also be increased. However, these rates will not be raised immediately, but will be increased to 14% from 6 April 2025 and 18% from 6 April 2026.

Does the increase to CGT mean a different approach to investing is required?

Other than the multitude of pension change announcements over the last 18 months, this is the one area I probably spend more time discussing with advisers and planners than any other.

The first thing to say is we are considering tax savings for the individual here. With estate planning, the type of planning – especially where trusts are involved – can determine the tax wrapper used.

When saving for retirement, it is obvious to say that you want to be able to utilise the most tax-efficient wrappers first. A couple under the age of 75 have combined pension and ISA allowances of between £47,200 and £160,000 each tax year and it is important to continue to fund these before considering any 'unwrapped' investments.

While there are other investments, such as VCTs, EIS, etc., these generally have different investment risk considerations. Therefore, I will concentrate my comparison between collectives and insurance bonds (onshore and offshore).

Where tax on capital gains is to be paid, the lowest annual rate of tax will still be paid through collectives, especially as there is also the annual exemption allowance of £3,000 each tax year. However, investment returns are not just confined to capital gains. We also need to consider the returns generated from interest and dividends, which have different allowances and different tax rates depending on the tax wrapper used. This is demonstrated in the table below.

Furthermore, for collectives, tax is payable on any dividend or interest payments (whether distributed or not) on an annual basis. Onshore bonds deduct tax for capital gains and interest each year (20%) and offshore bonds generally pay no tax during the investment. For all tax wrappers, there is a tax consideration when the investment is realised (or a chargeable event occurs).

As such, it is important to consider what yield is expected from the investment portfolio, as well as what annual return is assumed. For example, choosing a global equity index fund that has a dividend of 1.50% and a fixed interest fund with an interest yield of 5.00% on a 60/40 split, would produce a dividend of 0.9% and interest of 2% for the portfolio. If I then assume an overall annual return of 6%, this would mean the capital gain element is 3.10%. If I were to compare the wrappers, I would need to consider the expected rate of tax to be paid during the investment, and also on encashment.

	Onshore Bond				Offshore Bond				Collectives			
Tax rate	**NT**	**BR**	**HRT**	**ADRT**	**NT**	**BR**	**HRT**	**ADRT**	**NT**	**BR**	**HRT**	**ADRT**
Capital gains	20	20	36	40	0	20	40	45	18	18	24	24
	Tax after £500 PSA allowance				**Tax** after PSA and Starting rate for savings				**Tax** after annual exemption allowance – No CGT payable on death			
Dividends	0	0	20	25	0	20	40	45	0	8.75	33.75	39.35
	Tax after £500 PSA allowance				**Tax** after PSA and Starting rate for savings				**Tax** after Dividend allowance			
Interest	20	20	36	40	0	20	40	45	0	20	40	45
	Tax after £500 PSA allowance				**Tax** after PSA and Starting rate for savings				**Tax** after PSA and Starting rate for savings			

In the following chart, I have considered the aforementioned investment assumptions and have calculated the compound effect of the tax paid on the investment growth.

Comparing the options – new CGT rates

6% total return, 3.1% capital growth, 0.9% dividend, 2% interest with no withdrawals, 10-year investment, compound effective tax, annual exemption allowance of £3,000 used each year, dividend allowance of £500 and savings allowance £1,000 (basic-rate taxpayer), £500 (higher-rate taxpayer), or £0 (additional-rate taxpayer).

Ongoing Withdrawal	ADRT ADRT	ADRT HRT	HRT HRT	ADRT BRT	HRT BRT	BRT BRT	ADRT NT	HRT NT	BRT NT
£500k	Collective 34.68%	Collective 34.68%	Collective 31.33%	Onshore 20.00%	Onshore 20.00%	Collective 16.97%	Offshore 0.00%	Offshore 0.00%	Offshore 0.00%
£400k	Collective 34.08%	Collective 34.08%	Collective 30.59%	Onshore 20.00%	Onshore 20.00%	Collective 16.44%	Offshore 0.00%	Offshore 0.00%	Offshore 0.00%
£300k	Collective 33.07%	Collective 33.07%	Collective 29.36%	Onshore 20.00%	Onshore 20.00%	Collective 15.55%	Offshore 0.00%	Offshore 0.00%	Offshore 0.00%
£200k	Collective 31.05%	Collective 31.05%	Collective 26.90%	Onshore 20.00%	Onshore 20.00%	Collective 13.76%	Offshore 0.00%	Offshore 0.00%	Offshore 0.00%
£100k	Collective 25.00%	Collective 25.00%	Collective 19.52%	Onshore 20.00%	Onshore 18.81%	Collective 8.41%	Offshore 0.00%	Offshore 0.00%	Offshore 0.00%
£50k	Collective 19.23%	Collective 19.23%	Collective 10.83%	Onshore 19.23%	Collective 10.83%	Collective 2.08%	Offshore 0.00%	Offshore 0.00%	Offshore 0.00%

As you would expect, where the investor is a non-taxpayer when the assets are realised, the offshore bond delivers the highest returns. There is a mixed picture where the investor is a basic-rate taxpayer on realisation, and the calculations lean towards collectives where the individual pays higher- or additional-rate tax. Before running your own comparisons, it is important to understand the expected yields for the portfolio and the assumptions for capital growth.

Interestingly, the outcomes are mainly unchanged as a result of the increase to the rate of CGT. This is also unsurprising. After all, a Budget is about plucking the goose with the least amount of hissing and, as such, it should be expected that increases to tax do not largely change investor behaviour.

Inheritance tax (IHT)

As mentioned, some of the biggest changes to financial planning resulting from the Budget concerned IHT. The main changes were as follows:

Thresholds

The IHT nil-rate band (£325,000) and residence nil-rate band (£175,000) remain frozen until April 2030. The nil-rate band has now been held at the same rate since April 2009 and would now be in the region of £550,000 had it been uprated with inflation. More individuals will undoubtedly be caught by the continued freezing of these allowances, particularly when you consider the changes announced for pensions.

Inherited pensions

From April 2027, unused pension funds will be subject to IHT. The government have launched a consultation on the liability, reporting and payment.

Initial reading of the document suggests the IHT liability will not supersede any existing income tax liability on the pension death benefits (through exceeding the LSDBA or where death occurs after age 75). In addition, while it is not overtly stated in the consultation, it is widely assumed at this stage that the pension death benefit will also be valued in the estate for the purpose of the residential nil-rate band.

The only exemptions from IHT mentioned in the consultation are the inter-spousal (or civil partner) exemption as well as payments to charity and dependents scheme pensions. It remains to be seen what this means for registered death-in-service arrangements.

The consultation suggests that Pension Scheme Administrators (PSA) will be required to settle any liability to IHT within six months of death. In order to do this, they will need to liaise with the personal representatives to establish the total value of the estate, who the beneficiaries are for any other pension benefits the member may have had, nil-rate bands available, etc., to establish whether the benefits are subject to IHT and the nil-rate band available.

The six-month deadline will undoubtedly be a challenge for pension scheme administrators, particularly if the pension assets are illiquid (such as commercial property or land). The consultation period ends on 22 January 2025.

Reporting and paying Inheritance Tax (IHT) from pensions – consultation proposals

Pension scheme administrators (PSA) to liaise with personal representatives (PRs) to establish:

- Death benefits payable
- Who beneficiaries are
- Amount due to each beneficiary
- LSDBA used
- IHT nil-rate band available for each pension scheme

PSA will then use this information to:

- Calculate IHT due
- Report IHT due to HMRC
- Pay IHT (within 6 months of death)

PSA can then liaise with beneficiaries as to how they wish to take benefits

PRs submit IHT forms to HMRC, including details of nil-rate band apportionment

Agricultural property relief and business property relief

The Chancellor has also announced changes to agricultural property relief and business property relief from April 2026. In addition to existing nil-rate bands and exemptions, the 100% rate of relief will be limited to the first £1 million of combined agricultural and business assets, and with 50% relief thereafter. The Chancellor also announced the rate of business property relief will be reduced to 50% in all circumstances for shares designated as 'not listed' on the markets of a recognised stock exchange, such as AIM.

Changes to the domicile-based system

There was a (largely predicted) announcement to significantly change the rules for non-domiciled individuals. The current system will be replaced with a new resident-based IHT test from 6 April 2025. IHT will apply to all worldwide assets if an individual has been a tax resident for at least 10 of the last 20 tax years, replacing the current 15-year system. Trusts with long-term UK resident settlors will be subject to periodic and exit penalties, affecting many previously excluded property trusts.

The Budget – taxation and allowances (other than pensions)

No change

ISA allowances – frozen until 5 April 2030

Capital gains tax (CGT) – interspousal exemption

CGT – revaluation of assets on death

Capital gains – annual exemption allowance

No extension to the freeze in income tax thresholds (excluding Scotland)

Dividend allowance

Dividend tax rates

0% starting rate for savings

Personal savings allowance

High income Child Benefit charge

Change

British ISA – no longer proceeding

Employer NI increased to 15% and reduction in secondary employer threshold **– 6 April 2025**

CGT increased from 10/20% to 18/24% **– 30 October 2024**

IHT thresholds frozen until **April 2030**

100% business relief for unquoted businesses and agricultural relief for first £1m – 50% thereafter **– 6 April 2026**

Business asset disposal relief **– 14% (April 2025) 18% (April 2026)**

AIM portfolios – 50% relief **– 6 April 2026**

Domicile rules **– April 2025**

Summary and thoughts

The Autumn Budget introduces significant changes that are predicted to raise an additional £40 billion in tax. The largest proportion of this tax (£25 billion) is expected to be raised through increased employer National Insurance contributions. This will inevitably make salary sacrifice schemes more attractive for employers.

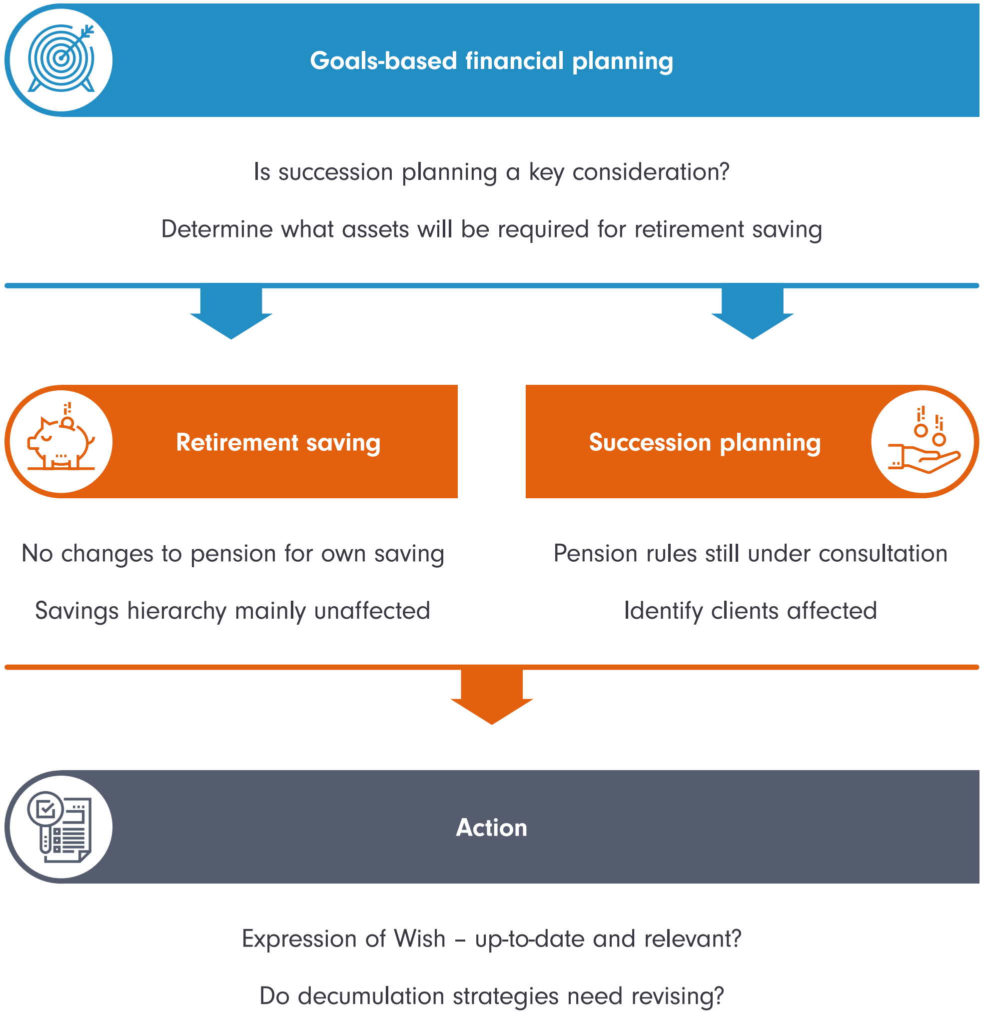
The announcement to bring pensions within an estate for IHT purposes will increase the need for goal-based financial planning. More precise planning will be needed for determining the savings required for retirement and whether estate planning is a consideration. This is likely to lead to an acceleration of intergenerational wealth planning for some clients. That said, it is important the estate planning tail does not wag the retirement planning dog as the funds required for a comfortable retirement are substantial. Therefore, the fact that tax relief, annual allowances, etc., for pension provision remains unchanged is a welcome relief.

Although capital gains tax has been increased, the rates are nowhere near the levels predicted. As such, the retirement savings hierarchy remains largely unchanged.

There are a number of questions raised by the pension IHT consultation, not least the realistic efficacy of the system for reporting and payment within the timescales proposed. I, for one, will be watching keenly to see how this consultation develops and what this will mean for pension planning in the future. For instance, if pensions are to be included within the estate, does this mean an end to pension death benefits being settled on a discretionary basis and a move to a more directive approach to expression of wish documentation?

It is worth remembering the announcement to include pensions within the estate does not become effective until 2027. If death occurs before this, the benefits will generally not be included within the estate and we should bear this in mind when reviewing existing expression of wish nominations.

I will be watching how this unfolds with interest but, in the meantime, happy tax planning!



Important information

This document provides information and is only intended to provide an overview of the current law in this area and does not constitute financial advice, tax advice or legal advice, or provide any recommendations. Tax treatment depends on individual circumstances and all tax rules may change in the future. Withdrawals from a pension will not normally be possible until a client reaches age 55 (57 from 2028). Different options may have different effects for tax purposes, different implications for pension provision and different impacts on other assets and financial planning.

More insights on pensions and tax

We're committed to providing you with technical support to help you keep pace with the latest rules and legislation. Our range of practitioner material is designed to help you keep on top of all aspects of retirement planning. Themes covered include death benefits, pensions and divorce, the State Pension, pension withdrawals taxation and much more.

Visit our Technical matters hub on our website to find out more

Adviser Solutions

UKM1224/388798/SSO/1225