CARTLIDGE MORLAND
INDIVIDUAL WEALTH MANAGEMENT

BUDGET COMMENTARY

14 NOVEMBER 2024

Autumn 2024 Budget

On 30 October 2024, after months of constant speculation as to its contents, Chancellor Rachel Reeves delivered the first Budget from a Labour government in 14 years.

Whilst some policies had already been announced, such as private school fees losing their VAT exemption and the removal of the winter fuel allowance for many pensioners, there were still a few surprises along with some measures that had already been strongly signalled.

Labour may have stood by their manifesto pledge of not raising income tax, VAT or National Insurance rates for employees, but it was employers that felt the brunt of the tax raising measures in the Budget. The largest revenue raiser came from an increase in employer's National Insurance contributions, which will rise from their current rate of 13.8% to 15.0% from April 2025. In addition to this rise, the secondary threshold – the level at which employers start paying National Insurance for each employee - was lowered from £9100 pa to only £5000 pa. This change, combined with a raise in the National Living Wage will have a significant impact on the wage bill for employers.

A much speculated increase in rates of Capital Gains Tax came to pass, with the basic rate of Capital Gains Tax raised to 18% and the higher rate raised to 24% from 30 October 2024.

There was also an increase in Stamp Duty rates for second home purchases with the additional rate increased from 3.0% to 5.0% from 31 October 2024.

The rate of Business Asset Disposal Relief – previously known as Entrepreneur's Relief - will rise from 10% to 14% in April 2025 on the first £1m of gains made by an individual when disposing of qualifying business assets. This rate is due to rise again in April 2026 to 18%.

Before every recent Budget there has been much speculation around changes to the UK pensions regime including the possibility of limiting access to tax-free cash, reducing the rate of tax relief for higher rate tax payers and perhaps imposing tighter restrictions on annual and lifetime allowances. None of these came to pass in this Budget but there was a sting in the tail for clients with pension pots. The Budget introduced the prospect of bringing pensions into the scope of inheritance tax from April 2027, removing one of the key benefits that applied to inherited pension pots since pension freedoms were introduced in 2015. The process of bringing pension pots into the scope of inheritance tax is now undergoing consultation, in an effort to find a workable solution. The proposed changes are likely to make the executors' role far more cumbersome and will reduce the opportunity for pensions to be paid to beneficiaries prior to probate being granted in respect of a deceased person's estate. There are significant questions still to be addressed, including whether a pension pot might be included in one's estate for the purposes of tapering or removing the Residence Nil Rate Band.

Changes to inheritance tax relief applied to small businesses and agricultural assets – Business Property Relief (BPR) and Agricultural Property Relief (APR) – were also announced. Currently, assets qualifying for BPR or APR receive 100% relief from inheritance tax. From April 2026, only the first £1m of qualifying assets will receive 100% relief and assets in excess of this limit will receive a reduced rate of 50% relief. In addition, from 6 April 2026, shares in qualifying companies listed on the AIM market will only be eligible for 50% BPR, effectively making an inheritance tax rate of 20% on those assets.

The Budget proposals mean that there may be some adjustments that clients have to make with their long-term plans, especially around inheritance tax planning. However, we do not believe there is any need for a knee-jerk reaction to any of the policies that the Chancellor has announced.

Whilst pensions may now be less attractive as an inheritance tax planning tool, they are still a very useful tax-efficient vehicle for saving for retirement whilst mitigating income tax in doing so. From an employer's viewpoint, a salary-sacrifice arrangement for pensions is even more beneficial than it was previously given the steep rise in employer's National Insurance contribution levels. ISAs and other tax-efficient savings and investments, including pension policies, have become even more essential tools in financial plans, given the rise in Capital Gains Tax rates.

Far from simplifying tax, the changes announced by the Chancellor make future planning more complex than ever, especially when considering decumulation strategies for retirement and inheritance tax planning. Cartlidge Morland continues to support clients through these changes to ensure that their investment and pension arrangements are appropriate to their circumstances and as tax-efficient as possible.

If you have any queries please do not hesitate to contact your Cartlidge Morland consultant.

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