Budget Summary

The 30th of October Autumn Budget delivered several key announcements that will affect the financial services industry. Most notably:

• Removal of the exemption to inheritance tax of pension death benefits from 6th April 2027.

• No extension to the freeze in the income tax thresholds.

• An increase to the rates of Capital Gains Tax (CGT) from 10% and 20% to 18% and 24% respectively.

• An increase to employer's National Insurance contributions by 1.2 percentage points, to 15% from 6th April 2025.

• A reduction in the secondary employer threshold for National Insurance contributions to £5,000.

• An increase to the CGT rate payable on gains made from the disposal of assets qualifying for business assets disposal relief.

• An extension of the freeze on the nil rate band and the residence nil rate band to April 2030.

• 100% Business relief for unquoted businesses and agricultural relief limited to a combined £1m.

• Business Relief for unlisted quoted shares (e.g. AIM listed shares) reduced to 50%.

Pensions

Pension funds to be subject to Inheritance Tax. From 6 April 2027 most pension funds will fall into the estate for inheritance tax (IHT) purposes. This will include funds paid out as a lump sum and those paid as beneficiary's drawdown or an annuity. Lump sum payments into a bypass trust will also be in scope.

Scheme pensions and funds paid as charity lump sum death benefits will be exempt.

Currently most pension funds are outside of the estate as they are paid at the discretion of the pension scheme. The new rules will remove the distinction between discretionary and non-discretionary payments and the value of all benefits will fall into the estate.

The Government have issued a consultation paper explaining the changes which state that IHT will be payable on the value of the gross funds in the pension immediately before death, but before being distributed or designated to the beneficiary. The IHT charge will be paid by the scheme and the usual pre and post age 75 income tax rules on the residual funds will still apply. This means that post 75 death benefits, or funds more than the Lump Sum Death Benefit Allowance pre-75, will be subject to both IHT and income tax on the residual amount.

The new rules will apply to all overseas pensions schemes as well as UK pension schemes and the spousal exemption will still apply in the normal way, so any funds that pass to a spouse or civil partner will remain free of IHT on first death.

The change is due to come into effect on 6 April 2027. A technical consultation paper has been published on the implementation with a deadline for responses of 22 January 2025.

Annual Allowance

No changes were announced to the various Annual Allowances for 2025/26.

• Annual Allowance remains £60,000.

• Money Purchase Annual Allowance remains £10,000 with no carry forward.

• For the Tapered Annual Allowance, the Threshold Income limit remains £200,000, the Adjusted Income limit remains £260,000 and the minimum allowance remains £10,000.

Lump Sum Allowance and Lump Sum and Death Benefit Allowance.

• Lump Sum Allowance (LSA) remains at £268,275 – this covers tax-free cash payments during the client's lifetime.

• Lump Sum and Death Benefit Allowance (LSDBA) remains at £1,073,100 – this covers the totality of lifetime tax-free cash, severe ill-health lump sums and tax-free death benefit lump sums on death under age 75.

Impact

• As the new rules do not apply until 6 April 2027 advisers have time to fully consider the changes. In addition, the complexity of the implementation may lead to changes before the implementation date.

• Where clients are funding their pensions purely for estate planning purposes, advisers should now reconsider the appropriateness of this.

• Where clients have deferred taking tax free cash from their pension beyond the age of 75, advisers should review this. Taking the tax-free cash will ensure that this is only subject to IHT on death and not IHT and income tax.

• Where clients have left pension funds undrawn mainly for estate planning purposes this should be reviewed. As above, this is particularly important where clients are over 75.

• Where pension funds are not required – taking the tax-free cash and making gifts will now be a much more attractive option than leaving them in the pension.

• Review all death benefit nominations. Passing to a spouse may give more opportunities to remove the funds from the estate before second death.

• Binding nominations may now be far more appropriate. The key disadvantage of using them has been removed.

• As the process will require the personal representatives and the pension scheme administrator/trustee having to work together to establish the IHT charge and the proportion of the charge the scheme must pay, it may be worth considering consolidating pension plans if appropriate to make the process on death as straightforward as possible.

National Insurance

With effect from 6th April 2025:

• The secondary Class 1 rate of National Insurance will be increased from 13.8% to 15%. This will also apply to Class 1A and Class 1B employer rates.

• The secondary threshold will also reduce to £5,000 from £9,100 and be frozen at this rate until 5 April 2028.

• The government will use the September Consumer Prices Index (CPI) figure of 1.7% as the basis for uprating the Lower Earnings Limit and the Small Profits Threshold.

Impact

• Against a backdrop of this rise, managing ongoing costs becomes even more crucial. Salary exchange schemes can offer a practical solution for employers to help reduce these costs, not only supporting them but employees too, either by increasing their take home pay or boosting their retirement savings.

Income Tax

No changes in respect of income tax for 2025/26.

• There are no changes to the income tax bands and thresholds for non-Scottish taxpayers for 2024/25. The Basic Rate Band remains £37,700 and the Additional Rate Threshold remains £125,140.

• The Personal Allowance remains at £12,570 for all UK taxpayers and continues to be tapered if Adjusted Net Income exceeds £100,000, reducing to nil once Adjusted Net Income reaches £125,140.

High Income Child Benefit Charge

The adjusted net income threshold at which the High Income Child Benefit Tax Charge (HICBC) is triggered remains at £60,000 with the charge being 1% per £200 of income above that level. The government will not proceed with the reform to base the HICBC on household incomes. To make it easier for all taxpayers to get their HICBC right, the government will allow employed individuals to pay their HICBC through PAYE from 2025, and pre-populate self-assessment tax returns with Child Benefit data for those not using this service.

Dividends

The rates of Income Tax applying to dividends will not change and remain at:

• Dividend nil rate band (dividend allowance) - £500.

• Discretionary and accumulation & maintenance trusts (dividends) - 39.35%.

• Basic rate on dividends - 8.75%.

• Higher rate on dividends - 33.75%.

• Additional rate on dividends - 39.35%.

Capital Gains Tax

The Government announced a wide range of changes to capital gains tax (CGT):

• With effect from 30th October 2024, the basic rate CGT will increase from 10% to 18% and the higher rate will increase from 20% to 24%.

• Residential property CGT rates will remain at 18% and 24% respectively.

• The main rate of CGT for trustees and personal representatives will increase from 20% to 24%.

Public Business asset disposal relief and Investor's relief.

• The rate of CGT payable on qualifying gains will increase from 10% to 14% from 6 April 2025 and then further increase from 14% to 18% from 6 April 2026. The cumulative limit for qualification remains at £1m.

Lifetime limit for Investors' relief.

• The lifetime limit for Investors' relief will reduce from £10m to £1m for disposals made on or after 30 October 2024.

Impact

To counter the effect of the increased CGT rates, there are several actions that can be undertaken.
For example:

• Utilising losses from previous years. Losses can be carried forward indefinitely and will go some way to reduce the impact of the changes.

• Maximising ISA and pension contributions will shield funds from the prospect of CGT.

• Bed & ISA, or bed & pension.

• Bed & Spouse or Bed & Civil Partner. Where investments, or assets, are sold and then repurchased in the spouse's, or partners name.

• Bed & Trust, 'passing over' capital gains by way of a gift into a discretionary trust.

• Reinvesting gains in an EIS allows the deferment of CGT.

• Investing in Gilts, there is no CGT on profits when selling or redeeming.

Inheritance Tax

In addition to the announcement removing the exemption to inheritance tax of pension death benefits from 6th April 2027 (covered elsewhere in this document), the Chancellor also announced that the inheritance tax nil rate band and residence nil rate band, which are currently set at £325,000 and £175,000 respectively until 5th April 2028, will stay fixed at these levels for a further two years until 5th April 2030. There is no change to the residence nil-rate band taper threshold which will remain at £2m.

Impact

• Frozen allowances – especially when considered in conjunction with the other IHT changes (see below) announced will mean a greater proportion of clients coming within the scope of IHT and needing advice.

Reform of agricultural property relief and business property relief

• The government will introduce a new £1m allowance which will apply to the combined value of property in an estate qualifying for 100% business property relief and 100% agricultural property relief and replace the current regime under which relief is unlimited for both asset types.

Reduction in the rate of business relief for quoted shares not listed on the markets of recognised stock exchanges

• The government will reduce the rate of business property relief available from 100% to 50% for quoted shares designated as “not listed” on the markets of recognised stock exchanges, such as AIM.

• Those shares will not benefit from the £1m allowance mentioned above.

Non-domiciles

It was confirmed in the Autumn Budget that the current IHT regime which is based on domicile status will move to a residence-based system with effect from 6th April 2025.

From this date, individuals who have been resident in the UK for at least 10 out of the last 20 tax years immediately preceding the tax year in which the chargeable event (including death) arises will be subject to UK IHT on their worldwide assets.

Individual Savings Accounts

• There are no changes to ISA, Junior ISA, Lifetime ISA and Child Trust Fund Allowances. The annual subscription limits will remain at £20,000 for ISAs, £4,000 for Lifetime ISAs and £9,000 for Junior ISAs and Child Trust Funds. These allowances are frozen until 5th April 2030.

UK ISA consultation

• The Government has now announced it will not be proceeding with the previously proposed UK ISA due to mixed responses at the consultation stage.

State Pension

• The New State Pension will be increased by 4.1% on 6th April 2025 in line with the full Triple Lock, to £221.20 per week.

• The Old State Pension increases on 6th April 2025 to £176.45 per week.

National Living / Minimum Wage

• The National Living Wage will increase to £12.21 per hour for all eligible employees, and the National Minimum Wage for 18–20-year-olds will increase to £10.00 per hour for all eligible workers. The government is also increasing the minimum wage for those under 18 and Apprentices to £7.55 per hour.