2024 AUTUMN BUDGET

Clear strategies for your lifestyle financial planning goals

Any budget often brings with it some changes that immediately impact us all, and this year's Autumn Budget was no different. What is important to remember is that changes in rules and legislation shouldn't change your lifestyle financial planning goals. What may however need to change, is how your assets and strategy to achieve your objectives are shaped.

Following on from the Budget we have taken time to understand the changes and potential impacts. Your financial planner will discuss how the Budget may affect you and your lifestyle financial plans at your next review.

Naturally, we'd be delighted to talk to you before then if you have any immediate questions or concerns.

The Labour Government stated that it was not looking to overly penalise working people but said that "change must be felt." Whether you agree with its principles or not the bigger changes tend to affect those inheriting rather than those that have worked to accumulate wealth themselves.

The most notable change was arguably to **Inheritance Tax (IHT) on pensions** and when it would apply.

Here's a summary of what this means for individuals with substantial pension wealth:

1. IHT on Pensions

- Previously, pension assets could pass to beneficiaries free of IHT in most scenarios, regardless of age at death. However, The Government announced that from 6 April 2027, any unused pensions and pension death benefits would form part of the client's estate for IHT purposes. Pensions passed on after this date, removes a significant tax shelter that previously allowed for tax-efficient wealth transfer.

2. Implications for Wealth Transfer Planning

- For clients, the new IHT charge on pensions may shift the strategic focus from using pensions as a primary inheritance vehicle to alternative options. Since the IHT-free status was an attractive reason to keep funds in pensions, clients may now consider withdrawing pension assets earlier in retirement to reduce potential IHT exposure or look to other vehicles (e.g. trusts, Whole of Life insurance) to keep intergenerational wealth transfer objectives at the forefront of plans.

3. Beneficiary Taxation on Drawdowns Remains

- For pension holders who pass away after 75, beneficiaries could previously draw down pension assets at their income tax rate. Whilst this option remains there is now an IHT charge layered on top. This means the total tax burden on inherited pensions could be significant for beneficiaries, especially those in higher income tax brackets.

4. Enhanced Role of Lifetime Gifting and Trusts

- With pensions becoming less favourable for IHT planning there may be increased interest in lifetime gifting strategies or the use of trusts to manage and transfer wealth. These tools can provide control over assets while also potentially lowering the IHT impact.

5. Additional Considerations and Future Strategies

- The age 75 threshold makes timing and strategy for pension withdrawals or restructuring even more critical. Reviewing retirement income plans to potentially use pensions earlier, preserving other assets for tax-efficient wealth transfer may be a consideration at review.

- Reviewing other estate planning strategies, such as using business relief-qualified investments or life insurance in trust, might now play a more central role for clients focused on minimising IHT.

Summary

The IHT change on pension assets in the 2024 Budget diminishes the role of pensions as a tax-efficient inheritance tool for many clients. With the addition of IHT, other options for estate planning and wealth transfer, such as trusts, gifts, and alternative investments, philanthropy and insurance policies such as whole of life may become more appealing to ensure assets are passed on tax-efficiently.

Other notable changes that may impact your lifestyle financial planning and will be considered at review are:

Income Tax and Personal Allowances

Freeze on Income Tax Allowances: The Chancellor did not alter the freeze on personal allowances and income tax bands until April 2028. This "fiscal drag" strategy means that as incomes rise (including investment income), more people will be pushed into higher tax bands without any adjustment for inflation. For a client with substantial investment income, this could increase the effective tax burden over the next few years.

Dividend Allowance: The dividend allowance remains at £500 which was put in place in April 2024.

Capital Gains Tax (CGT)

CGT Allowance Reduction: The annual CGT exemption remains at £3,000 following prior cuts, significantly lowering the tax-free allowance from previous years. Clients with larger portfolios with investments that sit outside of ISAs and pensions may face higher tax liabilities on gains, especially if the portfolios have regular withdrawals or rebalances.

What did change was the increase to the capital gains tax rates; basic rate taxpayers will now be subjected to an 18% capital gains tax charge (previously 10%) once above the £3,000 allowance, while higher and additional rate tax payers will pay 24% (previously 20%) once above the CGT allowance.

Inheritance Tax (IHT)

IHT Threshold Freeze: The nil-rate band and residence nil-rate band have been frozen at £325,000 and £175,000, respectively, until April 2030. Rising property and investment values mean more estates will be subject to IHT at the 40% rate, and higher asset values will erode allowances further over time. Planning strategies, like gifting, trust structures, philanthropic considerations, will become more important to manage this risk.

Focus on Lifetime Gifting: Exploring tax-efficient gifting over a lifetime or considering trusts to manage potential IHT burdens could be a key strategy. Wealth transfer planning should consider the likelihood of consultations.

ISAs and Tax-Efficient Wrappers

Expansion of ISA Allowances: ISAs retain their tax-free status, but no major increases in the ISA allowance were announced, which will remain the same until 2030. However, maximising annual ISA contributions for a large portfolio is a straightforward way to shield more assets from unnecessary tax, particularly for those with taxable investment income.

Alternative Wrappers: For clients already maximising ISAs, other wrappers like pensions and investment bonds could offer further tax deferral opportunities, reducing the immediate impact of frozen allowances and rising taxes.

Pension Adjustments

Pension Lifetime Allowance: With the lifetime allowance abolished April 2024 tax year, clients may have greater flexibility in pension funding without worrying about breaching previous thresholds. For a client with a larger portfolio, this allows for additional tax-efficient retirement savings, provided the annual allowance is managed effectively.

Annual Allowance Cap: The annual allowance remains unchanged at £60,000. Maximizing pension contributions within this limit can offer significant tax benefits, especially given the current freeze on income tax thresholds.

Inflation and Cost of Living Concerns

With the ongoing freeze on tax thresholds and rising inflation, the real value of income and investments may erode faster than anticipated. At reviews it may be wise to review financial goals and adjust plans accordingly.

High Income Child Tax Charge

High income child tax charge: The Government had previously announced it would look at reforming this to be based on household incomes. However, in the Budget it confirmed no changes will currently be made. Pension contributions could help to reduce or negate a clients liability to high income child benefit charge.

Summary

For clients the 2024 Autumn Budget emphasises the need for proactive tax and estate planning. Given the frozen allowances and gradual increases in tax burden through fiscal drag, it will be important to optimise available allowances, utilise tax-efficient investment vehicles, and potentially consider strategies such as gifting or trust structures to mitigate future tax liabilities.

Should you have any immediate concerns you should speak to your financial planner, however, due to the nature of these changes and the implementation of them, we will look to cover these at your next review.

**The Financial Conduct Authority does not regulate inheritance tax or estate planning services.
Tax treatment is based on individual circumstances and may be subject to change in the future.**