Insight
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Top takeaways from the Spring Budget…

As the clock ticked down to the 2024 Budget, the old-fashioned concept of 'Budget purdah' was well and truly buried under a steady release of leaks. Nevertheless, Budget Day still contained a few meaningful surprises.

Chancellor Jeremy Hunt was under great political pressure to add to the tax cuts announced in his Autumn Statement 2023 and, if possible, steal a march on Labour's tax plans. However the Office for Budget Responsibility (OBR) had made it clear that his scope for generosity was minimal, declaring the Treasury's spending plans beyond 2025 to be worse than fiction.

Mr Hunt managed to square the circle, but only by bringing his margin of error down to just £9 billion in 2028/29, a figure which the OBR described as "a tiny fraction of the risks around any forecast".

What's new?

Some of the Chancellor's Budget measures likely to affect you include:

- **National insurance contributions (NICs)** The main rates of employee (class 1) and self-employed (class 4) NICs will be reduced by two percentage points to 8% and 6% respectively from 6 April 2024. The 2% rate on earnings/profits above £50,270 is unchanged. These reductions once again alter the mathematics around the wisdom of incorporation and whether to draw bonuses or dividends.
- **High income child benefit charge (HICBC)** The income threshold at which this charge starts to bite will rise from £50,000 to £60,000 for 2024/25. Simultaneously the rate of charge will halve to 1% for each £200 over the threshold. Consequently, the size of the income band in which the HICBC can apply will double to £20,000 (£60,000 to £80,000). By 2026, the income threshold is expected to move from an individual basis to a household basis.
- **Residential property** The maximum capital gains tax (CGT) rate on residential property gains will be cut from 28% to 24% in 2024/25, while all other CGT rates remain unchanged. Some second homeowners will be stung, however, as the favourable tax rules for furnished holiday lets will be scrapped from April 2025.
- **UK ISA** The Chancellor issued a consultation paper on a 'UK ISA'. This new variant will have a contribution limit of £5,000, which will be in addition to the existing overall £20,000 ISA limit (unchanged since 2017/18). As the name implies, the new ISA's investment options will be UK-focused and could include UK shares, collective funds investing in the UK, UK corporate bonds and gilts. There are likely to be rules preventing transfers to other (internationally unconstrained) ISAs.
- **Non-domicile rules** The arcane tax rules which offer favourable tax treatment to some UK residents with a foreign domicile will be scrapped from 2025/26. The new regime will be based solely on tax residence and will be accompanied by a range of transitional rules for those currently claiming non-UK domicile.

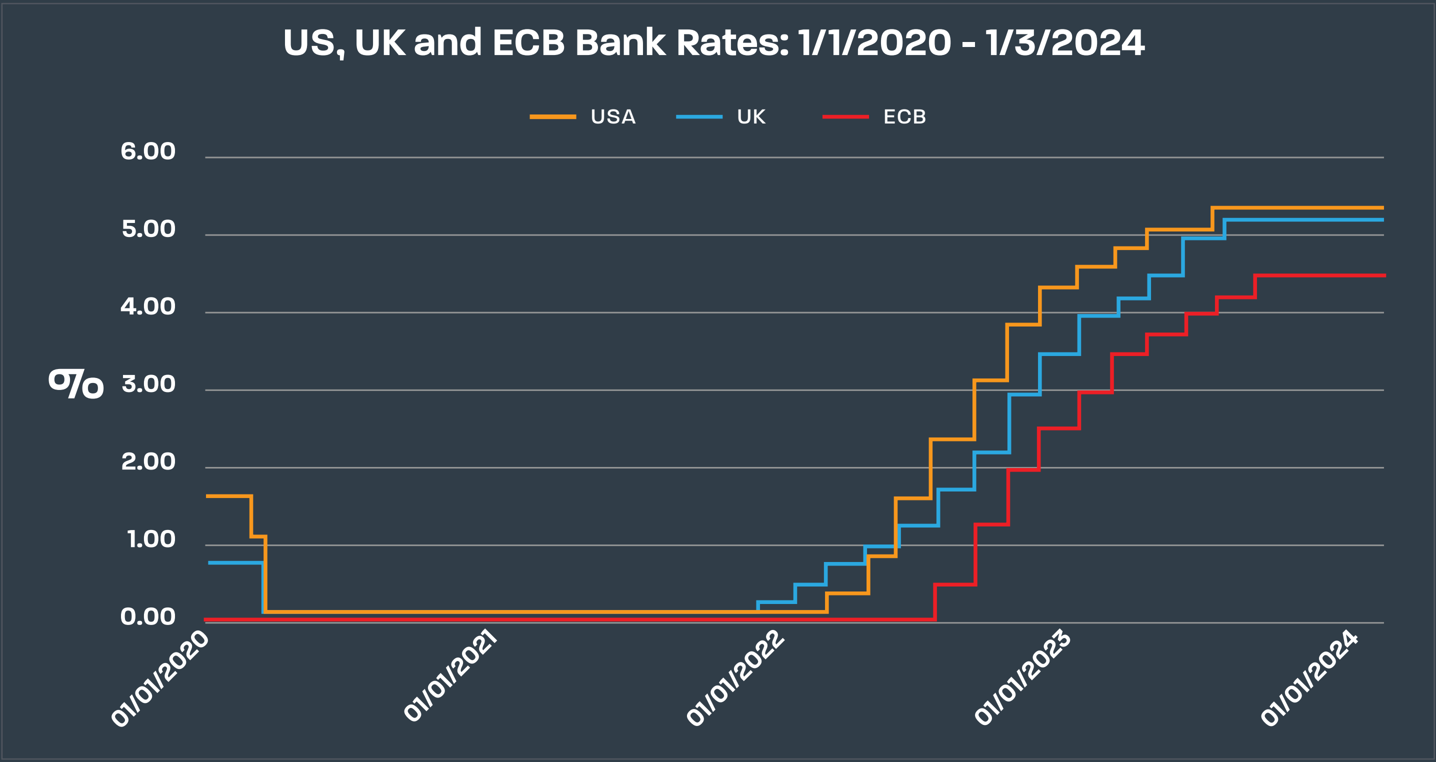
VAT from 1 April 2024: The Value Added Tax (VAT) registration threshold will rise for the first time in seven years from £85,000 to £90,000.

If any of these changes could affect you or your business, or you would like further information on the Budget's contents, please do not hesitate to contact us.

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Investments do not offer the same level of capital security as deposit accounts. Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances. Past performance is not a reliable indicator of future performance. The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.

Coming down: the year of interest rate cuts?

Interest rates have risen for two years straight, but the outlook indicates a change of direction in 2024.



Source: Federal Reserve, Bank of England, European Central Bank

The Bank of England raised its bank rate from 0.10% to 0.25% just before Christmas 2021 and from that point until September 2023 UK interest rates only moved in one direction: upwards. Then, after fourteen consecutive increases, the Bank pressed pause at 5.25%.

There is now an expectation, not disputed by the Bank's Governor or Chief Economist, that the next move will be downwards. As the graph shows, the UK's interest rate pattern of rise and stall has been mirrored by two other major central banks, the US Federal Reserve and the European Central Bank (ECB).

However, in 2024 central bankers will want convincing evidence that the inflation dragon has been slain before the ratchet down begins. A cut too early could force a reverse in direction if inflation returns.

Investment reaction

Nevertheless, markets are anticipating rate cuts. The yields on 10-year government bonds have fallen since last autumn in the UK, US and Europe as investors decide to lock in to current rates. The knock-on effects are visible in the UK mortgage market, where new fixed-term rates have started to drop.

NS&I has also reacted, withdrawing its popular one-year guaranteed bonds, cutting the Premium Bonds prize rate by 0.25% and reducing the return on its three-year green bond from its peak of 5.7% through August to November 2023 to just 2.95% now.

If you have been holding cash deposits, either directly or via money market or similar funds – perhaps in an ISA or a SIPP – you should have benefited from the rise in rates. However, unless your deposits were on average earning within 0.7% of bank rate – after allowing for tax and any charges – your deposit growth would not have kept pace with inflation in 2023, yet alone 2022. In fact, in the last 15 years it has been rare for the bank rate to be higher than the CPI inflation rate.

Deposits review

That historical failure to keep pace with inflation, combined with the likely fall in rates, means that now is the time to review the amount of cash you hold on deposit. For all but the most cautious investor, deposits are not suitable as long-term investments.

If your goal is income, you could consider fixed-interest funds to take advantage of current long-term bond rates. Alternatively, equity income funds, investing in the UK and internationally, offer attractive dividend yields with potential for long-term income growth.

Talk to us about your options now: deposits may be less attractive once the lines on that graph start marching down.

The renewed case for ISAs

Improved terms, together with the erosion of tax allowances elsewhere, are making ISAs a favourable option for the new tax year.

Since their launch, successive Chancellors have made revisions to Individual Savings Accounts (ISAs). In the Autumn Statement 2023 and recent Budget, the current Chancellor introduced useful administrative simplifications for 2024/25, but left the investment limit at £20,000, a figure unchanged since 2017/18.

However, it is arguable that Jeremy Hunt's most important boost for ISAs appeared in the previous year's Autumn Statement, when he announced:

- The dividend allowance was to be halved to £1,000 for 2023/24 and then halved again to just £500 for 2024/25.
- Similarly, the capital gains tax (CGT) annual exempt amount was to be cut from £12,300 to £6,000 for 2023/24 to be followed by a further cut to £3,000 for 2024/25.
- The personal savings allowance zero level for additional rate taxpayers would affect many more taxpayers from 2023/24 because the additional rate threshold was cut by nearly £25,000 to £125,140.

The dramatic reductions in the dividend allowance and the CGT annual exempt amount alone mean that you could be paying up to £2,450 more tax on the returns from your investments in 2024/25 than 2022/23. Even a basic rate taxpayer could find themselves over £1,050 worse off.

Take another look

One way to sidestep these tax increases is to maximise the use of ISAs. As a reminder:

- Dividend income within an ISA is free of UK income tax, although withholding tax may apply to foreign dividends.
- Interest from deposits or fixed interest securities is also free of UK income tax.
- Gains on investments held within ISAs are free of CGT.
- There is nothing to report regarding ISAs on your tax return.

Despite these tax advantages, in recent years ISAs have fallen out of favour with investors. The latest HMRC data (for 2021/22) shows subscriptions for that year were 20% less than in 2014/15. Part of that decline is probably due to the April 2016 launches of the dividend allowance (initially set at £5,000) and personal savings allowance. Low interest rates were also likely to have been a factor - the popularity of cash ISAs suffered when rates were near zero.

As we move into a new tax year, now is the time to consider your ISA contributions. If you maximised your ISA contributions for 2023/24, and you can make another ISA investment of up to £20,000 over 2024/25, you will be able to remove as much as £40,000 of capital out of UK income tax and CGT. You should also review your existing ISAs to make sure you are making full use of their tax benefits; cash ISAs may not offer you the optimum tax savings.

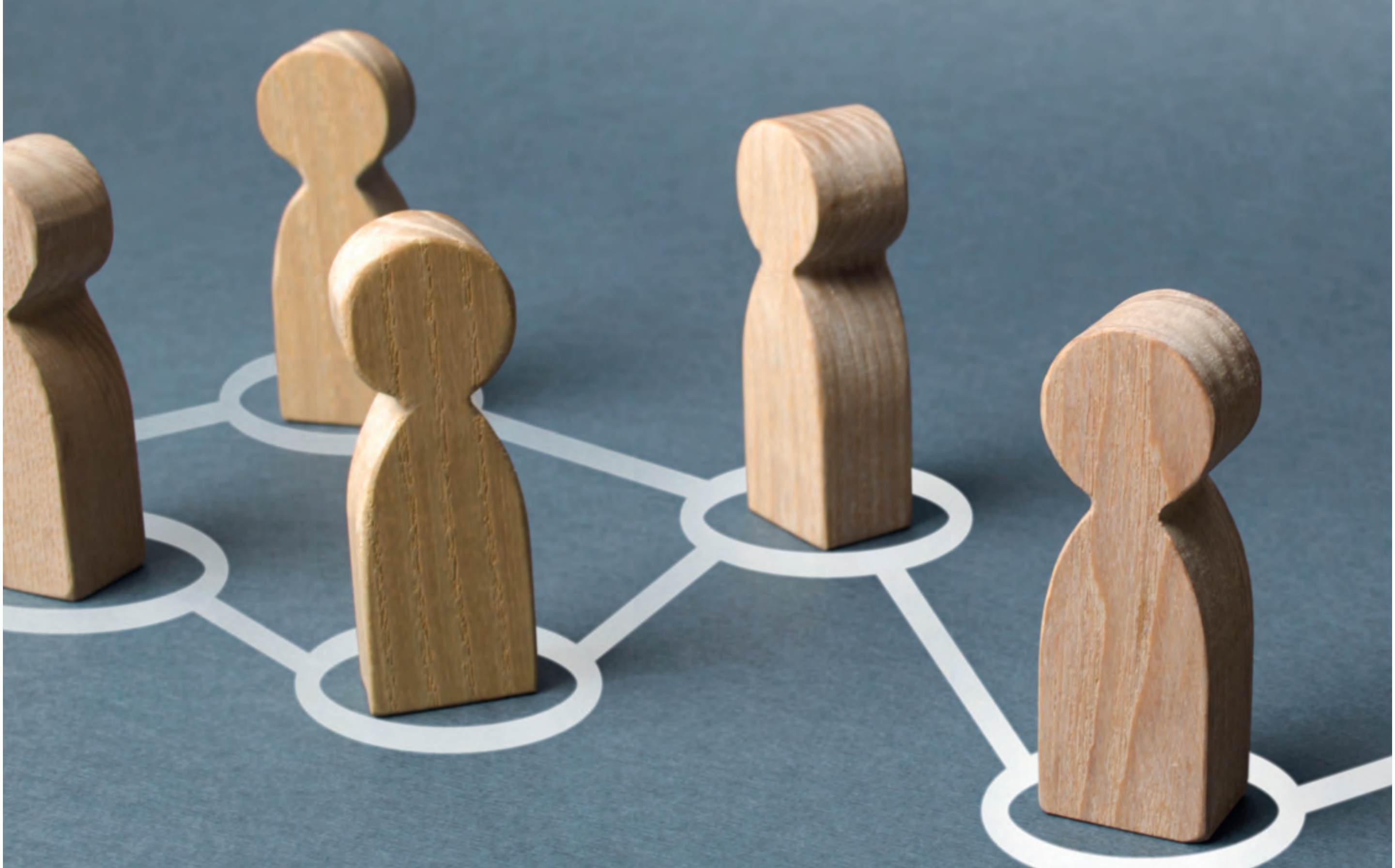
For ISAs investors do not pay any personal tax on income or gains, but ISAs may pay unrecoverable tax on income from stocks and shares received by the ISA managers.

Tax treatment varies according to individual circumstances and is subject to change.

Stocks and Shares ISAs invest in corporate bonds; stocks and shares and other assets that fluctuate in value.

Investments do not offer the same level of capital security as deposit accounts. Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances. The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. The Financial Conduct Authority does not regulate taxation advice or advice on capital gains tax.

SUCCESSION: have you got a plan?



It is not only fictional multinational media empires that need to consider future ownership and control.

In 2023, the question of how to transfer control of a large, high-profile family organisation gripped attention. First the award-winning Sky Atlantic series, Succession, drew us in, followed by the real-life story which partially inspired Succession, the handing over of the Fox and News Corporation reins by Rupert Murdoch to his son, Lachlan.

What happens when ownership changes is not only a concern for the likes of multinational empires, real or otherwise. If you are a private company shareholder/director or a partner in a partnership, business succession is something that should matter to you. For example, what would happen if one of the fellow shareholders in your company or partners in your partnership suddenly died or suffered a disabling accident?

“We’d try to cope”, is the obvious answer and, in the very short term is almost certainly the right one. But what about the medium and long term? If your fellow director died and left their shareholding to their spouse or civil partner, would you welcome him or her on board as the replacement director? What if a seriously ill partner wants to be bought out of the partnership as they can no longer contribute to the business?

The way to deal with such potential business threats is to have a plan in place before disaster strikes and, equally important, to ensure the money is there to execute it; one without the other can be a minefield.

Take the example of the withdrawing partner once again. The partnership may have some agreement in place that requires the partner to retire in such a situation, but unless the remaining partners have the resources to buy out their colleague, a new partner may need to be found to buy in, or the business might have to be more radically restructured – or even sold – to release cash.

Realistic, professional provisions

What you and your business associates need to protect against such situations are:

- appropriate, tax-efficient agreements (such as key person insurance or shareholder protection) to deal with the sale of interests on death and serious illness; and
- life and health insurance cover to fund the purchase costs those remaining in the business will face.

For advice on both aspects, talk to us today – as Succession showed – you never know what tomorrow might bring.

The Financial Conduct Authority does not regulate tax advice or business continuity planning. Tax treatment varies according to individual circumstances and is subject to change.

Tax charge trap for pension withdrawals

Pension freedom rules have given people earlier and more flexible access to their retirement savings. However, many are paying too much tax when they first make a withdrawal, due to the way HMRC's computer systems operate.

Latest HMRC data shows it processed 12,000 reclaim forms in the last three months of 2023, relating specifically to this issue. In total HMRC paid back nearly £39m to savers who have been overtaxed on pension withdrawals, making the average rebate £3,216.

The issue arises when savers first make a withdrawal from a drawdown plan. HMRC software assumes that the money taken will be a regular monthly withdrawal, and effectively taxes it accordingly, via an emergency tax code.

In many cases, however, people aren't taking this as a regular payment. Instead they are using the pension freedom rules to make one or more ad-hoc withdrawals – perhaps to pay for a holiday, home improvements or reduce debts – and as a result end up with a smaller sum due to this taxation issue. For example, if you were withdrawing £10,000 at the start of the financial year the tax code would assume an annual income of £120,000.

This problem occurs when people are taking flexible lump sums from their pension, known as uncrystallised fund pension lump sum (UFPLS) payments. But this tax trap doesn't apply to all pension withdrawals. For example, it won't apply if you are taking your tax-free lump sum (known as the pension commencement lump sum: people from the age of 55 can withdraw up to 25% of their savings tax-free). And if you are taking a monthly income, via a drawdown plan, then the tax should be broadly correct, although there may be some adjustments to be made, depending on any other income you receive

Tax rebate

If you have made a one-off withdrawal from your pension and are concerned you may have paid too much tax, you can get this money back. The quickest way to do this is online via the HMRC Government Gateway if you have a user ID and password. If you can't access the Gateway you'll need to complete either a P55, P53Z or P50Z form depending on your circumstances. All three are available on HMRC's website.

Provided you complete the correct form, HMRC states that it aims to process these refunds within a 30-day window. Those who don't complete a form should have this tax readjusted in the following year, via the self-assessment process.

If you are planning to make a flexible withdrawal from your pension plan in the near future, there are steps you can take to try to avoid this problem. The best way is to make a very small initial withdrawal. The temporary tax code is then imposed on this smaller sum, and will be reapplied to the second, larger withdrawal. There may still be some adjustments to make, but it is unlikely to result in such a large overpayment.

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Retirement living costs increase

Savers need to build up more funds if they want to secure a decent standard of living in retirement.

An independent pensions body has updated its calculations on how much money people need to fund a basic, moderate or comfortable lifestyle in retirement. Rising food and energy costs, plus the fact more people want to socialise with family and friends post pandemic, has pushed up the cost of a 'moderate' retirement by £8,000, to £31,300 a year – with couples looking at a combined cost of £43,100 a year.

As the name suggests, this is not funding a life of luxury. The Pensions and Lifetime Savings Association (PLSA) says this covers one week-long holiday in Europe each year, running a small car, modest amounts for socialising, alongside essential bills.

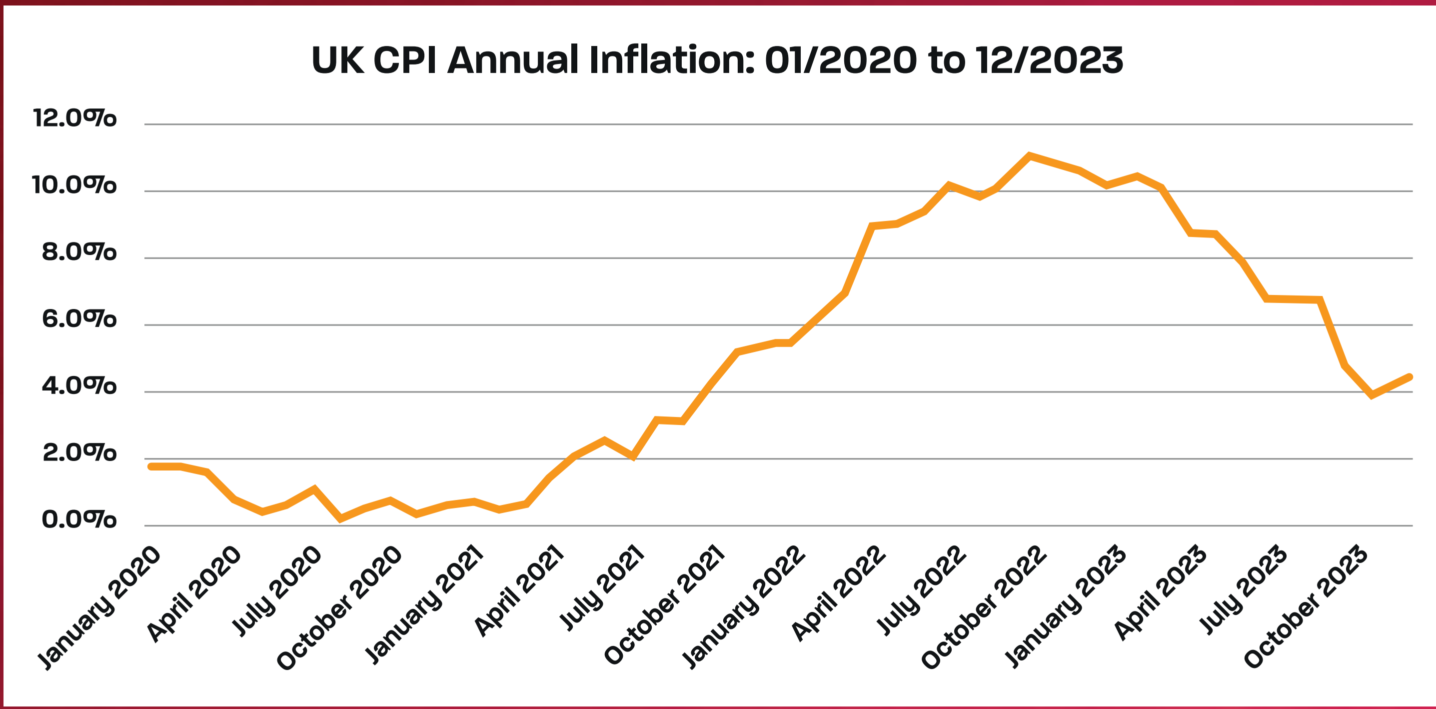
Moderate level increases most

The costs of 'minimum' and 'comfortable' lifestyles have also increased – although not by as much in percentage terms. The PLSA estimates an individual needs £14,400 a year to fund a basic lifestyle and £31,300 for a more 'comfortable' retirement.

These are ballpark figures, and individuals' spending requirements will vary. But the numbers can be useful as part of a wider pension planning process. Remember, not all this cost needs to be met by private pensions, as from April this year those qualifying for the full state pension will get £11,502 a year, although that alone is not enough to meet basic living requirements according to these calculations.

Don't discount inflation

Despite slowing down considerably, inflation has not gone away yet.



Source: ONS

The fact that annual price rises have dropped to under half their October 2022 11.1% peak does not mean you can now ignore inflation's impact. As some of those who grew up in the 2010 –2020 era of low inflation are now realising, a falling inflation rate (disinflation) is not the same as a general falling in prices (deflation). Prices are still rising, albeit at a slower rate.

In the three years since the start of 2021, inflation added over a fifth to average prices, only 2.2% less than the increase across the entire decade from 2010. You could now need to review your financial plans if they are more than a couple of years old. The level of life and health cover that looked more than adequate in 2020 may no longer be enough.

Similarly, the pension pot that looked sufficient for a comfortable retirement may now be at the just-getting-by level.

Protecting your health

Private healthcare options are on the rise as more people are looking at alternatives to the NHS through personal or workplace provision.

With nearly 40% of people reporting difficulty in getting GP appointments and over two million people on long-term sick leave as of July 2023, the incentive for individuals and businesses to focus on health cover is growing. Different protection and insurance products offer a range of primary healthcare options, such as GP and dental services, and, in some cases, contribute towards the cost.

There are significant differences between providers and products in price, coverage and exclusions, although none replicates the range of services available via the NHS. Understanding the details of each policy is key to finding the right option.

Cash plan policies: Relatively low-cost plans that pay out a fixed contribution to routine healthcare costs, for example an optician, dentist, physiotherapist or chiropodist.

Income protection: An insurance policy that will pay a fixed income (usually a proportion of your salary) when signed off work through ill health. This money can ensure essential bills are paid during a period of illness.

Critical illness: Specific conditions are insured on this policy which pays a lump sum on the diagnosis of one of the serious illnesses listed. They will include most cancers, heart disease and stroke.

Private medical insurance: Typically covers the cost of private diagnostic tests, consultations and hospital treatment. Emergency cover is not included, nor is treatment for existing or ongoing problems such as asthma and diabetes, nor pregnancy-related complications.

Promoting healthier lifestyles

Many products now also offer a range of additional services, often at no extra cost, designed to support good physical and mental health. This can include access to virtual GP services, mindfulness and mental health apps or online counselling, plus information on lifestyle issues – for example improving diet, cutting down on alcohol, quitting smoking or doing more exercise. Some may even offer discounts on gym membership to encourage a healthier lifestyle. Benefits may also be available to family members.

While these products can of course be bought individually, employers are increasingly offering some form of health benefit to their staff. Improving staff retention and reducing long-term sickness absence are significant factors in creating a healthier, happier workforce.

If you need to access health insurance at any point or are looking to improve your health, it is worth checking what benefits may be available through your workplace, including access to healthy lifestyle services.

News Round Up...

Entitled to a bigger State pension?

HMRC is contacting thousands of people by post, mainly women, to highlight that they may be eligible for a higher State pension than they realise. An error in National Insurance records has meant those eligible may have missed out on a provision called 'home responsibilities protection' between 1978 and 2010. The letters are going out in phases and explain how to check for eligibility and then claim, potentially adding thousands of pounds to State pension entitlement. It might sound like the kind of postal scam to be wary of, but it isn't.

New online trading data sharing rules

If you sell things online using sites such as Ebay or Vinted, or rent out your home via Airbnb or similar sites, those platforms will now automatically share data with HMRC. The rules are designed to ensure that those earning via digital platforms are fully declaring their correct income and tax. There is an 'occasional seller' exclusion for those making less than 30 sales under the value of around £1,700. The relevant platforms will start reporting data from 1 January 2025, so there's time to understand if you could be affected.

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The new Benchmark Wealth Platform App

Always on

Whatever the time, wherever you are, Wealth Platform helps keep your finances on track. Access all your information securely from your mobile or desktop.

Keep in touch

Wealth Platform is a virtual link to your financial adviser, keeping you connected when you can't see them face-to-face.

See the complete picture

Your financial information is analysed and gathered in one place to give you clarity and control. Your dashboard provides a clear and concise financial summary, with tools to filter and analyse your investments.

How do you get the mobile app?

You can download the app from Google's Play Store or Apple's App Store.
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To discuss any issues raised in this newsletter, or any other aspect of your financial planning, speak to your dedicated Wealth Professional Consultant or Client Support Team at: -

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