Financial Planners
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WEALTH MANAGEMENT

Client Newsletter

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Spring, meteorologically speaking…

It sometimes seems that there are three categories of seasons: meteorological, astronomical and political. While the first two are generally fixed, the third is more flexible. When a politician promises something by the end of autumn, it may not arrive until mid-winter – if at all. In 2024 there was a possibility that just such elastic seasonality would apply to the Spring Budget.

Traditionally, Spring Budgets are held on a Wednesday in mid-March, shortly before the end of the tax year. In 2024 the Budget will be on 6 March, the first Wednesday of the month. That satisfies the meteorological definition of spring but is a fortnight before the spring equinox. The reason the Budget is arriving just sixteen weeks after the Autumn Statement revolves around the complexities of election timing. If – a big if – Mr Sunak decides on a May election to coincide with the local elections on the 2nd, then the law says that an election would have to be called in the week beginning 25 March. That deadline brings forward the date for the Budget, given all that must be done ahead of dissolving Parliament, including passing a post-Budget shortened Finance Bill.

The early Budget potentially complicates tax year end planning in 2024. It is often suggested that any planning is completed before Budget Day, as some of the Chancellor's measures may take effect from the beginning of the day. Such a cautious approach is probably less important in an election year as the Chancellor is likely to defer any mention of tax-raising proposals – the ones which often take immediate effect – until after the polls have closed.

Either way, now is a good time to start reviewing your options. The last day of the 2023/24 tax year is Friday 5 April, a week after Good Friday.

The 2023/24 year end checklist
The list of the areas to consider as the year end approaches has similarities with past years, but there are several new factors that specifically relate to 2023/24:

Self-employment income
If you are self-employed and your accounting year end is not between 31 March and 5 April, the amount of your profits subject to income tax in 2023/24 will be affected by basis period reform. How this will impact on you depends upon a variety of factors, but

one consequence for many people will be that more than twelve months of profits will be taxable in 2023/24. The earlier in the tax year your accounting year ends, the greater the impact. For example, if you have an accounting year end of 30 April – a date once recommended for maximum tax deferral – then, after special transitional relief, you could find yourself with the equivalent of a little over 14 months profits taxable in 2023/24.

Any year end planning needs to take account of this income boost, which will also apply for the following four tax years, unless you opt out of the automatic transitional relief. An opt out can make sense in some circumstances, but the decision to do so and the strategies to then adopt require expert advice.

If the basis period reform is news to you, then a starting point to learn more is HMRC's simplified guidance: https://www.gov.uk/guidance/changes-to-reporting-income-from-self-employment-and-partnerships.

Pensions
2023/24 is a different year end for pension planning from its predecessors for two main reasons:

- The lifetime allowance, which in past tax years has set a tax-efficient ceiling on the total value of your pension benefits, is halfway through a legislative process that will see it disappear from 6 April 2024. How long it remains out of sight is uncertain, as the Labour Party has said it would reinstate the lifetime allowance if it came to power.

- The main annual allowance, which sets the maximum tax-efficient level of total contributions in a tax year, was increased to £60,000 for 2023/24. The minimum allowance which applies when tapering operates, or the money purchase annual allowance has been triggered, rose to £10,000. For earlier tax years the limits were (and remain) £40,000 and £4,000.

Either (or both) changes could mean that you are now able to make pension contributions whereas, in previous years, it made no tax sense to do so. However, given the impending election, that renewed opportunity may not last for long.

5 April 2024 is the final date for taking advantage any unused pension annual allowance (up to £40,000) dating back to 2020/21. If you are or have been a member of a final salary scheme, the calculations necessary can take time, so this is not something to leave until the last moment. Beyond making use of any unused 2020/21 annual allowance before the opportunity is lost, you should also consider:

- *The additional rate income tax threshold* was cut from £150,000 to £125,140 in 2023/24, while the higher rate threshold was frozen. Your marginal tax rate may therefore have increased and, with it, the tax saving a pension contribution can offer – even before you consider any consequences of the basis period reform (please see above).

- *Scotland has made significant changes to income tax for higher earners taking effect in 2024/25.* There will be a new advanced rate of tax (at 45%) for earnings between £75,000 and £125,140 and the top rate, which applies to earnings above that level, will rise from 47% to 48%. In some instances, you could therefore receive more tax relief by deferring all or part of your pension contribution until after 5 April.

ISAs

2023/24 and the coming tax year are both marked by changes that increase the tax burden for investors:

- *The dividend allowance* was halved to £1,000 for 2023/24 and will be halved again to just £500 from 2024/25. HMRC estimates that around three quarters of people who receive dividends will be affected by these changes.

- *The capital gains tax (CGT) annual exemption* was cut from £12,300 to £6,000 for 2023/24. It will halve again, to £3,000, from 2024/25 onwards. The result will be over a quarter of a million new CGT payers, according to HMRC, some of whom will be dragged into the self-assessment regime for the first time.

This double serving of extra investment tax reinforces the importance of ISAs. Even if an allowance of £500 and an exemption of £3,000 is enough for you at present, it may not be in the future. Neither figure is index-linked, and each year's ISA subscription is a use-it-or-lose-it opportunity. As a reminder, all ISAs offers four tax benefits:

- Interest earned on fixed interest securities and cash is free of UK income tax.
- Dividends are also free of UK income tax (but may be subject to foreign withholding tax).
- Capital gains are free of UK CGT.
- ISA income and gains do not have to be reported on your tax return.

The maximum *total* contribution to ISAs is £20,000 per tax year for 2023/24 and 2024/25, while for Junior ISAs (JISAs), the maximum is £9,000. However, at present, a 16- or 17-year-old can have a JISA and also open a £20,000 ISA (cash component only). This anomaly, which has existed for some years, will be ended from 6 April 2024, when the minimum opening age for an 'adult' ISA will rise to 18.

CGT

The dramatic cuts to the CGT annual exemption explained above mean that it is more important than before to consider whether you can and should use your annual exemption by 5 April, when it halves to £3,000. While 2023 was a near flat year for the UK stock market – the FTSE 100 was up 3.8% – many overseas markets posted strong gains, notably the USA where the S&P 500 added 25%. Realising some of those gains to offset against your exemption could be a wise move, as any unused exemption cannot be carried forward.

You cannot sell a holding and immediately repurchase it to take advantage of the annual exemption, although you can buy something very similar to your existing holding. Thus, you could sell the ABC S&P 500 tracker and buy the XYZ S&P 500 tracker to take advantage of your annual exemption. There are other options that work to crystallise gains while retaining a holding, such as reinvesting your sale proceeds – even in the same holding – via an ISA or a pension (subject, of course, to the usual contribution limit rules).

Inheritance tax (IHT)

In the run up to the Autumn Statement there were a variety of rumours about what might happen to IHT, including its abolition. In the event, the tax survived unscathed. The cost of scrapping IHT would initially be about £7.6bn a year, roughly three quarters of the cost of the national insurance contribution (NIC) reductions, which effect a vastly larger (voting) audience. That type of calculation will always make IHT a difficult tax to eliminate or reduce substantially.

Instead, IHT remains subject to revenue-raising benign neglect. The main nil rate band was set at its current level (£325,000) in April 2009 and, had it been index-linked since then, in 2024/25 it would be over £500,000. The prolonged freeze, currently due to carry on until 5 April 2028, has dragged a growing number of estates into the IHT net and added to the tax bill of those already within it. One way to reduce the tax's impact on your children (and grandchildren) is to ensure that you use the available yearly exemptions:

1. *The annual exemption.* Each tax year you can give away £3,000 free of IHT. If you did not use all the exemption in 2022/23, you can carry forward the unused element to this tax year (and no further), but it can only be used *after* you have used the current tax year's exemption. For example, if you made no gifts in 2022/23, and you gift £5,000 in 2023/24, you will be treated as having used your full 2023/24 exemption and £2,000 from the previous tax year.

2. *The small gifts exemption.* You can give up to £250 outright per tax year free of IHT to as many people as you wish, so long as they do not receive any part of the £3,000 exemption.

3. *The normal expenditure exemption.* The normal expenditure exemption is potentially the most valuable of the yearly IHT exemptions and one which is not a long-time frozen cash number. Any gift, regardless of size, escapes IHT under the exemption provided that:

    a. it is made regularly;
    b. the source of the gift is your income (including ISA income, but excluding investment bond and other capital withdrawals); and
    c. the sum gifted does not reduce your standard of living.

Venture capital trusts (VCTs) and enterprise investment schemes (EISs)

Subject to generous limits, dividends from qualifying VCT investments are tax free, and both VCTs and EISs offer:

- Income tax relief at 30% on fresh investment, regardless of your personal tax rate; and
- freedom from CGT on any profits.

VCTs and EISs focus on investments in small, relatively young, high risk companies. In recent years these schemes have increasingly attracted funds from high earners for whom pension contributions made no sense.

Business income planning

If you are a shareholder director in your company, it might be worth bringing forward the payment of any dividend or bonus into this tax year, rather than leaving it until 2024/25. Whether to do so is a complex calculation because of all the tax changes that have and will take place:

In favour of early payment:

- The further reduction in the dividend allowance.
- The frozen higher rate and additional/top rate thresholds.
- The arrival in 2024/25 in Scotland of the new 45% advanced rate on income (excluding dividend and savings income) between £75,000 and £125,140 and the one percentage point increase in the top rate to 48%.
- You expect to have higher income in 2024/25 than 2023/24.

In favour of deferral:

- For directors, the main personal NIC rate (on earnings up to £50,270) falls in 2024/25.
- You expect to have lower income in 2024/25 than 2023/24.

In most instances, whether to choose a dividend or bonus will depend on the marginal corporation tax rate of your company. The table below is based on an English resident higher rate taxpaying director whose company profits are £150,000 (26.5% marginal rate) or £50,000 (19% marginal rate) in the years ending 31 March 2024 and 31 March 2025. If their personal investments generate £1,000 dividend income and they wish to draw out £10,000 of gross profits, the picture looks like this:

	Bonus		**Company dividend**	
Marginal corporation tax rate	**19%**	**26.5%**	**19%**	**26.5%**
Gross profit	10,000	10,000	10,000	10,000
Corporation tax			(1,900)	(2,650)
Employer NIC @ 13.8%	(1,213)	(1,213)		
Gross pay/dividend	8,787	8,787	8,100	7,350
Income tax @ 40%/33.75%	(3,515)	(3,515)	(2,734)	(2,481)
Director NIC @ 2%	(176)	(176)		
Net income	**5,096**	**5,096**	**5,366**	**4,869**

Action

Do not delay your tax year end planning. A prompt start is always useful as important data can slow to arrive.

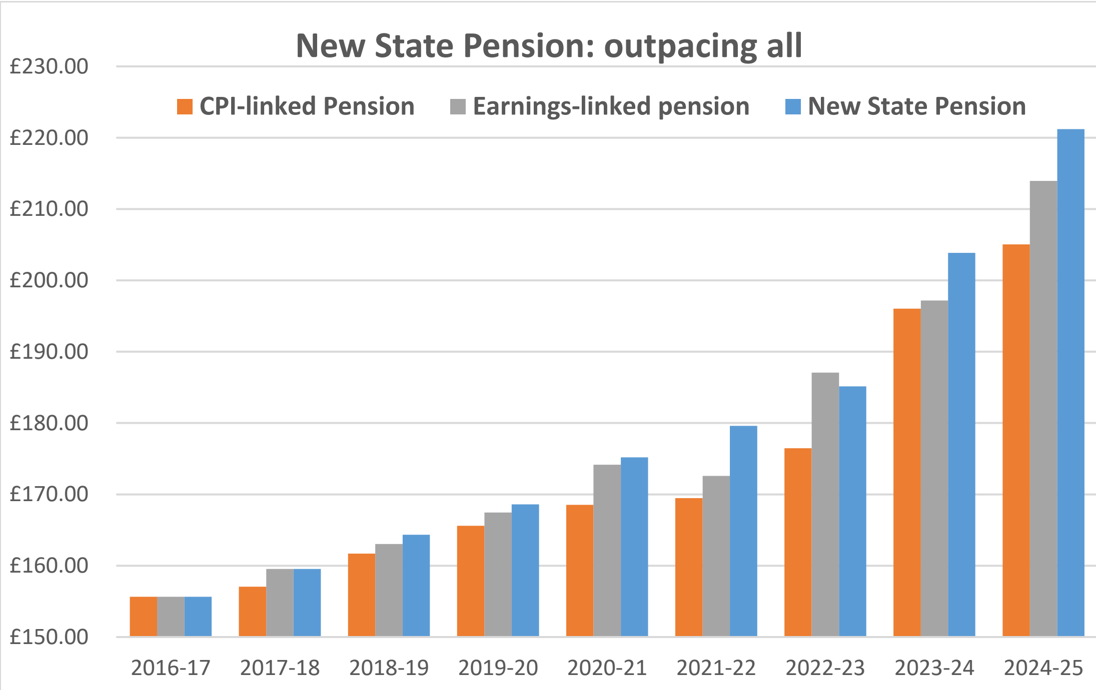
Call us today to arrange for a year tax planning review.

The future of the State Pension

In April 2024 the New State Pension (for those who reach(ed) State Pension Age after 5 April 2016) will rise by 8.5% to £221.20 a week. The increase was in line with the triple lock, which fixes the annual increase at the highest of:

- The annual growth in earnings in May-July (8.5% in 2023);
- Annual CPI inflation to September (6.7% for 2023); and
- A 2.5% minimum.

By the time April arrives, 8.5% looks likely to be more than double the rate of price inflation, which had fallen to 3.9% by November.



Source: ONS, DWP, Technical Connection calculations

Will the State Pension survive in its current form?
Recent polling showed that one in three working age people do not believe that the State Pension will exist in 30 years' time, with those aged 55-64 the most pessimistic. There was even a greater lack of faith that the State Pension would keep pace with inflation over the next decade: only 38% of those surveyed believed it would.

To a degree those pessimistic views are understandable, given the increases to State Pension Age since 2010 and the sidestepping of the triple lock for 2022. However, the Institute for Fiscal Studies (IFS), which commissioned the polling, thinks the gloom is overdone. It points out that the State Pension has risen at least in line with price inflation every year since 1975 and that, in terms of government expenditure, it costs much less than in many other countries. The relatively low cost, partly due to the reforms made since 2010, means that the UK is better placed than many continental countries to continue with something close to its current level of State Pension provision.

One future reform of the UK State Pension, which could well happen, is a redesign of the triple lock. The existing structure has been widely criticised as being too expensive and too unpredictable – since the New State Pension started in 2016, earnings growth has accounted for three increases, as has CPI, while the 2.5% floor was the trigger for two. As the graph illustrates, the net result is a pension which outpaces both earnings and prices, a recipe for long term government funding problems.

The role of the State Pension
The structure of UK pensions is one that has enjoyed a broad political consensus for over a decade. The State Pension is pitched at a basic subsistence level, providing a foundation on which to build private provision, for many in the form of automatic enrolment in workplace pensions. For the poorest retirees, the State Pension is a major source of household income, but even for the highest-income fifth of households, the State Pension makes up nearly a quarter of total income, according to the IFS. Take away that foundation and the pension framework collapses, leaving the government still having to provide a means-tested safety net for the retired poor and creating disincentives to save.

Action
The State Pension is far from adequate for a comfortable retirement and is best thought of as the initial layer of your retirement income (once you reach State Pension Age).

Talk to us about your 2024 options for creating the retirement you want, when you want it to begin.

What are you doing with your tax cut?

If you are an employee, then, in most circumstances, you will see the benefit of the Autumn Statement's 'tax cut' in your pay at the end of January. The 'tax cut' is, of course, a cut in your NICs. NICs have long been an income tax on earnings in all but name. Although the current Chancellor is probably the first to acknowledge the fact, many of his predecessors found it more convenient to allow the perception that NICs were not income tax, especially when NIC rates were being raised.

How much?

Annual earnings	**Monthly saving in NICs**
£10,000	Nil
£20,000	£12.38
£30,000	£29.05

£40,000	£45.72
£50,270 and above	£62.83

As the table shows, the boost to net income is modest and capped at the point higher rate tax begins (outside Scotland). For all but some of the lowest earners, it does not compensate for the five-year personal allowance freeze through to 5 April 2028.

Don't lose it

The extra few pounds in the pay packet could all too easily disappear in general spending, even if inflation is now well below the double-digit levels seen at the start of last year. Instead, think how the small windfall could be used. For example, you could:

- Reduce any expensive debt, such as the Christmas credit card accumulation; or
- Top up your emergency fund; or
- Increase your pension saving, perhaps by salary deduction so the extra income never even reaches your bank account; or
- Boost regular savings, for instance making higher monthly ISA contributions.

The monthly amount may be modest, but over time it could make a meaningful impact.

Action

Make sure *you put your tax cut to good use – given the state of government finances there may not be many more in the next few years.*

If you would like to save more tax than the Chancellor has provided you with, talk to us about your tax planning options.