Autumn Budget 2024: Closing the loopholes

eastcote WEALTH MANAGEMENT

As a result of Eastcote's partnership with 7IM, we benefit from additional insights from their economists and analysts. This insight presents their views and underlines their asset and investment methodology.

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The plans the UK government has made as part of the recent UK Budget will force individuals to reconsider their attitude towards financial planning.

Through a speech that took over an hour to deliver, Chancellor Rachel Reeves outlined how the Labour government intends to ease the pressure on the public finances.

After much speculation over who might win and who might end up worse off, the government was still able to deliver some unexpected measures.

> Accessing money in retirement has taken a completely new form after the government's Budget. The government has decided to include an individual's pension pot as part of the total value of their estate from 2027, potentially starting a fundamental shift in the financial planning landscape.
>
> Including your pension as part of the £325,000 IHT threshold could add a significant tax burden on your wealth plan, particularly from a succession standpoint. Contact your financial adviser if you'd like to discuss your circumstances and prepare for the incoming changes.

The following list provides a partial overview of the government's new measures in comparison with previous regulation.

	Pre-Budget	**Post-Budget**
Inheritance tax	Charged at 40% on all estates worth more than £325,000, increasing to £500,000 where a residence is passed on to direct descendants; or £1m where the estate is passed to a surviving spouse or civil partner	IHT thresholds remain frozen by an extra two years until 2030. Pensions are included in the estate and therefore subject to inheritance tax from 2027. Reforms to agricultural property relief and business property relief from 2026.
Income tax	Income tax threshold frozen until 2028	Unchanged

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	Pre-Budget	Post-Budget
Capital gains tax	Lower rate at 10% and higher rate at 20%	Lower rate of CGT will go up to 18%, and the higher rate to 24%. The rate for business asset disposal relief will rise to 14% for 2025/26 and 18% from 2026/27.
Tax-free dividend allowance	£500	Unchanged
Pensions	Triple lock	State pension increasing £470 per person in line with the triple lock.
Private schools	Eligible for tax breaks	VAT and business rates on schools from January 2025
Stamp duty on second homes	3%	Increase to 5% from 31 October 2024

Preparing for change

The need to factor in pensions for inheritance tax purposes was a surprise, and a bitter one especially for those who have not touched them thinking about future generations.

Pensions used to sit outside of an individual's estate for inheritance tax purposes, and therefore they formed part of a tax-friendly strategy of leaving money for future generations.

It's also not-so-good news for investors, who have an increase from 20% to 24% (for higher earners) for capital gains tax on any shares sold.

For individuals considering buying a second home (or property that is not their main residence), stamp duty on property has increased. Previously, a 3% stamp duty surcharge applied on second homes – now a 5% tax applies. Stamp duty applies in bands, so it increases as the property value goes up.

Some individuals might also feel the weight of an additional 20% increase on their children's private school fees, but this measure had already been announced.

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Assess and adapt

As the dust from the Budget announcement settles, it is becoming increasingly apparent there is good news. The government has still left plenty of opportunity for tax-efficient financial planning strategies.

But it is important to consider that, more than ever, these strategies are specific to an individual's circumstances. Robust and sustainable financial planning can only be achieved through regular reviews.

If you have any questions about how you could improve your or your family's wealth plan, do not hesitate to get in contact with us – our advisers would be delighted to speak to you.

Tax rules are subject to change and taxation will vary depending on individual circumstances.

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