**CAPITAL GAINS TAX HIKE**
Navigating the new investment landscape

**CHILD TRUST FUNDS**
Unclaimed accounts contain on average £2,212

**THE COST OF LIVING TO 100**
Could your planning cover a longer life?

HARTEY®
WEALTH MANAGEMENT LTD

# Financial FOCUS

Chester Office: 01244 659659 • Oswestry Office: 01691 654613 • Freephone: 0808 168 5866 • info@harteywm.co.uk WINTER 2024

## An uphill climb?

*Tackling the Autumn Budget outcomes*

Credit: yanikap/Shutterstock.com

# *In this issue...*

Rachel Reeves's Autumn Budget, the first of the new Labour government, pointedly avoided direct tax increases on individuals. However increased employer NICs for 2025/25 are likely to test already stretched profit margins for many businesses. Additional hikes to capital gains tax, and the extension of the reach of inheritance tax, will affect business owners and others who do not consider themselves particularly wealthy. If the latest legislation has left you concerned about your estate and legacy, transferring assets to your spouse or civil partner may be enough to mitigate potential liabilities. With the prospect of reaching 100 years old forecast to treble within the next 25 years, funding care in later years will become an issue for more and more people. One thing everyone can do to prepare for retirement is ensure you have topped up any gaps in your national insurance record as much as you are able. The extended opportunity to top up missed payments will close at the end of this tax year.


03
**A world of higher capital gains tax**
Offsetting capital losses could be one way of reducing liability at highter rates.

04
**Autumn Budget outcomes**
Key takeaways from Labour's first Budget.

05
**Last call for NICs top up**
Do not delay further if you are able to backfill missed NIC payments.

06
**Time to review your estate planning?**
Restructuring business ownership could be one way to reduce IHT.

07
**Could you afford to live to 100?**
The lack of a care funding plan in the Budget leaves uncertainty about paying expensive bills.

08
**CTFs grown up – the importance of children's savings**
Unclaimed Child Trust Funds can be tracked down to access funds.


Credit: Roberto Caucino/ Shutterstock.com


This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The newsletter represents our understanding of law and HM Revenue & Customs practice.
© Copyright 3 December 2024. All rights reserved.




FINANCIAL PLANNING

# Hitting the mid 20s – what's next?

**Five years on from the start of the 2020s, it's time to take stock and look forward.**

Cast your mind back to 1 January 2020. Boris Johnson had become prime minister with a Conservative landslide majority of 80 seats. Across the Atlantic, Donald J Trump was president. Covid-19 had broken out in China, but was almost a month away from being declared a public health emergency of international concern. The Bank of England's Bank Rate was at a mere 0.75%, where it had been since August 2018.

As 2025 approaches, most of that picture is radically different. While today Covid-19 is almost just another flu-type virus, its economic consequences are still weighing on governments around the globe. As the pandemic took hold, the Bank of England was prompted to cut rates to just 0.1% in March 2020. However, from December 2021 rates started to climb, reaching 5.25% before reversing direction in 2024 to their current 4.75%.

## INFLATION IMPACT

One reason for the upward long march of interest rates was the burst of inflation which hit most of the world in the wake of the pandemic. UK inflation as measured by CPI peaked at 11.1% in October 2022, its highest level for 41 years, before falling back now to near the 1.8% recorded in January 2020.

As the recent US presidential election underlined, inflation's reversion to a norm of around 2% is no solace for the public, who feel inflation over longer periods than the neat 12 months favoured by economists. In the UK prices will have risen by around a quarter in the first half of the decade.

That effect of cumulative inflation, combined with higher interest rates and a return to a Labour government, means the next half of the decade begins against a backdrop substantially changed from 2020.

Have your financial plans taken account of the new landscape? For example, the 2020s' wedge of inflation means the funds you need for a comfortable retirement are correspondingly higher, as is the level of life and income protection your family requires. At the same time, higher interest rates and a harsher tax environment could require a reassessment of your investment approach. This halfway point is a good time to pause, review and prepare for whatever the next five years might bring.

✢ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

Credit: Dilok Klaisataporn /Shutterstock.com

INVESTMENT

# Investment in a world of higher capital gains tax

Credit: eamesBot/Shutterstock.com

*Investors face higher tax on investment gains after the Chancellor Rachel Reeves raised the rate of capital gains tax (CGT) in her Autumn Budget.*

There is no change to the CGT rate charged on property disposals, but those selling shares and other assets will now pay tax at 18% or 24%, depending on their marginal tax rate. Previously these stood at 10% and 20%.

The previous Conservative government hacked back the CGT annual exempt amount (AEA) – the profits you can realise each tax year before CGT is applied – from £12,300 to just £3,000 over the last two years.

The combination of these two measures means that many investors face significantly higher capital gains bills — but there are steps you can take to reduce this tax liability.

- The first is to make the most of tax-efficient investment vehicles. Investors can deposit £20,000 annually into an individual savings account (ISA), and any gains made through this wrapper are sheltered from CGT.

- Investors should also make strategic use of their CGT AEA. If you are looking to realise a large gain, it may be worth selling shares in tranches over two or more years to utilise each year's CGT AEA, as it cannot be carried forward.

- A strategy known as 'bed and ISA' takes advantage of the CGT AE every year. You sell investments to realise a capital gain, but then immediately buy back the holding within an ISA wrapper, moving unsheltered assets into a tax-free environment. Of course, you need to ensure your ISA allowance has not been allocated elsewhere. But don't forget there will be stamp duty to pay if the asset being sold and repurchased is shares.

- Investors can also deposit up to £60,000 a year into pensions which are not within the CGT regime and they also benefit from income tax relief on contributions. However, bear in mind that withdrawals can't be made until the age of 55, soon to be 57, and withdrawals may be subject to income tax.

Capital losses can offset capital gains, and losses can be carried forward indefinitely to offset future gains if reported to HMRC within four years of the end of the tax year in which the asset was disposed of.

Married couples and civil partners have the option to transfer assets between each other to reduce the total tax paid as a couple. For example, where one spouse or partner stands to make a gain over £3,000, they can transfer assets to the other with no CGT implications. Both spouses can then sell their holdings and use both of their CGT AEAs. Owning assets jointly is also effective as any gain is split equally.

> *You can sell investments to realise a capital gain, but then immediately buy back the holding within an ISA wrapper, moving unsheltered assets into a tax-free environment.*

As always, take advice before making key decisions about your finances.

*✢ The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested.*

*Investing in shares should be regarded as a long-term investment and should fit in 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.*

*ISA 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

# An uphill climb? Tackling the Autumn Budget outcomes

*The first Budget from a Labour government in over 14 years reflects the financial strain we have been briefed to expect.*

"...And the only way to drive economic growth... is to invest, invest, invest." So said Rachel Reeves, early on in her first Budget on 30 October. Those who kept listening learned, however, that invest, invest, invest would only follow borrow, borrow, borrow and tax, tax, tax.

On the borrowing front, the Office for Budget Responsibility now projects that the government will still be borrowing over £70 billion a year in five years' time and will be paying more than £100 billion of debt interest every year from 2024/25 through to 2029/30. The tax figures are equally daunting, with the additional tax raised by the Budget totalling nearly £180 billion by 2029/30.

There were three major tax highlights.

**Employer's national insurance contributions (NICs)**

There were two major increases and one minor mitigation. From 2025/26:

- The main rate will rise from 13.8% to 15.0%.
- The secondary earnings threshold, below which no employer's NICs are levied, will fall from £9,100 to £5,000 and be frozen until April 2028.
- The employment allowance, effectively an annual NIC rebate, will rise from £5,000 to £10,500. However, this remains unavailable for companies with a single director employee or if the employee is providing domestic services (e.g. a nanny).

Combined with a 6.7% increase in the National Living Wage from April 2025, the higher NICs will mean a significant additional cost for employers, particularly those operating in low wage sectors, such as retail and hospitality.

One notable upshot is that salary sacrifice schemes involving low emission cars or pension contributions will be more attractive from 2025/26 because of the employer NIC savings they offer.

**Capital gains tax (CGT)**

Changes to CGT were thoroughly trailed in the run up to the Budget, but proved to be less dramatic than some rumours had suggested:

- The main rates rose from 10% to 18% for basic- and nil-rate taxpayers and from 20% to 24% for higher- and additional-rate taxpayers, effective from Budget day. The move brings the rates into line with those already applying to residential property.
- The rate for business assets disposal relief (BADR) will increase from 10% to 14% for 2025/26 and 18% thereafter, while the BADR lifetime limit stays at £1 million.

Some consequences of these increased tax rates are considered elsewhere in the newsletter.

**Inheritance tax (IHT)**

Like CGT, changes to IHT were widely expected, and they lived up to, if not exceeded, the rumours:

- The nil-rate band (£325,000 since 6 April 2009), residence nil-rate band (£175,000

Credit: gorillaimages/Shutterstock.com

since 6 April 2020) and its taper threshold (£2 million since 6 April 2017) will all be frozen for a further two years, until 6 April 2030.

- From 6 April 2026, 100% agricultural relief and 100% business relief will be capped at a non-transferable £1 million total. Above that, relief will be at 50%. From the same 2026 date, relief on certain shares listed on AIM will be halved to 50% in all instances.

- From April 2027, death benefits from pension arrangements (including death in service benefits) will be included in the estate for IHT purposes, meaning that in some instances, they will be liable to both income tax and inheritance tax.

These changes will make little difference for some people, but will upend estate planning for others, something examined further in 'Time to review your estate planning?'.

✢ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

TAX

# Strike (class) 3 – last call for NICs top up

*The third and likely final deadline for backfilling your national insurance contributions (NICs) record to boost your state pension is under four months away.*

Eleven years ago, the coalition government legislated for extending the minimum NICs record for any state pension entitlement from one year to ten years. NICs backdating rules were relaxed to ease the transition. Missed NICs dating back to 2006/07 could be paid at any time up until 5 April 2023. Beyond that date, the old rules would apply, limiting the maximum backdating period to six tax years.

Predictably, when 2023 arrived, there was a stampede of enquires about NIC records which the Department for Work and Pensions (DWP) and HMRC could not manage. As a result, the deadline got moved – to 5 July 2023. When that too proved administratively impossible to handle, a third deadline was set: 5 April 2025, giving HMRC and DWP the time to improve their systems.

The clock is now ticking on that third deadline, which is unlikely to be extended again. If you have not reached state pension age (now 66 but rising soon) or reached it after 5 April 2017, this is the time to check your NICs record, if you have not already done so. If you are under 66 the starting point is https://www.gov.uk/check-state-pension.

✢ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

Credit: Andrey_Popov/Shutterstock.com

ESTATE PLANNING

# Time to review your estate planning?

Credit: Jack Frog/Shutterstock.com

*The October Budget could mean a radical rethink in your estate planning.*

Changes to inheritance tax (IHT) coming over the next three years, outlined in our feature article on the Autumn Budget, could mean that a review of your estate planning is required. There are two main areas that need to be examined.

## PENSIONS

If part of your estate planning involves pension benefits paid on death, then the new rules from 2027/28 could significantly increase the IHT liability on your estate. This applies both to traditional death in service life cover provided by your employer and to residual pension funds, unused at the date of death.

The example below shows one of the many impacts of the reform. Pension benefits become subject to IHT, also increasing the overall value of the estate, which may lead to a loss of some or all of the residence nil rate band.

What can be done to mitigate the extra IHT liability depends upon a variety of factors, not the least of which is where you are on the retirement journey.

## BUSINESS AND AGRICULTURAL RELIEFS

If you own shares in a private business, a partnership interest or agricultural land, the £1 million overall cap on 100% IHT relief means you can no longer assume these will pass to your beneficiaries free of IHT if you die after 5 April 2026. Relief of 50% will be available above the cap and the IHT can be paid over ten years in interest-free instalments.

**Pensions and IHT in 2027/28**

Joan, a widow aged 81, dies with an estate of £1.75 million and various pensions, including some inherited from her late husband, with a total value of £500,000. These will provide a lump sum death benefit to her grandson, James. At death, Joan's estate will also benefit from the transfer of her late husband's nil rate band and residence nil rate band.

| | Death before 2027/28 (£) | Death in 2027/28 (£) |
|---|---|---|
| Estate | 1,750,000 | 1,750,000 |
| Pension | 500,000 | 500,000 |
| Nil rate bands | 650,000 | 650,000 |
| Residence nil rate bands | 350,000 | 225,000† |
| Inheritance tax due | -300,000 | -550,000 |
| Income tax on pension* | -225,000 | -170,000 |
| **Net of taxes estate** | **1,725,000** | **1,530,000** |

† Joan's residence nil rate band is reduced by £125,000 because of the tapering that applies once the £2,000,000 taper threshold is crossed.

* Assumed to be at 45%. Income tax is charged on the value of the remaining pensions after deduction of their share of the overall IHT bill.

> *In theory, a married couple or civil partners can transfer business assets and/or agricultural land worth £2 million before IHT bites, but as the £1 million limit is not transferable, each partner would need to make their own bequest.*

In theory, a married couple or civil partners can transfer business assets and/or agricultural land worth £2 million before IHT bites, but as the £1 million limit is not transferable, each partner would need to make their own bequest. As a result, it could be necessary to restructure ownership and revise wills before 6 April 2026 arrives.

Among the alternatives are to make lifetime gifts rather than wait until death. The seven-year rule, which puts outright gifts made over seven years before death beyond the reach of IHT, remains in place.

✢ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

*The Financial Conduct Authority does not regulate will writing and some forms of estate planning.*

RETIREMENT

# Could you afford to live to 100?

*The number of people reaching their 100th birthday is expected to treble over the next 25 years, raising a long-term, financial-planning challenge.*

How can savers ensure they have sufficient funds to maintain living standards through a potentially far longer retirement?

This problem was made significantly harder with the government announcement that it was cancelling planned reforms to long-term care funding in England, due to the cost. These had been scheduled to start in 2025 and may have limited care costs for many older people, particularly those needing residential care and help with day-to-day living tasks.

## PLANNING FOR THE TWILIGHT YEARS

For those heading towards retirement, the lack of such reforms adds to the difficulty of planning for the twilight years.

While spending on essential bills may remain fairly constant in retirement, discretionary spending on things like travel and entertaining is higher in the early years of retirement, but typically declines as people enter their 80s. However, costs can rise significantly if care is then needed, whether at home or in a residential setting.

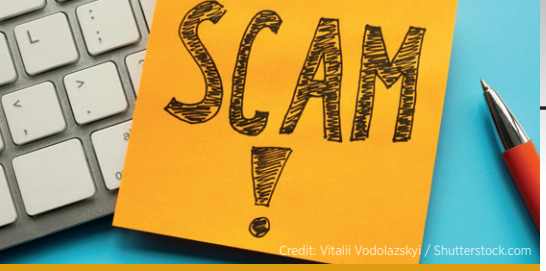
None of us know exactly how long we'll live for, or what our health needs will be, so building a decent retirement fund is key to providing flexibility, regardless of circumstances.

When it comes to planning for a long retirement some core considerations are:

- **Save what you can:** The more you can save while working the more flexibility you'll have in retirement. Start early to benefit from compound growth, and make the most of tax-efficient wrappers, such as pensions and ISAs to further boost returns.
- **Be flexible around retirement dates:** If you can work for longer, even on a part-time basis, this can help make pensions and other savings last longer, as they will effectively be funding fewer years. And it can be good for your health.
- **Don't cash in pensions early:** You can access your pension funds from the age of 55, but just because you can, doesn't mean you should. It might be tempting to access these funds for holidays or home improvements, but be aware this can seriously reduce funds available for the later years of your retirement.
- **Seek advice on income options:** Annuities offer a secure income and will continue to be paid for life, however long that is, but may represent poor value if you die young. You will also have to pay more for an annuity with income that increases annually to help keep pace with inflation. Drawdown, where funds remain invested, offers more flexibility but less security. A blended approach can offer a degree of flexibility but with the peace of mind that at least some income is guaranteed for life – however long that might be. Seeking advice is imperative.
- **Take a holistic view of your finances:** For many people it is unrealistic to save enough to cover day-to-day living expenses through retirement plus potential care costs. But other assets, such as a property, could be sold to pay for care should the need arise.

Credit:oneinchpunch/Shutterstock.com

✢ *Occupational pension schemes are regulated by The Pensions Regulator.*



Credit: Vitalii Vodolazskyi / Shutterstock.com

NEWS ROUND UP

## New bank rules on fraud

Under new rules, banks and building societies must reimburse customers tricked into authorising a payment to fraudsters. Scammers persuade people they are talking to their bank, HMRC, or another legitimate organisation. The rules also cover those caught by 'romance' scams and paying for goods that don't exist. The maximum refund is £85,000, although banks can refuse if they can prove the customer has shown a 'significant degree of carelessness'.

## Tax deadline looms

The self-assessment deadline of 31 January is looming, with late submissions incurring penalties and interest charges. Those needing to complete a return include the self-employed, those earning over £60,000 who also claim child benefit, anyone with untaxed income, including landlords, anyone with savings or investment income of more than £10,000 before tax, and those with total taxable income of more than £150,000. In total an estimated 12 million will need to file one of these returns by this deadline.

## Company car tax

The tax on most company cars will start rising from April 2025, after a three-year freeze. Increases are scheduled for the following two years, and will impact all vehicles, including electric and hybrid cars, although the latter will still have a lower tax rate than more polluting vehicles. Electric cars with zero emissions are currently taxed at 2%, but this will rise by one percentage point each year to stand at 5% by the 2027/28 tax year.

INVESTMENTS

# CTFs grown up – the importance of children's savings

*Young adults, and their parents, are being urged to track down lost Child Trust Funds (CTFs), which have an estimated £1.4bn sitting unclaimed in dormant accounts.*

CTFs were opened for all children born between 1 September 2002 and 2 January 2011. Parents received a £250 voucher and could open a cash or investment CTF, with low-income families receiving £500. Accounts were opened automatically for children if parents failed to take action, and the government made a further payment on the child's 7th birthday.

Parents, grandparents and family friends can contribute to these accounts, currently up to £9,000 a year, meaning many CTFs have sizeable balances on maturity.

A CTF reverts to the child at 16, and they can access this money at 18 or transfer it to an adult ISA.

### UNCLAIMED FUNDS

Government data shows 670,000 of these maturing CTFs are untouched — with the average balance standing at £2,212.

An online tool on gov.uk is designed to identify lost accounts. If you don't know the CTF provider, account holders will need other key details, including home address (at birth) and national insurance number. Individuals can then get in touch with the provider to find out the balance of the account and how to access the fund or transfer it into another savings vehicle.

✢ *The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested.*

*Investing in shares should be regarded as a long-term investment and should fit in 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.*

Credit: manpeppe/Shutterstock.com

HARTEY WEALTH MANAGEMENT LTD

**Chester Office:**
Hilliards Court
Chester Business Park
Chester
CH4 9QP

**Direct Number:** 01244 659659

**Oswestry Office:**
9-11 Salop Road
Oswestry
Shropshire
SY11 2NR

**Direct Number:** 01691 654613

**Freephone:** 0808 168 5866 **Email:** info@harteywm.co.uk

ISO 22222 CERTIFIED BS 8577 CERTIFIED

*Registered in England and Wales No: 8288660. Registered address: Hilliards Court, Chester Business Park, Chester CH4 9QP. Hartey Wealth Management Ltd is authorised and regulated by the Financial Conduct Authority.*