RAYMOND JAMES

How does the Spring Budget 2024 impact you?

A deepdive on how the budget impacts your life

RAYMOND JAMES

Spring Budget Newsletter
6 March 2024

THE BUDGET BACKGROUND

The timing of this year's Spring Budget was slightly earlier than normal – as far as 'normal' can be applied to the scheduling of any fiscal event in recent years. The choice of 6 March probably reflected Rishi Sunak's desire to keep open the option of calling the general election alongside English local elections due on 2 May. An odd corollary was that the Treasury announced the Budget Date on 27 December. The twixmas press release was necessary because the Chancellor must give the Office for Budget Responsibility (OBR) ten weeks' notice of a Budget, so it can prepare its Economic and Financial Outlook (EFO).

To muddle the calendar further, both Jeremy Hunt and his boss started talking about tax cuts long before the OBR had produced even a first draft of the EFO. Subsequently there was something of a rowing back and talk of compensating tax *increases*, but it was not clear until 6 March how much of the rediscovered caution was simply a 'pitch-rolling' exercise.

Last November's Autumn Statement contained about £20bn of tax cuts, money spent about equally between personal National Insurance contributions (NICs) reductions and full business expensing for companies. That giveaway left little wriggle room - £13bn – for further tax reductions in March unless an improvement in public finances was revealed by the OBR's fresh number crunching. That appeared unlikely given the March 2024 EFO would arrive just 15 weeks after the November 2023 EFO was published. As it was, the OBR's rummage behind the sofa for spare change confirmed the difficult picture facing Mr Hunt and the UK economy:

- Last November, the OBR forecast the UK economy would grow by 0.6% in 2023 and 0.7% in 2024, pretty much in line with the forecast consensus at the time. Subsequently, it was revealed that the second half of 2023 saw the UK enter a 'technical recession'. In its latest EFO the OBR has changed its growth projections only slightly: it is now projecting 2023 will have delivered 0.3% growth and that in 2024 growth will be 0.8%. For 2025, the OBR's previous forecast of a bounce back to 1.4% has been revised up to 1.9%

- At the time of the Autumn Statement 2023, the latest CPI inflation reading was 4.6% (for October 2023), less than half the 11.1% level a year previously, which proved to be the peak. The latest reading, for January 2024, is 4.0%. The OBR, like the Bank of England, sees inflation initially falling to 2% by mid-year before rising marginally as last year's energy price falls start dropping out of the annual figures. Looking further out, the OBR sees inflation averaging less than 2% for the three years from 2025.

- Government borrowing in the first ten months of 2023/24 was £96.6bn, £15.1bn below the OBR's November forecast and £3.1bn below the corresponding figure for 2022/23. In 2019/20, the year before COVID-19 struck government finances, borrowing was £61.3bn for the full year. The total debt pile, the key figure in the government's fiscal targets, has now accumulated to over £2,650bn and the OBR forecasts further borrowing of £87.2bn for 2024/25. The projected drop in the cost of servicing the government's debt is down to lower inflation (which effects the payments under index-linked gilts) and declining interest rates. Nevertheless, 2024/25 debt servicing of £89bn will still account for about £1 in every £14 of government expenditure.

With an election less than twelve months away and borrowing still high, the Chancellor was in an unenviable political position. He managed to meet his fiscal rule of debt falling as a proportion of gross domestic product in five years' time, this time by a narrowed margin of just £9 billion. That small gap was described by the OBR as 'a tiny fraction of the risks around any forecast'. The measures which left Mr Hunt with such miniscule 2028/29 headroom included:

- A two percentage points reduction in the main rates of employee and self-employed NICs from April 2024.

- A revision of the thresholds of the High Income Child Benefit Charge (HICBC) from April 2024, with the promise of future reform.

- The abolition of the non-domicile tax rules from April 2025.

- The end of the furnished holiday lets regime from April 2025.

- The launch of a new UK Individual Savings Account (ISA), restricted to UK investments.

In this Newsletter we look at the impact of both the changes announced in the Budget and those revealed last month on various groups of taxpayers. The categorisation is inevitably rather arbitrary, so it pays to read all sections. Similarly, several of the tax Planning points – such as those listed below in our 12 Quick Tax Tips – are universal.

If you need further information on how you will be affected personally, you are strongly recommended to consult your financial adviser.

12 Quick Tax Tips

1. Don't waste your (or your partner's) £12,570 personal allowance or, if it cannot all be used, the option in some circumstances to transfer £1,260 of it.
2. Don't forget the personal savings allowance (PSA), reducing tax on interest earned.
3. Don't ignore the dividend allowance, a saving tax of up to 39.35% on £500 of dividends in 2024/25.
4. Don't dismiss NICs – they are really a tax at up to 21.8% (23.8% in 2023/24).
5. Think *marginal* tax rates – the system now creates 60% (and much higher) marginal rates.
6. ISAs should be your first port of call for investments and then deposits.
7. Even if you're eligible for a Lifetime ISA (LISA), you still might find a pension is a better choice.
8. Tax on capital gains is usually lower and paid later than tax on investment income.
9. Trusts can save inheritance tax (IHT), but suffer the highest rates of capital gains tax (CGT) and income tax.
10. File your tax return on time to avoid penalties and the taxman's attention.
11. If you are entitled to a company car, going hybrid or electric could slash your tax bill.
12. Don't assume HMRC won't find out: *evasion* is always illegal.

INVESTORS AND SAVERS

The personal allowance

The personal allowance was frozen at £12,570 in the March 2021 Budget and will remain at that level until the end of the 2027/28 tax year. Had it received the normal inflationary increase, the allowance for 2024/25 would have risen to around £15,300. At the other end of the income scale, some taxpayers will have no personal allowance in 2024/25 (or future tax years up to 2027/28) because their income exceeds £125,140. The phasing out of the personal allowance starts at £100,000 and reduces the allowance to nil at £125,140 – also the threshold for additional (45%)/top (48% in Scotland) rate tax.

If you or your partner do not fully use the personal allowance, you could be paying more tax than necessary. There are several ways to make sure you maximise use of your allowances:

- Choose the right investments: some investments do not allow you to reclaim tax paid while others are designed to give capital gain, not income.

- Couples should consider rebalancing investments so that each has enough income to cover their personal allowance.

- Make sure that in retirement you (and your partner) each have enough pension income. On its own, state pension provision is not enough, be it the new state pension (up to £221.20 a week in 2024/25) or the old state pension of £169.50 a week (if you reached your state pension age (SPA) before 6 April 2016).

- If one of you pays tax at no more than basic rate and the other is a non-taxpayer, check whether it is worth claiming the transferable married allowance (£1,260 in 2021/22 - 2024/25).

The PSA

The PSA first appeared in April 2016 and has been unchanged since then. Broadly speaking, if you are a:

- *basic rate taxpayer*, the first £1,000 of savings income you earn is untaxed;

- *higher rate taxpayer*, the first £500 of savings income you earn is untaxed;

- *additional rate taxpayer*, you do not receive any PSA. Remember, the additional rate threshold was cut by almost £25,000 in 2023/24 to £125,140.

'Savings income' in this instance is primarily interest, but also includes gains made on investment bonds, including offshore bonds. Although called an allowance, the reality is that the PSA is a nil rate tax band, so it is not quite as generous as it seems. The PSA means that banks, building societies, National Savings & Investments (NS&I) and UK-based fixed interest collective funds all pay interest without any tax deducted, but they do report payments to HMRC. Thus, if your interest income exceeds your PSA –you could have tax to pay.

Exceeding the PSA limits used to require a substantial amount of capital, but as interest rates have risen, the picture has changed. For example, if you are a higher rate taxpayer with an instant access account paying 4.5%, then just over £11,100 is enough to generate annual interest above your PSA. Be warned that if you do not tell HMRC, it will have the data to tell you and ask for any tax due, a fact you may discover soon as a result of the higher interest payments you may have received in 2023/24.

If you and your spouse/civil partner receive substantial interest income, it is worth checking that you both maximise the benefit of the PSA. It is also wise to review what interest rates you are currently receiving. Some banks have been distinctly reluctant to pass on the benefit of the fourteen increases in interest rates (totalling 5.15%) that have come from the Bank of England since December 2021.

The dividend allowance

The dividend allowance also started life in April 2016 at a level of £5,000 before it was reduced to £2,000 in April 2018. The Autumn Statement 2022 announced two further cuts: to £1,000 in 2023/24 and then just £500 from 2024/25.

The allowance means that, in 2024/25, the first £500 of dividends you receive is not subject to any tax in your hands, regardless of your marginal income tax rate. Once the £500 allowance is exceeded, there is a tax charge, at the rates shown in the table below. Like the PSA, the dividend allowance is really a nil rate band, so up to £500 of dividends do not disappear from your tax calculations, even though they are taxed at 0%.

Dividend tax rates 2024/25

Basic rate	Higher rate	Additional rate
8.75%	33.75%	39.35%

The historic yield on UK shares is currently around 3.9% which means, in theory, a UK share portfolio worth more than about £12,800 could attract tax on dividend income in 2024/25, even for a basic rate taxpayer.

Planning point

The two successive halvings of the dividend allowance to just £500 underline the value of the dividend tax shelter provided by ISAs. Beyond ISAs, investment bonds and pension arrangements can also provide some shelter.

The starting rate tax band

The starting rate band for savings income was launched at £5,000 in 2016/17 and at a tax rate of 0% and will remain on that basis for 2024/25. Sadly, most people are not able to take advantage of the starting rate band: if your earnings and/or pension income exceed £17,570 in 2024/25, then that probably includes you. However, if you (or your partner) do qualify, you will need to ensure you have the right type of investment income to pay 0% tax.

Planning point

If you don't anticipate using all your personal allowance or PSA in the current tax year, think about creating more income by closing deposit accounts before 6 April and crystallising the interest in this tax year. You may even find a better rate with a new provider, but beware of early closure penalties.

For the coming tax year, consider who should own what in terms of investments and savings. The PSA and reduced dividend allowances mean it is not simply a question of loading as much as possible on the lower rate taxpayer of a couple. In theory, you will each be able enjoy an income of up to £19,070 tax free in 2024/25, but only if you have the right mix of earnings, savings income and dividends.

CGT

CGT is another tax which will be raising more revenue for the Exchequer in 2024/25 and leaving investors consequently poorer.

Gains are currently taxed as the top slice of income, but the rates are lower than those that apply to income not covered by allowances. Gains are generally taxable at 10% to the extent they fall in the basic rate band (£37,700 in 2023/24 through to 2027/28) and 20% if they fall into the higher or additional rate bands.

For gains on residential property (e.g. buy-to-let) falling within the basic rate band a rate of 18% applies, while for residential property gains falling in the higher and additional rate bands the rate is 24% for 2024/25 (reduced from 28% in 2023/24). For 2024/25, carried interest gains are subject to rates of 18% and 28% respectively, unchanged from 2023/24.

The current annual exemption of £6,000 will halve to £3,000 for 2024/25 and then be frozen at that level.

Planning point

If you do not use your £6,000 annual exemption by Friday 5 April 2024, you will lose it and a possible tax saving of £1,680. If you have gains of over the exempt amount to realise, it could be worth deferring the excess until 6 April or later to gain another annual exemption and defer the CGT bill until 31 January 2026. However, remember that CGT on residential property gains (e.g. buy-to-let) is payable within 60 days of the completion of a sale.

ISAs

Pre-Budget leaks were confirmed when the Chancellor announced the publication of a consultation paper on a ‘UK ISA’. This will have a £5,000 subscription limit in addition to the existing £20,000 ISA subscription limit and will be restricted to UK investments, possibly including corporate bonds and gilts. No planned launch date was given in the consultation – some of the paper’s proposals to preserve the UK focus of the new ISA suggest it may not appear until 2025/26.

Beyond the UK ISA, the annual ISA investment limit for 2023/24 and 2024/25 is the same £20,000 that was set for 2017/18. There will be no change in the £4,000 limit for the LISA, which was launched in April 2017 to encourage savings by the under-40s. The limit for the Junior ISA (JISA) will also be unaltered at £9,000, as is the Child Trust Fund (CTF) limit.

However, there are some technical changes to ISAs being introduced from 6 April 2024, such as:

- An increase to the minimum opening age for Cash ISAs from 16 to 18;
- The scrapping of the rule that prevents subscriptions to multiple ISAs of the same type within the tax year. However, the one plan per year only rule will remain for LISAs; and
- Partial transfers of current year ISA subscriptions between ISA managers will be permitted, whereas the current rules require a full transfer.

ISAs have long been one of the simplest ways to save tax, with nothing to report or claim on your tax return. The arrival of the LISA complicated matters, as it sits somewhere between the traditional ISA and a pension plan. If you are thinking of a LISA instead of either of these, you would be well advised to seek advice before taking any action.

Over time, substantial sums can build up in ISAs: if you had maximised your ISA investment since they first became available in April 1999, you would by now have placed over £305,000 largely out of reach of UK taxes. With the cuts to dividend allowances and the CGT annual exemption in 2023/24 and again in 2024/25, such long term planning has become more valuable.

Planning point

The first CTF accounts matured in September 2020 as their owners reached 18. The tax benefits continue after maturity as a 'protected account' until instructions to deal with the monies are provided. That is just as well because, in September 2023, HMRC reported that almost 430,000 18-21 year olds had an unclaimed CTF, each worth an average of £2,000. For those who do claim, one option is to transfer to an ISA. To trace a missing CTF go to www.gov.uk/child-trust-funds/find-a-child-trust-fund.

British Savings Bonds

In April 2024, NS&I will launch the British Savings Bond. These will in fact be new issues of NS&I's Guaranteed Growth Bonds and Guaranteed Income Bonds, offer a guaranteed interest rate, fixed for three years. Today's interest rate for these guaranteed bonds, currently limited only to maturity reinvestments, is an uncompetitive 3.45%. However, the new issue may offer a higher return – details are awaited.

Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs)

VCTs and EISs have been subject to many rule changes over the years. The most recent significant reforms changed the nature of schemes by raising the element of risk, which included the introduction of an explicit 'risk to capital' requirement. This focused the investment made by VCTs, EISs and Seed Enterprise Investment Schemes (SEISs) on young companies where there is a real risk to the capital being invested, and excluded companies and arrangements intended to provide 'capital preservation'.

Interest in VCTs, EISs and SEISs has grown as more aggressive forms of tax planning have come under sustained (and largely successful) HMRC attack and pension opportunities have been – until 2023/24 – further constrained. In 2022/23, VCT fundraising amounted to £1.08bn, the second highest amount ever. Most of the long-established VCTs started their 2023/24 capital raising well ahead of the Budget.

Planning point

The most attractive VCT offers can sell out within a couple of days – well before you read about them in the weekend press. With many offers already open, make sure you let us know as soon as possible if you want to make any VCT investment in this tax year.

Furnished holiday lets

The tax rules which favour furnished holiday letting over long term residential lets will be abolished from 6 April 2025, thereby creating a single tax regime for residential property lettings.

Non-domicile tax treatment

The current non-domicile tax regime, which benefits UK tax residents who are domiciled abroad will be scrapped from 6 April 2025. It will be replaced with a new regime based solely on tax residence. Under the new rules, individuals will not pay UK tax on any foreign income and gains arising during the first four years of their UK tax residence, provided they have been non-tax resident for the last ten years. Thereafter all income, whether or not remitted to the UK, will be taxable.
For existing non-domiciled individuals who are claiming the remittance basis, transitional arrangements will be introduced which will:

- give an option to rebase the value of capital assets to 5 April 2019;
- grant a temporary 50% exemption for the taxation of foreign income for the first year of the new regime (2025/26); and
- introduce a two-year 'Temporary Repatriation Facility' to bring previously accrued foreign income and gains into the UK at a 12% rate of tax.

The government will also consult on plans to introduce a residence-based regime for IHT. This will include consulting on a ten-year exemption period for new arrivals to the UK and a ten-year 'tail-provision' for those who leave the UK and become non-resident. No changes to IHT will apply before 6 April 2025.

Pay later, not now?

For the growing number of higher and additional rate taxpayers, there can be a case for considering the options for tax deferral, once the decision on which sector to invest in has been made. The potential advantages and disadvantages of tax deferral include:

- What would be going to the Treasury instead remains invested, enhancing potential returns.

- There is the possibility that tax rates will be lower when the investment is realised. The opposite risk is that higher tax rates could appear in the future, whatever the 2024 manifestos 'promise'. However, your marginal tax rate could rise anyway because of the impact of tax bands and allowances being frozen until 5 April 2028.

- Some tax liabilities might disappear completely. Under current rules there is generally no CGT on death, although several voices have suggested this relief should be withdrawn.

- The investor may change their country of residence, giving rise to a lower tax rate or possible tax savings during the period of transition between the old and new homes.

There is a variety of tax-deferral options available but, as ever, advice is needed.

ESTATE PLANNERS

Nil rate band

The nil rate band reached its current level of £325,000 in April 2009. Following the announcement in the Autumn Statement 2022, it will remain at that level until 5 April 2028. Had the nil rate band been increased in line with CPI inflation since 2010, it would be about £500,000 in 2024/25 - £175,000 higher.

The frozen nil rate band drags more estates into the IHT net, an effect exacerbated by high inflation. If your estate is already potentially liable to IHT, the 2028 freeze could mean it will suffer more tax in the future if property and/or investment values increase. Since April 2009, average UK house prices are up by nearly 70%, according to the Nationwide, and UK share prices have more than doubled (March 2009 marked their low point in the wake of the financial crisis).

Residence nil rate band

The residence nil rate band (RNRB) came into effect on 6 April 2017 with an initial figure of £100,000. For 2021/22 through to 2027/28 inclusive, the RNRB is frozen at £175,000, coincidentally the amount that would be bring the main nil rate band up to date for 2024/25, as explained above. The threshold above which the RNRB is subject to a 50% taper reduction is also fixed until 5 April 2028, at £2,000,000, meaning it is lost altogether for estates valued at £2,350,000 or more (£2,700,000 on second death for couples where the RNRB is unused on first death).

IHT yearly exemptions

The frozen nil rate bands make the yearly IHT exemptions all the more important:

- *The £3,000 annual exemption.* Any unused part of this exemption can be carried forward one tax year, but it must then be used *after* the £3,000 exemption for that year. So, for example, if you made a gift of £1,000 covered by the annual exemption in 2022/23, you can make gifts totalling £5,000 covered by the annual exemption in 2023/24 by 5 April 2024.

- *The £250 small gifts exemption.* You can make as many outright gifts of up to £250 per individual per tax year as you wish free of IHT, provided that the recipient does not also receive any part of your £3,000 annual exempt amount.

- *The normal expenditure exemption.* Any gift that you make is exempt from IHT if:

    - it forms part of your normal expenditure; and
    - taking one year with another it is made out of income; and
    - it leaves you with sufficient income to maintain your usual standard of living.

IHT payment

From 1 April 2024, personal representatives of estates will no longer be required to have sought commercial loans to pay IHT before applying to obtain a 'grant on credit' from HMRC.

Future changes?

A little under five years ago, the now disbanded Office of Tax Simplification (OTS) made a range of proposals to simplify some of the complexities of IHT. After a prolonged period of procrastination, Rishi Sunak (the then Chancellor) decided to ignore the bulk of the OTS's ideas. Since then, there have been a trickle of rumours about reform or even abolition, but the reality has remained frozen thresholds, allowing inflation to increase revenue in the stealthy manner beloved of Chancellors over the years. IHT currently raises about £7.6bn a year, an amount no present or future government cannot afford to waive away.

Planning point

While the current IHT regime is gradually tightening thanks to what economist call 'fiscal drag', it does remain surprisingly generous in its treatment of some lifetime gifts. This could change after the general election, meaning that if you are considering, for example, help towards a deposit on a child's first house, it could be wise not to delay for too long.

BUSINESS OWNERS

Corporation tax rate

The main rate of corporation tax was increased to 25% from 1 April 2023, although companies with profits of up to £50,000 are still subject to the former rate of 19%. For companies with profits between £50,000 and £250,000, corporation tax is effectively 19% on the first £50,000 of profits and 26.5% on the excess.

Capital allowances and research and development (R&D) allowances

Capital allowances have been subject to a variety of changes in recent years, ostensibly to encourage an increase in business investment.

The Annual Investment Allowance (AIA), which gives 100% initial relief for investment in plant and machinery (P&M) by businesses, incorporated or otherwise, is now fixed at £1,000,000. However, the AIA has largely been eclipsed *for companies* by the announcement in the Autumn Statement 2023 that 'full expensing' (100% P&M allowance) was being made permanent. In the Budget the Chancellor announced a consultation on the extension of full expensing to assets for leasing.

On the R&D front, three changes took effect from 1 April 2023:

- The Research and Development Expenditure Credit (RDEC) rate was increased to 20%;
- The small and medium-sized enterprises (SME) additional deduction was decreased to 86%; and
- The SME credit rate for surrenderable losses was decreased to 10%. However, the 14.5% rate remained for R&D intensive companies (those with qualifying R&D expenditure of at least 40% of total expenditure).

The cuts for SMEs were driven by the tax cost of the current regime and were widely criticised by those affected, but no changes were announced in the Budget.

Planning point

Remember that if your company's profits fall into the £50,000 to £250,000 band, then on each marginal £1,000 of profit, £265 goes to the Exchequer. The corollary is that any tax-allowable costs, such as salary, investment in plant and machinery or pension contributions gain 26.5% tax relief.

Pensions

There have been many important pension changes in the last year, with one major change about to take effect:

- The annual allowance, which sets a tax efficient ceiling on total yearly pension contributions, was increased to a maximum of £60,000 from 2023/24. Annual allowance tapering now applies when threshold income exceeds £200,000 and adjusted income exceeds £260,000. The minimum tapered annual allowance is now £10,000 (which operates when adjusted income is £360,000 or more).

- The money purchase annual allowance (MPAA), which is triggered the first time that pension benefits are drawn flexibly, rose to £10,000 from 2023/24.

- The lifetime allowance (LTA) which had set a tax efficient maximum value of pension benefits, will disappear from 6 April 2024. In 2023/24, as an interim measure, the LTA charge was reduced to 0%, but some new pension tax charges were created in its place. The Labour Party has said it will reverse the abolition of the LTA if it wins the next general election, but how this will be implemented and what new transitional treatment will be introduced is unclear.

- From 6 April 2024, a new cap (the lump sum allowance) on the tax free pension commencement lump sum will be introduced, set at £268,275, unless any of the LTA transitional protections apply.

- Similarly, from 6 April 2024 there will be a new cap on lump sum death benefits (the lump sum and death benefit allowance) of £1,073,100. Again, this is subject to any higher figure resulting from previous LTA protections.

While these reforms simplify the pensions tax regime in some respects, they have also added another layer of complexity to pension planning, not least because of their potential short-term reversal.

> ***Planning point***
>
> If you have previously been advised to avoid pension contributions, now may be the time for a re-think. The increase in the annual allowance and, for now, the effective removal of the LTA may have created a window of opportunity in 2023/24 and 2024/25 for you (and/or your employer) to resume contributions. As ever, in this complex area, professional advice is vital *before* taking any action.

Salary sacrifice

In 2017, the Treasury introduced measures to curtail the use of optional remuneration arrangements (OpRA) (salary sacrifice schemes). Most such arrangements are now subject to employer's NICs (and taxed on the employee) based on the amount of salary given up rather than the notional value (if any) of the fringe benefit received.

Salary sacrifice for pension contributions remains favourably treated and fully exempt from the rules. Cars with CO_2 emissions of 75g/km or less – typically electric or plug-in hybrids – are also exempt, which helps to explain why in 2023 battery electric vehicles were 22% of the business and fleet market purchases but only 9% of the private market.

> ***Planning point***
>
> The exemption given from the OpRA rules to low emission vehicles makes these worth considering if you want to exchange salary for a company car.

VAT registration and deregistration

For the first time since April 2017, the VAT registration threshold will increase. The new threshold will be £90,000 from 1 April 2024. The deregistration threshold will also rise by

£5,000 to £88,000. While the unfreezing is welcome, had the VAT threshold been increased in line with inflation each year, it would have started 2024/25 at close to £110,000.

Business rates

On 1 April 2023, business rate bills in England were updated to reflect changes in property values since the last revaluation in 2017. At the same time, the business rates multiplier for England was frozen for 2023/24. In 2024/25 the small business rates multiplier will again be unchanged at 49.9p, while the standard multiplier rises by 6.7% to 54.6p. The Retail, Hospitality and Leisure scheme will continue in England for 2024/25, giving eligible properties 75% business rates relief, subject to a cap of £110,000 per business.

Dividends or salary?

Until the April 2023 increase in corporation tax, operating via a company rather than as self-employed was the trading structure of choice. The company route created the opportunity to draw income as dividends, free of NICs, and shelter profits at a corporation tax rate that was below the basic rate of income tax – rather than personal tax rates on earnings of up 45% (48% in Scotland from 2024/25). In 2024/25, the mathematics of incorporation has been changed by:

- The higher corporation tax rate (for all but the smallest companies);
- The reduced dividend allowance;
- Substantially reduced employee NICs (on earnings up to £50,270); and
- In Scotland, a new ‘advanced’ income tax rate of 45% (for taxable income between £62,430 and £125,140) and a 48% top rate.

Dividend or salary revisited

Joan's company will make profits of around £80,000 in the financial year to 31 March 2025. She is already an English higher rate taxpayer with income of around £75,000 a year and wants to draw £20,000 of those profits out of the company. The cuts in the dividend allowance will mean any dividend she draws is fully taxable. In many previous years she chose a dividend rather than a bonus, but that does not make financial sense in 2024/25:

	Bonus £	**Dividend £**
Gross profit	20,000	20,000
Corporation tax		(5,300)
Employer NIC*	(2,425)	
Gross pay/dividend	17,575	14,700
Income tax†	(7,030)	(4,961)
Employee NIC	(352)	
Net income	**10,193**	**9,739**

* *The Employment Allowance is assumed to be used or unavailable.*

† *Available dividend allowance assumed to be already accounted for.*

For some business owners, the ultimate way to limit their tax bill is to choose to leave profits in the company rather than draw them either as dividend or salary. With the top rate of income tax currently at 45% (48% in Scotland from 2024/25) - and marginal rates potentially much higher - there is an obvious argument for allowing profits to stay within the company, where the maximum marginal tax rate is 26.5%.

This strategy has tax risks in terms of eligibility for CGT business asset disposal relief (the former entrepreneurs' relief) and IHT business relief. There is also a risk of further reform, or abolition of, CGT business asset disposal relief or there could be moves to recharacterise accumulated profits as income for tax purposes on liquidation or sale of the company. IHT reform might also have an impact. Money left in the company is also money exposed to creditors, so professional advice should be sought before turning a business into a money box.

EMPLOYEES

Company cars

The percentage scale charges for company cars in 2024/25 will be unchanged from 2023/24. The Autumn Statement 2022 announced that:

- The scale percentages for electric and ultra-low emission cars (less than 75g/km CO_2) will increase by 1 percentage point in each year from 2025/26 to 2027/28, subject to a maximum scale percentage of 5% for electric cars and 21% for ultra-low emission cars.

- Rates for all other vehicles bands will be increased by 1 percentage point for 2025/26 up to a maximum appropriate percentage of 37% and will then be fixed for 2026/27 and 2027/28.

The Autumn Statement 2023 also confirmed that the car fuel benefit base figure would be unchanged at £27,800 for 2024/25. The latest HMRC data showed that in 2021/22 only 50,000 drivers received this benefit, a reflection both of the fact that it requires a very substantial private mileage to make financial sense and of the spread of electric vehicles.

Planning point

If you are changing your car soon, think ahead to what it will cost you in tax terms. It may make sense to accept cash instead of a new car, switch to a hybrid vehicle or join the growing band of BEV (battery electric vehicle) drivers.

Pensions

The pensions landscape has altered dramatically in recent years and continues to change. As a reminder:

- In 2023/24 there was a £20,000 increase in the maximum annual allowance and the adjusted income level (to £260,000) for tapering. The minimum tapered annual allowance was increased to £10,000 from £4,000 (at an adjusted income of £360,000 or more). The benefit of these threshold increases has already been eroded by subsequent inflation.

- Automatic enrolment for employees is now in its twelfth year. In 2024/25 the earnings trigger for membership will remain at £10,000 (unchanged since 2014/15), and the lower and upper limits for qualifying earnings will be continue unaltered at £6,240 and £50,270 (unchanged since 2020/21). The freezing of these limits has the effect of bringing more lower paid employees into auto-enrolment while simultaneously reducing the real value of contributions for those at the higher end of the earnings scale. Last year legislation was passed giving the government power to lower the minimum age for automatic enrolment to 18 and remove the lower qualifying earnings limit. However, as recently as February, the DWP has decided now is not the time to implement any changes.

- After a suspension of the state pension Triple Lock for April 2022 increases, the measure has been reinstated, meaning that in April 2024 pensions will rise in line with May-July 2023 earnings of 8.5%. By then CPI inflation is likely to be about 2%.

- SPA increases have stopped briefly at age 66, with the next increase to 67 due between April 2026 and March 2028. The subsequent rise to 68 is currently legislated to happen between 2044 and 2046. Early last year the government announced that a decision on whether to bring forward that timing would be deferred until a (third) review, to be undertaken after the general election.

- In line with the rise in SPA, the government has confirmed that from 6 April 2028 the normal minimum age at which you can draw benefits from a private pension will rise from 55 to 57. The one-year addition will not be phased in – bad news if you were born on 6 April 1973.

- The LTA is due to disappear completely from 2024/25 after a year in which the LTA charge was cut to nil. The demise of the LTA has been accompanied by a range of other changes, some of which have a similar effect to the LTA.

Planning point

The carry forward rules allow unused annual allowances to be carried forward for a maximum of three tax years. Thus, 5 April 2024 will be your last opportunity to rescue unused allowance of up to £40,000 from 2020/21.

Salary sacrifice

Following the two cuts to employee NICs, in 2024/25 NICs will settle down at up to a marginal rate of 21.8% of gross pay – up to 13.8% for the employer and up to 8.0% for the employee. The corollary is that avoiding NICs can save up to 21.8% of pay. A widely applied example of turning NICs to an advantage is in the use of salary sacrifice to pay pension contributions. Instead of making personal contributions out of your net pay, you accept a lower salary and your employer makes a pension contribution. If the employer passes on all the NIC saving, the pension contribution could be up to 26.4% higher, as the example shows.

A worthwhile sacrifice

	Personal contribution		**Salary sacrifice employer contribution (sacrificed amount + NIC saving)**	
Tax rate	**20%**	**40%**	**20%**	**40%**
	£	**£**	**£**	**£**
Gross salary	1,000.0	1,000.0	Nil	Nil
Employer pension contribution	Nil	Nil	1,138.0	1,138.0
Employer NIC (13.8%)	138.0	138.0	Nil	Nil
Total employer outlay	1,138.0	1,138.0	1,138.0	1,138.0
Employee salary	1,000.0	1,000.0	Nil	Nil
Less: income tax	(200.0)	(400.0)		
NICs (8.0%/2.0%)	(80.0)	(20.0)		
Net pay = net pension contribution	720.0	580.0		
Tax relief	180.0	386.7		
Total pension contribution	**900.0**	**966.7**	**1,138.0**	**1,138.0**

Planning point

While the LTA will disappear from 6 April 2024, the transitional rules that were introduced between 2006 and 2016 will continue to be relevant in calculating tax free lump sums on death or pension commencement. You may have the opportunity to claim one of the 2016 protections. The deadline to do so is 5 April 2025.

RETIREE / AT RETIREMENT

The pension landscape in Spring 2024

There have been many changes to pensions in recent years, including:

- The phased abolition of the LTA, which will finally disappear on 6 April 2024. However, its ghost will continue to haunt the legislation in the various new limits and special transitional rules that take effect from 2024/25.

- An increase in the maximum annual allowance to £60,000 from 2023/24. This was accompanied by a rise from £4,000 to £10,000 in the MPAA, which applies once income has been withdrawn flexibly (e.g. by pension fund withdrawal).

- Further increases to the SPA, both legislated for and planned. For men and women, SPA is currently 66. The next step up to a SPA of 67 will start in April 2026. A SPA of 68 is currently scheduled in legislation to be phased in between 2044 and 2046, However, last year, the government promised a third review of the timing of this increase, to be undertaken after the general election.

- New rules, which have given much greater flexibility in drawing benefits from money purchase schemes, started on 6 April 2015 and have encouraged many people to turn their entire pension pot into (mostly taxable) cash. The enhanced flexibility was accompanied by more generous tax treatment of death benefits, adding to the opportunities that pensions offer for estate planning. However, a rise in long term interest rates since 2022 have prompted a revised interest in annuities rather than drawdown. For a 65-year old, typical level annuity rates at the time of writing were approximately 7.5% for non-smokers and 7.6% for smokers.

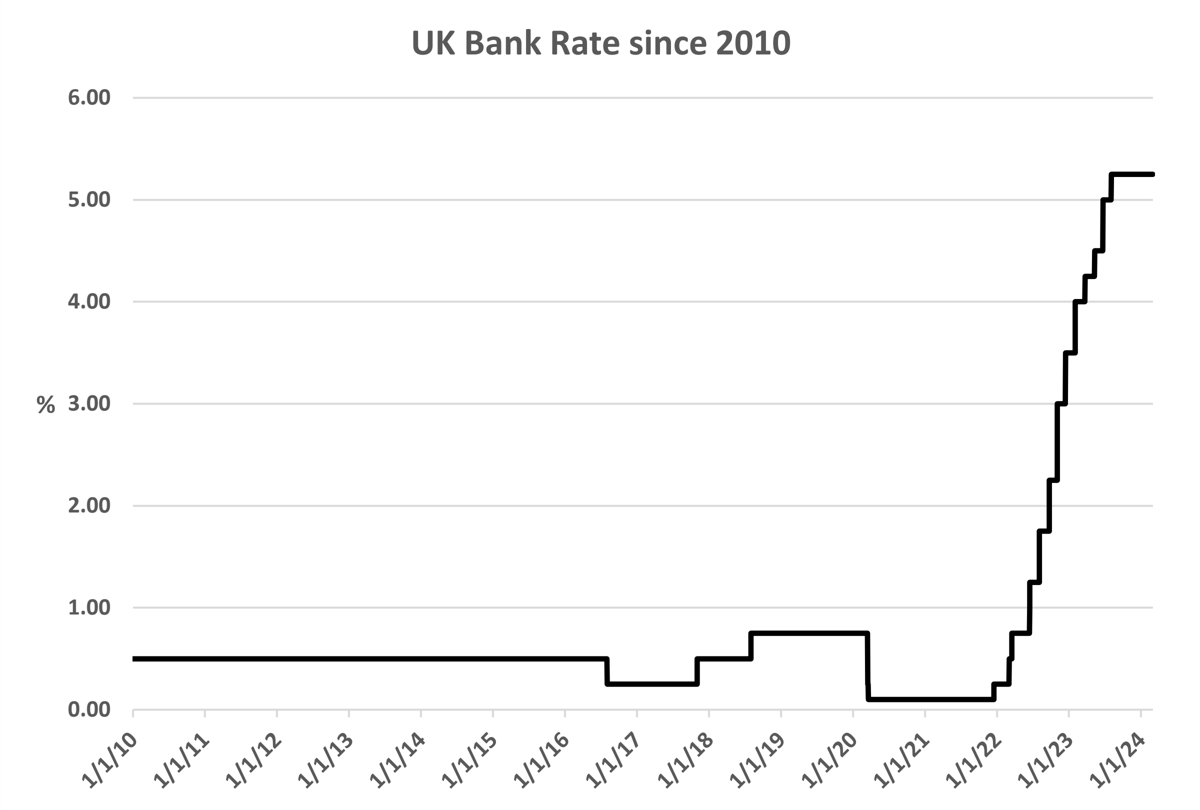
- The single-tier state pension started on 6 April 2016. If you are near to SPA, it is worth checking whether your NICs record will gain you the maximum available. If not, you have until 5 April 2025 to pay voluntary contributions to fill any gaps in your contribution record going back to 2006/07. You can also top up *after* SPA, but in that case there is no backdating of pension payments to SPA.

- The Triple Lock, which increased the new and old state pension by the greater of earnings growth and CPI inflation, was suspended for April 2022, but subsequently reinstated. The April 2024 increase will be 8.5%.

Planning point

If you have gaps in your NIC record that means you will not (or are not) receiving your full state pension, the latest deadline for filling gaps back as far as 2006/07 is 5 April 2025. Contributions are based on the voluntary rates applying for 2022/23 (£829.40 per year for Class 3 and £163.80 for Class 2).

Interest rates: where next..?



The Bank of England increased its Bank Rate at fourteen consecutive meetings of the decision-making Monetary Policy Committee (MPC), before pausing at the 5.25% set in August 2023. The Bank's Governor, Andrew Bailey, is now suggesting the next move will be downward, although two members of the MPC called for a 0.25% increase at the last meeting.

When the march down the interest rate hill will come is subject to much debate. Few expect the next MPC meeting will deliver a cut on 21 March, but equally the current consensus is that the rate will be about 1% lower by the end of the year.

The stall in the Bank Rate has not stopped deposit-taking institutions from starting to bring down their rates. NS&I has been quicker off the mark than usual, having cut the premium bond prize rate by 0.25% from March 2024 and slashing the three-year Green Bond's fixed rate from 5.7% in November 2023 to 2.95% now.

If getting the best from current interest rates is a concern to you:

- Make sure you take maximum advantage of your PSA and, where possible, your starting rate band.

- Consider your cash ISAs, which pay interest tax free. However, do not assume a cash ISA will always deliver a markedly better return than a taxable deposit, especially if you are a basic rate taxpayer with no PSA remaining. For example, NS&I's Direct ISA pays 3.00% whereas its Direct Saver pays 3.65% gross, which equates to 2.92% for a basic rate taxpayer.

- Keep an eye out for details of the soon-to-launch NS&I British Savings Bond, which will offer a fixed rate for three years. With an election imminent, it is possible that the rate will be 'sweetened', as happened with the launch of the Pensioners Bond before the 2015 election.

- Regularly check the interest rate on all your deposit accounts. It is especially important to watch accounts with bonus rates – once the bonus period ends they can look very unattractive. Do not simply wait for the next statement: if you are only earning much below 5% you need to know now. By a curious twist, the best NS&I variable offerings remain Premium Bonds, which have a prize fund (tax free) rate of 4.40%.

- Consider investing in UK equity income funds, where yields of over 4.5% are widely available. You will lose capital security, but your initial net income would be higher than from most deposits and the dividend allowance in 2024/25 would mean you receive £500 of dividends before paying any dividend tax, regardless of your personal tax rate.

Planning points

If you have not yet arranged an ISA or invested up to the 2023/24 maximum, think about doing so. If you are unsure where to invest at present, you can always leave your money in a cash fund in a stocks and shares ISA.

Drawing your pension

If you are due to start drawing an income from your pension plan, make sure that you take *advice* about your options. While the Financial Conduct Authority has required providers to offer pointers to guidance and some default investment options, these do not amount to personal advice: the final decisions rest with you. There is no attempt to integrate your pension arrangements with other aspects of your financial planning, e.g. estate planning.

If you think how long you might live with the cost of a wrong choice, it is clear that getting independent advice is the route to take. This is particularly important if you are considering buying a pension annuity, which now offer much more attractive rates than they did two years ago.

Planning points

The current death benefit rules mean your pension plan could provide income for future generations, as your beneficiaries will be able to pass the remaining fund to their children and so on down the line. One consequence is that from a IHT planning viewpoint it can be better to draw on – and even run down – non-pensions assets in retirement rather than use your pension arrangements as a source of income. The freeze to April 2028 in the nil rate band has heightened the attraction of pensions as part of estate planning.

PARENTS

Child benefit

The much-criticised HICBC – the child benefit tax – will undergo a two stage reform:

- For 2024/25, the adjusted net income threshold at which the charge is triggered will increase from £50,000 (set in 2013) to £60,000 and the charge will be halved to 1% per £200 of income above that level. Thus, if you or your partner has adjusted net income of £80,000 or more there will be a tax charge equal to your total child benefit unless you have chosen to stop benefit payments. In 2023/24, that cut off is £60,000.

- By April 2026, the basis of the charge will change from individual income to household income. A consultation on how to better target support to households is promised shortly.

The new structure for 2024/25 means that you could find yourself facing high marginal rates of tax in the £60,000-£80,000 income band. If you have three children eligible for child benefit, the marginal rate could be as much as 55.5% (60.5% in Scotland, thanks to the new 45% advanced rate).

Planning points

The changes to the HICBC could mean that in the coming tax year you once again become able to receive at least some element of child benefit without a corresponding tax charge. If that is the case and you have opted out of receiving child benefit, you will need ask HMRC to restart payments.

JISAs

JISAs were launched in November 2011 with an annual investment limit of £3,600, which has since been increased to £9,000 for 2023/24 and 2024/25. JISAs can be invested in cash deposits and/or stocks and shares in any proportion and can usually be arranged for any child aged under 18 who was born after 2 January 2011. A child cannot have both a JISA and a CTF account (which has the same investment limits). It is possible to transfer CTF accounts to a JISA, a move that may result in reduced fees and a wider investment choice.

The first CTF accounts, for children born in September 2002, reached maturity in September 2020. By default, matured CTF accounts have continued to enjoy the current UK ISA tax exemptions as a ‘protected account’. If instructions are given, they can be transferred to an adult ISA, with any such transfer not counting as a contribution for the tax year, unless it is to a LISA. According to a recent press release from HMRC, almost 430,000 18-21 year olds have not claimed their CTF funds. Many CTFs are ‘lost’ with just one payment of £250 having been made by the Government over a decade ago. To trace a CTF, go to https://www.gov.uk/child-trust-funds/find-a-child-trust-fund.

University funding

The £9,250 a year maximum tuition fee for new 2024/25 students in England and Wales is, for now, a fact of student life. However, in autumn 2023 a revised loan repayment system was introduced for English students which means loans start to be repaid at a lower earnings threshold than applies to today’s graduates and will only be written off after 40 years, rather than the previous 30 years. The corollary is that the maximum interest rate is RPI, 3% lower than under the former loan scheme.

If you have children likely to go to university, it makes sense to consider your funding options. For example, JISAs are a potentially valuable tool to build up a fund by age 18. For those who prefer a greater degree of control over the student's access to the investment at age 18 (while retaining tax efficiency) collective investments held subject to an appropriate trust can look attractive, as could an offshore investment bond.

Despite these tax-efficient "pre-funding" opportunities, under the latest loan rules it may still make sense to take the student fee loans while at university rather than pay fees from capital. That is because, for the latest loan regime, an RPI interest cost is not excessive and there is always the possibility that some of the debt will be written off after 40 years from the April following graduation.

Past performance is not a reliable guide to the future. The value of investments and the income from them can go down as well as up. The value of tax reliefs depend upon individual circumstances and tax rules may change. The FCA does not regulate tax advice. This newsletter is provided strictly for general consideration only and is based on our understanding as at 6 March 2024 of law, HM Revenue & Customs practice and the contents of the Spring Budget March 2024. No action must be taken or refrained from based on its contents alone. Accordingly, no responsibility can be assumed for any loss occasioned in connection with the content hereof and any such action or inaction. Professional advice is necessary for every case.

Disclaimers: The information and illustrations contained in this newsletter are for general consideration only and is subject to change dependent on specific legal implementation. Tax treatment depends on individual circumstances and may also change in the future. You should not take, or refrain from taking, action based on its content and no part of this document should be relied upon or construed as any form of advice or personal recommendation.

Accordingly, Raymond James has no responsibility whatsoever for all and any losses that may result from such action or inaction and it is essential that professional advice is taken. With investing, your capital is at risk.

If you have any questions, please speak to your wealth manager in the first instance.

All tables have been provided by Technical Connection courtesy of information available from https://www.gov.uk/government/publications/spring-budget-2024

RAYMOND JAMES®

Head Office, Ropemaker Place, 25 Ropemaker Street, London, EC2Y 9LY
www.RaymondJames.uk.com