

# Bulletin

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## 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.*

Think back to 1 January 2020. Boris Johnson had become prime minister with a majority of 80 seats. Covid-19 was still a month away from being declared an international public health emergency. The Bank of England Bank Rate was just 0.75%.

As 2025 approaches, the picture is radically different. While today Covid-19 is of little concern, its economic consequences remain. As the pandemic took hold, the Bank of England was prompted to cut rates to 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%.

**“** *Cumulative inflation, higher interest rates and a return to a Labour government have created a new financial landscape, meaning your financial plans may need adjustment.*

### Impact of inflation

A pandemic-induced inflationary surge saw UK inflation peak at 11.1% in October 2022, a 41-year high, but it is now back to around January 2020's 1.8%. Inflation's return to a norm of around 2% is no solace for most people, who feel price rises over longer periods than the 12 months favoured by economists. In the UK prices will have risen by around a quarter in the first half of the decade.

Cumulative inflation, higher interest rates and a return to a Labour government mean the backdrop for the second half of the 2020s is substantially different. 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. 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.*

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# Time to review your estate planning?

*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.

Pensions 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 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.

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. It could be necessary to restructure ownership and revise wills before 6 April 2026 arrives. As with pensions, any approach must be tailored to your personal circumstances and financial goals.

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

## INVESTMENT

# Gold price hits heights

*The price of gold rose strongly during 2024, hitting a number of record highs.*

Although gold prices fell back following the US election, they remain higher than in previous years. Gold is typically seen as a 'safe haven' asset, with demand rising during periods of stock market turbulence. Notably, previous highs occurred after the Covid-19 pandemic and global financial crash.

Global equities have also been performing well although investors may remain nervous about wider political instabilities. Exchange Traded Funds (ETFs) tracking the spot price offer a low-cost and tradeable way to gain exposure to this asset. Investors should remember, though, that gold investments don't yield any income, and the performance this year is no guarantee of future returns.

✦ *The value of your investment can go down as well as up and you may not get back the full amount you invested.*

*Past performance is not a reliable indicator of future performance.*



## INVESTMENT

# Investment in a world of higher capital gains tax

*Investors face higher tax on investment gains after the rates of capital gains tax (CGT) were increased in the Autumn Budget.*

The Budget raised the main CGT rates to 18% or 24% (from 10% and 20%). This follows a cut to the CGT annual exempt amount (AEA) last year to just £3,000. This makes tax-efficient savings vehicles like ISAs and pensions more attractive as there is no CGT to pay on gains made in either wrapper.

## Utilise pensions or sell shares

Other ways to potentially reduce future CGT liabilities include making additional contributions to pensions outside the CGT regime and making strategic use of the 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.

## Offset against losses

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.

Transfers of assets between married couples and civil partners are CGT free, so there is scope to arrange finances as a couple, potentially reducing the total tax paid. Owning assets jointly is also effective as any gain is split equally.

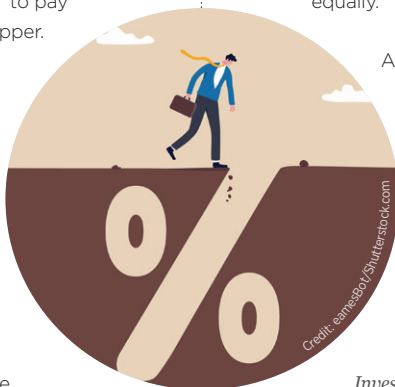
As always, take advice before making key decisions about your finances.

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*Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.*

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# 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. There were three major tax highlights with a range of potential consequences.

## Employer's national insurance contributions (NICs)

There were two main increases and one small 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.



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## Capital gains tax (CGT)

Changes to CGT proved to be less dramatic than some had predicted:

- 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 on p. 2 of this newsletter.

## Inheritance tax (IHT)

Like CGT, changes to IHT were widely predicted, and they lived up to, if not exceeded, expectations:

- The nil-rate band (£325,000 since 6 April 2009), residence nil-rate band (£175,000 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. Above that level, relief will be at 50%. From the same 2026 date, relief on certain shares listed on the 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?'

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## 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.*

### Significant change to eligibility terms

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.

### Four months left

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>.

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## News round up

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

Credit: manappe/Shutterstock.com

*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.

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.

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## 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.

## New bank rules on fraud

Under new rules, banks and building societies now have to reimburse customers who have been tricked into authorising a payment to fraudsters. These increasingly sophisticated 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’.

### 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.

### Planning for the twilight years

This makes planning for the twilight years difficult. While people’s spending on essential bills remains fairly constant through retirement, discretionary spending, on travel and entertaining for example, is higher in the early years of retirement, but typically declines as people enter their 80s. However, it can rise steeply if care is needed, whether at home or in a residential setting. Building a decent retirement fund can provide flexibility through retirement, regardless of

circumstances. It can help to save what you can while working to build up funds. Starting early means your savings benefit from compound growth. Retiring later, or working part-time in retirement, can help these savings go further.

Seeking advice when it comes to retirement income options is imperative. 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. Drawdown, where funds remain invested, offers more flexibility but less security. Many will opt for a blend of the two.

### Consider all your assets

It can also help to 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. Other assets, such as a property, could be sold to pay for care should the need arise.

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

