

**TOP RATE TAXPAYERS HIKE**

Are you on course to join the top tax club?

**DIVIDEND BOOM REALITY**

One-off payments inflate uplift

**STUDENTS NOW PAY MORE**

Graduate repayments start sooner and last longer



# Financial **FOCUS**

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AUTUMN 2024

# A pre-Halloween scare?

*Looking ahead to the autumn Budget*



# Time for increased auto-enrolment contributions?

**Promised adjustments to pension law are missing a key element: increasing minimum contribution levels.**

The first King's Speech of the new parliament in July contained proposals for 40 new bills, covering everything from football governance to cyber security. One familiar item on the list was a Pension Schemes Bill. The government's briefing notes explained that this Bill would largely deal with administrative matters, such as automatic consolidation of pension pots on employment changes. There was one obvious omission, however, that could do more to improve retirement prospects than any of the Bill's draft contents: increasing the minimum level of contributions under automatic enrolment.

At present, for an employee aged between 22 and State Pension Age and earning at least £10,000 a year, the minimum contribution is set at 8% (3% employer minimum/balance paid by employee) of annual earnings between £6,240 and £50,270 – an effective maximum of £3,522 a year. The earnings range has been unchanged since 2021/22 and the percentage rate fixed since 2019/20.

## INADEQUATE CONTRIBUTIONS

There is widespread agreement among pension experts that current contributions are too low to provide an adequate retirement income alongside the State pension. The last government accepted this and introduced legislation giving it powers to reduce both the minimum age and lower level of qualifying earnings. However the law has spent nearly a year on the statute book, unused.

Australia's version of automatic enrolment has a contribution rate that will rise to 12% of earnings next year, all paid by the employer. The *Financial Times* recently reported that a group of "eight financial services veterans" had sent a letter to Rachel Reeves recommending that the minimum percentage rate should increase by 1% a year until it reaches 15%.

The Chancellor, like her predecessor, is in a bind on contribution increases. Someone will have to pay, which means annoying employers and/or employees when the impact of recent high inflation is still being felt. Raising contributions also hits the Exchequer's coffers because of tax relief given to contributors.

Just because the government chooses masterly inaction, you do not have to. If you want a comfortable retirement, talk to us now about how much more you could be putting in your pension.

□ *The value of your investment and the income from it 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.*

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

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



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The new Chancellor has been laying the groundwork for her forthcoming Budget since before the election and following her report of a £22 billion hole in the nation's finances, some painful measures are likely at the end of October. Taxpayers are already feeling the brunt of continued threshold freezes, with over a million people now paying higher and additional rates. The government's plan for the economy will be announced against the backdrop of the first reduction in the Bank rate for four years, which means dropping fixed interest security rates and cash deposit returns. While investors may need to move smartly to lock in current rates, those keen to pursue sustainable investments can now expect greater transparency due to the new marketing rules in place since May. Meanwhile new students will be the first to start repaying their loans at a lower income threshold and for longer.

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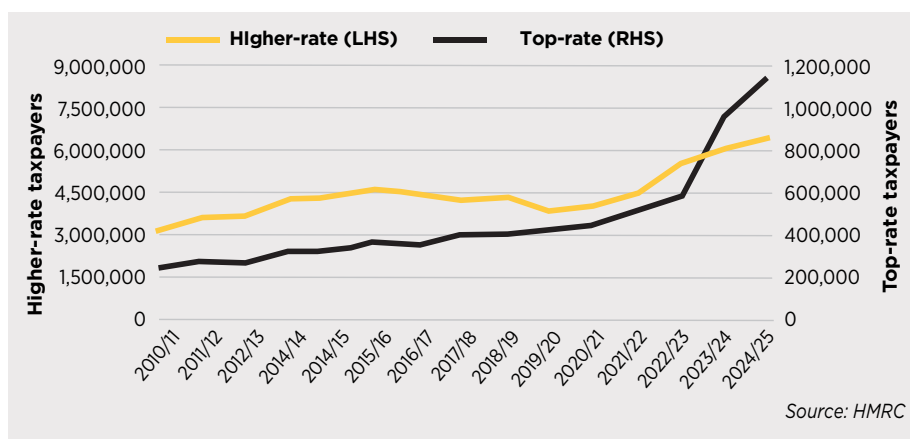


TAX

# Joining the boom in top-rate taxpayers?

Credit: IR Stone/Shutterstock.com

*New data from HMRC show there are now more than a million people paying income tax at a rate of at least 45%.*



**E**ach year HMRC produces an extensive set of tables about income tax, the source of about 30% of all revenue flowing into the Exchequer. The stats that caught media attention show how many taxpayers are paying more than basic rate (see graph above).

Scotland complicated these tables several years ago by creating 19% and 21% rates alongside the 20% basic rate. In the current tax year, a further complication has been thrown into HMRC's spreadsheets by the introduction of another Scottish tax rate, the 45% advanced rate. This applies to taxable income (excluding dividend and savings income) between £62,430 and £125,140, the starting point for Scotland's top rate (increased to 48% for 2024/25). The rest of the UK applies additional rate tax (at 45%) from the same upper level.

Faced with multiplying tax bands, HMRC decided that it would class anyone in the UK paying tax at 45% or more as an additional-rate taxpayer. This pragmatic approach had

two consequences just about detectable on the graph above:

- The number of Scottish higher-rate (42%, not 40%) taxpayers fell 11% because some became advanced-rate payers.
- Scottish additional-rate taxpayers increased by 253%.

## HIKE IN NUMBERS

The Scottish distortions were not sufficient to alter two clear trends in the graph: a sharp rise since the start of this decade in the number of UK taxpayers who pay higher-rate or additional-rate (as HMRC defined) tax. The boom in the higher-rate taxpayer population is a direct result of the freeze in the higher-rate threshold at the 2021/22 level (throughout the UK), despite the 20%+ surge in inflation since April 2021.

The additional-rate tax story is worse because a £150,000 threshold freeze from 2010/11 was followed by a cut to £125,140 in 2023/24 (and

the Scottish 'advanced' manoeuvre in the following tax year).

The higher-rate threshold freeze is currently due to end in April 2028, although it is possible that October's Budget will extend the date – as previous Chancellors have found, threshold freezes are a useful stealth tax increase. The additional-rate threshold is fixed, with no prospect of change until a Chancellor decides to act. Suffice to say, such generosity to those with the highest incomes is not top of anyone's political agenda.

At the time of the last Budget, the Office for Budget Responsibility estimated that by 2028/29 nearly one in five income taxpayers would be paying higher rate and more than one in thirty would be subject to additional rate.

If you find yourself in, or heading to, higher- or additional-rate tax, it is unlikely any Budget in the next few years will come to your assistance. If the proportion of your income lost to tax in the future reduces, it is much more likely to be the result of careful personal tax planning than any Chancellor's largesse. To find out more about the range of those planning options and the tax savings you could make, please get in touch.

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*The boom in the higher-rate taxpayer population is a direct result of the freeze in the higher-rate threshold at the 2021/22 level (throughout the UK).*

# A pre-Halloween scare? Looking ahead to the autumn Budget

*Rachel Reeves's first Budget will be on Wednesday 30 October.*

**"I have to tell the House [the] Budget will involve taking difficult decisions to meet our fiscal rules across spending, welfare and tax."**

The Chancellor's 'Public Spending: Inheritance' speech to parliament at the end of July was designed to prepare taxpayers for changes to come. To make sure the message was clear, she also revealed "A £22bn hole in the public finances now – not in the future."

The new Chancellor took immediate action to start filling the hole, including the cancellation of road and rail projects and ordering departments to stop all non-essential spending on consultants. There were also two notable expenditure-saving measures:

- An immediate end to Winter Fuel Payments in England and Wales, other than for pensioners receiving certain means-tested benefits. (Scotland subsequently followed suit.)
- The abandonment of the scheme to cap care home fees in England, previously due to start in October 2025.

The next stage of strengthening the government's finances will be unveiled in the Budget on 30 October. Even before Ms Reeves had discovered the £22 billion hole, think tanks such as the Institute for Fiscal Studies had forecast the first post-election Budget would see taxes rise (as they normally do).

## **THE NOT SO USUAL SUSPECTS?**

So where might the Chancellor look for some much-needed cash? Her party's manifesto said, "Labour will not increase taxes on working people, which is why we will not increase National Insurance, the basic, higher, or additional rates of Income Tax, or VAT."

However, as the previous government demonstrated, a 'rates' pledge leaves scope for creativity elsewhere, such as freezing or even reducing thresholds. In her July statement, the relevance of the manifesto's reference to 'working people' was made clear by the surprising welfare cuts that primarily hit pensioners.

At present Reeves's most likely targets appear to be:

**Capital gains tax (CGT)** The Labour manifesto made no mention of CGT. Several think tanks and the now defunct Office of Tax Simplification have floated the idea of bringing CGT rates in line with income tax, meaning that the maximum rate in most circumstances would rise from 20% (24% for residential property) to 45%.

**Inheritance tax (IHT)** There are some obvious targets to add to Treasury receipts in this area. Business and agricultural reliefs mean that the average effective tax rate on the largest estates is lower than that on more modest estates. Scrapping those reliefs, or capping their value, would affect only a few estates, but could produce meaningful extra revenue.

Another exemption that could disappear – and affect many more people – is the current general exclusion of pension pots from IHT calculations.

**Tax relief on pension contributions** Right now pension contributions attract income tax relief (within limits) at your marginal rate(s) of tax. That can be as high as 60% (67.5% in Scotland)



## Ensuring green means green

*Many of us are taking steps to tackle some of the big environmental challenges we face. This might be switching to an energy tariff that utilises solar and wind power, reducing plastic use or ensuring our money is invested sustainably.*

**T**here is now a wide range of 'green' investment products and funds, designed to appeal to the eight out of ten adults who say they would like to see their investments 'do some good' as well as deliver a financial return.

Until now, it has been difficult for ordinary investors to see whether the underlying investment strategy matches environmental claims, leading to industry concerns around 'greenwashing' — a term used to describe misleading advertising or marketing.

### ACCURATE MARKETING

The Financial Conduct Authority introduced a new anti-greenwashing rule from 31 May 2024 to tackle this problem. This sets out new product labels and standardised definitions to help investors better understand how their money is being

invested, aiding consumer choice. Financial companies also now need to evidence relevant marketing claims, whether they relate to green credentials, sustainability or having a positive impact on the environment or wider society.

This should enable regulators to act against firms who say one thing but do another when it comes to environmental and sustainability claims on funds.

### GAINING TRUST

As a result, there may be fewer 'green' investment products on the market, but investors should have confidence that those remaining are proven sustainable investment options, that do what they say on the tin.

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



**“** This sets out new product labels and standardised definitions to help investors better understand how their money is being invested.

**“** *If Reeves were to choose a 30% flat rate [on pensions tax relief], most taxpayers would be better-off ...*

in the income band where the personal allowance is tapered. Replacing the marginal-rate relief with a flat-rate relief is a commonly suggested reform. If Reeves were to choose a 30% flat rate, most taxpayers would be better-off and the Exchequer would gain an estimated £3 billion a year.

If you think any of these potential changes could affect you or you are considering other areas of tax planning, do seek advice as soon as possible. In some circumstances pre-Budget action may be advisable, but in others (such as pension contributions if you are a basic-rate taxpayer), procrastination could be the wisest option.

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Credit: Carlos Pascual/ Shutterstock.com

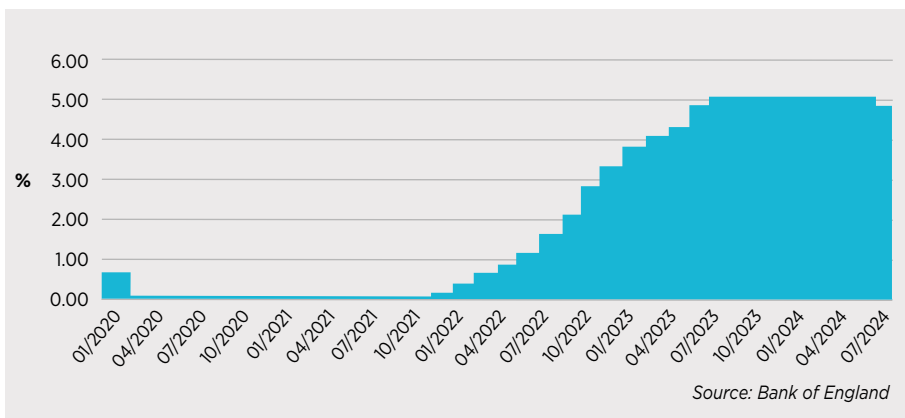
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## INVESTMENT

# Interest rates take a step down

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*As the Bank of England cuts interest rates for the first time in over four years, what are the implications for your investments?*



Source: Bank of England

The Bank of England did something this summer unseen since 19 March 2020: it cut the Bank rate. The decision was a close call for the Bank's Monetary Policy Committee (MPC): five voted for the reduction while four favoured holding rates unchanged. However, that division reflected more a question of timing on the change rather than its direction.

After nearly a year with the Bank rate stuck at 5.25%, investors are now pondering two new questions: how fast will rates fall and how far? Unlike its counterpart in the United States, the Bank of England does not offer its own opinions on future rates. Instead, the Bank prefers to produce its economic outlook using the future interest rates implied by the UK money markets. These currently suggest that the Bank rate will be 4.2% in the third quarter of 2025, 3.8% a year later and 3.5% by the third quarter of 2027. Such numbers come with a health warning: unanticipated events can wreck the most carefully calibrated forecasts –

as recent years have demonstrated.

Nevertheless, assuming no global pandemics, further wars or other international incidents, UK interest rates look set on a downward path, although a return to the near-zero rates of the 2010s is not on the radar according to those money market projections. Those rates were a prolonged response to the 2008 global financial crisis (followed by Covid-19) and are already beginning to appear an historic aberration.

## IMPACT OF FALLING RATES

The expected steady decline in interest rates has several consequences for investors, including:

- New investors will see the return on fixed interest securities such as government bonds fall. This move is already underway, as investors buy to lock in current returns. For example, the benchmark 10-year government bond was yielding over 4.5% in October 2023, whereas by mid-August

2024 its yield was under 4%.

- Falling long-term bond yields go alongside a drop in annuity rates. If you are thinking about fixing all or part of your retirement income, delay could prove costly.
- Returns on cash deposits will drop as the Bank rate falls. So far in 2024 it has been easy to find cash returns above the rate of inflation, discouraging investors from leaving the investment sidelines. Inertia is now a serious risk if you are sitting with cash. Wait too long before making your move into long-term assets and you could miss investment profits.
- Lower interest rates benefit companies, particularly smaller companies which tend to have higher borrowing. In the US, which is at a similar stage in the interest rate cycle, there have been signs that investors are switching their attention from the mega companies towards smaller companies.

For advice on how you should approach an investment landscape of falling interest rates, talk to us soon – the longer you defer, the lower rates could drop.

*Investments do not offer the same level of capital security as deposit accounts.*

*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.*

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## INVESTMENT

# Dividends deliver – behind the headlines

*UK companies paid their investors bumper dividends of £36.7bn in the second quarter of 2024 – an 11.2% year-on-year rise. Take a closer look behind the positive headline, however, and there are some important caveats.*

**R**ising dividend payments can reflect economic growth and improved corporate profitability, so should be good news for investors. But analysis of the latest figures suggests investors should be cautious, as they include a significant jump in 'special' one-off dividends, made in exceptional circumstances.

In Q2, there were £4.1bn special dividends – including a whopping £3.1bn payment from HSBC following the sale of its Canadian subsidiary. Excluding these payments, regular dividends were up by just 1%.

Dividends aren't just for income-seeking investors; they can, if reinvested, significantly boost overall returns. Over the last 20 years the FTSE 100 index has returned 65% to investors (or 2.6% a year.) But if this also includes reinvested dividends, total return is 239%, or 6.6% a year.

However not all companies pay regular dividends. These payments tend to be made by more mature, financially stable companies, or firms that can generate consistent cash flow. This might include utility companies, banks and oil and gas companies.

In contrast, less well-established companies, or those operating in rapidly evolving sectors, tend not to pay dividends. These firms may choose to reinvest profits into the business to drive

further growth, rather than returning money to shareholders via a dividend.

In the UK almost 90% of the dividends paid are made by the largest listed companies that make up the FTSE 100, with banks making the strongest contribution to dividend growth during Q2. There was also strong growth in dividends from healthcare companies.

However, the figures also highlight where economic growth has stalled in recent years, with a significant drop in dividends paid by mining companies, and a fall in payouts from housebuilders.

In fact, if the relatively 'weak' mining sector is excluded from this year and last year's figures, dividend growth across the rest of UK market stood at 8.6% – indicating that investors can still find income opportunities in the UK market, despite sector-specific slowdowns.

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## October tax deadlines approach

There are two other important tax dates in October, besides the Budget.



The final date for filing your 2023/24 tax return is 31 October 2024 if you do not want to file online (which has a 31 January 2025 deadline). These days, HMRC discourages paper tax returns and will only issue them on request. For 2022/23, over 97% of returns due were filed online.

### NEW REPORTING

As the relevance of 31 October has faded, another October tax date has become more important – 5 October. This is the deadline for telling HMRC if you need to file a tax return and have not been sent one before.

For example, a return would be required if you started self-employment in 2023/24 with income exceeding £1,000 or realised capital gains above the annual exempt amount (£6,000 in 2023/24).

HMRC has an online tool that allows you to check whether you need a return: <https://www.gov.uk/check-if-you-need-tax-return>

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Credit: Monkey Business Images/Shutterstock.com

## NEWS ROUND UP

### VAT on school fees from January

Parents educating their children in the independent sector can expect a sharp rise in school fees from 1 January 2025, when the government will start imposing VAT at 20% on these fees. Parents can't avoid the increase by paying the full year's fees early, as VAT will be applied to all payments for the January term made from the end of July this year.

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### Sterling's high

Sterling has been one of the best-performing currencies in 2024. But a strong pound does not always help investors holding overseas funds and assets. This is particularly true for Japan investors, with the Yen down against the pound by about 7% this year, negating some of the gains seen in the Japanese stock market for UK investors.

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### NS&I certificates

Lower inflation has made NS&I's popular Index-linked Savings Certificates less attractive. Holders should weigh up options at maturity, rather than letting them roll-over into a new term. Around 300,000 people hold these tax-free accounts, which pay an inflation-linked return for two, three or five years. Returns have been high in recent years, but with inflation expected to linger around the 2% mark there are now better paying accounts elsewhere.

## EDUCATION

# The truth about student loans

*Freshers starting university this autumn face higher costs for their education due to changes in student loan repayment rules in England. (Different rules apply in Scotland, Wales and Northern Ireland.)*

Changes took effect last year, so don't impact students who began degrees before September 2023. However, new students will experience significant differences in how they repay their loans compared to those who have just graduated.

The average student debt in England is £45,600, with some students owing £60,000, which covers both tuition fees (£9,250 a year except in Scotland) and means-tested maintenance loans. However, student debt is unlike conventional loans because repayments are a fixed percentage of earnings, not tied to the total debt.

For instance, a graduate earning £30,000 annually will pay the same amount each month regardless of whether they have a student loan of £5,000 or £50,000. Unlike conventional loans, unpaid debts are written off after a set period.

The revised system has graduates repaying their loans once their earnings exceed £25,000, down from the previous threshold of £27,295. This means that a graduate earning £30,000 will now repay £450 annually, compared to

£243.45 under the old system. Additionally, the repayment period has been extended from 30 to 40 years, meaning some graduates could be repaying their loans into their 60s.

Higher earners are more likely to repay their debt within the original 30-year term, leaving those on lower and moderate incomes continuing to pay back for longer.

However, the government has revised how interest is calculated on these loans, capping the maximum interest rate at the Retail Price Index (RPI), a reduction from the previous cap of RPI plus three percentage points.



Credit: Cultura Creative/Shutterstock.com

Regardless of the changes, focusing on paying down these debts doesn't usually pay off, as it won't reduce monthly repayment or necessarily ensure faster repayment. Graduates, parents or grandparents are generally advised to focus financial help elsewhere.

Even under the new terms, it is still estimated that 48% of graduates won't pay off their debt within the 40-year period, with the loans eventually written off.



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