Insight

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Election Results 2024- what's next?

Beware immediate reactions - the dust needs to settle.

General elections are taking place around the world in 2024, from Algeria to Venezuela (via Tuvalu). At the time of writing, the polls are open and define the UK's vote as a foregone conclusion, even if their past record (e.g. on Trump and Brexit) points to some caution being necessary.

There will be no Budget before at least mid-September. Labour's Shadow Chancellor Rachel Reeves ruled out a summer Budget because she wants a full report from the Office of Budget Responsibility (OBR) first. The OBR requires ten weeks' notice to crunch the numbers, leaving only a small gap before party conference season begins.

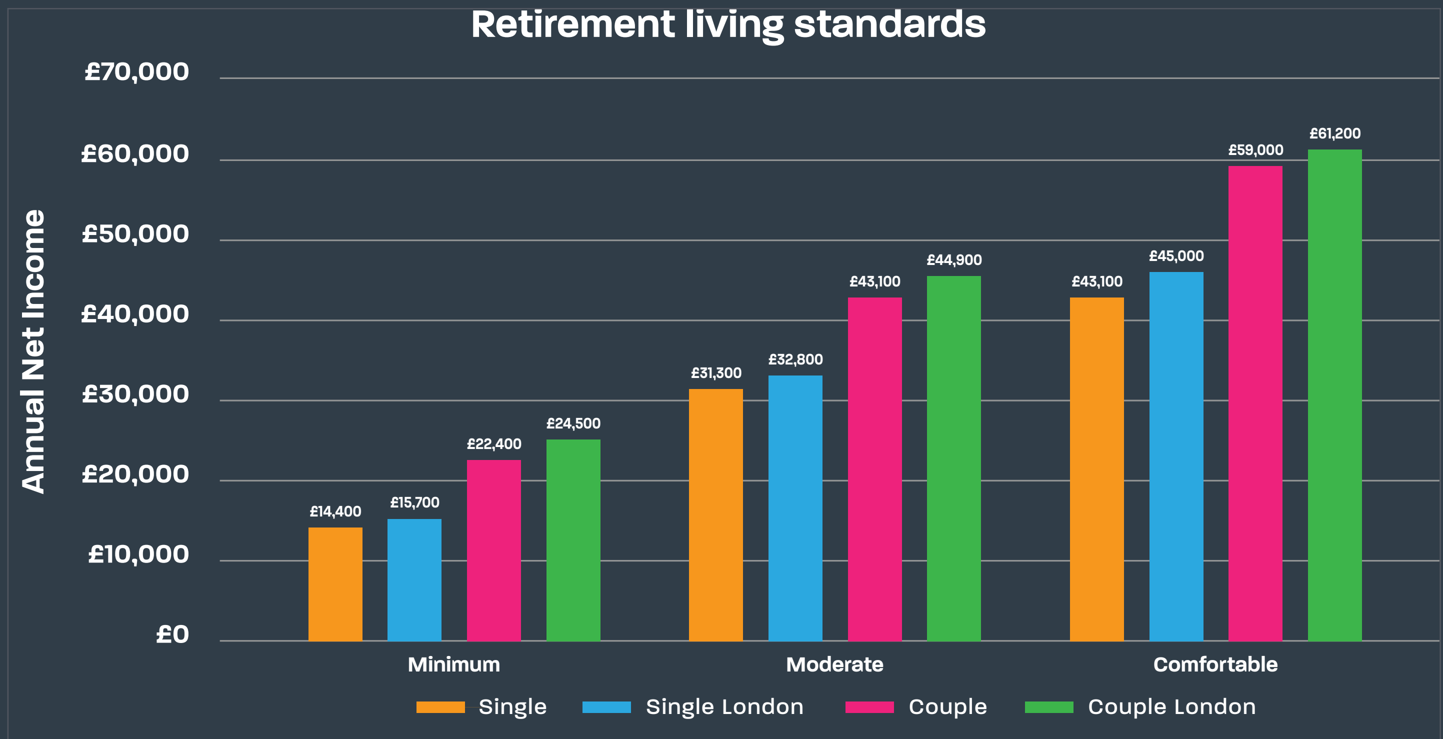
Hold off on big decisions

The new Chancellor must also prepare a Spending Review, theoretically running for three years from April 2025. That review needs to be published by November. It is possible that there could be an interim one-year Review, to give the new government more time to settle in and develop its spending plans. Consequently, the significant Budget may not be in the autumn, but next spring.

Those timings reinforce a lesson from many past elections: hold off taking rushed investment decisions based on initial results and reactions. The picture should be much clearer later in the year.

How well will you be able to retire?

You may need to review your retirement planning after updated figures show some increases of over a quarter for retirement income needs.



Source: Pensions and Lifetime Savings Association, February 2024

How much income do you need in retirement?

If you find yourself struggling to answer, you are not alone. It is never easy to calculate as each of us has our own ideas about what we want from retirement. A study by the Pensions and Lifetime Savings Association (PLSA) has shown that 77% of savers did not know how much they would need, while only 16% could provide a figure.

Since 2019, research by Loughborough University for the PLSA has regularly addressed the 'how-much' question. The academics' assessment begins by considering three different retirement living standards, defined as:

- **Minimum:** Covers all your needs, with some left over for fun.
- **Moderate:** More financial security and flexibility.
- **Comfortable:** More financial freedom and some luxuries.

These categories are used to review spending across six broad areas, ranging from housing to helping others. They are costed separately for single people and couples and for London residents and those living elsewhere in the UK. For example, under the heading of holidays and leisure, the three standards currently assume:

- **Minimum:** One week-long UK holiday.
- **Moderate:** A fortnight 3* all-inclusive holiday in the Med and one long-weekend break in the UK.
- **Comfortable:** A fortnight 4* holiday in the Med with spending money and three long-weekend breaks in the UK.

The PLSA and the university annually update the yearly income requirements for each standard: the latest results are shown in the chart above. The income figures are net, which means at the higher levels, tax is a significant factor. For instance, the £45,000 of net income required to provide a comfortable retirement for a single person living in London equates to a pre-tax pension income of over £54,000.

Going up

This year's update revealed a 26.8% increase in the income needed for a couple based outside London to enjoy a moderate living standard. For a single person, the rise was even greater - 34.3%. The PLSA attributes the jump to two main factors.

- Firstly, higher food, household energy and motoring costs added disproportionately to the overall cost. That is a reminder that inflation is not evenly spread: in 2023 food inflation was double the overall rate of inflation.
- Secondly, there was what the PLSA described as "changes in the expectations of what should be included". One example that the research interviews found was those in the moderate category, who felt they should budget for £1,000 a year to help family members as well as £100 a month to take family members out for a meal.

The current State pension of £11,502 is not even enough to cover the minimum retirement standard for a single person. If a couple both have a full State Pension entitlement it will be just sufficient providing they live outside London. The State Pension does not now start until age 66, (67 from April 2028).

If you aspire to the fortnight in the Med rather than seven days of UK weather and/ or hope to finish work before your State pension arrives, you need to accumulate sufficient personal retirement funds. Typically, that begins by assessing what you have already built up from current and previous employments and then working out how much extra is required by the time you retire. Like the difficult question about retirement income, it is a set of calculations best left to experts.

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. Occupational pension schemes are regulated by The Pensions Regulator. The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.

Managing something in reserve?

It pays to expect the unexpected, particularly when it comes to your finances. Building and maintaining a rainy-day savings fund can make all the difference.

With so many calls on your income, it can be difficult to set more money aside, but a reserve fund offers long-term benefit in a range of circumstances, from a sudden drop in income, perhaps due to redundancy or ill-health, to out-of-the-blue expenses – a leaking roof, your car breaking down or, at worst, medical bills. The link between financial well-being and mental health underlines the importance of building this kind of resilience into your planning.

A financial cushion lets you manage budget shortfalls without having to borrow or raid other investments or, if relevant, pension funds. Private pensions can be accessed from the age of 55, (increasing to age 57 from 2028) but withdrawing funds early and at short notice can have drawbacks. You might have to sell investments in a market downturn and withdrawals can also trigger a tax charge, depending on the amount taken. These withdrawals may also restrict how much you can save into pensions in future. Having back-up savings in place means that pensions and investments can stay invested for the longer term, maximising growth opportunities.

Easy access

By their nature, rainy-day savings should be kept in an 'easy' or instant access account that can be accessed in an emergency. Using a cash ISA can ensure that all interest earned is tax free.

On ordinary savings accounts, basic-rate taxpayers can earn £1,000 in interest a year tax free, with higher-rate taxpayers' tax-free interest set at £500. Interest earned above this will be taxed at the saver's marginal rate, additional rate taxpayers don't have any allowance.

With higher interest rates in recent years, more savers will be faced with paying tax on their savings interest, making cash ISAs a more attractive prospect. The ISA allowance is £20,000 a year, but this is split across all ISA types.

How much you should set aside in a reserve will depend on your lifestyle and circumstances, but as a rule of thumb you should try to build up funds through regular saving that would cover your usual expenses for three months.

Investments do not offer the same level of capital security as deposit accounts.
The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.

Don't fall for scams this summer

Make sure your finances don't get burnt this summer, as fraudsters set their sights on unwary holidaymakers. Action Fraud, which aims to prevent scams and cyber crime, says sun-seekers lost £12.3m last year from targeted frauds, with the average loss being £1,851.

People don't need to leave their home to fall victim to these scams. Many are 'holiday-booking' frauds, where scammers advertise fake accommodation or package deals, often at a bargain price. Booking via ATOL- or ABTA-registered companies can offer protection, with both organisations running websites that list registered travel agents and tour operators.

Spreading the net

It isn't just holidaymakers who need to be on their guard. Financial scams are rife, with fraudsters targeting bank accounts as well as pensions and savings. Phishing scams are among the most prevalent — where emails or texts are sent out, purportedly from a trusted company, typically encouraging people to disclose personal or financial details, or to visit a website which can download a virus onto their device to harvest further data.

Related to this are 'trusted organisation scams' or 'refund scams' where fraudsters contact people in the guise of a third party, such as HMRC or a utility company, claiming they owe money or are due a refund. These are used to persuade people to pay money to the scammers or trick them into disclosing passwords and bank details.

Investment scams are also unfortunately common. Here, fraudsters convince people to transfer pensions or other savings into schemes promising enticing returns, which they might claim are 'guaranteed'. Of course, these too-good-to-be-true investments turn out to be just that. At best, they are high-risk unregulated investments where there's a strong chance that savers will lose money. At worst, they are pyramid schemes where the money is never invested in the underlying assets but used to line the bank accounts of the criminals targeting unwary investors.

Hundreds of people fall victim to financial scams every year. Last year over 800 people contacted a dedicated helpline set up by the Money and Pensions Service (MaPS), with losses totalling £13.6m, an average of £16,297 per caller.

Protective action

Financial fraud is increasingly sophisticated, but there are steps you can take to help protect yourself. Before putting money into any investment or pension product run the details through ScamSmart investment checker. This alerts people to potential problems and offers a 'warning list' of unauthorised companies, including 'clone' companies that are impersonating regulated firms.

MaPS can also help. It offers free pension guidance through its MoneyHelper service and says nearly three-quarters of those using this service felt more confident about spotting a potential financial scam.

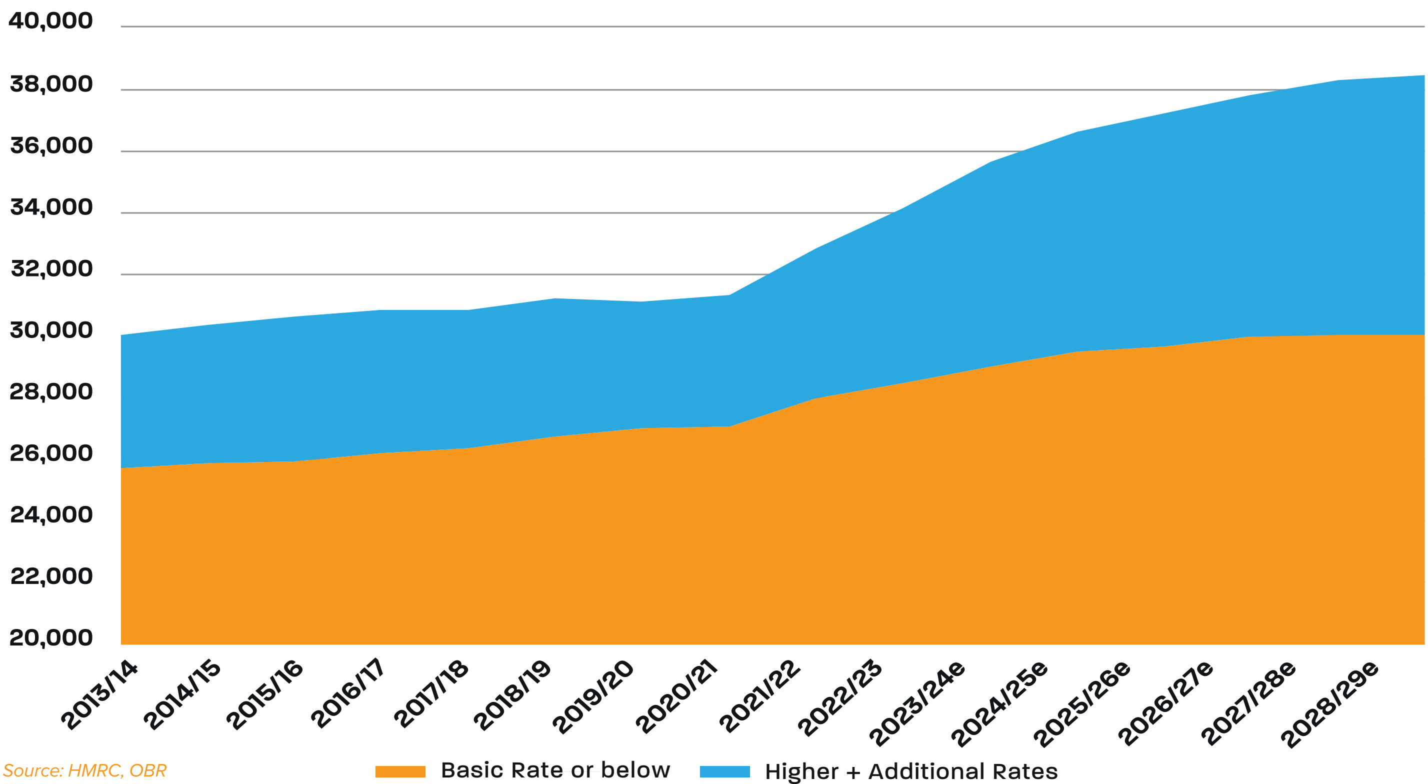
Think it through

Outside of this there are a few golden rules to bear in mind. Never be rushed into making a financial decision: a genuine opportunity will still be there next week. Similarly, be extremely wary of any third party contacting you and never disclose personal or financial details. If they claim to be from a company you deal with, ring back on the advertised customer helpline number — not any telephone number they give you. Finally, don't forget that if a deal looks too good to be true, it's probably a scam.

For advice on both aspects, talk to us today, you never know what tomorrow might bring.

Time to check in with HMRC?

Freezes and cuts to tax allowances mean that you may have something to report to HMRC.



Source: HMRC, OBR

A recent report from the National Audit Office (NAO) was highly critical of HMRC, noting that in 2022/23 its 'customers' (that's you) spent the equivalent of 798 years on hold, waiting for an HMRC adviser to answer their call. As bad, only 53% of calls were eventually answered by an adviser.

In its report, the NAO notes two reasons for HMRC experiencing an increased workflow:

1. Between 2019/20 and 2022/23, the number of income taxpayers increased by 10% and the number of higher rate taxpayers increased by 38%.
2. These band changes are partly responsible for individuals' tax affairs becoming more complex.

Unfortunately for HMRC and its 'customers', matters are likely to worsen due to a combination of:

- the continued freeze in the personal allowance and higher rate tax threshold (both unchanged since April 2021);
- the two consecutive reductions in the dividend allowance and capital gains tax annual exempt amount; and
- higher interest rates: a personal savings allowance frozen since April 2016 leaves more savers having to pay tax on their interest.

If you are already within the self-assessment regime, then the extra tax liability will normally be dealt with via your tax return. However, if you (or your accountant) do not file a self-assessment return, things become more complicated.

No sleeping dogs

What you cannot do is ignore the situation and assume that if HMRC does not contact you, then you have nothing to worry about. If you have a tax liability, the law says you must pay it. Remember that HMRC automatically receives records of interest paid to you (from onshore accounts and, in nearly all cases, offshore accounts, too) as well as your earnings if you are an employee.

Stay silent and you may eventually receive a probing letter from HMRC. The end result could be that interest and penalties are added to overdue tax…and HMRC makes you a five-star customer, worthy of close attention.

Know your allowances band

This is the time to check whether you have a liability for last tax year (2023/24) as by now you should have received all the interest certificates and dividend vouchers that you are due. The personal savings allowance for last year (and this), covers £1,000 of interest for basic-rate taxpayers and £500 for higher-rate taxpayers. There is no allowance for those that pay the additional rate (which started at £125,140 of income in 2023/24, down from the £150,000 of previous years). The dividend allowance was £1,000 for 2023/24 and is just £500 for this tax year.

HMRC says you can report your investment income either via your HMRC Personal Tax Account, if you have one, or (bad news) by calling them. If you made capital gains above the annual exempt amount (£6,000 in 2023/24 and half that for this tax year) you must file a self-assessment return.

As for reducing the tax you pay in the future, why not give us a call? We promise not to leave you hanging.

The Financial Conduct Authority does not regulate tax advice. HMRC practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Basis year now means tax year

Are you aware of the changes to the way your profits are taxed if you are self-employed or in a partnership?

An old trick of Chancellors who cannot raise tax rates but need more revenue is to accelerate the payment of tax.

The latest example was announced in October 2021 with the claimed objective of creating "a simpler, fairer and more transparent set of rules for the allocation of trading income to tax years". As usual, such a promise should be treated with caution.

April to April tax year

The change, which has now come into effect, means that for 2024/25, if you are self-employed (or a member of a partnership), you will generally be taxed on the profits made between 6 April 2024 and 5 April 2025. If your business's accounting year is different and its year end is not between 31 March and 4 April (all treated as 5 April), then generally:

- For 2024/25 you (or your accountant) will need to apportion two accounting periods to arrive at profit based on the tax year.
- For 2023/24 you will be taxed on:
  - the profit for your accounting period ending in that tax year; plus
  - the profits you make from the end of that period to 5 April 2024, calculated by apportionment.

The acceleration in 2023/24 is subject to two special treatments for the apportioned profits:

- They can be reduced by any overlap relief you have from earlier years.
- The apportioned profits less the overlap relief can be spread over a period of up to five tax years, with a 20% minimum applying for 2023/24.

Managing a higher tax bill

The extra taxable income could drag you into a higher tax band, or mean that your personal allowance becomes subject to tapering. However, you may be able to gain more tax relief by making pension contributions that offset some or all of the additional profit.

For more advice on this and other planning opportunities created by the reform, please contact us.

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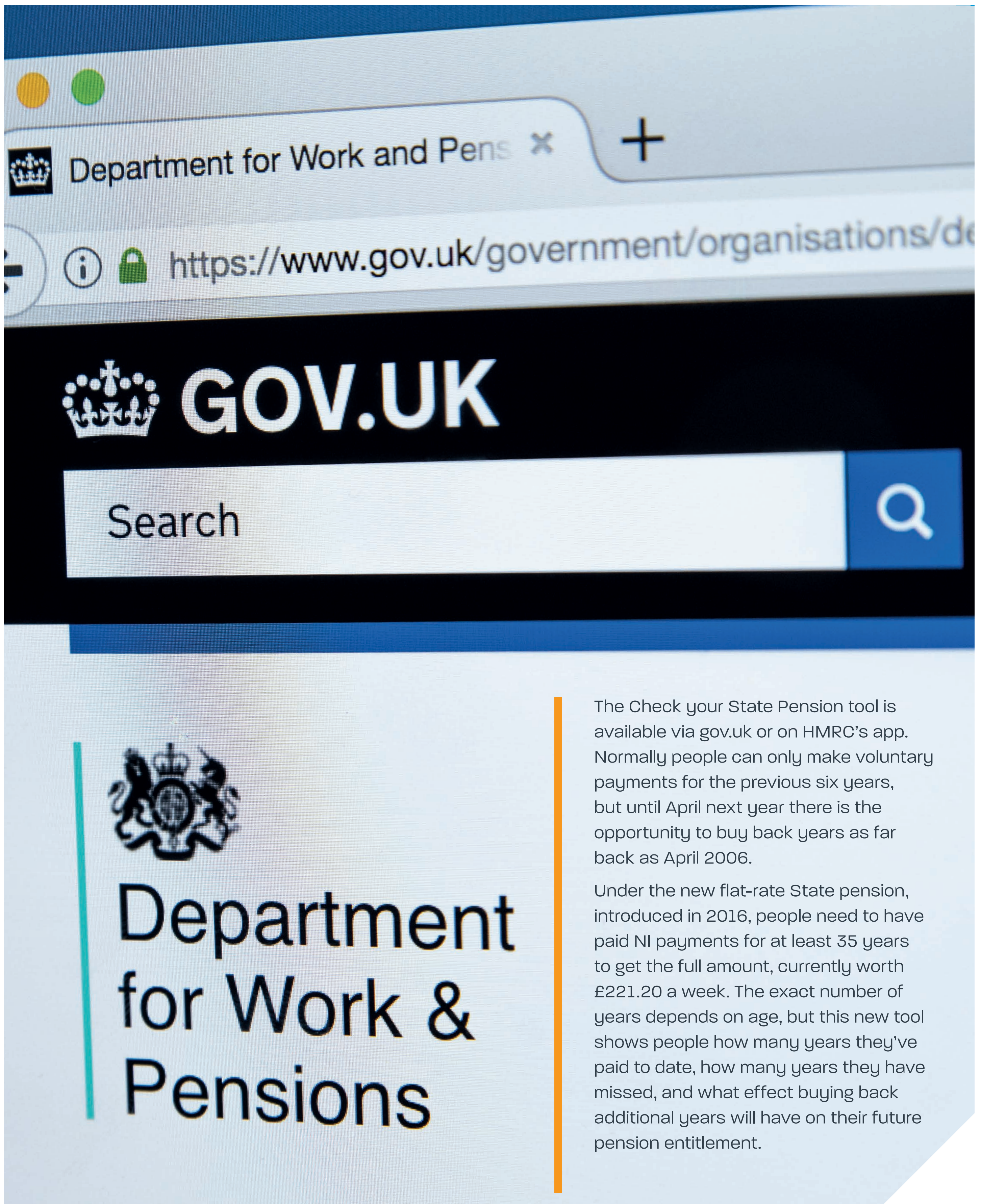
New tool for missing NICs

The government has launched a new web tool that allows people to check if there are gaps in their national insurance record, and 'buy back' missing years, to ensure they qualify for the full State pension.



The Check your State Pension tool is available via gov.uk or on HMRC's app. Normally people can only make voluntary payments for the previous six years, but until April next year there is the opportunity to buy back years as far back as April 2006.

Under the new flat-rate State pension, introduced in 2016, people need to have paid NI payments for at least 35 years to get the full amount, currently worth £221.20 a week. The exact number of years depends on age, but this new tool shows people how many years they've paid to date, how many years they have missed, and what effect buying back additional years will have on their future pension entitlement.

News Round Up...

Interest rate cut hopes recede

At the start of 2024, the expectation was that the Bank of England would cut rates six times (to 3.75%) by the end of the year. By May, the experts were pencilling in two cuts by December, although the IMF thinks there could be three.

The changed outlook reflects continued inflation risks, even with the CPI inflation yardstick hitting 2% in May. One worrying factor for the Bank of England is earnings growth, still at around 6%.

Annuities regain popularity

Data from the Association of British Insurers shows that in 2023, pension annuity sales jumped by 46%, taking them back to the level of 2014, before pension flexibility began. Annuities' new popularity reflects the more attractive rates on offer, thanks to the rise in long-term interest rates.

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Triple lock: another five years reprieve

As the general election nears, both the Conservative and Labour Parties have pledged to maintain the triple lock, which means the main State pensions will rise by the greater of CPI inflation, earnings growth and 2.5%.

Once one party has backed the status quo, it was almost inevitable that the other would do the same, no matter how many think tanks consider the principle a bad one.

To discuss any issues raised in this newsletter, or any other aspect of your financial planning, speak to your dedicated Wealth Professional Consultant or Client Support Team at: -

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