Insight

WealthProfessional
CONSULTANCY & FINANCIAL PLANNING

Issue 39 | JANUARY 2025

Hitting the mid 20s - what's next?

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

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

As we enter 2025, most of that picture is radically different. Three prime ministers later, Sir Kier Starmer is now in Downing Street, having gained an even larger landslide victory for the Labour Party in July. Former President Trump will now return to the White House. While today Covid-19 is almost just another flu-type virus, its economic consequences are still weighing on governments around the globe. As the pandemic took hold, the Bank of England was prompted to cut rates to just 0.1% in March 2020. However, from December 2021 rates started to climb, reaching 5.25% before reversing direction in 2024 to their current 4.75%.

Inflation impact

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

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

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

Have your financial plans taken account of the new landscape? For example, the 2020's wedge of inflation means the funds you need for a comfortable retirement are correspondingly higher, as is the level of life and income protection your family requires. At the same time, higher interest rates and a harsher tax environment could require a reassessment of your investment approach.

This halfway point is a good time to pause, review and prepare for whatever the next five years might bring.

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Tax treatment varies according to individual circumstances and is subject to change.

An uphill climb? Tackling the Autumn Budget outcomes

The first Budget from a Labour government in over 14 years was one for the record books.

"…And the only way to drive economic growth… is to invest, invest, invest." So said Rachel Reeves, the first female Chancellor, early on in her first Budget on 30 October. The corollary, which emerged later in her speech, was that to invest, invest, invest also meant the government would need to borrow, borrow, borrow and tax, tax, tax.

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

There were three major tax highlights.

Employer National Insurance contributions (NICs).

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

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

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

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

Capital gains tax (CGT)

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

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

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

Inheritance tax (IHT)

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

- The nil rate band (£325,000 since 6 April 2009), residence nil rate band (£175,000 since 6 April 2020) and its taper threshold (£2 million since 6 April 2017) will all be frozen for a further two years, until 6 April 2030.
- From 6 April 2026, 100% agricultural relief and 100% business relief will be capped at a non-transferable £1 million total. Above that, relief will be at 50%. From the same 2026 date, relief on certain shares listed on AIM will be halved to 50% in all instances.
- From April 2027, death benefits from pension arrangements (including death in service benefits) will be included in the estate for IHT purposes, meaning that in some instances, they will be liable to both income tax and inheritance tax.

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

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Time to review your estate planning?

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

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

Pensions

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

The example shown here shows one of the many impacts of the reform. Adding pensions into the calculations at death not only means pension benefits are subject to IHT, but also increases the overall value of the estate, which may lead to a loss of some or all of the residence nil rate band.

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

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

Pension and IHT IN 2027/28

	Death before 2027/28		Death in 2027/28	
Estate		1,750,000		1,750,000
Pension		500,00		500,000
Nil rate bands	650,000		650,000	
Residence nil rate bands	350,000		225,000*	
Inheritance tax due		-300,000		-550,000
Income tax on pension**		-225,000		-170,000
Net of taxes estate		**1,725,000**		**1,530,000**

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

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

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. As a result, it could be necessary to restructure ownership and revise wills before 6 April 2026 arrives.

Other options include making lifetime gifts rather than waiting until death; the seven-year rule, which puts outright gifts made over seven years before death beyond the reach of IHT, remains in place. Pre-Budget rumours had suggested the period would be extended to a decade.

The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change. The Financial Conduct Authority does not regulate will writing and some forms of estate planning

Investment in a world of higher capital gains tax

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

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

This comes after the previous Conservative government hacked back the CGT annual exempt amount (AEA)—the profits you can realise each tax year before CGT is applied. This now stands at just £3,000, down from £12,300 two years ago.

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

- The first is to make the most of tax-efficient investment vehicles. Investors can deposit £20,000 annually into an individual savings account (ISA), and any gains made through this wrapper are sheltered from CGT.
- Investors should also make strategic use of their CGT AEA. If you are looking to realise a large gain, it may be worth selling shares in tranches over two or more years to utilise each year's CGT AEA, as it cannot be carried forward.
- A strategy known as 'bed and ISA' can be utilised to take advantage of the CGT AEA every year. This involves selling investments to realise a capital gain, but then immediately buying back the holding within an ISA wrapper, gradually moving unsheltered assets into a tax-free environment. Of course, you need to ensure your ISA allowance has not been allocated elsewhere. It is also worth remembering that there will be stamp duty to pay if the asset being sold and repurchased is shares.
- Investors can also deposit up to £60,000 a year into pensions which are not within the CGT regime and they also benefit from income tax relief on contributions. However, bear in mind that withdrawals can't be made until the age of 55, soon to be 57, and withdrawals may be subject to income tax.

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

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

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

CTFs grown up -
the importance of children's savings

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

CTFs were opened for all children born between 1 September 2002 and 2 January 2011. Parents received a £250 voucher (low income families received £500) to open a cash or investment CTF. Accounts were opened automatically for children if parents failed to take action, and the government then 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.

However, government payments ceased on 31 July 2010 and a year later CTFs were replaced by Junior ISAs, which did not come with a government contribution.

A CTF reverts to the child's name at 16, and they can access this money on their 18th birthday, or they can transfer funds to an adult ISA so savings can continue to grow.

Unclaimed funds

Government figures show that over 670,000 matured CTFs have not been transferred either to an adult ISA or to the account holder — with the average balance on these 'lost' accounts standing at £2,212.

CTFs maturing today would have been paper-based accounts, but there is a digital tool via gov.uk to help people track down lost accounts. This can be useful if parents have mislaid statements and paperwork, forgotten which provider was used, or if that provider has subsequently merged or been taken over.

To access this money, the account holder will also need to set up a Government Gateway account. If they don't know the CTF provider, they will need a few key details, including their home address (at birth) and National Insurance number.

The online tool will then locate the original CTF provider. Individuals will need to contact the provider directly, who can disclose details on the balance in the account, and what the holder needs to do to access these funds or transfer them into another savings vehicle.

The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances. Past performance is not a reliable indicator of future performance. The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.

Could you afford to live to 100?

The number of people reaching their 100th birthday is expected to increase by 200% over the next 25 years, raising a long-term, financial-planning challenge.

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

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

Planning for the twilight years

For those heading towards retirement, the lack of such reforms adds to the difficulty of planning for the twilight years. While spending on essential bills may remain fairly constant in retirement, discretionary spending on things like travel and entertaining is higher in the early years of retirement, but typically declines as people enter their 80s. However, costs can rise significantly if care is then required, whether at home or in a residential setting.

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

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

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

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

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

Eleven years ago, when the coalition government was legislating for the new state pension, it made an important concession. With the minimum NICs record for any state pension entitlement moving from one year to ten years, a temporary relaxation was introduced to NICs backdating rules. This allowed missed NICs dating back to 2006/07 to 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.

The trouble with putting a deadline a decade away was that most people ignored it as there was clearly no rush. The result was that when 2023 arrived, there was a stampede of enquiries about NIC records which the Department for Work and Pensions (DWP) and HMRC could not manage. The inevitable result was that the deadline got moved – to 5 July 2023. When that too proved administratively impossible to handle, a third deadline was set: 5 April 2025, giving HMRC and DWP the time to improve their systems.

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

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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. This may strike some as unusual, given that 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 pandemic and global financial crash.

This year's rise comes during a time when global equities have also performed 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, 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.

News Round Up...

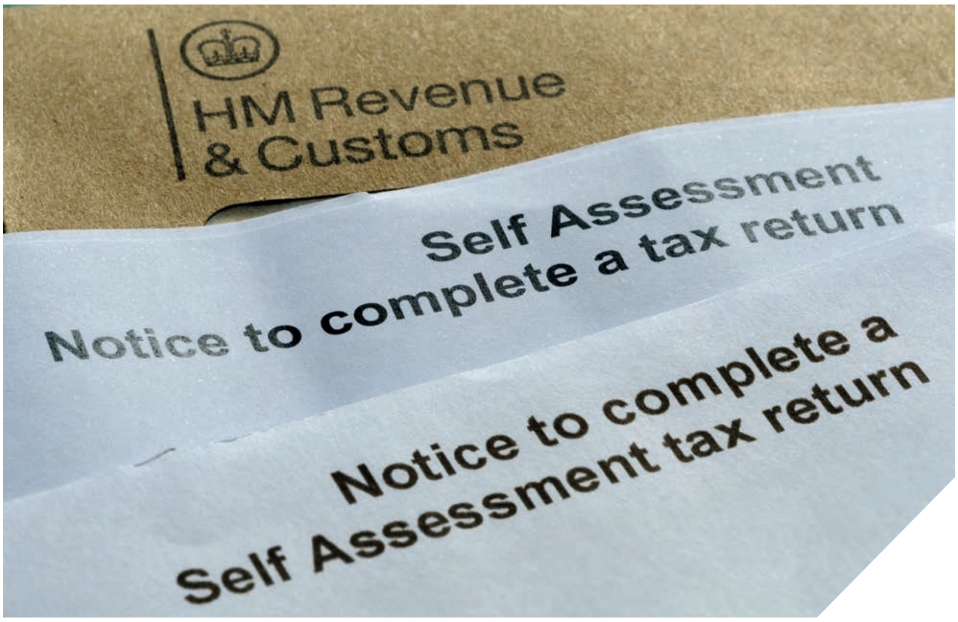
NEW BANK RULES ON FRAUD

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

New Staff member...

We are delighted to welcome Lewis Crosbie to Wealth Professional as our newest Client Service Executive. Lewis joins our Graduate Academy Programme and will be working towards becoming one of our fully qualified Wealth Consultants. Lewis brings both an eagerness to learn and a passion for helping clients achieve their financial goals. We're confident Lewis will be a valuable asset to our team and we look forward to supporting his growth and development in the industry.

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 people will need to file a return by 31 January 2025.

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 1 percentage point each year to stand at 5% by the 2027/28 tax year.

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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