Autumn Budget 2024 what does it mean for you?

Unveiling one the most hotly anticipated budgets in recent history on Wednesday, Chancellor Rachel Reeves set the direction of travel for the Labour Government.

The Autumn Budget 2024 includes a raft of headline-grabbing announcements, with major implications for everything from capital gains tax to inheritance tax.

Your financial planner can help you decode the impact this week's revelations could have on your own financial plan, working with you to review the strategies you have in place to reach your goals and objectives.

Below, we outline some of the most significant announcements from this landmark £40bn budget, and look at what they could mean for you.

Inheritance Tax

The inheritance tax threshold has been frozen for another two years from 2028 until 2030. The tax, which is currently 40%, is usually paid on the value of the estate of someone who has passed away. The first £325,000 of any estate can be inherited tax-free, rising to £500,000 if the estate includes a residence passed to direct descendants, and £1m for married couples combining their allowances.

The Chancellor announced that from April 2027, inherited pensions will be included in the value of an estate.

These measures are likely to pull many more estates into the inheritance tax net.

Reeves also announced plans to cap inheritance tax relief on agricultural land and family businesses, which currently can be transferred tax-free. This change will also impact AIM Portfolios of more than£1m.

"From April 2026, the first £1m of combined business and agricultural assets will continue to attract no inheritance tax at all, but for assets over £1m, inheritance tax will apply with 50 per cent relief, at an effective rate of 20 per cent," she said.

Pensions

There was mixed news for people investing in their pensions, with the rumoured change in tax relief not forthcoming. Rumours in recent weeks had suggested The Chancellor may have cut the percentage of tax-free cash available from 25% or reduce the maximum amount from its current £268,275. That said, those pensions which have not been drawn down or converted into an annuity would be added to an individual's estate and subject to Inheritance Tax (IHT) in the event of their death.

The most notable change to pensions is a medium-term adjustment that will include pension death benefits in the estate for Inheritance Tax purposes starting 6 April 2027. The practical implications are still unclear, prompting a consultation that will continue until 22 January 2025. This marks a substantial shift in how individuals perceive pensions and the transfer of unused wealth to their families.

In the future, some individuals might prefer to make more withdrawals from their pensions while remaining within the basic rate income tax band to spend, gift, or protect that income. For instance, they may consider using pension withdrawals to establish an ISA or a pension for their grandchildren, or even to create a trust bond, which can be beneficial for Inheritance Tax planning. This represents yet another significant shift in pension legislation, highlighting the pressing need for an independent authority to provide greater long-term stability regarding pension and savings tax regulations. It serves as a reminder of the inadequacies surrounding the implementation of the lifetime allowance abolition, underscoring the necessity for additional regulatory changes even six months later.

Tax rises

"No tax rises for working people' was an effective election promise from the Labour Government, coming as it did in the midst of a period of high inflation and stagnated incomes.

But the pledge has led to a tricky tightrope for Chancellor Rachel Reeves to walk as she tries to raise funds to meet the proposed spending outlined while keeping her word of not increasing VAT, national insurance or income tax – the very taxes that would raise the most.

She has attempted to circumnavigate this by increasing employer's National Insurance contributions, increasing capital gains tax and tweaking inheritance tax, among other measures.

Personal Taxation

Despite heavy speculation ahead of the announcement, there will be no extension of the freeze in income tax and National Insurance thresholds, which is set to end in 2028. This move is designed to prevent more people from being brought into higher tax bands as their wages rise in line with inflation.

Taxpayers pay tax at 20% on income over £12,570, at 40% on incomes over £50,271, and 45% on incomes above £125,140. Income tax rates are set by devolved governments, and may differ from these central bands.

Capital Gains Tax

The chancellor confirmed a widely anticipated increase in capital gains tax, a tax which is charged on profits made from selling assets such as a second home or shares in a company.

The lower rate will rise from 10% to 18%, with the higher rate rising from 20% to 24%. These rates bring capital gains tax in line with the tax paid on residential property, which remains the same at 18% and 24%. There were no changes to the annual allowance of £3,000.

Stocks and savings falling within your annual ISA allowance of £20,000 are free from capital gains tax, so even if your investments within that tax wrapper rise a significant amount, the government has no claim on this 'capital gain'.

But any investments which breach this limit will be taxed at your marginal tax rate.

Employers’ National Insurance

The bulk of the tax rises – a hefty £25bn – will be paid for by a hike in the amount employers pay in National Insurance.

Reeves announced that National Insurance contributions by employers will rise from 13.8% to 15%. In addition, the threshold at which businesses start paying National Insurance on a workers' earnings will be lowered from £9,100 to £5,000.

However, the Employers Allowance - the amount employers can claim back from their National Insurance bill – will be increased from £5,000 to £10,500.

The Bottom Line

The Autumn Budget 2024 delivered a wide range of amendments which could have a substantial impact on your own financial plan.

Your financial planner will be in touch to discuss these important announcements, and to talk about how you can review your strategy, keep on track with your long-term goals and ensure you’re protecting your financial future.