How will the Autumn Statement affect you?

Chancellor Jeremy Hunt called it an Autumn Statement for growth. While there was bad news for the UK economic outlook, there were some positives for household finances and potentially radical changes ahead for pensions.

Many commentators were expecting big changes to be announced in the Autumn Statement as the government makes a last-ditch attempt to win voters over before a general election next year. The Chancellor certainly covered a lot of ground, with additional measures announced in the paper issued alongside his speech. Here we go through the key announcements and what they mean for your finances.

A Statement for Growth

The Chancellor called it "A Statement for Growth" but, as the Shadow Chancellor scathingly pointed out, the Office for Budgetary Responsibility (OBR) actually downgraded its UK growth forecasts for the next two years. In March, the OBR, which provides independent oversight of the UK's public finances, forecast that the economy would grow by 1.8% in 2024 and 2.5% in 2025. It has now revised those figures down to 0.7% and 1.4% respectively.

While there has been much fanfare around inflation having halved in October, the OBR now expects it to remain above the Bank of England's target 2% until the middle of 2025, more than a year later than it forecast back in March. Although the falling headline inflation figure means prices are increasing more slowly than they were a year ago, they are still rising faster than the Bank of England would like to keep the economy stable and living costs will continue to go up month on month.

With inflation proving difficult to tame, interest rates will likely need to remain high for some time as the Bank seeks to control the speed at which prices rise. This could be challenging for those with variable mortgages, or if your fixed rate deal is coming to an end, but will be more positive news for people with cash savings.

Taxation

National Insurance

The headline-grabbing announcement was the reduction in National Insurance (NI). If you're an employee, you'll see your rate fall from 12% to 10%. The change will take effect from 6 January, rather than the start of the tax year as is the norm, which means you'll get a bit extra in your pay packet soon after Christmas. The exact amount saved will depend on your personal circumstances, but those earning £35,000 will receive an extra £450 a year.

If you're self-employed, you'll also benefit from a reduction in your main rate of NI from 9% to 8% from 6 April 2024 and the abolition of the compulsory flat rate NI charge of £3.45 per week if your profits are above £12,570 a year. The Chancellor estimates that together, these reforms will save the average self-employed person £350 a year.

Income tax

There were no changes to income tax, which means the effect of the headline NI cut, will be eroded by the previously frozen income tax thresholds. The thresholds are frozen until April 2028, which means they won't rise with inflation as in previous years, so as wages rise, an increasing number of people will have to pay tax at a higher rate. As a result, the OBR estimates there will be four million new income taxpayers by 2029 and it will generate an extra £45bn for the Treasury.

Capital gains tax (CGT)

There were no new announcements on CGT, but the annual exempt amount will reduce as planned to £3,000 from April 2024 (it was already reduced from £12,300 to £6,000 in April 2023). If you're selling assets like paintings, jewellery or antiques, or a second home as well as shares that aren't held in tax-exempt accounts, let us know so we can discuss options for limiting any CGT liability.

Inheritance Tax

It was widely expected that Mr Hunt would make changes to the Inheritance Tax (IHT) rules, but there was nothing in the final announcement. Currently charged at 40% for estates worth more than £325,000, there was speculation of reducing the rate to 30% or upping the threshold to £500,000. However, only 4% of families are affected by IHT, and either move would cost the Treasury billions in lost revenue, which perhaps explains the Chancellor's decision to exclude it this time.

Pensions

Pensions hit the headlines following the Budget earlier this year with the shock scrapping of the lifetime allowance. Although the Autumn Statement proved less surprising, with much of the pension policy having already been leaked in the media, the measures could lead to radical change in the pension system.

Pot for life

A key announcement was the consultation on 'pot for life' which aims to give employees the "legal right to require a new employer to pay pension contributions into their existing pension". Currently, each employer has their own pension scheme under auto-enrolment, but if you move jobs, you end up with multiple pension pots that you have to keep track of. There are also extra cost implications in managing small pots of money. Having a 'pot for life' would solve these problems, and the Chancellor suggested it could add an "extra £1,000 a year in retirement for an average earner saving from 18".

As part of his pension reform plans, Mr Hunt spoke of consolidating small workplace schemes, so that by 2030 the majority of workplace pension savings will be invested in funds of at least £30 billion. The Financial Conduct Authority, which regulates financial services firms, will also consult next year on a new Value for Money Framework to ensure pension schemes are delivering value for money for their members.

State pension

Those receiving the new state pension will see it rise from £203.85 to £221.20 a week, based on last year's average earnings increase of 8.5%. There was speculation that this figure would be reduced from 8.5% as public sector bonuses had 'skewed' the figure, but the triple lock, which ensures the state pension goes up each year by the highest of either 2.5%, inflation or average earnings, was honoured in full.

Lifetime Allowance

The Statement confirmed that the removal of the Lifetime Allowance will take effect from 6 April 2024. Further details on taxation, protections, transitional arrangements and reporting requirements will be included in the Autumn[6] Finance Bill to be published later this year, so we wait with interest to see the full details of how clients will be affected.

Other Measures

ISA simplification

Although not included in the Chancellor's speech, the Autumn Statement's supporting paperwork does cover the government's much-mooted plans for ISA simplification. From April 2024, you will be able to subscribe to multiple ISAs of the same type every year and make partial transfers of ISA funds in-year between providers. Permitted investments are also expanding to long-term asset funds and open-ended property funds with extended notice periods within Innovative Finance ISAs. ISAs will also be able to hold fractional shares from April, which had previously been banned by HMRC. This change of rules will mean investors will no longer have to buy whole shares when investing in a company. Company shares can be eye-wateringly expensive – on 22 November 2024, a single share in Berkshire Hathaway, the US holding company owned by renowned investor Warren Buffet, cost over $548,000 (nearly £439,000)! Closer to home, a share in Next Plc, the UK retailer, was worth £7,700.

These changes will allow greater choice over how and where to invest your money. The total annual subscriptions remain the same though, at £20,000 for ISAs, including up to £4,000 for a Lifetime ISA, and £9,000 for a Junior ISA.

It was also announced that the account opening age for any adult ISA will be 18 from April next year. This brings cash ISAs, which can currently be opened from age 16, in line with other ISAs. Junior ISAs can still be held from birth to age 18.

NatWest retail share offer

The Chancellor expressed his commitment to further cutting the public stake in NatWest, which the government took during the global financial crisis of 2008. He spoke of a potential retail share offer within the next 12 months, allowing consumers to buy shares, saying: "It's time to get Sid investing again," echoing the strapline of the British Gas privatisation in the 1980s.

Alcohol and fuel duty frozen, tobacco duty raised

To cheers from the House, Mr Hunt announced that duty on all alcohol including beer, cider, wine and spirits, would be frozen until 1 August 2024. Smokers were not so lucky, with an increase in duty on hand-rolling tobacco of 10% on top of the already planned RPI +2% for cigarette products, which took effect from 6pm on 22 November 2023.

Fuel duty missed out on a mention in the speech, but drivers should be reassured that it remains unchanged, at least until March next year.

Next Steps

It's clear that there are still challenging times ahead for both the country's finances and our household budget too. If you have any concerns about how the Autumn Statement might affect your financial situation and future plans, please get in touch, we're here to help.

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