**Top rate taxpayers**

Are you on course to join the top tax club?

**Budget scare looms**

CGT and IHT likely targets in October Budget

**Dividend boom reality**

One-off payments inflate uplift

# Bulletin

Whitings Wealth Management Ltd

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# The missing element in pensions change

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

The first King's Speech of the new parliament included a Pension Schemes Bill, largely dealing with administrative matters, such as automatic consolidation of pension pots. What was glaringly absent was increasing the minimum level of automatic enrolment contributions, which would do more to improve retirement prospects than any of the Bill's draft contents.

At present, for an eligible employee, the minimum contribution is set at 8% (3% employer minimum/balance paid by employee) of annual earnings between £6,240 and £50,270. There is widespread agreement among pension experts that current contribution, levels are too low. The last government accepted this and introduced legislation giving it powers – so far unused – to reduce both the minimum age and lower level of qualifying earnings.

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.

> *What was glaringly absent was increasing the minimum level of automatic enrolment contributions, which would do more to improve retirement prospects than any of the Bill's draft contents.*

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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# Interest rates take a step down

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

The Bank of England did something this summer unseen since 19 March 2020: it cut the Bank rate. 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 will they drop?

The answer implied (not guaranteed) by the UK money markets is that the Bank rate will be 3.5% by the third quarter of 2027. Assuming no further global pandemics or escalating international incidents, UK interest rates look set on a downward path, which 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.

Credit: sommart sombutwanitkul/Shutterstock.com

- 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. Inertia is now a serious risk if you are sitting with cash on the investment sidelines. Wait too long before making your move into long-term assets and you could miss investment profits.
- Lower interest rates will 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.*

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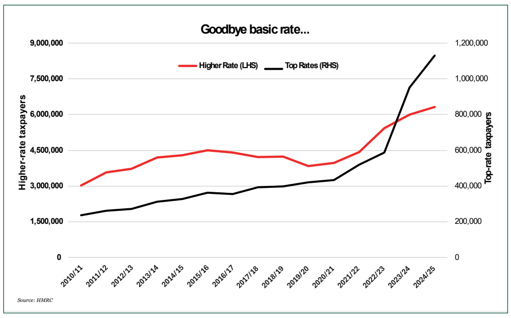
*Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.*

TAX

# Joining the boom in top-rate taxpayers?

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



Source: HMRC

Each year HMRC produces an extensive set of tables about income tax, which accounts for about 30% of all tax revenue. In recent times, Scotland has complicated these tables by creating extra tax bands. For example, in 2024/25 a new Scottish advanced rate was introduced, so HMRC decided to group Scots who pay the new advanced rate (45%) and top rate (48%) together with those in the rest of the UK who pay the additional rate (45%).

The Scottish distortions have failed to alter a clear trend in the data: a sharp rise since 2020 in the numbers paying higher- or additional-rate (as HMRC defined) tax. The higher-rate taxpayer population boom is a direct result of the freeze on the higher-rate threshold at the 2021/22 level (throughout the UK), despite the over 20% surge in inflation since April 2021.

The additional-rate tax story is worse, because the previously frozen threshold was cut from £150,000 to £125,140 in 2023/24, followed by the Scottish advanced addition in 2024/25.

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 help. 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 generosity. 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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TAX

# October tax deadlines

*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.

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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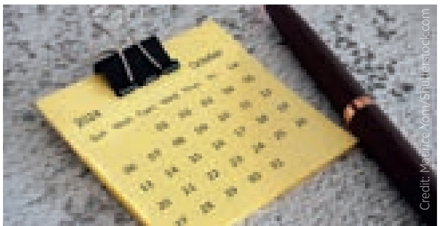


Credit: Maurice Yom/Shutterstock.com

TAX

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

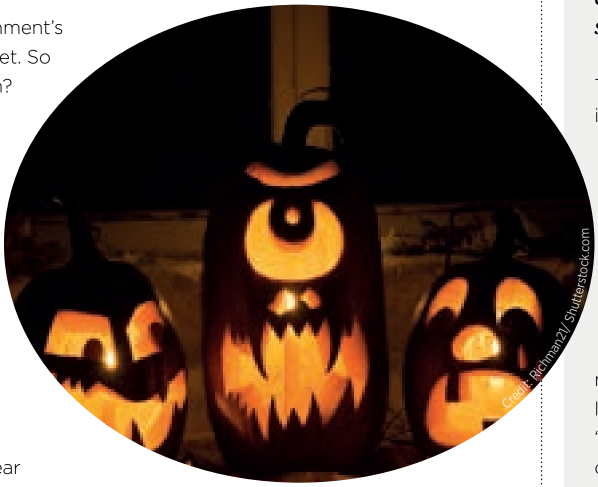
*Rachel Reeves's first Budget will be on Wednesday 30 October.*

"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 in late July was designed to prepare taxpayers for changes to come, revealing "A £22bn hole in the public finances." The new Chancellor took immediate action to start filling the hole, including ending road and rail projects and 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 October's Budget. So where might the Chancellor find some cash?


Credit: Richman21/ Shutterstock.com

## The not so usual suspects?

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." That sentence appears to rule out the main revenue sources although, as the previous government demonstrated, a 'rates' pledge leaves scope for creativity elsewhere. The relevance of the manifesto's reference to 'working people' was made clear by the surprising welfare cuts that primarily hit pensioners. Reeves's 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%.

> *If Reeves chose a 30% flat rate, most taxpayers would benefit and the Exchequer would gain an estimated £3 billion a year.*

***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, is a possibility which 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 tax relief (within limits) at your marginal rate of tax. That can be as high as 60% (67.5% in Scotland) 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 chose a 30% flat rate, most taxpayers would benefit 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 take 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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INVESTMENT

Credit: Billion Photos/Shutterstock.com

# Ensuring green means green

*Many of us are taking steps to tackle some of the environmental challenges we face. This might be switching to a renewable energy tariff, reducing plastic use or ensuring our money is invested sustainably.*

There 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' — misleading advertising or 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. 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.*

Credit: Roman Samborskyi/Shutterstock.com

INVESTMENT

# Dividends deliver – behind the headlines

*UK companies paid a bumper £36.7 billion in dividends to investors in the second quarter of 2024 — an 11.2% increase from the previous year. But there are some important caveats behind these positive headline figures.*

A substantial portion of these dividends came from 'special' one-off payments, which amounted to £4.1 billion. Notably, HSBC contributed £3.1 billion following the sale of its Canadian subsidiary. When excluding these special dividends, the increase in regular dividends was a more modest 1%.

Dividends play a crucial role in enhancing overall investment returns, particularly when reinvested. Over the past 20 years, the FTSE 100 index returned 65% to investors, but including dividends, the total return jumps to 239%, or 6.6% annually.

However, not all companies pay regular dividends. Mature, financially stable companies, such as utility firms, banks or oil companies are more likely to distribute dividends. Companies in rapidly evolving sectors like technology often reinvest profits in the business to fuel growth instead.

In the UK, nearly 90% of dividends come from the largest companies in the FTSE 100. Banks were the strongest contributors in Q2 2024, with many on track for record payouts this year. Healthcare companies also showed strong dividend growth. On the other hand, economic challenges have been reflected in a significant drop in dividends from mining companies and housebuilding firms.

However, excluding the weaker mining sector, the UK market saw dividend growth of 8.6%, indicating that income opportunities remain despite sector-specific slowdowns.

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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 are subject to significantly different repayment terms 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 pays the same amount each month whether they have a student loan of £5,000 or £50,000. Unlike conventional loans, unpaid debts are written off after a set period. Under the revised system, graduates begin 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.

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. 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.

NEWS IN BRIEF

# *News round up*

## 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.

## Sterling's high

Sterling has been one of the best-performing currencies in 2024 — good news for holidaymakers who will have found their money going further overseas this summer. 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 6% this year, negating some of the gains seen in the Japanese stock market for UK investors.

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## 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 has confirmed that it will start imposing VAT on these fees. This will be imposed at the standard rate of 20%. 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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