IHT expansion

Regular gifting could mitigate legacy costs

Autumn Budget approaching

Prepare for another round of tax increases

State pension age

Threshold increases could link to life expectancy

Bulletin

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Time to boost pension contributions?

The government wants to boost retirement adequacy and has revived the Pensions Commission to come up with solutions.

The new Commission is seeking views from businesses, unions and taxpayer groups and will make its recommendations in 2027. This consensus approach mirrors the first Pensions Commission, launched over 20 years ago, which led to the creation of auto-enrolment (AE).

Many more people now save into workplace pensions, but there are concerns that most are not saving enough to fund a comfortable retirement.

The Commission is expected to recommend an increase to minimum contribution levels, which are currently set at 5% of 'qualifying' earnings for employees, with employers contributing a further 3%. The Pensions and Lifetime Savings Association (PLSA) is calling for 12% minimum – split between employer and employee.

A 'comfortable' retirement is now likely to cost a couple £5,000 a month - which will require substantial savings during people's working life.

Bear in mind that a 'comfortable' retirement is now likely to cost a couple £5,000 a month according to the PLSA – which will require substantial savings during people's working life.

You certainly don't have to wait until the Pension Commission reports to boost your pension funds. If your employer offers a 'matching' scheme, then consider increasing pension payments via this scheme first. Alternatively, it could make sense to look into personal pensions or SIPPs, particularly if you're self-employed.

If you're paying at the minimum AE level, or haven't increased pension contributions for years, you may want to review whether you are on track for the kind of retirement you'd like and take advice.

✣ *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.

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.

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Inheritance tax expands wider and deeper

Inheritance tax (IHT) receipts are continuing to rise, as more estates fall within its scope.

The current threshold of the £325,000 inheritance tax (IHT) nil rate band (NRB) was set by Gordon Brown in 2006 and came into force three years later. IHT receipts have grown by 258% since January 2010 while prices (as measured by the CPI) have risen by 58%.

If you're concerned about the potential impact of IHT on your family, consider making a substantial lifetime gift before the next Budget. However, achieving this tax free can be complex. Fortunately, there are many other ways to help mitigate IHT.

First review your will, which determines how your estate is divided up. If you do not have a will, then the distribution of your estate

defaults to intestacy rules, which can create unnecessary IHT liabilities. If you do have a will, make sure it's up to date.

Gifting

With your will in place, you can then examine your lifetime planning options. Various exemptions exist for regular gifts. Some investments can be chosen or structured to reduce your IHT liability while retaining the right to receive an income for your benefit.

The ultimate backstop – a whole of life assurance policy placed under trust – has seen a renaissance in popularity since last year's Budget. The policy premiums will often be covered by regular gift exemptions, while the trust framework ensures the policy's value is outside your estate and immediately available to your chosen trustees.

Whatever your IHT knowledge or plans, advice is vital. The nil rate band may not have changed for 16 years, but over that period the surrounding legislation has greatly expanded in complexity.

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INVESTMENT

Where next when investing for income?

The Bank of England has cut interest rates three times this year and savers' rates have followed.

Since last November, the Bank of England has cut its bank rate by 0.25% at every other meeting – effectively each quarter. The cuts have come despite inflation rising from 1.7% in September 2024 to 3.8% ten months later. A final 2025 rate cut (to 3.75%) might still arrive at the end of the year as the Bank has two more rate setting meetings.

Customers absorb rate cuts

As ever, the banks and building societies have been quicker to pass on falling rates to their depositors than rising ones. Deposit interest is also likely to be falling, mirroring the bank rate's downward steps. Where the drop in rates could end is uncertain, but they have already fallen to just 2% for Eurozone countries.

The Bank's steady cutting of short-term interest rates has had much less impact outside the deposit sector, making other income-producing investments relatively more attractive. For example:

- **Sterling fixed interest funds** These funds generally hold UK government and/or commercial bonds, which offer attractive yields to investors. In part this reflects the continued high borrowing by the government. For example, the yield on 10-year government bonds (gilts) is now around 4.6%, close to the level last seen in 2008.
- **UK equity income funds** Usually one of the higher paying of the major equity markets, the UK average is close to 3.5%, allowing investment managers to offer portfolio yields of 4% and more, while the average dividend yield on US shares is down near 1%. However, a good rule of thumb is always the higher the yield, the greater the risk.
- **Structured products** These are specialist investments that can offer higher income yields than UK equity or fixed-interest funds but come with potentially greater complexity and risk.

Fixed-interest funds, UK equity funds and structured products can all be wrapped within an ISA, taking the income that they generate out of personal tax.

To learn more about these and other income options and current yields, please contact us.

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INVESTMENT

Premium bonds returns reduce further

Bad news if you have invested in Premium Bonds: NS&I has reduced its prize rate to 3.6% – the third cut this year.

This is the return you should get with 'average luck', although many bondholders see returns below this level. Despite this cut, NS&I will still award two £1 million jackpots each month but has reduced other large cash prizes. However the odds of winning a prize remain the same at 22,000 to 1.

If you hold Premium Bonds it's worth checking whether you're already a winner, as NS&I now has a staggering £105 million in unclaimed prizes. To check, log onto the NS&I website with your bondholder's number. Given many of these prizes have been unclaimed for years it's worth talking to older relatives who may also hold these popular investments, to make sure they're not missing out.

TAX

Looking ahead to the Autumn Budget

Last year's big tax-raising Autumn Budget should have been a one-off, but Autumn 2025 promises more of the same.

Rachel Reeves' Budget premiere last October produced tax rises amounting to over £41 billion a year by 2029/30. In an interview following that Budget, the Chancellor said, "…there's no need to come back with a budget like this. We'll never need to do that again."

Under a year later, the notion that the 2024 Budget was a one-and-done affair now looks wishful thinking. In early August 2025 the independent National Institute of Economic and Social Research suggested the Chancellor would need to find more than £50 billion in additional taxes and/or spending cuts to stay within her 'cast iron' fiscal rules. The government does not recognise that figure.

If tax rises are inevitable – something the Treasury does not deny – then where could the Chancellor target? The government's stance reiterates its manifesto promise not to increase the rates of income tax, VAT and national insurance (for employees, anyway). As these are the three largest sources of tax revenue, this is a major constraint on raising revenue.

Likely targets

One likely non-rate income tax increase is a two-year extension to April 2030 of the freeze on allowances and tax bands. This allows inflation to drag more people into tax and pushes existing taxpayers into higher rates. A good example is the £12,570 personal allowance, first set in 2021/22, which would now be about £15,000 unfrozen.

A cut to income tax and/or national insurance relief on pension contributions is a regular Budget candidate which, to date, has only attracted limited tweaking via the pension annual allowance. It's a tempting target – the latest figure for the cost of relief is over £78 billion. One frequently suggested reform that might become reality is for income tax relief to be set at a flat rate – say 30% – rather than the current marginal income tax rate of up to 45% (48% in Scotland).

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The Chancellor has already made clear she wants to reduce the amount that can be invested in cash ISAs (currently 100% of the maximum £20,000 subscription, frozen until 2030). Any restriction could have a wider impact, catching some funds currently classed as fixed-interest investments within stocks and shares ISAs.

Another rise in capital gains tax rates is unlikely after last year's changes, but there could be an increase to the tax on share dividends by, for example, raising the rates to bring them into line with other income tax rates.

Some useful pre-Budget actions could be considered after seeking advice, such as making pension contributions before the Chancellor speaks. Beyond the tactical approach, there is also strategic planning, which normally requires personalised advice. This could involve minimising taxable income as far as practical, making full use of independent taxation and timing income so that important thresholds (e.g. £100,000 at which the personal allowance is tapered) are only crossed every other tax year.

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EMPLOYMENT

Could you cut your tax bill with salary sacrifice?

Many employees could cut their tax bill and boost pension savings by making the most of salary sacrifice arrangements.

Not all employers offer these schemes – but there has been more interest since the government increased national insurance (NI) payments for employers.

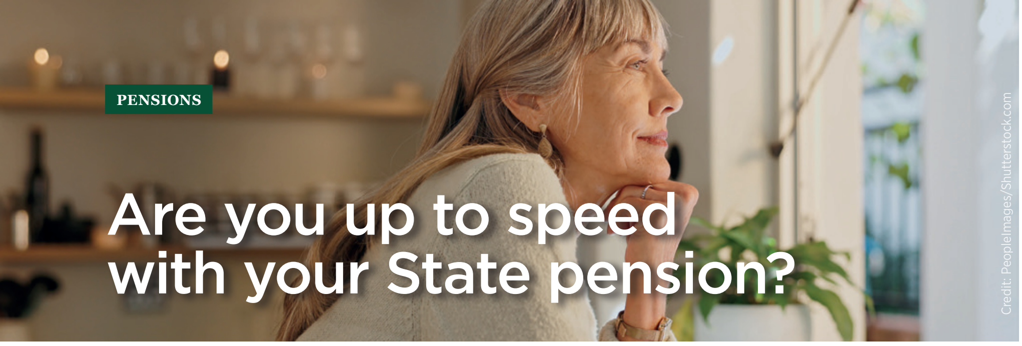
These schemes offer tax savings to employers and employees. Under such arrangements an employee 'sacrifices' part of their gross salary, with their employer paying this sum directly into their workplace pension.

Because income tax and NI aren't due on the sacrificed salary, this reduces the employee's overall tax bill. The employer also saves on the NI they would otherwise have paid on the sacrificed salary – a more significant saving since the recent NI increase.

Such arrangements are particularly beneficial for higher- and additional-rate taxpayers. There are now more people falling into these higher tax bands, despite more buoyant wage growth, under the impact of long-term frozen tax thresholds. These income tax bands are due to remain at current levels until at least 2028.

Salary sacrifice can also be valuable for those close to thresholds for losing other benefits – such as child benefit, tax-free childcare or personal allowance. By keeping your taxable salary below the relevant limits you can still retain access to these benefits, on top of the tax savings.

However, employees should remember that salary sacrifice reduces their take home pay and lowers the income used in mortgage affordability assessments, and that money diverted into a pension may not be accessible until age 55 (57 from April 2028).


Credit: PeopleImages/Shutterstock.com

PENSIONS

Are you up to speed with your State pension?

The government has launched another review of the State pension age (SPA).

It comes as SPA, currently 66 for both men and women, is due to increase to 67 from 2026 to 2028.

A further increase to 68 is also scheduled – although not until 2044. The current review will consider whether this should be brought forward.

It will also look at the merits of linking the SPA to life expectancy, a practice that is common in several European countries.

Wide-reaching review

Given life expectancy has stalled, you might assume that it will be years before the SPA is raised to 68, or beyond. But this actuarial data isn't being considered in isolation. The review will also consider the longer-term sustainability of the State pension, including the potential savings from raising the age.

Those approaching retirement should check when they will receive their State pension – particularly if their 66th birthday is after April 2026. You can check what you will get and when at gov.uk/check-state-pension.

However, it's important to remember you don't have to take your State pension on that date. Those who do not need this income, perhaps because they're still working, or have pensions or income from other sources, can defer. They will receive an uplift of around 5.8% for each year deferred, when they do start to take the benefit. But of course, those who defer are not receiving this money in the interim, so may not necessarily be better off overall.

Ultimately, whether it pays to defer depends on how long you eventually live, which none of us knows in advance. There may also be tax implications to take into account, so speaking to an adviser about your options is important.

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INVESTMENT

Savings or investment? Shifting from cash to stocks

The government is keen to encourage savers to invest more of their money into stocks and shares to help boost growth.

A cautious nation

UK households had just 32% of their savings in stock market investments in 2023 – outside of their pension funds – a figure which has been in decline for over ten years.

The Chancellor, Rachel Reeves, is hoping new rules might encourage people to invest more. 'Targeted support' will allow banks and other financial companies to make product recommendations, including information about potential investment opportunities.

A new approach to consumer advice

Reeves also criticised the risk warnings that are required on all investment products. She told the City she'd like to see a shift towards "informing rather than warning" as a way to encourage people to be more adventurous with their longer-term savings.

The Chancellor also floated the idea of an advertising campaign to promote the benefits of investing. This has drawn comparisons to the 'Tell Sid' advertising campaign of the 1980s, which encouraged millions of consumers to buy shares in newly privatised utilities.

Given the high proportion of cash savings, there may be good reasons to consider equity-based investments, particularly if you're looking to build wealth for the future. Most people will invest in both cash and equities so may want to speak to an adviser about the best mix to meet both longer- and shorter-term savings goals.

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

Investments do not offer the same level of capital security as deposit accounts. The value of the investment and the income from it can fall as well as rise and investors may not get back what they originally invested.

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Credit: Loch Earn/Shutterstock.com

NEWS IN BRIEF

News round up

Important October tax dates

There are two key tax dates in October:

- *5 October* is the deadline for registering with HMRC for self assessment and a 2024/25 tax return, if you have not registered before. You can check on you.gov whether you need to register.
- *31 October* is the final date for filing a paper self-assessment return for 2024/25. If you file online, you have another three months' leeway.

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Company cars return

New HMRC data shows that company car ownership is on the rise after declining by a quarter in the second half of the 2010s. The increase has been driven by electric vehicles (EVs), which now account for 41% of the company car population. The tax advantages of salary sacrifice for EVs have played a major part. However, the government is tripling EVs' taxable benefit over the next four years.

Counting billionaires?

Lord Kinnnock, the former Labour Party leader, revived talk of a wealth tax over the summer, an idea that last appeared in the wake of the pandemic. While the government refused to be drawn on the possibility, they will be aware that the Commons Public Accounts Committee recently discovered HMRC does not actually know how many billionaires there are in the UK.


Credit: Head over Heels