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Out and About in the Financial World

Welcome to our newsletter sharing items that we feel may be of interest to you, our clients, as well as your family and friends.
If you read anything of interest and we can be of further help please don't hesitate to give us a call.

A summary of the 2023/24 Tax Year

As the current tax year draws to a close and with an early spring Budget now set for 6 March and most probably an election on the horizon later in 2024, official estimates are upgrading the effects of fiscal drag, which is pulling more people into paying tax and increasing liabilities for those already paying tax.

Politicians, economists and policymakers will have the crucial spring Budget on their radar as the Chancellor gears up for what could be the last fiscal event before the next General Election. Hardly will the dust have settled on that before the tax year ends and new tax rules apply from 6 April.

Then there is the small matter of a General Election, which strictly speaking does not have to be held until January 2025 but seems more likely to be held in 2024. We can hope for some clarity on tax policy in the campaigns but the likelihood is that manifesto promises will remain light on detail, emphasising the tightness of the public finances and the need to stick by fiscal rules.

By the end of the year, however, we might have a new Government with fresh intentions for tax rates and rules that could affect everyone in the country.

Tax will also become an issue for more pensioners with modest private incomes as the rising state pension takes up more and more of the £12,570 personal income tax allowance, and for more savers who are being caught out as higher interest payments threaten to breach the personal savings allowance.

The personal tax allowance was £12,500 in April 2019: if it had been raised in line with the consumer prices index it would have been set at around £15,150 last April and if we assume inflation of 6% for this financial year would be about £16,000 by next April.

Likewise, the higher rate tax threshold which was £50,000 in April 2019 – and is drawing huge numbers of people into paying 40% tax – would have been raised to about £60,600 by this April and by next April would be well over £64,000.

A move to reduce inheritance tax is now thought likely at the spring Budget, having failed to materialise at the Autumn Statement. Speculation again is that the 40% will be halved, but families with more modest estates that are being drawn into the IHT net would probably rather see the nil-rate band raised. The £325,000 allowance has been frozen since April 2009 and would now stand at £489,700 had it risen with inflation.

Sian Steele, Head of Tax at Evelyn Partners - Jan 2024.

Key Tax Changes - April 2024

State Pension Rise

The State Pension will rise by 8.5% in April 2024, in line with earnings growth. This is the second biggest percentage rise in the State Pension in the last 30 years, as it rose by 10.1% in April 2023.

The triple lock guarantee means the State Pension will rise by the highest of September's inflation figure, earnings growth, or 2.5%.

From April 2024, someone on a new full State Pension will see it increase from £203.85 a week this year to £221.20 a week, while the old basic state pension will rise by £13.30 per week or £691.60 per year, to £169.50 a week.

Lifetime Allowance abolished

The pensions Lifetime Allowance will be abolished from 6 April 2024, and the tax charge for breaching the allowance hasn't applied since April 2023. Originally, it was due to remain frozen at £1,073,100 until April 2026.

This is good news for those who've saved into a pension over the course of several decades, and built up a substantial pot. They may have found they had retirement savings in excess of the Lifetime Allowance, particularly if they've been lucky enough to belong to a final salary (or defined benefit) pension scheme.

For people with big pension pots, the abolition of lifetime allowances last year was amazing news. But although lifetime allowance charges are gone, there will now be a £268,275 cap on the tax-free lump sum you can take from your pension.

If you have existing lifetime allowance protections then check with your provider, as you may be able to keep a higher tax-free allowance in some circumstances.

Capital Gains Tax (CGT)

In April 2024, the Capital Gains Tax (CGT) allowance will reduce to £3,000, down from £6,000 in the 2023/24 tax year (down from £12,300 in the 2022/23 tax year). Similarly, the amount of dividend income you can earn before paying tax is reducing to £500 from April 2024, down from £1,000 this year and £2,000 in 2022/23. This could make holding your savings in a tax-efficient pension or ISA particularly important.

With an investment portfolio of £50,000 yielding 4% dividend income, you could end up paying up to £500 dividend tax on shares held outside an ISA or SIPP, and a capital gain of £10,000 could leave you with a £1,400 tax bill, if you're a higher rate taxpayer.

Acting before the end of the tax year in April to make use of this year's allowances could potentially save a big tax bill down the line.

With the changes imminent it is important to take the time before April to review your finances and assets to optimises your tax exemptions and allowances.
Please contact us if you wish to discuss any of the above.