The date of Labour's first Autumn Budget is set for 30 October 2024, amid intense speculation as to what it may include.

Chancellor of the Exchequer, Rachel Reeves, has stated that the government needs an extra £22 billion to meet its spending commitments for the current year[1]. Interestingly, she has publicly acknowledged that taxes will need to increase. Keir Starmer reinforced this tough message by warning that the Budget would be "painful" and that those most able to do so would carry the heaviest load[2].

We understand this level of uncertainty may cause worry and anxiety. In this brief article we aim to explain what we know so far, provide an update on the current situation as Schroders Personal Wealth (SPW) understand it, and reassure you that we are by your side every step of the way.

Please note that this information is not personal advice and we do not base our advice on speculation.

What do we know so far?

The Labour manifesto pledged not to increase taxes on "working people[3]," implying they won't undo the previous government's national insurance cuts, costing £18 billion. They also vowed not to raise National insurance, income tax, or VAT, except on private school fees, as set out on 29 July[4].

This limits the government's options in terms of raising funds, as these are the three largest taxes in the UK[5] today and make up a vast proportion of the government's revenue.

So, what does that leave and what could you think about?

Capital gains tax (CGT)

What is Capital Gains Tax?
CGT is a tax on the profit when you sell something that's increased in value. It's the gain you make that's taxed, not the amount of money you receive[6].

Raising CGT to match income tax rates is a possible option for the Chancellor, who may also be exploring changing the way CGT applies to inheritances, which currently allows beneficiaries to inherit at the date of death value and not pay CGT immediately on receiving the inherited assets.

Currently, capital gains tax is levied at a lower rate than income tax. For example, basic rate taxpayers have a marginal income tax rate of 20%, whereas the basic CGT rate is 10% (or 18% for residential property). One measure that has been suggested is to either align these rates, taxing capital gains at the same marginal rates as income or increase the CGT rate, for example to 28%[7].

If your financial plan involves selling any assets in the near future and you have immediate questions, you can reach out to an Adviser to better understand your options. They may refer you to expert partners as and when necessary, for which fees and charges may apply.

Inheritance Tax (IHT)

What is inheritance tax?
Inheritance Tax (IHT) is a tax on the estate of someone who has died, including all property, possessions and money[8].

The government might seek to boost revenue by expanding the range of this tax. Whilst the spousal exemption, where any assets passing between spouses and civil partners are exempt from IHT, is likely to be protected, other exemptions may be at risk. Several avenues are available to the government. For instance, they could impose taxes on lifetime gifts, remove the income exemption for gifts (where you can make regular gifts with no monetary limit which are exempt from IHT as long as they are regular, you can comfortably afford them and that they come from your surplus income) or apply taxes to all gifts placed into discretionary trusts.

Business Relief and Agricultural Relief, which allow business owners and landowners to pass on assets free from IHT, are estimated to cost HMRC £4.4 billion per year and could be scaled back, with reports that Labour may be considering capping the amount of inheritance tax relief available for business and agricultural assets at £500,000 per person.

Another potential measure for tightening the inheritance tax net could be extending the seven-year gifting rule where, usually, no tax is due on certain gifts if you live for 7 years after giving them. This rule has remained unaltered since the Inheritance Tax Act of 1984, despite significant increases in life expectancy.

It is important to remember that, much like managing CGT, we believe taking proactive steps regarding IHT is part of an overarching financial plan.

Pensions

Another possibility for the government is to adjust pension regulations. You can usually take up to 25% of the amount built up in any pension as a tax-free lump sum. There has been talk of potential changes to this in the media yet, prior to the election, the Labour Party Central Office stated that the option to withdraw a tax-free lump sum from pensions is a permanent aspect of the UK tax system and they have no intention of altering this[9].

The pension system enjoys numerous tax benefits, including tax-free investment growth, tax relief on contributions, a tax-free lump sum upon qualifying, and exemption from IHT. These incentives encourage workers to save for retirement, as the government aims to avoid increasing future public spending.

As with the above, pensions are a key consideration when building a financial plan.

We are here to support you

Given the abundance of speculation, it's tempting to try and predict the announcement and make financial choices accordingly. However, our general advice is to refrain from making significant changes based on uncertainty. At this point, we are still unsure about the details of the Autumn Budget.

Richard Allan, Financial Planning Director at SPW says:
"It can be sorely tempting to make decisions based on what we are hearing about the budget and the potential changes, however, everything is speculation at present. My advice would be to discuss your concerns with an Adviser who can provide support to help make sure that you are not at risk of making decisions that could impact your long-term financial goals.

Richard added, "While potential tax changes shouldn't dictate your financial strategy, it's essential to stay flexible and adaptable. This way, you can ensure that any new developments won't hinder your progress toward achieving your financial goals."

We will continue to monitor events and keep you informed about the outcome of the Autumn Budget announcement and how this may impact you.

This article is for information purposes only. It is not intended as investment advice.

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

The retirement benefits you receive from your pension plan depend on a number of factors including the value of your plan when you decide to take your benefits which isn't guaranteed and can do down as well as up. The benefits of your plan could fall below the amount(s) paid in.

Schroders Personal Wealth might receive a referral fee from some of the partners we introduce you to.

In preparing this article we have used third party sources which we believe to be true and accurate as at the date of writing.

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[1] Fixing the foundations: public spending audit 2024-25 (HTML) - GOV.UK (www.gov.uk)
[2] Keir Starmer's speech on fixing the foundations of our country: 27 August 2024 - GOV.UK (www.gov.uk)
[3] Labour will not raise taxes on working people – The Labour Party
[4] VAT on private schools: Everything you need to know – The Education Hub (blog.gov.uk)
[5] https://commonslibrary.parliament.uk/research-briefings/cbp-8513/
[6] Capital Gains Tax: what you pay it on, rates and allowances: Overview - GOV.UK (www.gov.uk)
[7] Capital Gains Tax rate on disposals of residential property from 6 April 2024 - GOV.UK (www.gov.uk)
[8] How Inheritance Tax works: thresholds, rules and allowances: Overview - GOV.UK (www.gov.uk)
[9] https://www.ft.com/content/a3ae8763-07bb-4fd1-b2dc-cec5fc056cea

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