

BUDGET BREAKFAST REVIEW

1 NOVEMBER 2024

#PierceBudget2024



JIMMY KING

MANAGING DIRECTOR

CHRISTIAN SPENCE

Economic Analytics

Economic Update

Pierce Autumn Budget Breakfast Seminar

Christian Spence

Founder & Chief Economist, Economic Analytics

Economic Data Associate, Open Innovations

Chief Economist & Fellow, Institute of Place Management

Overview

This was a big budget

Big on:

- Taxes
- Spending
- Investment
- Borrowing

But, we still await:

- Industrial Strategy
- Trade Strategy
- Employment Strategy
- Poverty Strategy
- Planning Reform
- Infrastructure Strategy
- Tax reform?

Overview 2

There is a refreshing level of honesty (to some extent)

But there is also some obfuscation:

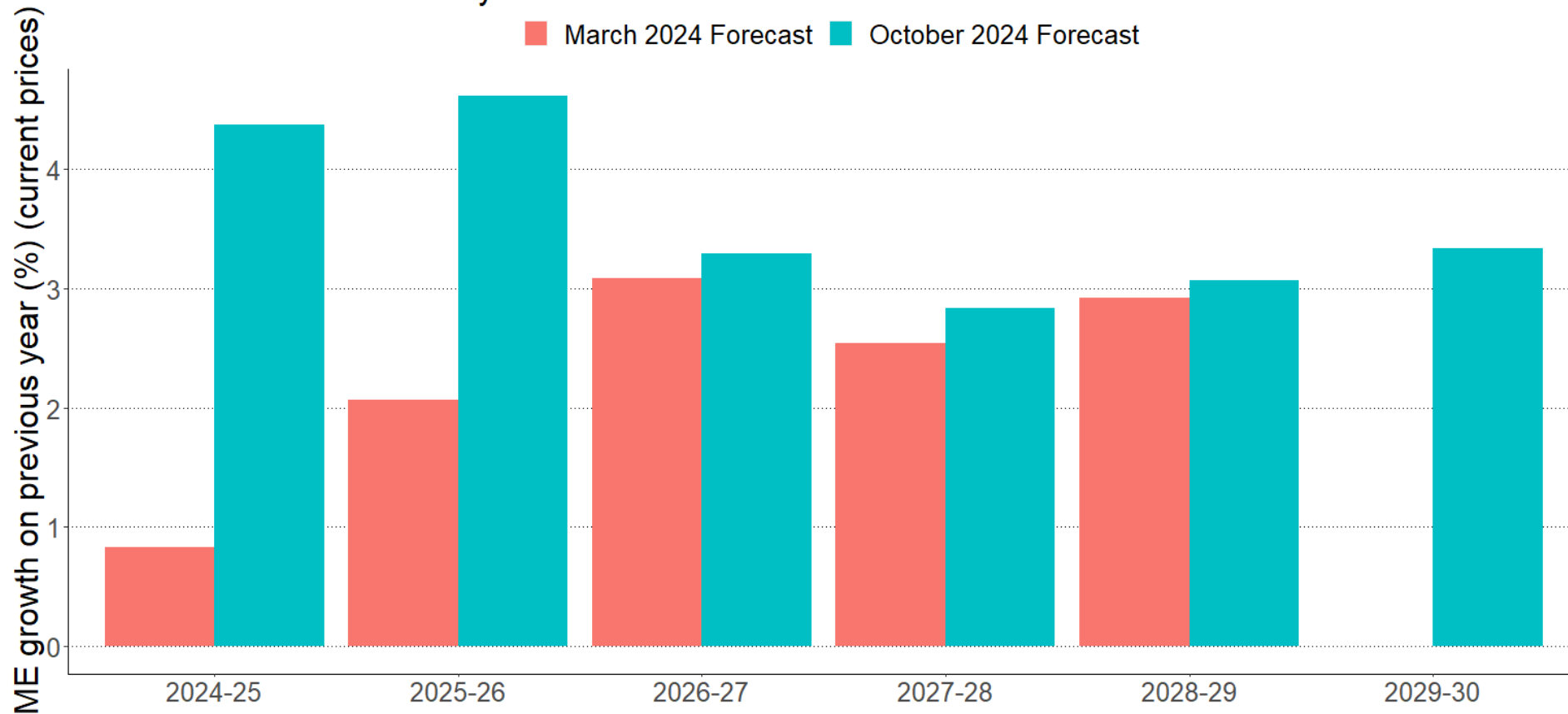
- income distribution
- “no tax increases on working people”

There has also been confusion:

- Leaking of “thoughts” which have had behavioural impacts
 - pension taxation and reliefs
 - capital gains tax

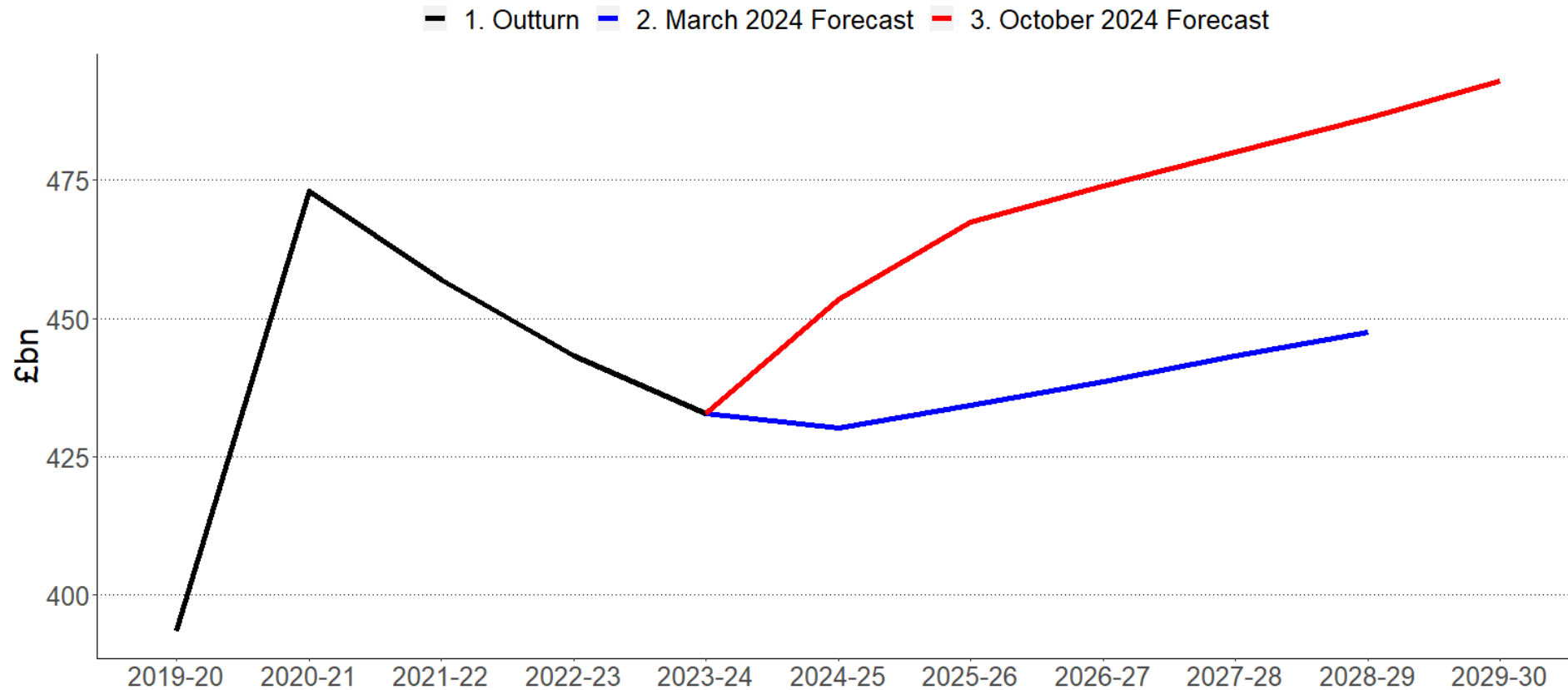
Spending

Spending is forecast to increase sharply
But this is not maintained beyond 2025/26



Resource (day-to-day) spending

Real departmental resource spending
Strong growth this year and next, before slowing

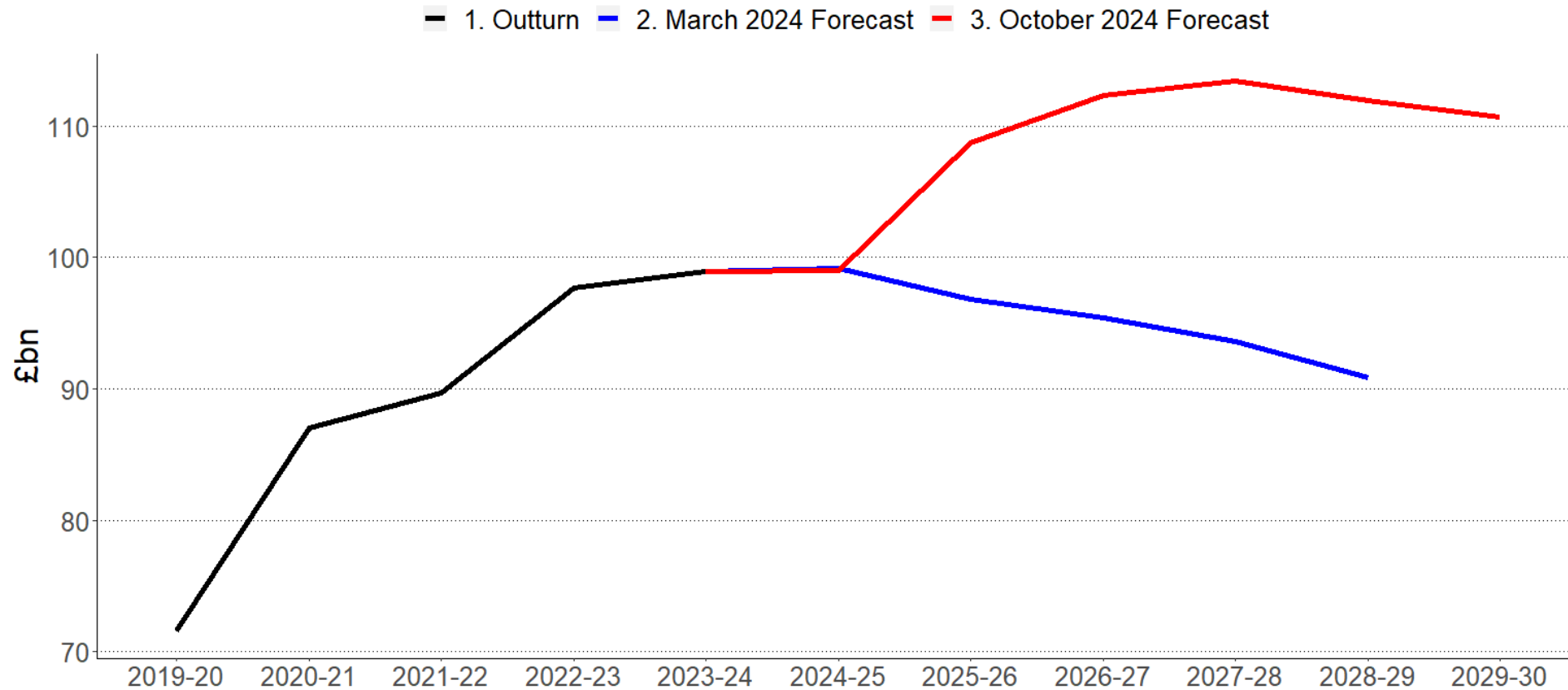


Resource spending

- Heavily front-loaded
- Questions of capacity of departments to spend this (and spend wisely)
- Set to rise 4.3% in 2023/24, 2.6% in 2024/25, then 1.3% afterwards (which implies real-terms cuts for some departments)
- Growth from 2025/26 barely above previous administration's plans
- NHS to receive about the average (though the largest cash injection)
- Local government and justice do particularly well (which shows government priorities)
- The average from 23/24-29/30 is real terms growth of 2.1% per year

Capital spending

Real departmental capital spending
Previous government's plans have been reversed



Capital spending

- Less front-loaded, but much larger than expected
- Likely to be substantial underspends
- Huge expectations on a struggling construction sector
- Alongside 1.5 million homes this parliament?
- Transport capital to be cut this year and next
- Net Zero the biggest winner, but little for output potential
- Health and education also large: will improve public services, but not (necessarily) growth enhancing

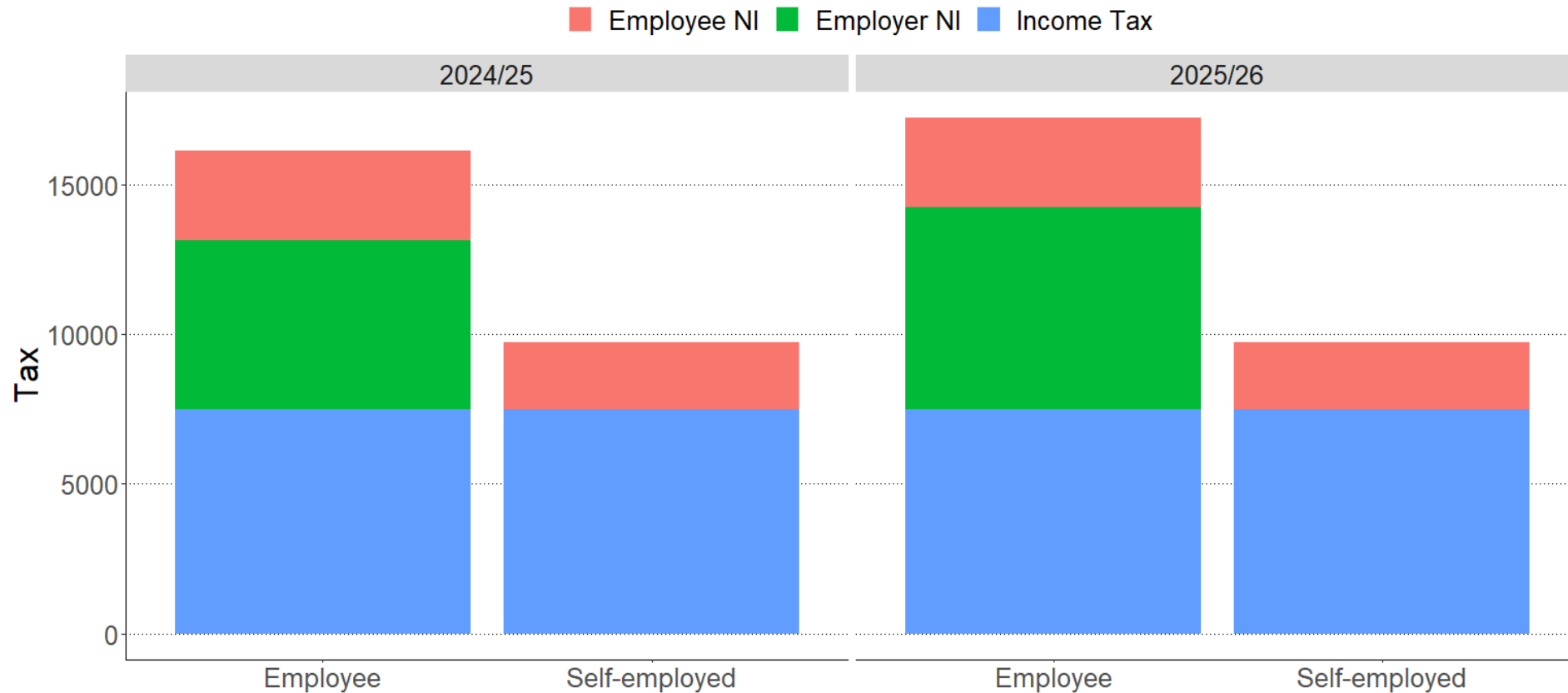
Tax strategy?

- Corporation tax roadmap is welcome, but with little detail
- Government maintains the pretension that fuel duty freeze is temporary
- Lack of fundamental reform; just rate fiddling
- Significant uncertainty about behavioural responses to changes
- Employer National Insurance
- Capital Taxes
 - Capital Gains Tax increases
 - Inheritance Tax (APR & BPR 100% -> 50% (above £1m))
 - BADR & IR rates 10% -> 14% (2025) -> 18% (2026)
 - Investors' Relief lifetime limit £10m -> £1m
 - Stamp Duty on 2nd homes up 3pp
- Abolition of domicile status
- Business rates: no sign of the manifesto commitment for “fundamental” reform

National Insurance

Changes to taxes on earnings of £50,000

The gap has widened between employment, self-employment and other forms of income



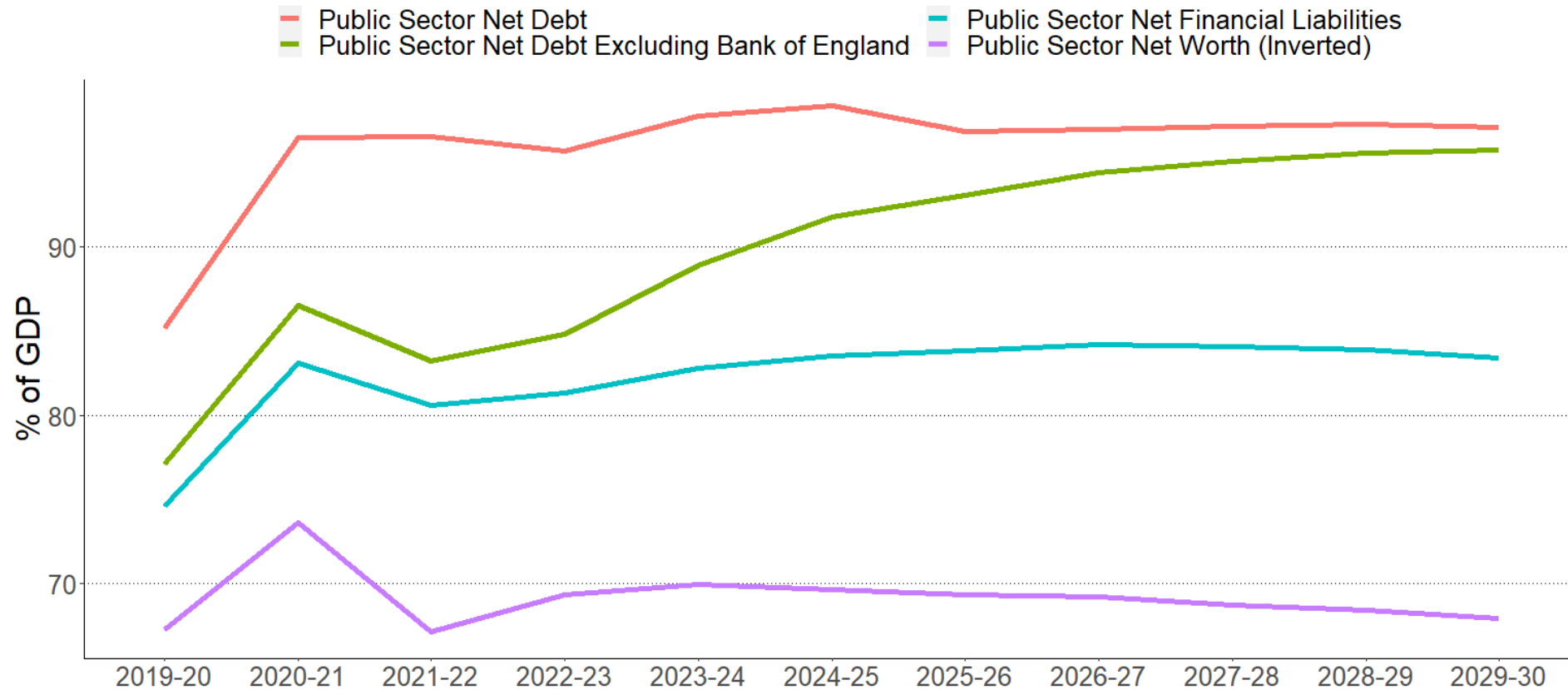
National Insurance

“Undoing” the previous government’s cuts to Employee NI through Employer NI has some economic challenges:

- How they are passed through is different:
 - Employee rates affect marginal labour supply decisions
 - Employer rates affect average labour compensation decisions
- The wedge between employed and self-employed taxes has increased
- And also increased between employment and “other” income
- Proposed abolition of “worker” status has become more important (and IR35 reform)
- Against the large increase in minimum wage, there is no pass through option for employers
- Proposed increase in Freeport (maybe) and Investment Zone (definitely) heightens these issues

Borrowing: the PSNFL Kerfuffle

PSNFL take into account financial assets
But notice that PSND ex BoE continues to rise

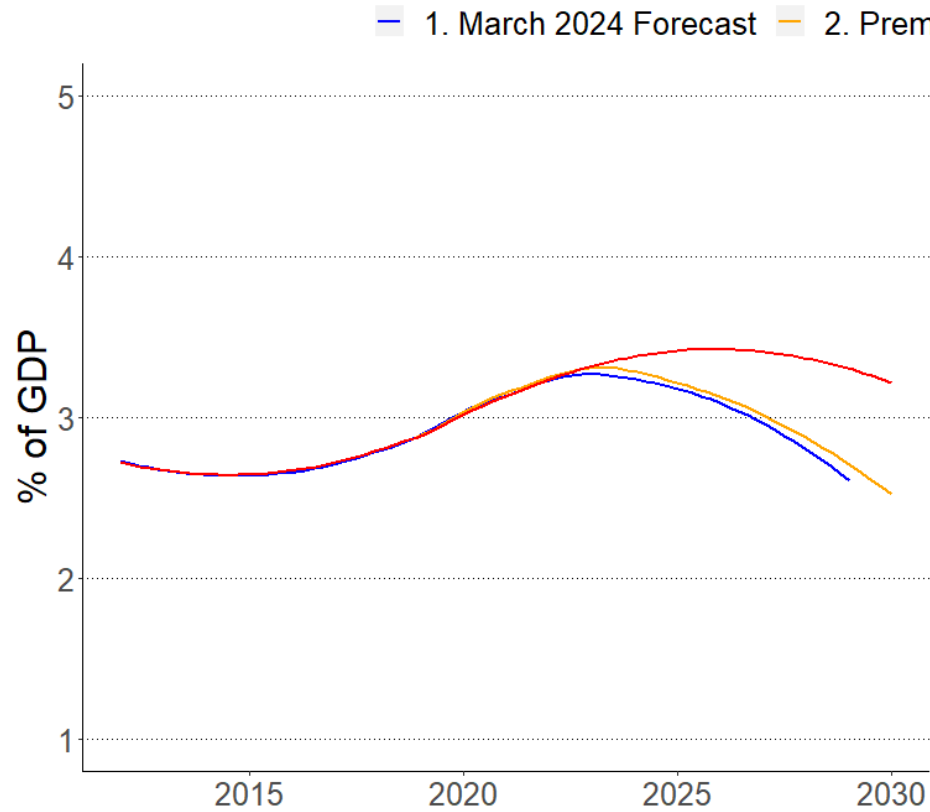


Borrowing

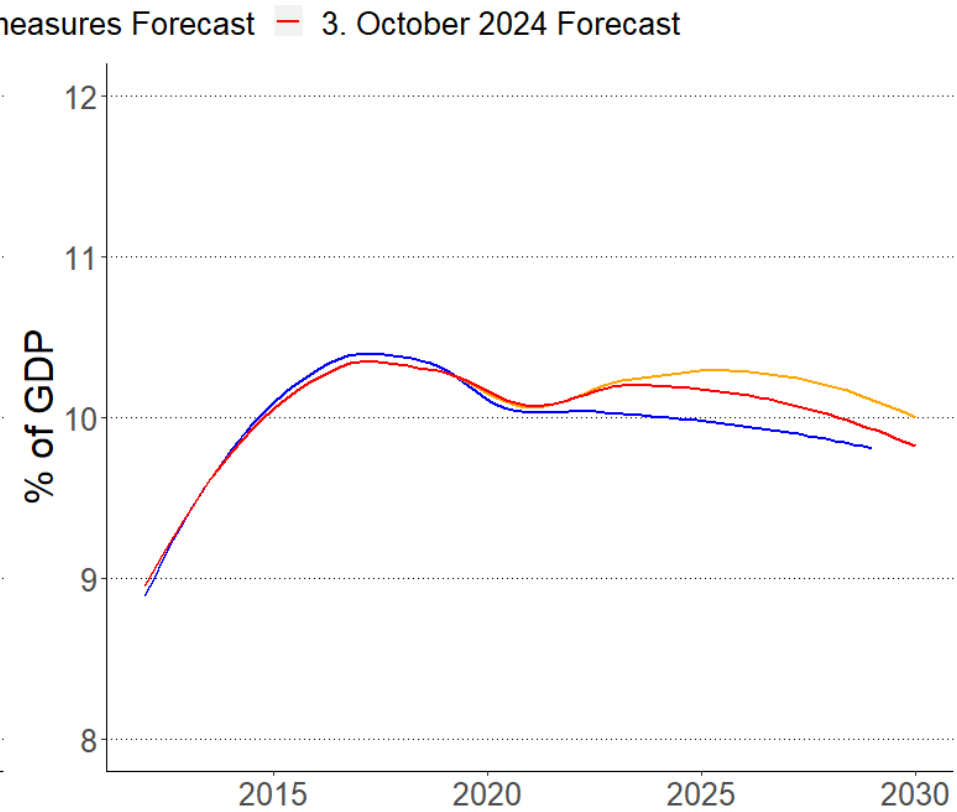
- The new PSNFL measure gives the Chancellor greater room for borrowing
- Main reason is financially liquid assets are netted-off the debt stock
- Even with tax up from 36.4% to 38.2% of GDP, much of the new headroom is used up against the new fiscal rules
- And PSND (the old measure) still continues to increase: it is this measure that government will pay debt interest on
- Debt interest now 3.5% of GDP, >£100bn p.a. in each year of the forecast
- Interest payments are £12bn higher than in March, due to this budget's (expected) effects on inflation, interest rates and gilt markets

Investment

Government Investment
Significant increase over previous plans



Business Investment
Crowded out by government plans



Infrastructure

- New National Infrastructure and Service Transformation Authority (NISTA) to be operational by spring 2025
- Combines the functions of the National Infrastructure Commission and the Infrastructure and Projects Authority
- Ten year national infrastructure strategy to be published next spring alongside Spending Review
- Lack of coherence around transport policy:
 - Bus fare cap extended for one year but up from £2 to £3
 - Train fares up 4.6%; railcards up 17%
 - Fuel duty frozen (temporarily, again!)

Devolution and Governance

- Hints at local government reorganisation
- English Devolution Bill expected in November 2024
- First set of “single settlement” pots agreed for Greater Manchester and West Midlands for 2025; more areas in scope for 2026

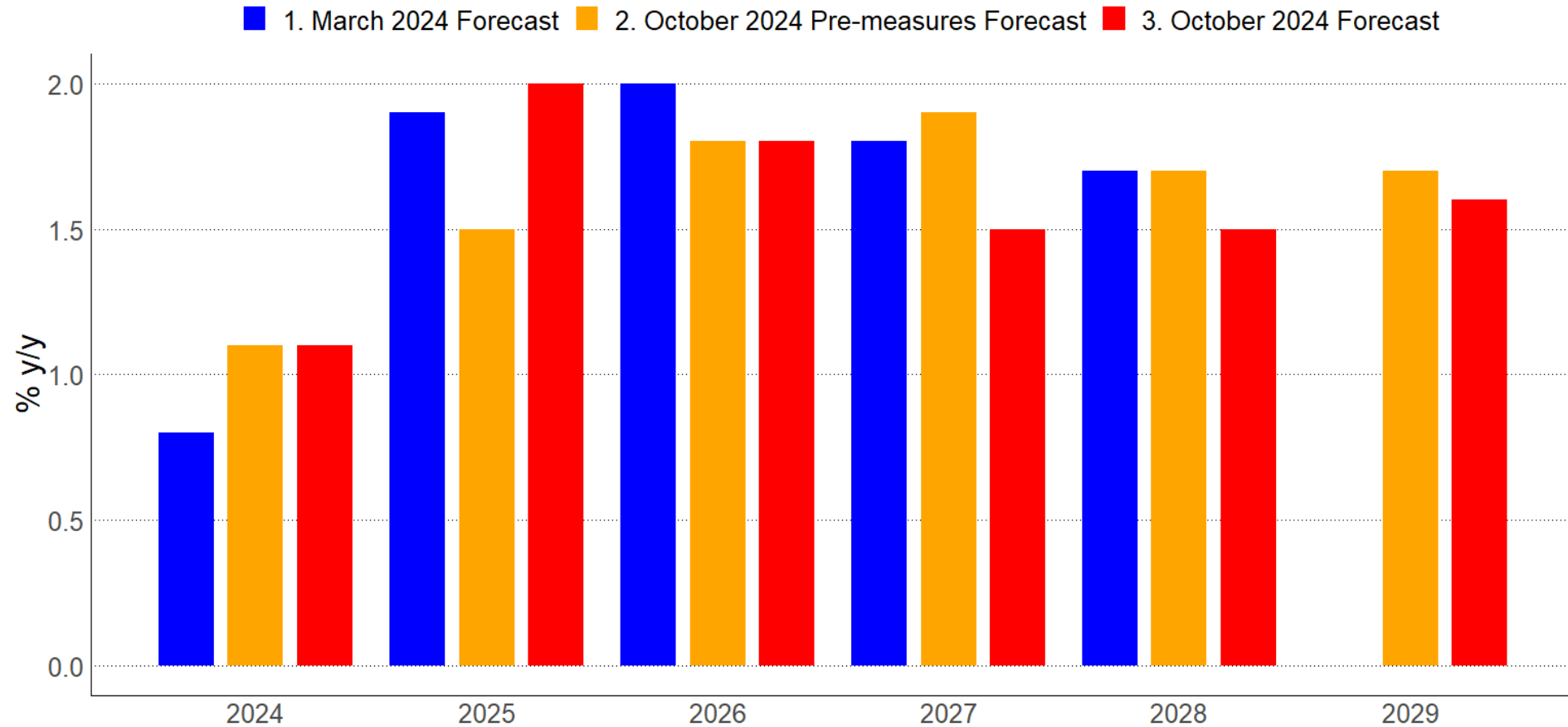
FORECASTS

Overall, growth over this forecast is mostly unchanged, but:

- Up in the short term
 - through large, short-run fiscal stimulus
- Down in the medium term, through:
 - behavioural tax effects
 - crowding out of investment
 - (proposed) slower growth in government spending

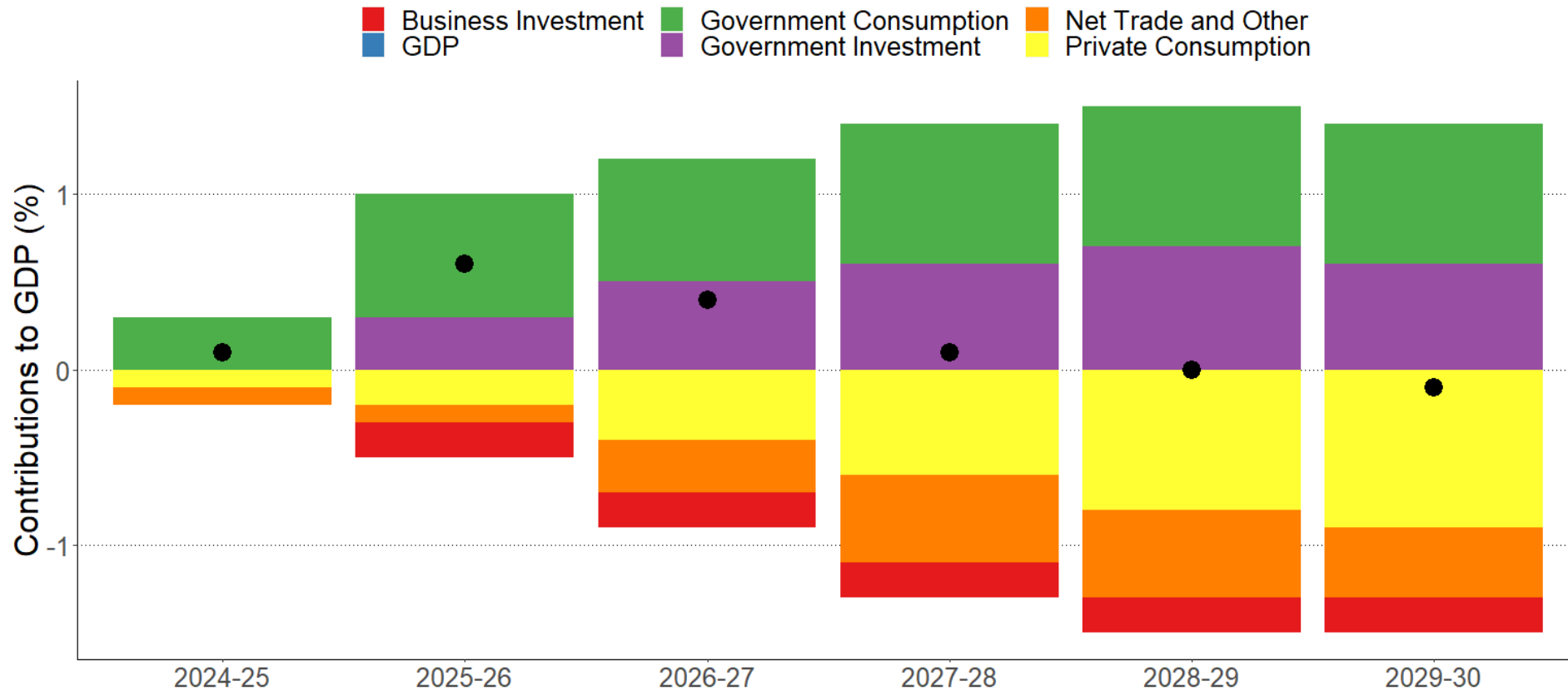
GDP Forecast

GDP forecasts



Policy Impacts on GDP

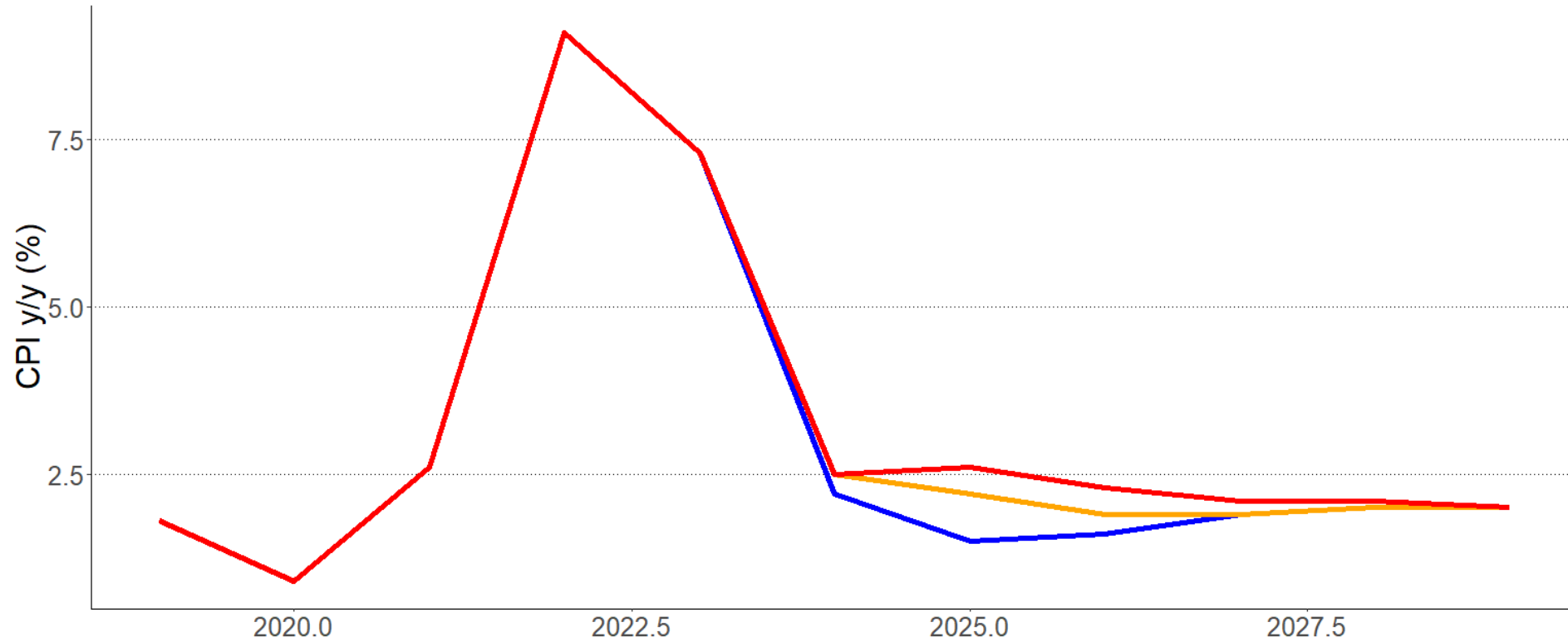
Government consumption and investment drives GDP
Private consumption and business investment all falling



Inflation

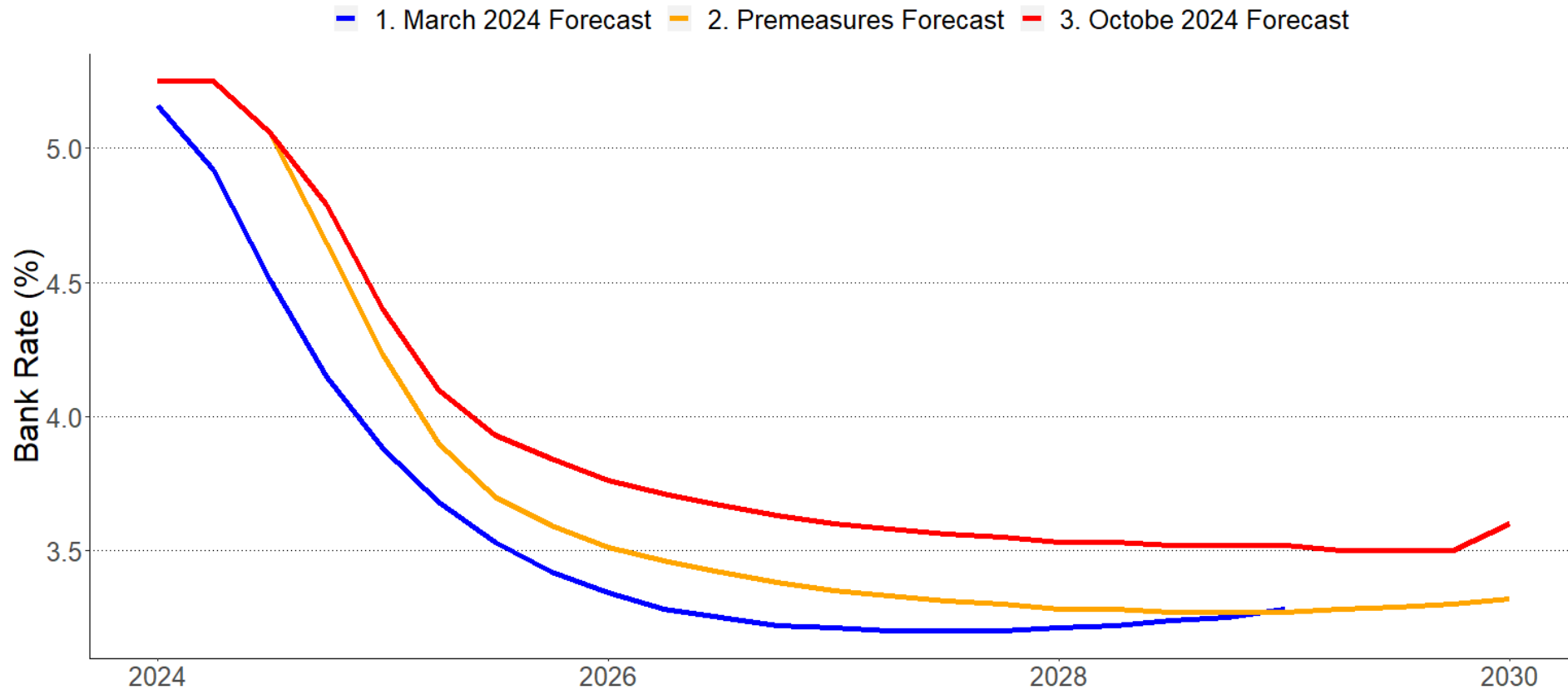
CPI inflation will be around 0.6pp higher than otherwise
As a result of the policy decisions

1. March 2024 Forecast 2. October 2024 Premeasures Forecast 3. October 2024 Forecast



Bank Rate

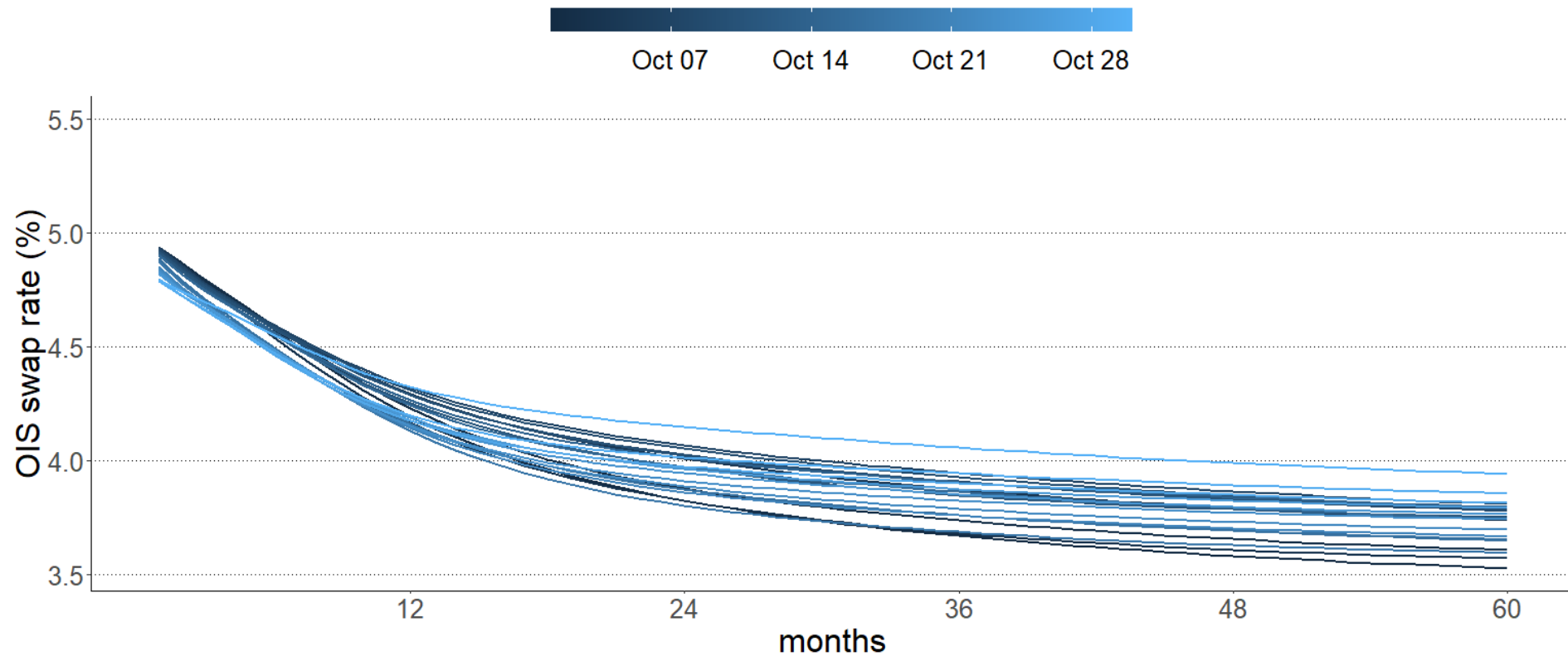
Bank rate will be around 25bp higher than otherwise
As a result of the policy decisions



Market expectations of Bank Rate

Overnight index swap rates

Markets have found it hard to settle on a path and the Budget has increased expectations



Source: Bank of England

Summary

- This Budget gives us a flavour of what to expect for the parliament
- Restoration of public services clearly a key ambition
- As yet, little clarity on:
 - longer run public services plans
 - role of private sector in supporting output potential
- We welcome a return to “honesty” in what the government will need to spend
 - But much of what has been announced will not in itself (wholly) drive growth
- Without more detail from Industrial Strategy, not yet clear where government expects the private sector to focus
- Spending plans are tight beyond 2025/26, and there are good reasons to expect more tax rises in the future
- A lot is predicated on future growth; lack of clarity on how government intends to achieve them
- Manifesto commitment to highest growth in the G7 in this parliament unlikely to be met at this stage
- We’ve learnt a lot, but the Spending Review (and other strategies) in Spring 2025 will be crucial

DOMINIC BALL

Tax Director

IMPACT FOR BUSINESSES

Budget 2024

"This is not the sort of Budget we would want to repeat..."

Rachel Reeves, the morning after the Budget day before.

Employers National Insurance

- Up from 13.8% to 15%
- Employers' threshold down £9,100 to £5,000
- Employment allowance (EA) up from £5,000 to £10,500

Total Salary Cost	350,000	350,000	350,000
Number of employees	10	15	30
	<i>Avg. UK Salary</i>	<i>F/T NMW</i>	<i>P/T NMW</i>
Average cost per employee	35,000	23,333	11,667
Impact of reduction of threshold	6,150	9,225	18,450
Impact of Increase in rate	3,108	2,562	924
Impact of additional EA	- 5,500	- 5,500	- 5,500
Total increase in E'er NIC	3,758	6,287	13,874
	12%	26%	247%
<i>Current tax year E'er NIC</i>	30,742	24,463	5,626
<i>25/26 E'er NIC</i>	34,500	30,750	19,500



Mitigating the impact?



Salary Sacrifice
Pension
contribution

Enhanced
employer
pensions

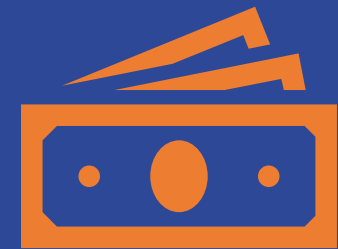


Salary Sacrifice
electric car
scheme

Electric Car
benefit
v
Pay rise



EMI Share
scheme
v
Pay rise



Up to £5k
Income tax and
NIC Exempt
bonus under
employee
suggestion
schemes



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Capital Gains Tax

- Capital gains tax on sale of shares and non-residential property
 - Up to 18/24% from 10/20%
- Business asset disposal relief remains ... for now
 - BADR rate rising from 10% to
 - 14% from 6 April 25
 - 18% from 6 April 26
 - Gradual “to allow business owners time to adjust to the changes.”
 - What happens after 6 April 27?

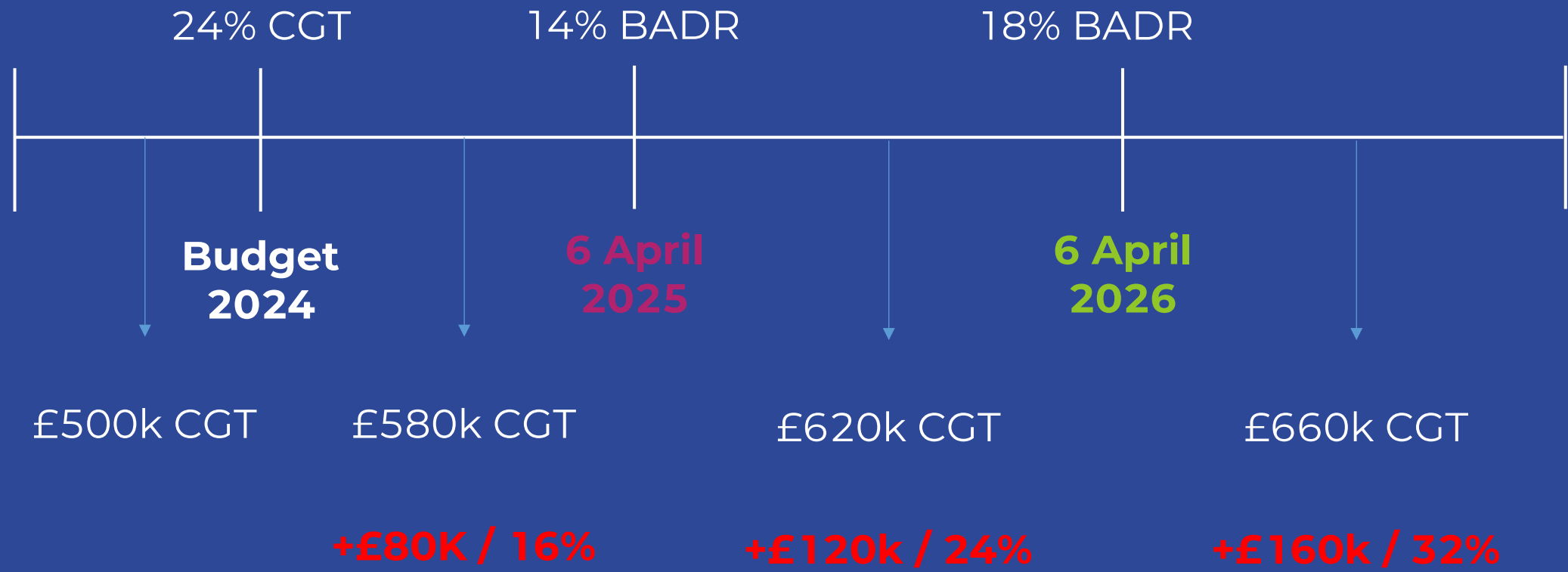


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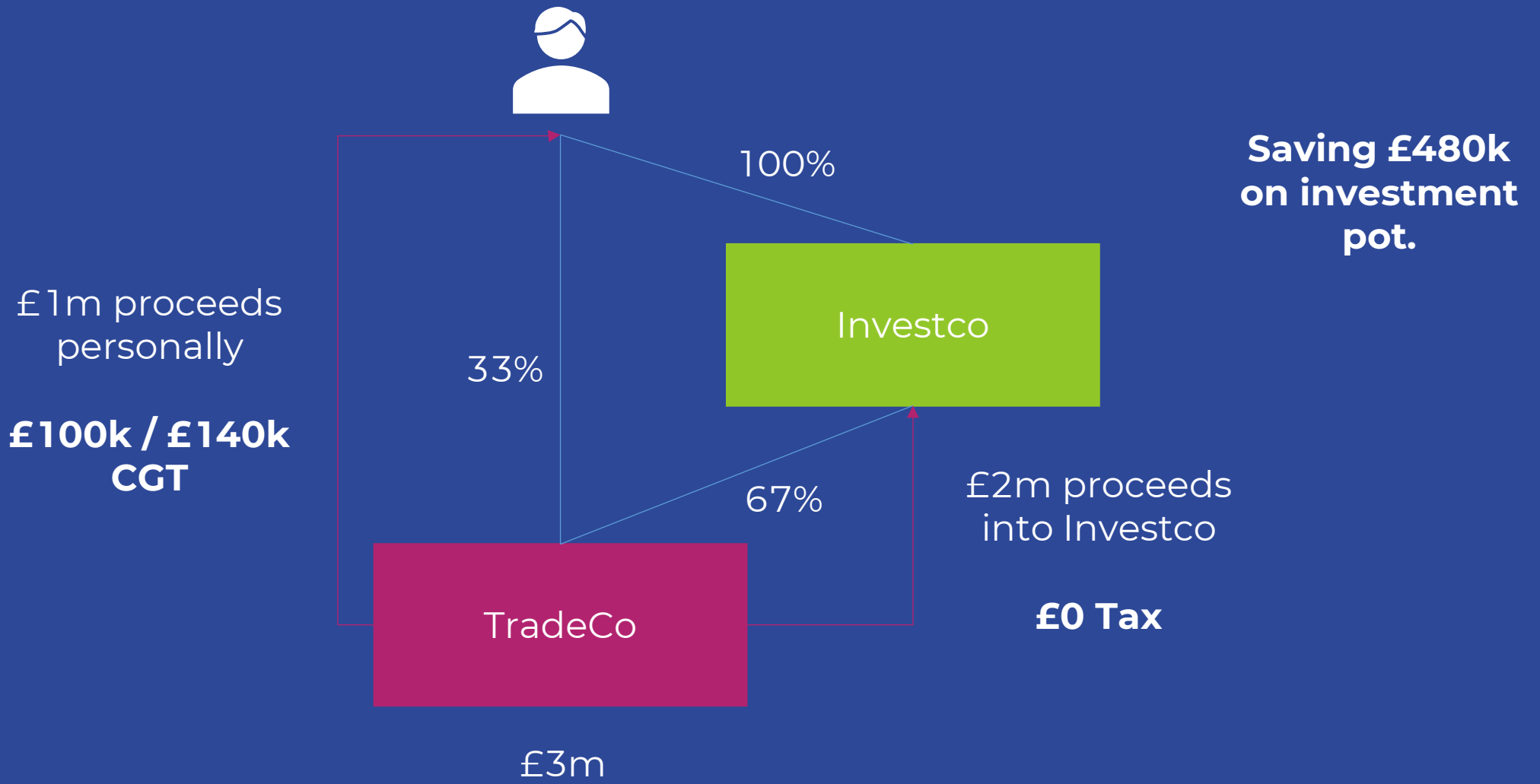
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Capital Gains Tax

£3m disposal



Tax Free Disposal?



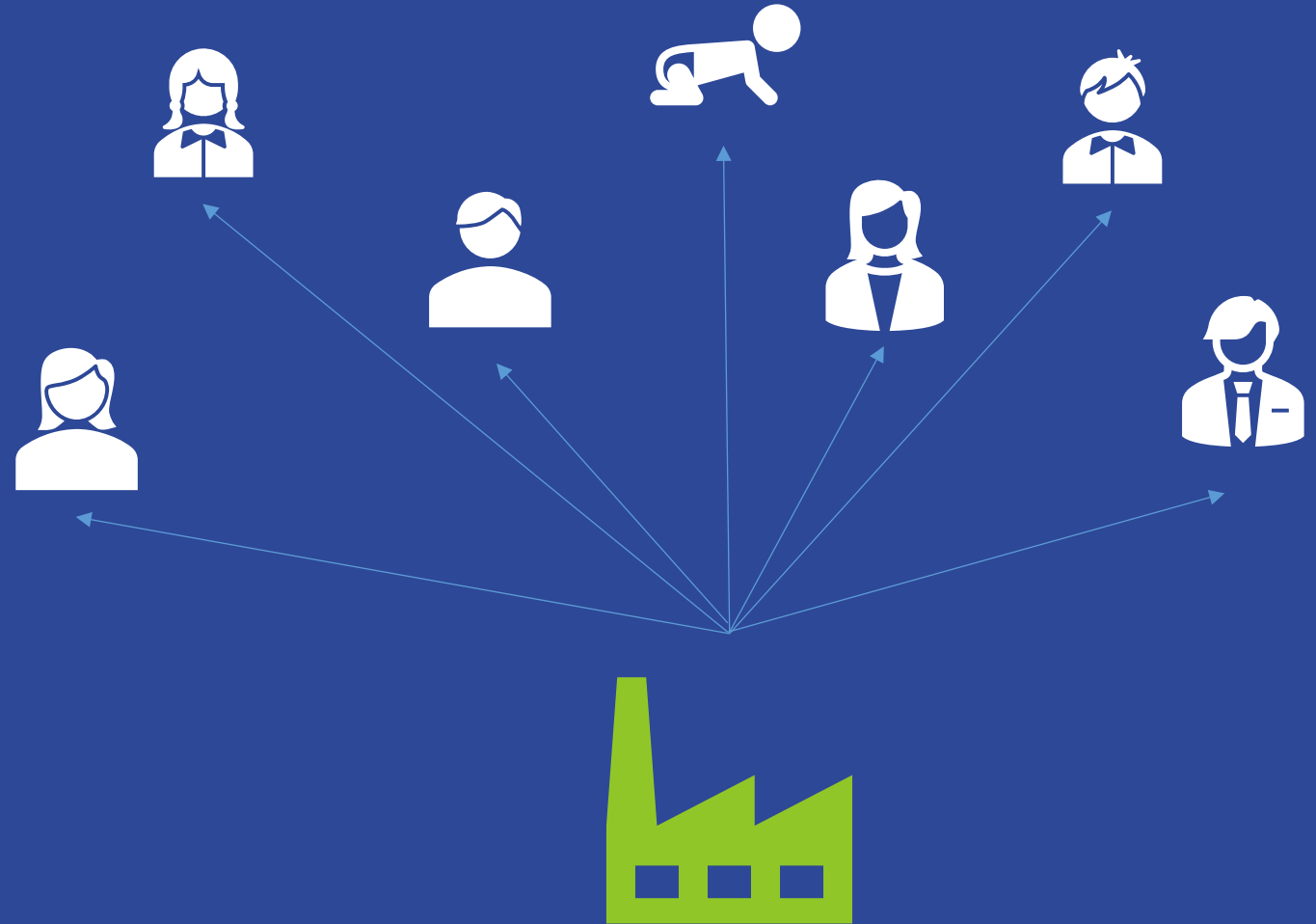
Business relief

- Currently 100% of the value of the family business qualifies for 100% BPR
- From 6 April 2026
 - 100% rate of relief will continue for the first £1 million of combined agricultural and business property.
 - Above £1m 50% relief will apply
- Estate £5m - £4m in company shares
- Currently IHT will be - £270k
- 6 April 2026 – IHT- will be - £870k



The New family-owned business...

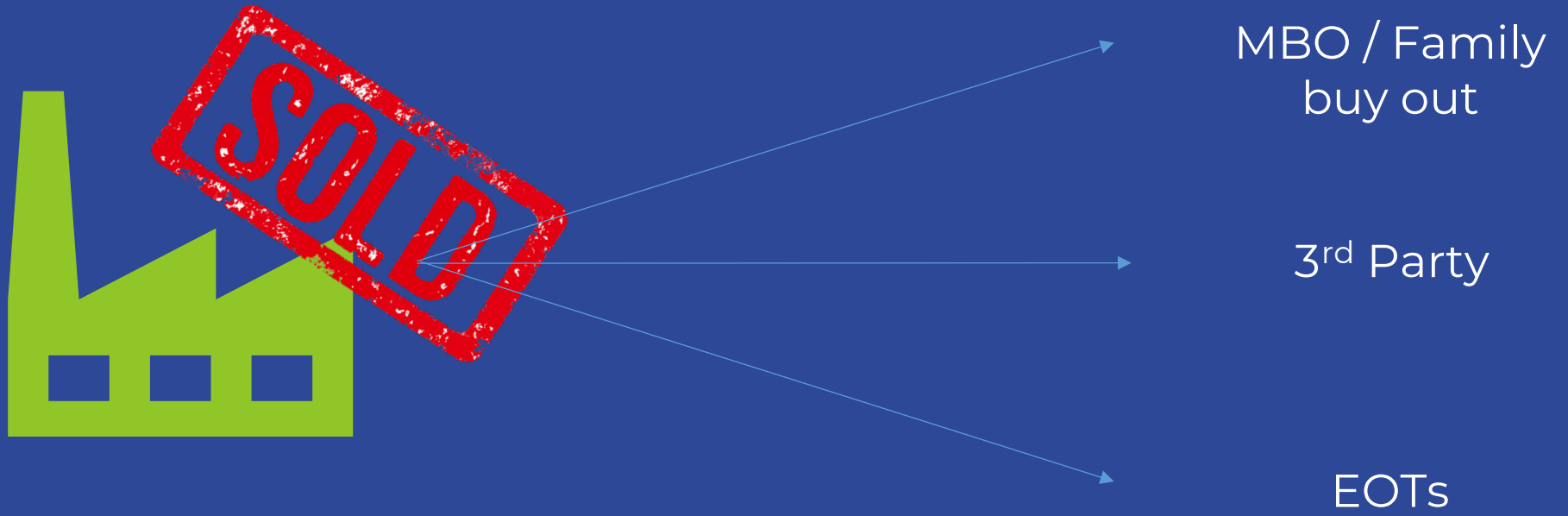
- Maximise £1m business relief exemption.
 - But death within 7 years will still use £1m allowance
- Maximise BADR
 - But 2 year holding period / trade off with rate rises
- Vary share classes
 - Parents have full rights
 - Children have capital & dividends
 - Trusts?



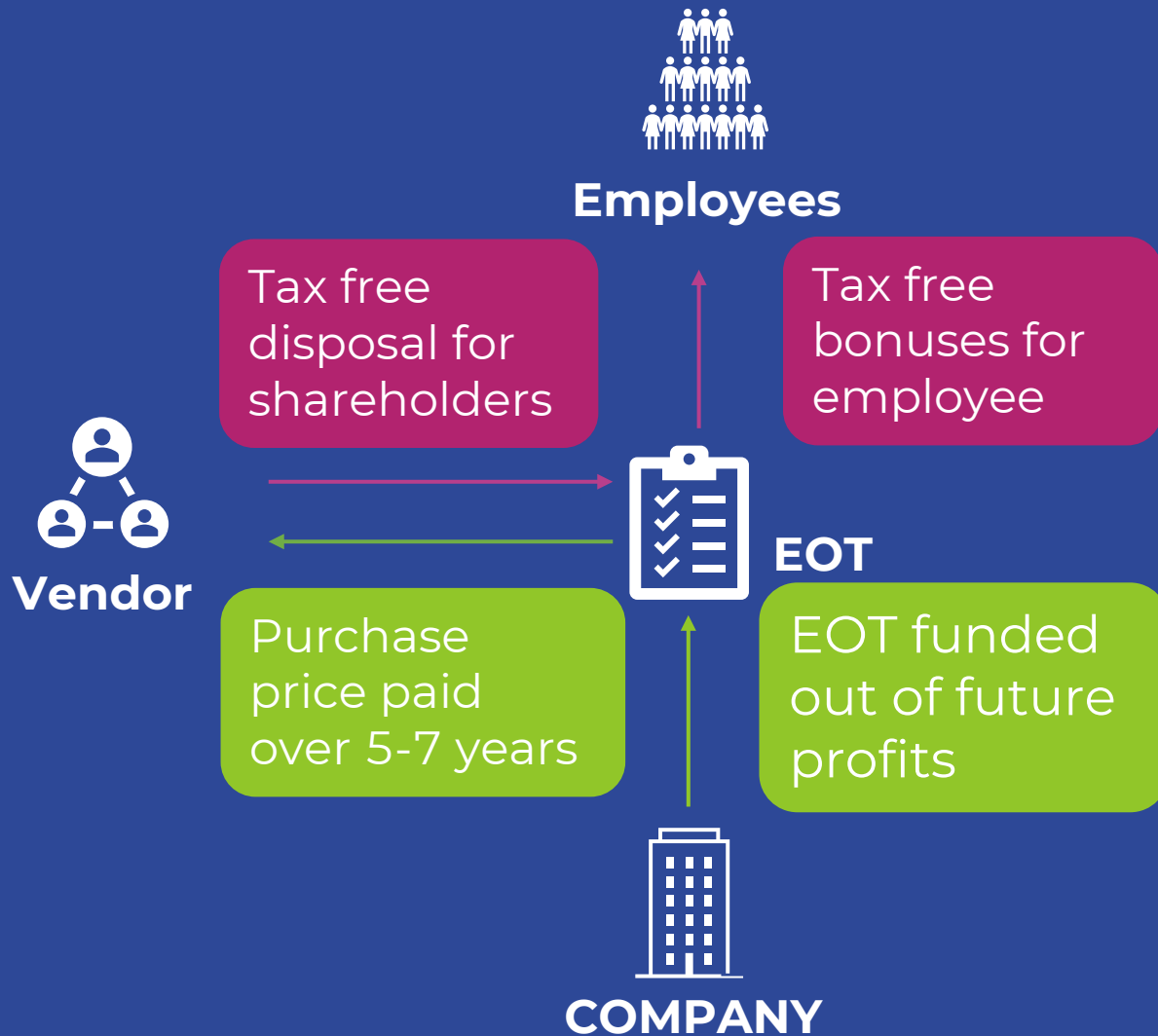
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Time to sell?



Employee ownership trusts (EOT)



Key changes announced from 30 October:

- Must be UK resident trust.
- Trustees must take steps to ensure purchase price is no more than market value
- CGT relief lost if EOT ceases to qualify during 4 tax years after disposal.
- Vendors must not be able to control the trust



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COURAGE RUWANZA

Pareto

PREDICTED CHANGES TO PENSIONS

- Removal / Reduction of 25% tax free cash
- Reduction of £60,000 annual allowance
- Reduction in income tax relief for HR/AR taxpayers
- Introducing inheritance tax (IHT) on death benefits



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IHT on Pension Death Benefits

- To be introduced from 2027
- Pensions had been an effective estate planning vehicle prior to 30/10
- Opportunity to withdraw 25% PCLS once in retirement to spend / gift
- The remaining pot is taxable
- Planning considerations?
 - Go into income drawdown and pay income tax at 20% to 'trim'
 - Purchase annuity to generate income. Surplus capital within estate can be gifted in the meantime



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Should you stop contributing into pensions?

- NO!
- Individuals – contributions benefit from 20%/40% tax relief
- Business owners/directors – employer contributions benefit from corporation tax relief
- You can withdraw 25% tax free when in retirement
- High earner example - £120k (personal allowance & childcare)



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NADEEM HUSSAIN

Tax Director

IMPACT FOR FAMILIES

Budget 2024

Headline Changes to Inheritance Tax

Business Property Relief (from April 2026)

- Unincorporated trading businesses
- AIM listed shares
- Shares in trading companies/groups

Agricultural Property Relief

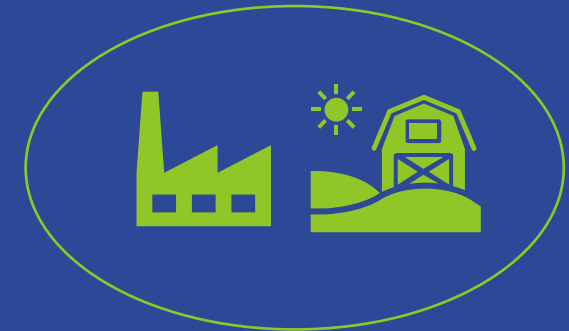
- Land occupied or used for agricultural purposes

Combined £1m allowance for APR and BPR – unused allowance not transferable between spouses.

Pension Funds (from April 2027)



Estate



Less: £1m Allowance

Less: 50% BPR on balance



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Current Approach to Estate Planning

- Ensure tax efficient Wills are in place, reviewing cross will to maximise BPR/APR
- Ascertain scope for lifetime gifting, to individuals or trusts
- Maximise use of reliefs and allowances
- Use of trusts
- Maximise pension funds?
- Inheritance Tax insurance

Lifetime Gifting

- Gifts to individuals are potentially exempt transfers, need to survive 7 years
- May not be appropriate, recipient is not ready to receive such value or going through marriage difficulties etc
- Use of trusts may be more appropriate
 - Non tax advantages – helps in relation to the above dilemmas and make provision for future generations
 - Tax advantages
 - For trading assets/shares, 100% BPR (to 4/26)
 - For investment assets/shares, scope to gift up to £650k of value every 7 years (assuming husband and wife make gifts)
 - 10 yearly charge to Inheritance Tax at a maximum rate of 6%



Pre April 2026 Planning

- Mr and Mrs Sanderson own 50% each of Sanderson Manufacturing Ltd
- Company value £5m
- Cross wills in place.
- IHT due on second death under new rules:
 - Value of estate - £5m
 - Less initial BPR (£1m)
 - Less 50% BPR (£2m)
 - Less nil rate bands (£650k)
 - Taxable £1.35m
 - IHT @ 40% £540k
- Effective Rate 10%

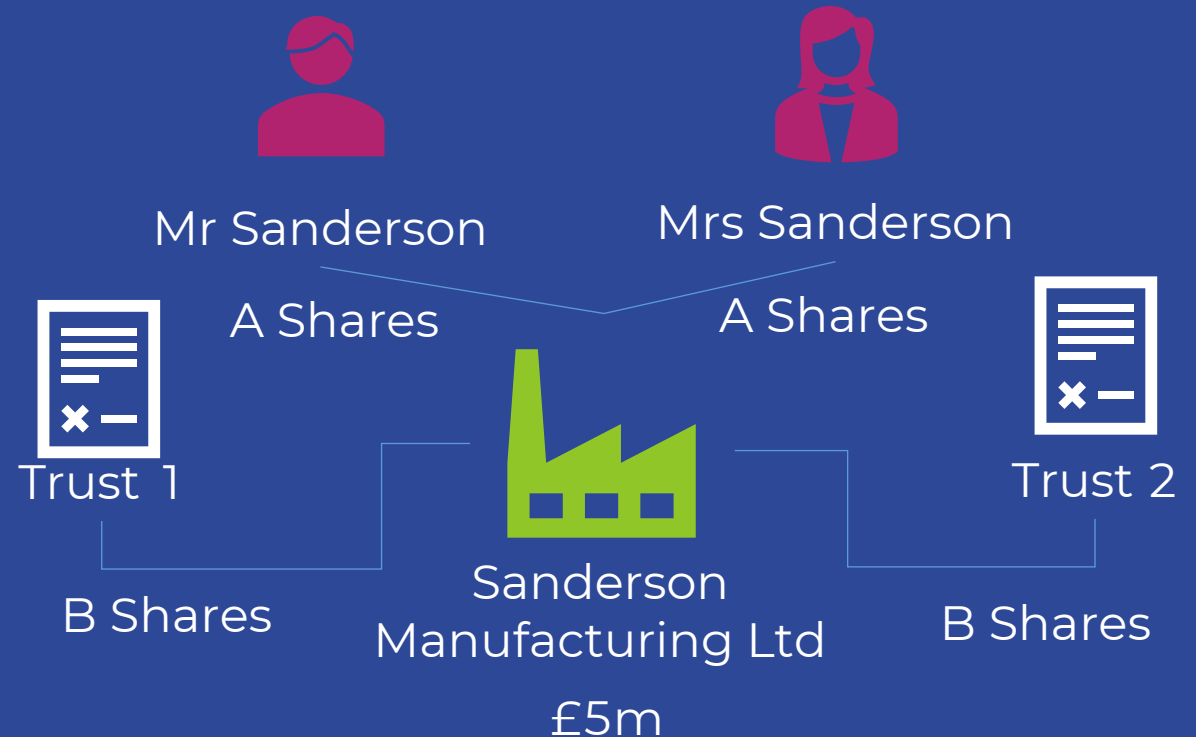


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Pre April 2026 Planning

- Use of Family Trusts
 - A shares – voting and dividend rights only
 - B shares – non voting shares but with dividend and capital rights
- Transfer B shares to 2 Family Trusts
 - No immediate IHT due to 100% BPR
 - No CGT on transfers to trusts



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Pre April 2026 Planning

Need to survive 7 years

On 10th anniversary - company value is now £6m

Estimated Inheritance Tax payable per trust:

- Value of each trust £3m
- Less initial BPR (£1m)
- Less 50% BPR (£1m)
- Less nil rate band (£325k)
- Taxable £675k
- At 6% £40,500
- Effective rate 1.35%

• **IHT Saving compared to doing nothing - £459k**

Had the company been sold before the 10 year anniversary, may have been appropriate to distribute some or all of the cash to beneficiaries.

The need for a review and possible planning ahead of April 2026 is clear and necessary.



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Post April 2026 Planning

Despite the changes to the rules, any transfers to new trusts after April 2026 could still be substantial.

- Mr and Mrs Benson have not undertaken any previous gifts, decide in May 2026 to make transfer of trading company shares to 2 Family Trusts.
- They can transfer up to £3.3m of value into the trusts:
 - Transfer by each £1.65m
 - Less 100% BPR (£1m)
 - Less 50% BPR (£325K)
 - Less nil rate band (£325k)

Inheritance Tax on Pensions

- From April 2027, Inheritance Tax can be applied to pension funds
- Income tax and capital gains tax still not applicable to pension funds
- Tax relief on contributions remains applicable
- Lifetime allowance remains unlimited.

- Any IHT due on the unused pension funds will be paid directly from the pension scheme by the pension scheme administrators – Review of SIPP's cash position where it holds business premises.

- Risk of IHT particularly applies to pension funds where member dies after age 75
- Nomination of pension benefits to surviving spouse is possible without triggering an IHT charge.
- The pension fund is treated as part of the deceased's estate. This could result in the loss of the residence nil rate band.

- **Possibility of double tax charge, IHT at 40% of the fund and up to 45% income tax on the remaining 60%. Therefore, effective total tax payable is 67%!!**



Alternative Strategies?

- Take tax free cash and gift some or all to beneficiaries? Need to survive 7 years.
- Rather than make further pension contributions, use a Family Investment Company as the investment vehicle with some or all shares being held for the benefit of the family or a family trust?
- Greater priority to pension contributions for younger generations that work in the business?



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Inheritance Tax Insurance

- Review potential inheritance tax position, based on current rules and the 2026 and 2027 changes
- If substantial lifetime gifting is not attractive, look to cover some or all of the potential liabilities with insurance



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Other Matters

- Additional SDLT rate increased to 5%
- Furnished holiday lettings rules from April 2025
- Non UK domiciled individuals – new rules from April 2025 based on residency rather than domicile status
- Existing offshore trusts to be reviewed ahead of April 2025



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What Now?

- Major changes to CGT and IHT require a detailed review and assessment of your circumstances and goals.
- A review of the corporate structure and the personal shareholdings is vital.
- Likely that actions will need to be taken before April 2026.



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Dominic Ball

Tax Director

M: 07730 596 606

E: d.ball@pierce.co.uk

Nadeem Hussain

Tax Director

E: n.hussain@pierce.co.uk