THE RIO CLUB

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THE UK BUDGET, OCTOBER 2024

Rachel Reeves delivered her first Budget, in which she said she would raise taxes by £40bn. Many voters can therefore expect to find themselves worse off, although some will gain. We have set out the main Budget winners and losers.

Winners – Taxpayers

There will be no further freeze in income tax thresholds beyond the existing freeze to 2028 put in place by the previous government. Such freezes result in more people being dragged into the higher tax bands and are therefore often described as 'stealth taxes'.

The announcement that there would be no extension to frozen income tax thresholds beyond 2028 was a welcome surprise and the closest we got to a tax giveaway.

Winners - Pension and ISA savers

They may not strictly speaking end up better off but at least they have been spared some of the restrictions on tax-free savings rumoured to have been under consideration by the Chancellor before the Budget. Among the measures speculated about were limits on tax-free lump sums from pensions and the amount that could be held in ISAs.

Winners – Motorists

There will be no increase in fuel duty for a further year.

Winners - The low-paid

Ms Reeves accepted the recommendation of the Low Pay Commission to increase the national minimum wage by 6.7% from £11.44 to £12.21 an hour, worth up to £1,400 a year for full-time workers. The minimum wage for those aged 18-20 will rise by £1.40 an hour from £8.60 to £10, the largest increase on record and a 'first step towards a single adult rate', the Government said.

Winners – Carers

The Government will increase the weekly limit on carer's allowance to the equivalent of 16 hours at the minimum wage, the largest increase since its introduction. It will also seek solutions to current 'cliff edge' effects.

Losers - Savers and investors

ISA allowances are to be frozen until 2030.

The rate of capital gains tax on assets such as shares will be brought into line with existing rates on property gains at 18% for basic-rate taxpayers and 24% for those who pay higher rates of income tax. The current rates are 10% and 20%. The changes take effect immediately.
Investors will, however, be relieved that the Chancellor did not go further and scrap the annual allowances for capital gains and dividends. That would have meant bigger tax bills for investors who hold assets outside tax-advantaged plans such as ISAs and pensions.

Losers - Pension savers

Ms Reeves said pension assets would become liable to Inheritance Tax in April 2027. She also announced a further freeze in the inheritance tax nil-rate band to 2030.

The Chancellor is cutting the tax breaks on certain assets that currently qualify for 100% Inheritance Tax relief, such as family farms and shares quoted on the London Stock Exchange's junior Alternative Investment Market (AIM). In future there will be 50% relief, which will result in an effective rate of inheritance tax of 20% on assets worth more than £1m (which will be in addition to the existing nil-rate band). Some investors had feared outright abolition of 'business relief', the official name for the tax break. Uncertainty had dragged on the AIM market for several months. The announcement spurred a 4% relief rally in the AIM all-share index.

Losers – Entrepreneurs

The Chancellor announced a rise in employers' National Insurance contributions from 13.8% to 15% from April. There will be support for small businesses, however. The salary threshold at which employers' NI contributions start will be cut from £9,100 to £5,000 a year. The changes will not immediately affect employees' take-home pay, but workers can expect to bear the brunt of their employers' reduced profitability in due course.

Tax consultants have noted 'Increasing the rate of employers' National Insurance from 13.8% to 15% makes it more expensive for businesses to hire staff and is inconsistent with an agenda for economic growth. It should be remembered that employers' National Insurance is tax deductible and therefore most companies will only suffer an effective increase of 0.9%; however, that will be sufficient to impact corporate investment decisions.'

Losers - Smokers, vapers and drinkers

Draught beer duty is to be cut by 1p on a pint of average-strength beer but duty on other alcoholic drinks is to rise in line RPI inflation. These measures will take effect from 1 February 2025. The current temporary wine 'easement' will also end as planned on 1 February 2025. The Government will renew the tobacco duty escalator of RPI +2% for the rest of this parliament and introduce a flat rate of vaping products duty at £2.20/10ml from 1 October 2026. There will also be a one-off increase in tobacco duty of £2.20 per 100 cigarettes/50g of tobacco 'to maintain the financial incentive to switch from tobacco to vaping'.

Losers - House buyers

With property prices starting to rise again, it was perhaps inevitable that the Chancellor would not extend the temporary reduction in Stamp Duty Land Tax, in place since 2022 and due to expire next March. Buyers will now pay Stamp Duty on all but the first £125,000. The Stamp Duty surcharge for second homes will rise by 2 percentage points to 5%.

Losers - Parents of privately educated children

The Chancellor confirmed the introduction of VAT on private school fees. Budget documents spell out that the Government will be 'applying the standard rate (20%) to education and boarding services provided by private schools from 1 January 2025'.

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