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CLIENT NEWSLETTER - SEPTEMBER 2024

KEY 2024 FINANCIAL DATES

SEPTEMBER

15 Hours Free Childcare from nine months old

19th – Bank of England MPC meeting

OCTOBER

1st – New energy price cap of £1,717 a year comes into effect

16th – Sept inflation announcement

30th – Autumn Budget

NOVEMBER

7th – Bank of England MPC meeting

A Pre-Halloween scare? Looking ahead to the Autumn Budget

On Wednesday 30th October, Chancellor of the Exchequer Rachel Reeves will deliver the Autumn Budget, accompanied by a full fiscal statement from the Office of Budget Responsibility (OBR). This is expected to include significant tax changes and many measures to raise revenue for the Government.

The Chancellor's 'Public Spending: Inheritance' speech to parliament at the end of July prepared taxpayers for the changes to come, as she also revealed "A £22bn hole in the public finances now – not in the future."

The new Chancellor took immediate action to start filling the hole, including cancellation of road and rail projects and ordering departments to stop all non-essential spending on consultants. There were also two notable expenditure-saving measures:

- An immediate end to Winter Fuel Payments in England and Wales, other than for pensioners receiving certain means-tested benefits. (Scotland subsequently followed suit.)
- The abandonment of the scheme to cap care home fees in England, previously due to start in October 2025.

The next stage of strengthening the government's finances will be unveiled in the Budget on 30th October, but even before Ms Reeves had discovered the £22 billion hole, think tanks such as the Institute for Fiscal Studies had forecast the first post-election Budget would see taxes rise (as they normally do).

The not so usual suspects

So, where might the Chancellor look for some much-needed cash? Her party's manifesto said, "Labour will not increase taxes on working people, which is why we will not increase National Insurance, the basic, higher, or additional rates of Income Tax, or VAT."

However, as the previous government demonstrated, a 'rates' pledge leaves scope for creativity elsewhere, such as freezing or even reducing thresholds. In her July statement, the relevance of the manifesto's reference to 'working people' was made clear by the surprising welfare cuts that primarily hit pensioners.

At present, Reeves's most likely targets appear to be the following:

Capital Gains Tax (CGT)

Whilst the Labour manifesto made no mention of this, several think tanks and the now defunct Office of Tax Simplification have floated the idea of bringing CGT rates in line with income tax.

This would mean the maximum rate in most circumstances would rise from 20% (24% for residential property) to 45%.

Tax relief on pension contributions

At present, pension contributions attract income tax relief (within limits) at your marginal rate(s) of tax. That can be as high as 45% (48% in Scotland) in the income band where the personal allowance is tapered.

Replacing the marginal rate relief with a flat rate relief is a commonly suggested reform. If Reeves were to choose a 30% flat rate, most taxpayers would be better-off and the Exchequer would gain an estimated £3 billion a year.

Inheritance Tax (IHT)

There are some obvious targets to add to Treasury receipts in this area. Business and Agricultural reliefs mean that the average effective tax rate on the largest estates is lower than that on more modest estates. Scrapping those reliefs, or capping their value, would affect only a few estates, but could produce meaningful extra revenue.

Another exemption that could disappear – and affect many more people – is the current general exclusion of pension pots from IHT calculations.

Please remember, we are here to help you

If you need any help, advice or support ahead of the Autumn Budget, then please speak to your adviser as soon as possible.

Nobody yet knows exactly what will be announced, but if you are currently thinking about making a financial transaction which could be affected by these potential changes, or even just considering other areas of tax planning, we recommend you seek advice straight away, as taking pre-Budget action may be advisable.

Investment climate

Recent months have seen mixed results across different markets:

Fixed Income (Bonds): Bonds performed well as bond yields (the interest rate paid by bonds) fell. This was due to softer-than-expected economic data from the US, including a decline in the Consumer Price Index (CPI), which measures inflation. Lower-than-expected inflation figures led investors to believe that the US Federal Reserve might cut interest rates sooner than expected.

Equities (Stocks): Stock performance varied by region. UK stocks did well, buoyed by the positive response to the Labour party's victory in the general election. Conversely, US stocks fell slightly due to disappointing earnings from large technology companies. However, smaller US companies performed well, supported by the expectation of rate cuts.

Real Assets: Investments in asset classes like (listed) property and infrastructure showed strong returns because they are seen as more stable and can benefit from lower interest rates, which reduce borrowing costs and can boost the value of these assets.

Global Highlights

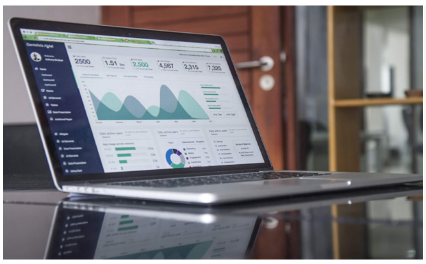
UK: The Labour party's win boosted UK stocks and the pound. Positive economic data, such as a higher-than-expected GDP growth of 0.4% in July, further supported the market.

US: The anticipation of rate cuts couldn't offset the impact of lower-than-expected earnings from large tech companies. However, smaller companies (small caps) performed well because they are often more sensitive to changes in economic conditions and can benefit more directly from lower borrowing costs.

Europe: Political uncertainty, especially after the French election, impacted market expectations. The lack of an outright majority in the French election led to a slight decline in stocks. Despite this, the euro area unemployment rate remains low, and inflation figures are stable, providing a mixed outlook for investors. Stocks in the euro area showed tempered performance, reflecting the cautious sentiment in the market.

Japan: The Bank of Japan raised interest rates, strengthening the yen. For sterling investors, the stronger yen helped performance even though the local Japanese markets were down. A stronger yen increases the value of yen-denominated investments when converted back to sterling.

Emerging Markets: China's efforts to support its economy, like cutting short-term policy rates to encourage lending, were overshadowed by the ongoing challenges in China's real estate sector have weighed heavily on market sentiment. This sector's struggles impacted investor confidence, contributing to the overall weakness in stocks within emerging markets.



The Power of Diversification

Given the unpredictability of elections and their limited long-term impact on markets, diversification remains the best strategy. By spreading investments across various asset classes, regions, and sectors, portfolios are better protected from the risk of any single event.

News round up

VAT on school fees from January

Parents educating their children in the independent sector can expect a sharp rise in school fees from 1 January 2025, when the Government has confirmed that it will start imposing VAT on these fees. This will be imposed at the standard rate of 20%. Parents can't avoid the increase by paying the full year's fees early, as VAT will be applied to all payments for the January term made from the end of July this year.

NS&I certificates

Lower inflation has made NS&I's popular Index-linked Savings Certificates less attractive. Holders should weigh up options at maturity, rather than letting them roll-over into a new term. Around 300,000 people hold these tax-free accounts, which pay an inflation-linked return for two, three or five years. Returns have been high in recent years, but with inflation expected to linger around the 2% mark there are now better paying accounts elsewhere.

Sterling's high

Sterling has been one of the best-performing currencies in 2024; good news for holidaymakers who will have found their money going further overseas this summer. But a strong pound does not always help investors holding overseas funds and assets. This is particularly true for Japan investors, with the Yen down against the pound by about 6% this year, negating some of the gains seen in Japanese stock market for UK investors.

In summary

Autumn Budget – 30th October

We want to end as we started, with the upcoming Autumn Budget. We expect to see continued speculation on what could change at the end of October, but nobody yet knows exactly what we will see introduced.

However, if you are currently thinking about making a transaction which could be affected, such as making the most of your current £20,000 annual ISA allowance, taking money from an investment such as a General Investment Account, which could impact your annual Capital Gains Tax Allowance, or making a contribution to your pension plan, then we would urge you to speak to your financial adviser straight away.

The Financial Conduct Authority does not regulate tax advice, and tax treatment can vary depending on individual circumstances and is always subject to change. However, depending on the transaction you are looking to make, there may be real benefits for you in completing this ahead of the Chancellor's Autmn Budget next month.

Please therefore speak to your financial adviser as soon as possible to find out more and get started.

Important – this Newsletter is not personal advice, so please speak to your financial adviser if you feel an investment may not be right for you.

The value of investments and the income from them 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.