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UK AUTUMN BUDGET 2024 – UPDATE

Rachel Reeves delivered the latest UK budget on Wednesday 30th October 2024, with tax rises and spending cuts of £40bn+ expected. This was historic for being the first UK budget delivered by a woman, but it was also notable for being among the biggest tax-raising events in recent decades. The underlying premise was that this was a move designed to fix the foundations of the British economy.

Below we have summarised some of the key announcements set to impact our clients.

State Pension

The government will maintain the State Pension Triple Lock for the duration of this Parliament. The basic and new State Pension will increase by 4.1% in 2025-26, in line with earnings growth. The government will continue the ‘triple lock’.

Please also note that the ability to backfill missing years of NI contributions for UK State Pension receipts, is changing significantly from 6th April 2025. Such was not a new announcement, but should be borne in mind by those who have an entitlement to claim extra years on the UK State Pension.

Basis for Charging IHT Changed to Residency Based

Starting April 6, 2025, UK Inheritance Tax (IHT) will be based on where a person lives instead of where they are domiciled. UK assets and non-UK assets tied to UK property will still be taxed, but the new rules will change how non-UK assets are taxed when someone dies, makes certain gifts, or holds assets in a trust. For people who have left the UK who may have believed they had escaped UK inheritance tax, many of these people could now again be caught out by the change in UK inheritance tax laws which (in general) applies to a person's worldwide estate. Certain exemptions and timeframes apply, and this change in approach is due to undergo a consultation period.

IHT on UK Pension Pots

Inheritance tax is set to be charged on all inherited pension pots from April 2027. This change would add pension funds to a person's estate, meaning the full inheritance tax charge (possibly taxed at 40%) could be applicable. This change would end the special treatment of pension funds on death, which has led people to keep surplus assets in their pension for inheritance tax planning purposes. HMRC have launched a 12-week consultation to determine how this policy will be implemented. Key issues will include ensuring that inheritance tax and income tax do not both apply to the same pension fund.

Abolition of the EEA exemption for QROPS transfers

Starting October 30, 2024, the exemption from the 25% Overseas Transfer Charge (OTC) on transfers from UK pension schemes to Qualifying Recognised Overseas Pension Schemes (QROPS) will no longer be available for EEA residents. This exemption used to apply when both the individual and the QROPS were residents in the EEA (including cases where the QROPS was in Gibraltar, or the individual was a UK resident). The new exemption will only apply if the individual and the QROPS are both in the same country or meet specific criteria.

Other Key Measures

- No change to UK corporation tax rates (capped at 25%)
- No change to the ability to take tax free cash from pensions (although careful planning is still required here)
- IHT threshold freeze for a further two years to 2030. That means the first £325,000 of any estate can be inherited tax-free, rising to £500,000 if the estate includes a residence passed to direct descendants, and £1m when a tax-free allowance is passed to a surviving spouse or civil partner.
- CPI Inflation is expected to average 2.5% this year, 2.6% in 2025, then 2.3% in 2026, 2.1% in 2027, 2.1% in 2028 and 2.0% in 2029.
- Employer's National insurance is set to rise by 1.2% from 6 April 2025, taking the rate to 15% (from 13.8%). The thresholds for income tax and NI are frozen until 2028 and then from April 2028 rise in line with inflation each year.
- The main rates of Capital Gains Tax have increased from a lower rate of 10% and a higher rate of 20% - to 18% and 24% respectively from 30 October 2024.
- The non-domiciled tax regime is due to be abolished. The "outdated concept" of domicile is set to be removed from the UK tax system from April 2025.
- Stamp Duty: The government is increasing the Higher Rates for Additional Dwellings of Stamp Duty Land Tax from 3% to 5% from 31 October 2024. These higher rates apply to purchases of second homes, buy-to-let residential properties and companies purchasing residential property.
- No further change to the April 2024 pension tax reforms – the two new pension allowances Lump Sum Allowance and Lump Sum Death Benefit Allowance are still in place. There is no return to the Lifetime Allowance, no change to the higher Annual (contribution) Allowance of £60k p.a. and no change to the tax relief system or the taxation of the lump sum benefit withdrawal.

We are here to help

The information outlined herein is subject to further clarification and detail from the government. However, cross border planning opportunities exist to help reduce the impact of many of these changes.

Should you have any related enquiries or wish to discuss further, we would be pleased to assist.

We can be reached by email at welcome@px-wealth.com or phone +44 (0) 330 094 7477 (UK) or +61 1300 007 979 (Australia) to meet with one of our specialist advisers.

Disclaimer and Regulatory Information

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