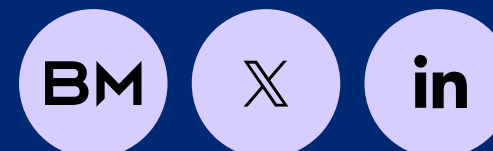


AUTUMN BUDGET PREVIEW

Stealth tax? Wealth tax?

What could fill the £22 billion black hole?



Chancellor Rachel Reeves plans to fill a £22 billion black hole in the budget using a slew of measures to be announced in the Autumn Statement on 30 October. As a result, there is an urgency to act fast to maximise your allowances.



The £22 billion budget black hole is to fall on the broadest shoulders

Households have been warned to expect a disappointing budget, especially those perceived to have the broadest shoulders. Ahead of the government's plans to unveil its tax and spending decisions in the Autumn Budget, we have identified five main areas under threat from a tax grab or a stealth tax raid. This is being billed as one of the most significant budgets in a generation due to the potential tax hikes. The newly elected Labour Government has been very vocal about the state of the country's finances after an audit by the Treasury discovered a £22 billion forecast overspend this year.

What is certain is that things could change rapidly, and the sensible option is to speak to your adviser as soon as possible.

Revenue raising has already begun

Prime Minister Sir Keir Starmer has been firm that national insurance (NI), VAT and income tax rates would not rise in the Autumn Budget – where the £22 billion hole in tax revenues will be plugged from is a lot less

clear. There could be a stealth tax on these protected areas by means of ongoing frozen allowances given the current level of inflation. When thresholds and allowances are 'frozen', there is an overall increase in tax paid to the Treasury without an actual increase in tax rates. Chancellor Rachel Reeves has already announced immediate spending cuts worth billions of pounds, the scrapping of a series of infrastructure projects, ending VAT exemptions on private school fees, and announcing that the winter fuel allowance for pensioners would be means-tested.

Pension wealth to be targeted

Many of the tax benefits currently enjoyed by pensioners are under the microscope as Reeves considers ways to boost the country's finances. Labour has previously promised not to increase taxes on working people but may target pension wealth instead. In fact, the biggest opportunity for the government to save money is changing the tax relief on pensions, which would also be easy to implement, and any potential changes may take place sooner than the next tax year. It can be in effect from midnight on the day of the budget, so, time may be of the essence. This could be a big blow for many retirees and those close to retiring who may expect more time to get their finances in order.

Bracing for tax rises

What is clear is that many households will face changes on the 30 October. Will it be a pensions grab? Or a hit to capital gains tax relief? No one is quite sure yet. In the tax year 2023/2024, the UK raised circa £1 trillion based on the [latest ONS data](#). However, because the present government has ruled out changes to NI, VAT, and income tax, this leaves just over £300 billion of taxes to focus on. Many of the taxes that could be raised, such as corporation tax, business rates and stamp duty, to name a few, are unlikely contenders for the budget. This leaves a much-reduced pool of tax-raising opportunities.

Where will taxes rise to meet the deficit?

The top five areas we see being included in the budget are centred around:

- 1. Pension tax relief: £3-15 billion:** The scrapping of some pension tax relief, potentially by introducing a flat rate of pension tax relief, would mean the system is less generous for higher earners.
- 2. Limiting inheritance tax relief: £2 billion:** Changes to inheritance tax (IHT) rules – including introducing a higher rate or potentially scrapping IHT relief altogether are possible.
- 3. Pensions inheritance tax reform: £1 billion:** If you inherit the pension of someone who died before age 75, it's completely tax free. Equalising this so all pensions inherited are taxable could raise about £1 billion.
- 4. Increase capital gains tax: £1-2 billion:** One of the most widely discussed tax changes is capital gains tax (CGT), a levy on the profit made from selling an investment. An increase in rates or a change in the structure of capital gains tax could be on the cards.
- 5. Stamp duty loophole for commercial properties: £1 billion+:** Finally, eliminating the stamp duty loophole for commercial properties held in a company or trust could be targeted, potentially raising over £1 billion.

Outside of these top five, we expect government plans to use other alternatives such as closing the carried interest tax loophole, closing 'non-dom' loopholes, closely monitoring tax avoidance schemes, and more to fill the funding deficit. Implementing a combination of these measures could come close to raising the £22 billion needed.

Ahead of 30 October

Review your finances: Conduct a thorough assessment of your current financial situation, including income, expenses, assets, and liabilities. Understanding where you stand will help you make informed decisions.

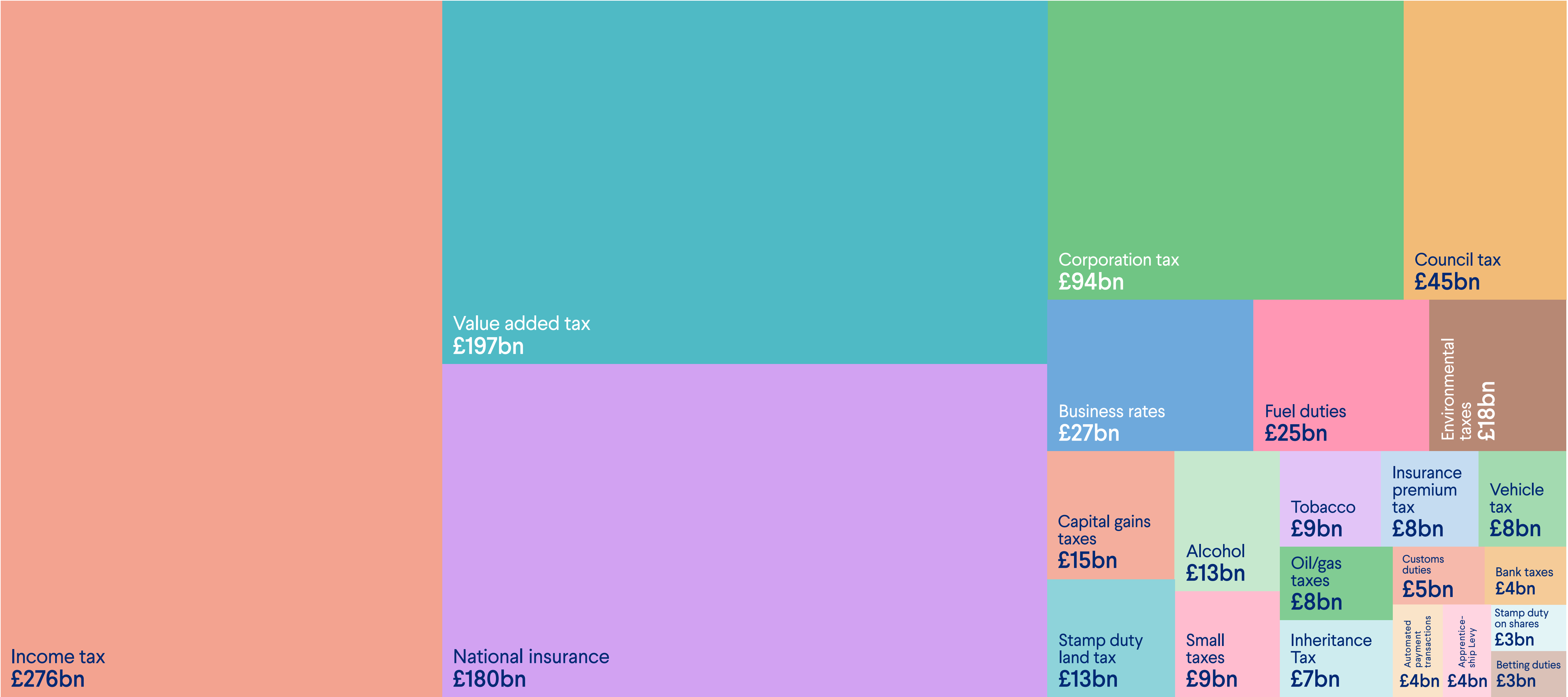
Seek advice: Take advantage of any available tax reliefs or allowances such as capital gains tax allowances. This might include contributions to tax-advantaged accounts such as ISAs or pensions which may provide tax benefits based on your current tax situation, or making charitable donations.

Discuss with your adviser your overall investment portfolio to ensure it aligns with your risk tolerance and financial goals, especially if tax changes might impact capital gains or dividend taxes.

Key takeaway

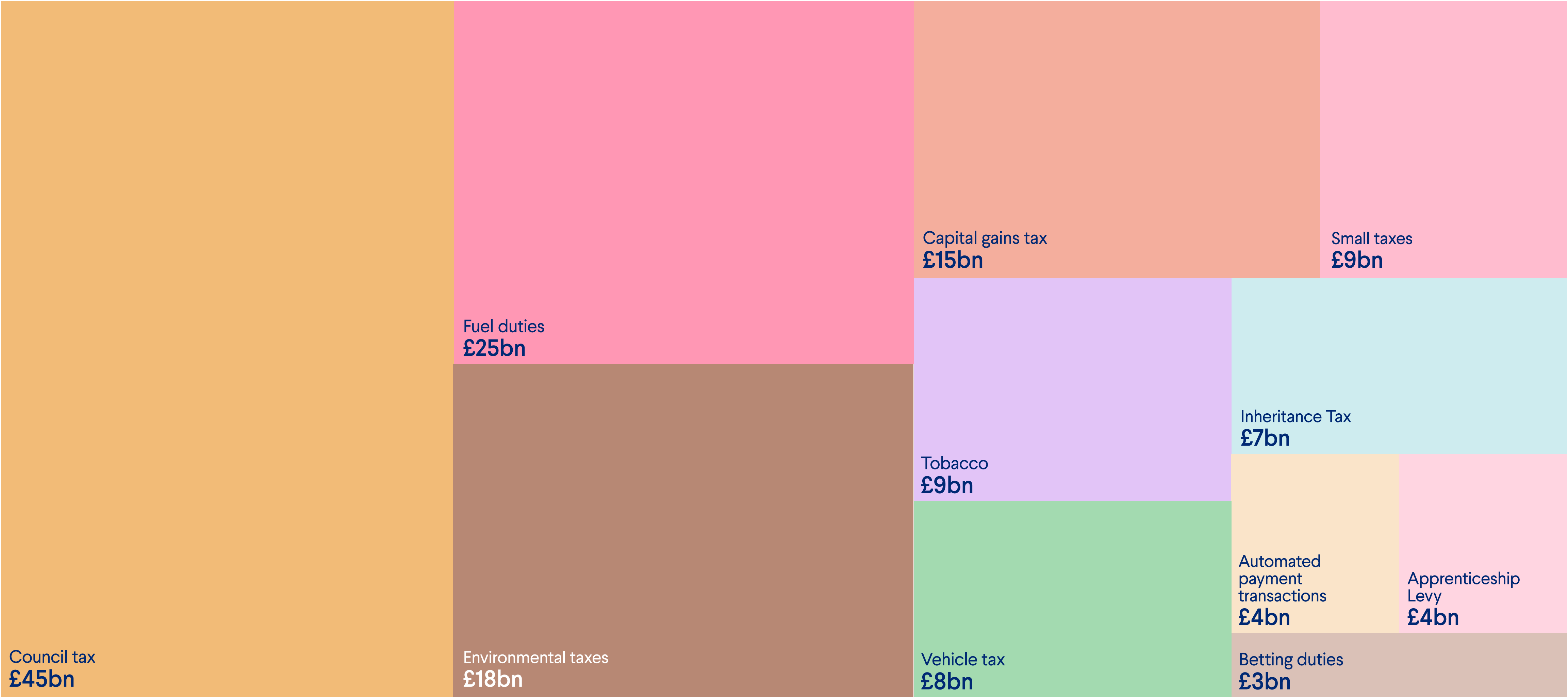
Being proactive and seeking advice to ensure you're well-prepared for any changes ahead of the Autumn Budget could provide peace of mind. As always, it's important to understand your financial situation and to stay informed about any potential changes that could impact your financial future.

Shape of the UK tax system, 2023/24, all taxes raising £1bn or more



Source: Tax Policy Associates, <https://taxpolicy.org.uk/2024/08/01/rachel-reeves-raise-22bn-of-tax/>

£150 billion of possible taxes targeted, using 2023/24 figures*



* Corporation tax, business rates, stamp duty, alcohol duty, oil & gas taxes, stamp duty as shares and customs duties are excluded as these are taxes we believe to be less likely to be targeted.
Source: Tax Policy Associates, <https://taxpolicy.org.uk/2024/08/01/rachel-reeves-raise-22bn-of-tax/>

Potential changes

Pension tax relief <i>£3-15bn</i>	Introducing a flat rate of pension tax relief would mean the system is less generous for higher earners. Currently, pension contributions are tax-deductible. A lower limit placed on how much can be saved tax free, or the tax relief on contributions to pension funds could be limited to basic tax rate relief, whatever the marginal rate of the taxpayer.	Council tax increases for valuable property <i>£1-5bn</i>	While Labour said before the election it would not change the banding of council tax, there may be other updates on the table. Uncapping council tax, so that it reflects property values more accurately, could raise several billion pounds.
Limiting inheritance tax reliefs <i>£2bn</i>	Changes to inheritance tax (IHT) rules – including introducing a higher rate, or potentially scrapping IHT relief altogether are possible. There’s potential for £2bn or more here for a measure that could fairly be presented as closing loopholes.	Increase vehicle excise duty <i>£200m+</i>	Car tax is the Vehicle Excise Duty (VED) levied on almost all vehicles by central government. The fee is set at a flat £190 per year for petrol and diesel owners regardless of how often they use the roads. A modest increase in VED could raise up to £1 billion, although it would impact median and lower-income individuals.
Pensions inheritance tax reform <i>£1bn</i>	If you inherit the pension of someone who died before age 75, it’s completely tax free, while those who inherit a Personal Pension from someone who is 75 or older will pay Income Tax on the money they drawdown. Equalising this, so all pensions inherited are taxable, could raise about £1 billion.	End the pension tax-free lump sum <i>£5.5bn</i>	On retirement, we can withdraw 25% of our pension pot, up to £268k, as a tax-free lump sum. Limiting the tax-free lump sum benefit to £100,000 could raise £5.5 billion, but Labour seems to have ruled this out. Tax-free cash on pensions has already been limited to £268,275, so this is unlikely to be restricted further.
Increase capital gains tax <i>£1-2bn</i>	The most widely discussed tax change is CGT (Capital Gains Tax) and a modest increase in CGT could raise up to £2 billion. However, a more modest increase in the CGT rates from 20% to 25% may raise more revenue. It is also possible that, some of the exemptions and reliefs from capital gains tax could be curtailed or removed altogether.	Tax gambling winnings <i>£1-3bn</i>	Taxing gambling winnings could raise £1-3 billion, but if winnings were taxed, would there be a need to account for gambling losses? It is unlikely a government will reintroduce betting taxes on winning, the amounts raised would be small compared to the national debt and deeply unpopular with many Labour supporters.
Eliminate stamp duty loophole for enveloped commercial property <i>£1bn+</i>	It's common for high value commercial property to be sold by selling the single-purpose company or trust in which it's held, or ‘enveloped’, rather than being held directly by an individual, thus avoiding Stamp Duty Land Tax of 5%. This practice is often used for various strategic and tax-related reasons scrapping this loophole could raise over £1 billion.	Cap tax relief on ISAs <i>up to £5bn</i>	Capping ISA tax relief for cash and shares/stocks in ISAs is exempt from income tax and capital gains tax could save up to £5 billion. This tax relief costs about £7 billion. However, many would regard this as unfair – they took advantage of a widely promoted Government saving scheme.
Increase ATED <i>£200m+</i>	Increasing the rate of ATED (Annual Tax on Enveloped Dwellings) ATED could significantly boost revenue. Introduced to discourage individuals from using single-purpose companies to hold residential property to evade stamp duty, but currently raises only £111m.	Reduce the VAT registration threshold <i>£3bn</i>	There is compelling evidence that the current £90k threshold acts as a brake on the growth of small businesses, as they manage their turnover to stay under the threshold. Lowering the current threshold of £90,000 could raise at least £3 billion and potentially boost economic growth, although it would be unpopular with small businesses.
Increase inheritance tax on trusts <i>£500m</i>	Currently, trusts pay a tax of 6% every 10 years on the value of the trust over the trust’s Nil Rate Band, which is often £325,000. Raising the 10-year charge on trusts from 6% to 9% could bring in over £500 million.	Raise the top rate of Income Tax <i><£1bn</i>	Increasing the top rate to 50% might raise some revenue but would be more symbolic than fiscally impactful. Former Labour Chancellor Gordon Brown introduced a 50% Income Tax rate in 2010. Any increase would be breaking the manifesto pledge, so it is deemed unlikely.
Reverse the fuel duty rise cancellation <i>£3bn</i>	A 5p per litre cut in fuel duty was introduced by the Conservative government in March 2022 but the 5p discount is losing the Treasury £3 billion a year. However, reinstating the scheduled rise would affect median and lower-income individuals.	Wealth tax <i>£1bn to £26bn</i>	A wealth tax targeted at the very wealthy – e.g. people with assets of more than £10m could be implemented but history has shown that previous wealth taxes have failed to be successful.
Abolish business asset disposal relief <i>£1.5bn</i>	This is a capital gains tax relief supposedly for the benefit of entrepreneurs. BAD Relief (BADR) allows for some taxpayers to benefit from a 10% capital gains tax (CGT) rate on the sale of certain business assets, up to a maximum of £1m of capital gains in their lifetime. Widely exploited BADR costs in the region of £1.5bn annually.		

Source: Tax Policy Associates, <https://taxpolicy.org.uk/2024/08/01/rachel-reeves-raise-22bn-of-tax/>

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