The Autumn

BUDGET

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What we know and what to expect

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As the political landscape shifts, discussions about potential changes to our tax system have become increasingly prevalent. While nothing is set in stone, it's crucial for individuals and businesses alike to understand what might be on the horizon. This article aims to break down the key points of potential tax reforms, their implications, and what you can do to prepare.

What we already know

The new government has made several commitments and ruled out certain changes. Let's look at what we know so far:

Confirmed Changes:

- Non-Dom Status: This special tax status for wealthy individuals living in the UK but domiciled elsewhere is likely to be removed. This could significantly impact high-net-worth individuals who have benefited from this arrangement.
- Private Schools: These institutions may soon be required to pay VAT and business rates, potentially leading to increased fees for parents.
- Property Purchases: Non-UK residents might face higher stamp duty when buying residential property in the UK, which could cool foreign investment in the UK property market.
- 'Carried Interest': The government plans to close the loophole that allows private equity profits to be taxed as capital gains rather than income.

What's Off the Table:

- Income Tax, National Insurance, and VAT: There's a commitment not to increase these for "working people," which should provide some relief for the average earner.
- Corporation Tax: It's unlikely to rise above the current 25% rate, offering some stability for businesses.

Areas of speculation

While nothing is confirmed, there's been considerable speculation about potential changes in several areas:

Inheritance Tax (IHT):
- There might be adjustments to various reliefs, particularly those related to business and agricultural assets.
- The tax-free treatment of pension funds passed on death could be reconsidered.

Capital Gains Tax (CGT):
- Rates might increase, potentially aligning more closely with income tax rates.
- The annual exemption amount could be reduced or removed entirely.

Pensions:
- While a "review of the pension landscape" has been mentioned, immediate major changes seem unlikely.
- Speculation about restrictions on tax-free cash has been circulating, but the government has stated they don't intend to change this.

Investment Income:
- There's potential for higher taxes on investment income, which could impact dividends and interest earnings.

Business Assets Disposal Relief:
- This relief, which allows entrepreneurs to pay a reduced 10% CGT on qualifying business disposals, might be adjusted or capped.

These potential changes are being discussed in the context of a challenging economic environment. The government needs to increase revenue to address the "black hole" in public finances, while also stimulating economic growth. This delicate balancing act explains why many of the speculated changes focus on wealth and investment, rather than income from work.

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.

Implications for Different Groups

For High Net Worth Individuals:

- The potential loss of non-dom status and changes to IHT reliefs could significantly impact tax liabilities.
- Those with large investment portfolios might need to reassess their strategies if CGT rates increase.

For Business Owners:

- Potential changes to Business Assets Disposal Relief could affect exit strategies.
- The possible cap on business and agricultural IHT reliefs might necessitate a review of succession planning.

For Middle-Income Earners:

- While protected from increases in income tax, NI, and VAT, changes to pension rules or CGT could still have an impact.
- Those with second homes or investment properties might face higher taxes on disposal.

For Savers and Investors:

- Potential changes to ISA allowances or taxation of investment income could affect long-term savings strategies.
- Pension savers might need to review their retirement plans, especially regarding tax-free lump sums.

What you can do to prepare

While it's important not to make drastic decisions based on speculation, there are some steps you can consider:

1. Review Your Financial Position: Understand your current tax liabilities and how potential changes might affect you.
2. Maximise Current Allowances: If appropriate, consider using up ISA allowances or making pension contributions before any possible changes occur.
3. Consider Timing of Asset Disposals: If you're planning to sell significant assets, you might want to consider doing so before potential CGT rate increases.
4. Review Estate Planning: With potential changes to IHT, it might be time to revisit your will and estate planning strategies.
5. Seek Professional Advice: A financial advisor or tax professional can help you understand the potential impacts on your specific situation and plan accordingly.
6. Stay Informed: Keep an eye on budget announcements and policy developments.
7. Looking Ahead

It's important to remember that tax changes, if implemented, are usually designed to be fair and are often phased in gradually. There's no need for panic, but staying informed and prepared is always prudent.

The next budget announcement will likely provide more clarity on these potential changes. Until then, the key is to stay flexible in your financial planning and to consider seeking professional advice if you're concerned about how these changes might affect you.

Remember, while tax efficiency is important, it shouldn't be the sole driver of your financial decisions. Your overall financial goals, risk tolerance, and personal circumstances should always be the primary factors in your financial planning.
In these times of potential change, knowledge truly is power. By staying informed and proactive, you can navigate these potential tax reforms with confidence, ensuring that your financial future remains secure regardless of how the tax landscape might shift.

The value of an investment with St. James's Place will be directly linked to the performance of the funds you select and the value can therefore go down as well as up. You may get back less than you invested.

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