Budget update and tax year end planning

30 January, 2025

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Learning objectives

At the end of this session, you'll be able to:

- Outline the changes to taxation announced in the October 2024 Budget
- Describe tax traps and how to avoid them using pensions
- Explain intergenerational tax planning opportunities
- Demonstrate how pensions can help with a Capital gains tax charge.

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Agenda

- Employer NI increase
- Salary exchange
- Tax traps
- Annual allowance and carry forward
- Capital gains tax change
- Inheritance tax changes and exemptions

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Employer NI increase

Increase from 13.8% to 15%

Threshold reduced from £9,100 to £5,000

From 6 April 2025

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Employer NI increase

Employment allowance increased to £10,500

Employment allowance available to all eligible employers

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Salary exchange

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Salary exchange

- Likely to become an even more appealing option for employers
- No employer NI payable on employer pension contributions
- Using salary exchange means all employer pension contribution
- Remuneration package rather than headline salary

Using salary exchange

Case study

- Sam is employed by RL Sockets Ltd.
- His pensionable salary is £35,000 p.a.
- AE contributions:
  - Sam pays 5% of pensionable salary.
  - RL Sockets Ltd pay 3% of pensionable salary.
- RL Sockets Ltd. have approached you to review their pension scheme. They have 100 employees.
- They don’t currently use salary exchange.

Using salary exchange

Sam's position	Before salary exchange	After salary exchange
Salary	£35,000	£33,056
Tax	£4,486	£4,097
NI	£1,794	£1,638
Net pension cont.	£1,400	£0
Take home pay	£27,320	£27,320

Sam's gross salary, tax, NI contribution and pension contribution have all decreased.
But his take home pay remains the same.

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Using salary exchange

Employer's position	Before salary exchange	After salary exchange
Salary	£35,000	£33,056
Employer NI	£3,574	£3,306
Cost of pension contribution	£1,050	£3,129
Total cost to employer	£39,624	£39,490

RL Sockets Ltd now pay the whole pension contribution.
The total cost to the employer has reduced by £134 p.a.
By re-directing only 50% of employer NI savings to Sam's pension.

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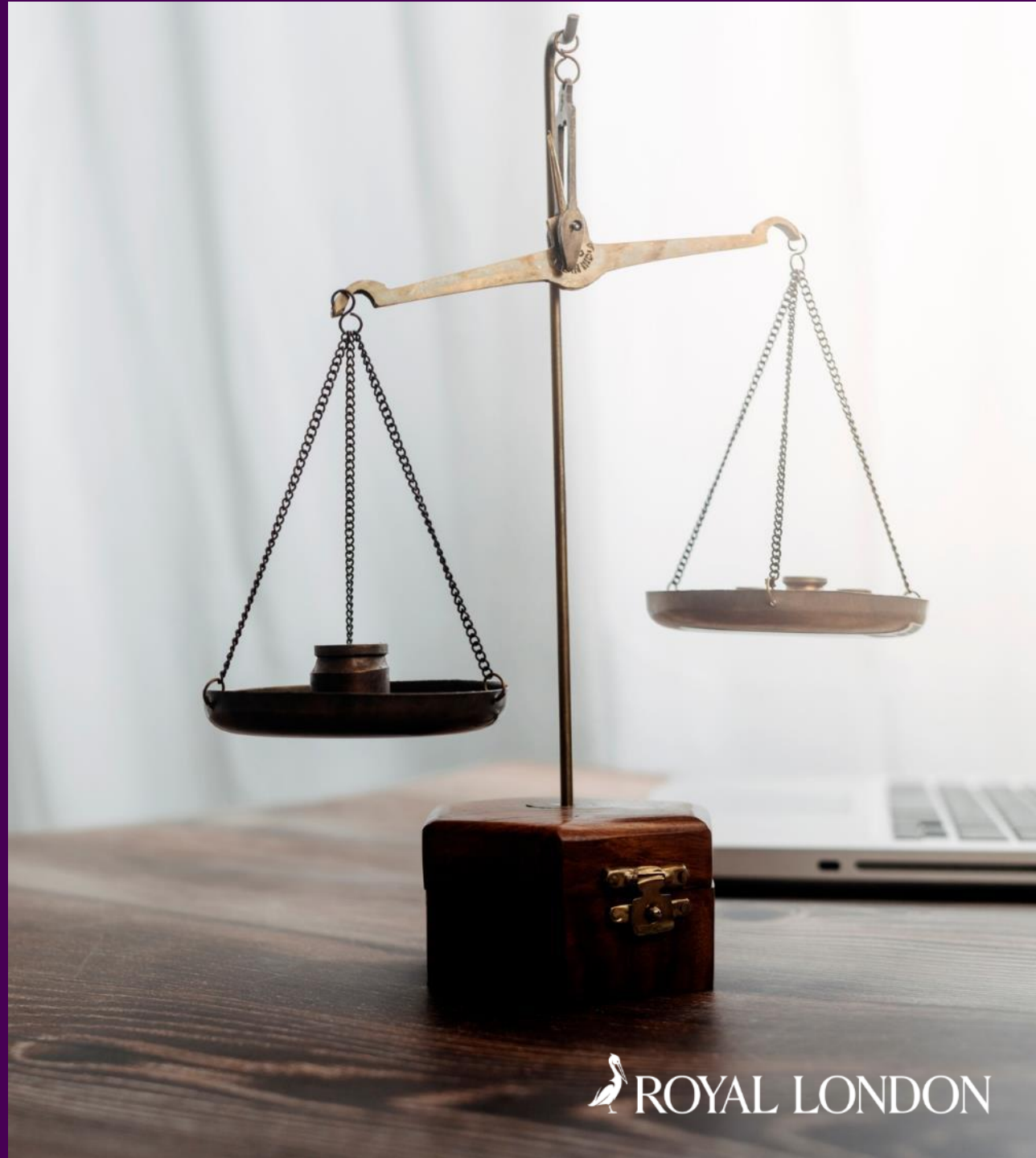
Using salary exchange
Outcomes

- Sam has £3,129 p.a. going into his pension. £329 p.a. extra!
- For the same ‘take home’ pay.
- RL Sockets Ltd.’s total cost for Sam decreases by £134 p.a.
- For a 100-member scheme, this equates to £13,400 p.a.
- Creating your fee, the business protection and solicitor costs?



Using salary exchange
Warnings

Reduction in headline salary

- Impact on DIS lump sum
- Impact on borrowing, mortgage etc
- Watch out for minimum wage
- Can’t be used to reduce eligible jobholders
- Change of contract – seek legal advice

Using salary exchange April 2025

Employer's position	Before salary exchange	After salary exchange
Salary	£35,000 (£35,000)	£33,056 (£33,056)
Employer NI	£4,500 (£3,574)	£4,208 (£3,306)
Cost of pension contribution	£1,050 (£1,050)	£3,140 (£3,129)
Total cost to employer	£40,550 (£39,624)	£40,404 (£39,490)

Additional cost in NI from April 2025, £92,600 for RL Sockets Ltd
By re-directing only 50% of employer NI savings to Sam's pension
The total cost to the employer has reduced by £14,600 p.a
Figures in brackets are 2024/25 tax year comparison

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Salary exchange

Planning Point:

Have you discussed salary exchange with your employer clients?
Can employee clients use it?

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Tax traps

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Adjusted net income

- Not to be confused with adjusted income where pensions are added on!
- Deduct gross pension contributions made to net pay or RAS scheme
- However, it can get a client out of tax traps!

Personal allowance tax trap

- Personal allowance starts to be lost on a 2:1 basis once over £100,000
- Once over £125,140 there is no personal allowance left
- 60% rate of tax in this trap - 40% on £2 plus 40% on the lost £1 = £1.20 tax on £2
- Figures differ in Scotland

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Personal allowance tax trap

Pension contribution	Before	After
Taxable income	£125,140	£,140
Personal allowance		£12,570
Employee NI	,513.40	£4,513.40
Employer NI	£16,013.52	£16,013.52
Income t	£42,516.00	£32,460.00
Personal ntribution (net)	-	£20,112.00
Employer pension contribution	-	-
Income after tax	£78,110.60	£68,054.60

60% TAX RELIEF

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Personal allowance tax trap

Planning Point:

Do you have any clients who have had a pay rise/redundancy or bonus?

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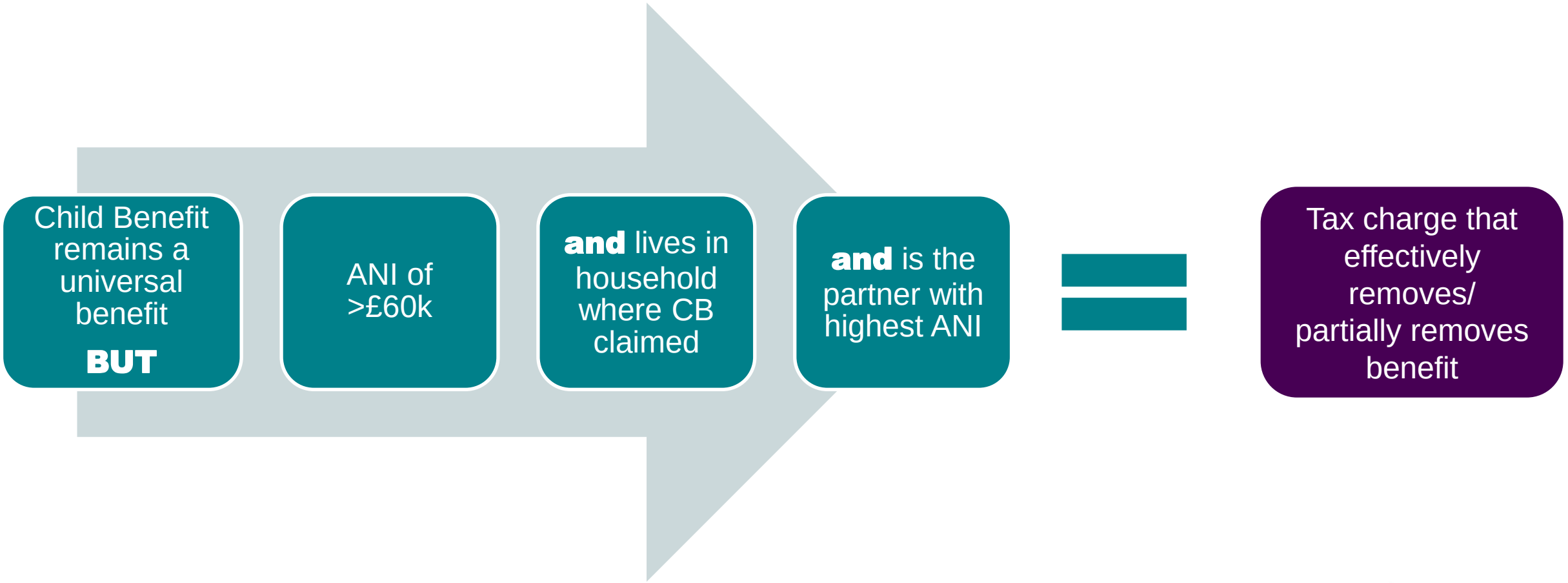
Child Benefit tax



Child Benefit

4 Higher income earners

Only answer question 62 if either you or your partner have an individual income of more than £60,000 a year.

If you or your partner have an individual income of:

- more than £80,000 a year – a tax charge equal to the Child Benefit payment will apply, so you may not want to be paid Child Benefit
- between £60,000 and £80,000 a year – a tax charge of less than the Child Benefit payment will apply, so you may want to be paid Child Benefit

If you're not sure if either you or your partner have an individual income of more than £60,000, read page 2 of the CH2 Notes.

62 **Do you want to be paid Child Benefit?**
Only answer this question if either you or your partner have an individual income of more than £60,000 a year.
Read page 5 of the CH2 Notes.

No ☐ I do not want to be paid Child Benefit, but I want to protect my State Pension.
Go to the declaration on page 8

Yes ☐ I want to be paid Child Benefit.
I understand that I or my partner may have to pay an Income Tax charge.
Go to question 63

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High Income Child Benefit tax trap

Tony

Taxable income: £68,000
Over the limit: £8,000
Tax charge: 40%

Lucy

No income
Child benefit: £2,212.60 p.a

Tony

Net contribution: £6,400 (£8,000 gross)
Net income: £60,000
Tax charge: Nil
Child Benefit tax saving: £885.04
Tax saving is (£3200 + £885.04)/£8000

Annual allowance and carry forward

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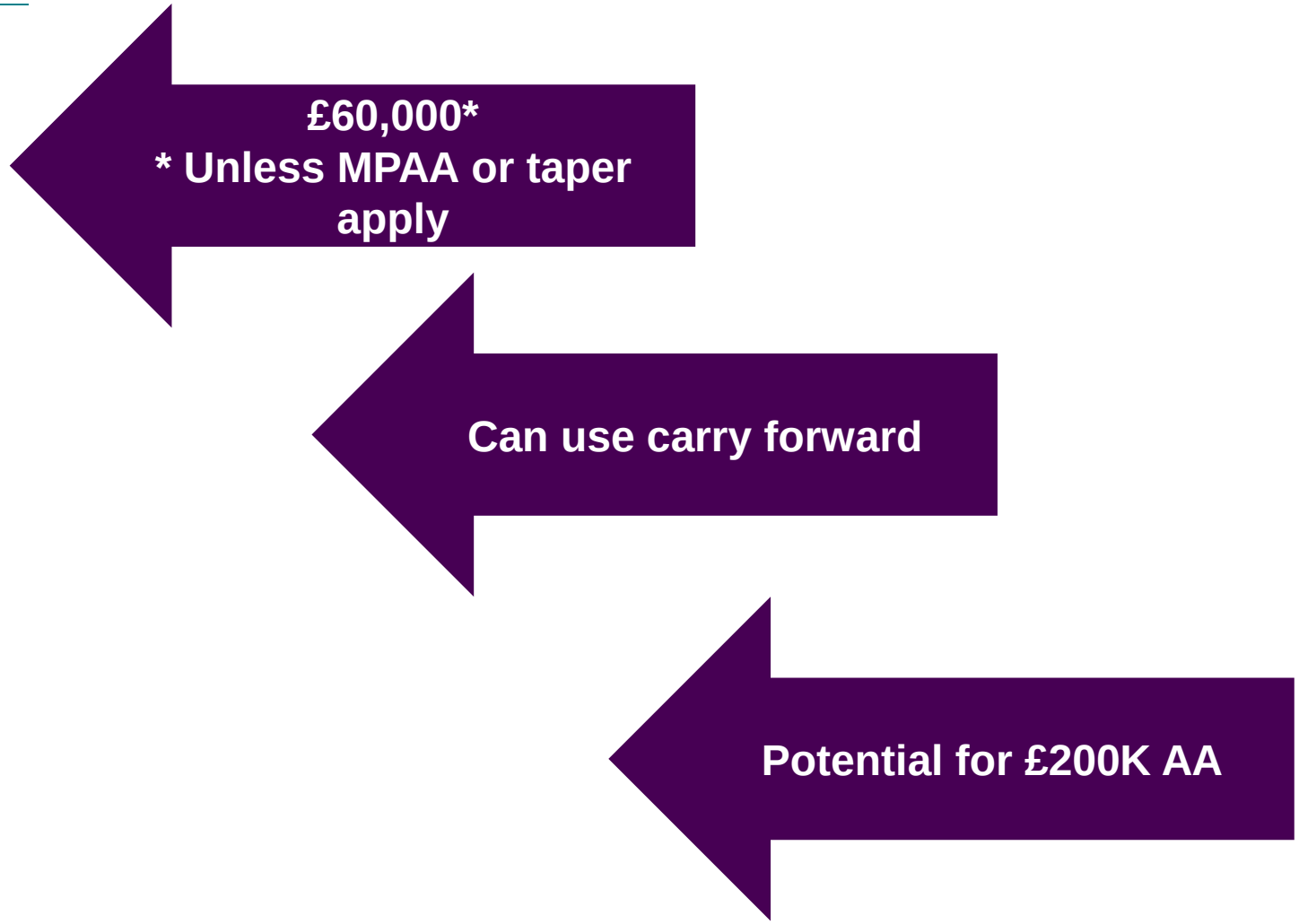
The annual allowance



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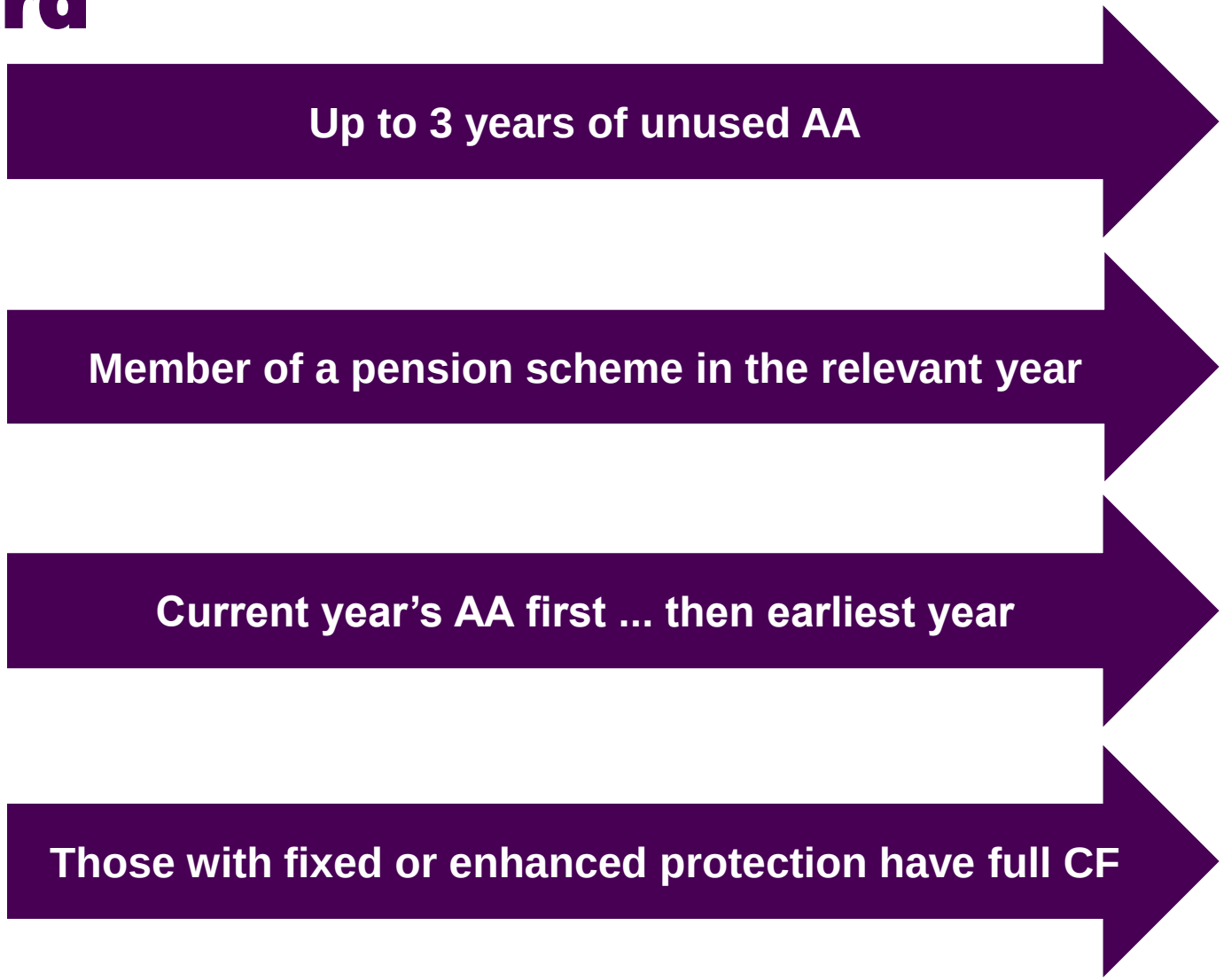
Carry forward



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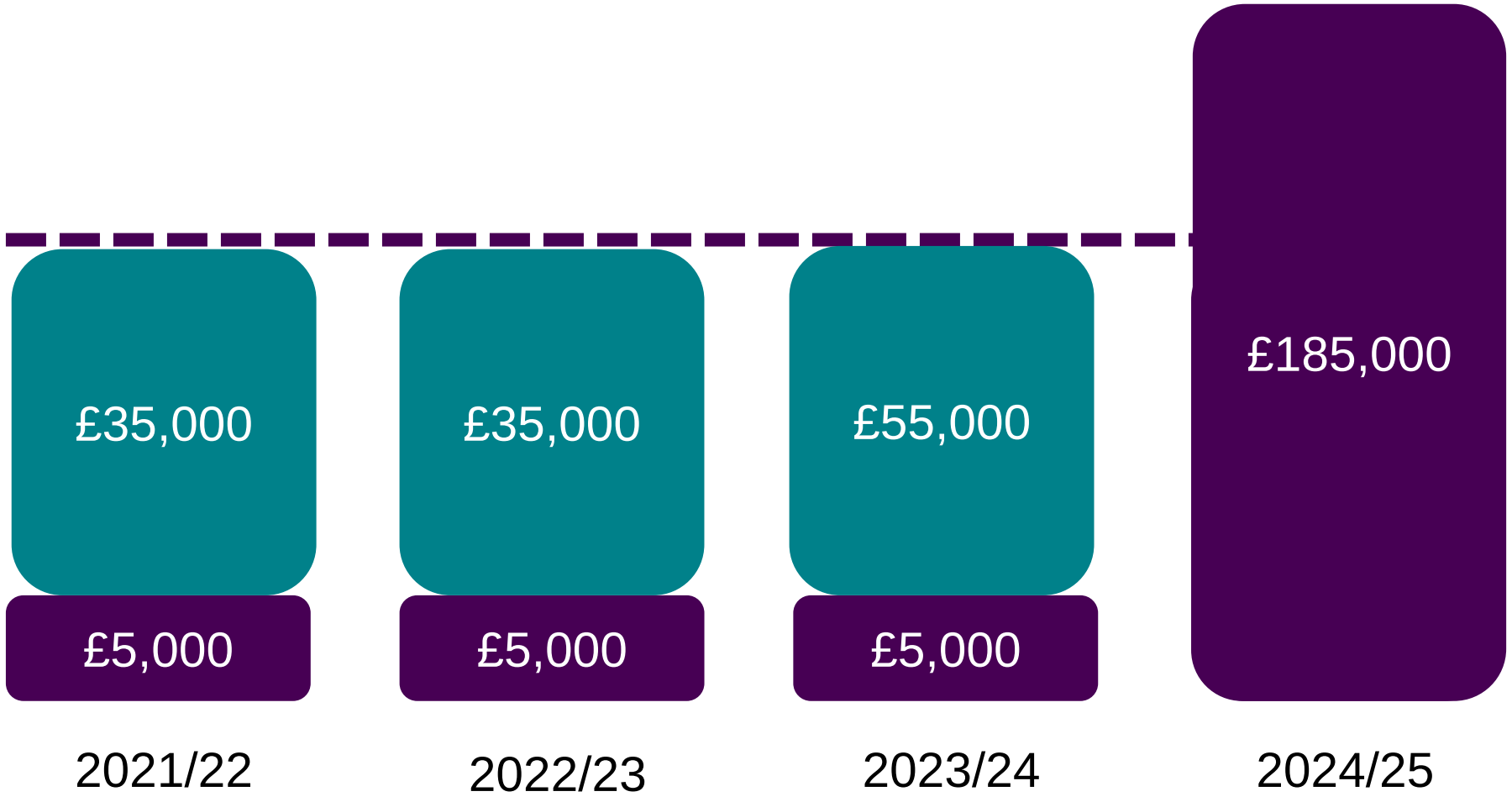
The annual allowance and carry forward



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Carry forward

Planning Point:

Are clients using CF? Do you have business owner clients?

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Capital gains tax

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Capital gains tax

- Tax on gains
- From **30 October 2024**
- Annual exempt amount **£3,000**
- Then:

  Basic rate

  Was 10% increased to 18%

  Higher and additional rate

  Was 20% increased to 24%

  Equalises with rates for residential property gains

Capital gains tax planning (post 30/10/2024)

Meera sells a painting

After deduction of annual exempt amount = capital gain of £10,000

She has salary of £50,270

Income tax of £7,540 plus CGT of £2,400

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CGT planning

Pay contribution of £8,000 grossed up to £10,000

↓

CGT now £1,800 + tax relief of £2,000

↓

26% tax relief

CGT planning

Planning Point:

Can pensions help?

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Inheritance tax

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IHT proposal highlights

- IHT to apply to pensions from 6 April 2027
- Consultation period ended 22 January
- IHT plus income tax could apply
- Very little out of scope – charity LSDB and dependants scheme pension
- Still need some clarity on what is in scope
- Scheme administrators will deduct any IHT before paying out benefits

Questions

Should I think about gifting now?

Will JLSD become more popular?

What about death benefits payable to a trust?

Will the payment of death benefits be delayed?

Will the order of taking benefits change?

Will the consultation change anything?

What should my clients be doing now?

Will whole of life become more popular?

What about death in service?

What exemptions are appropriate?

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Inheritance tax
at a glance

- IHT is payable on death where the deceased's estate is valued at more than £325,000
- The main residence nil rate band is now **£175,000** each
- Both NRB and RNRB are transferable
- Potential total of **£1m** for a married couple / civil partnership
- Anything above is subject to a 40% tax charge
- No changes until at least 2030.

Exemptions

- Spousal exemption
- Small gifts up to £250
- Marriage gifts
- £3,000 per year
- Charities/political parties
- Payment to help with living costs
- **Normal expenditure from income**

Normal expenditure from income

Normal expenditure

From income

Standard of living

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Record keeping (IHT403)

Gifts made as part of normal expenditure out of income

Only fill in this page if you've ticked 'Yes' to box 6 on page 1. This is a guide to the type of income and expenditure the deceased may have had so that you can show that gifts made were part of the deceased's normal expenditure out of their income. Give details of the deceased's income and expenditure for each of the years in which the gifts were made.

20 Income

Tax year in which gifts made (for example, 6 Apr 2005 to 5 Apr 2006)								
Salary								
Pensions								
Interest (including PEPs and ISAs)								
Investments								
Rents								
Annuities (income element)								
Other								
Minus Income Tax paid								
Net income								

21 Expenditure

Mortgages								
Insurance								
Household bills								
Council Tax								
Travelling costs								
Entertainment								
Holidays								
Nursing home fees								
Other								
Total expenditure								

22									
	Surplus (deficit) income for the year (Net income minus total expenditure)								
	Gifts made								

Inheritance tax and intergenerational planning

Contributing to a pension for a child or grandchild can reduce tax on a family basis

Regular contributions to a pension may be offset against normal expenditure

Or a parent or grandparent can use the annual exemption

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Normal expenditure from income – pension contributions

- Contributions for a third party are exempt or potentially exempt
- The individual receiving the contribution must have relevant earnings to support it or max of £3,600
- If the recipient is a HR/AR tax payer then they can claim the extra relief
- Growing in a trust which can’t be accessed until at least 55.

IHT

Planning Point:

How could pensions becoming subject to IHT impact your clients?

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Learning outcomes

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- Explain intergenerational tax planning opportunities
- Demonstrate how pensions can help with a Capital Gains tax charge.

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