

The essential consumer guide to helping make your money work harder.

moneyworks

The big Budget tax shake-up

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The Budget ISA and pension freeze

Your annual ISA and pension allowance will remain the same, at a time when it's becoming even more important to make use of your tax allowances.

How will the Budget impact the property market?

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Supporting yourself in tougher times

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Heaton Financial
Independent Financial Advisers Ltd

Welcome

As the dust settles on the first Labour government Budget in 14 years, we take a look at some of the key decisions Rachel Reeves made in her October announcement and the impact this could have on you and your finances.

In this issue we reflect on some of the key areas of focus for the Budget including a shake-up to inheritance tax; the rise in Capital Gains Tax and what the freezing of the income tax thresholds means to the amount you will pay.

Another important announcement in the Autumn Budget was the Government's decision to freeze the amount you can pay into your ISA each year which remains at £20,000 and £9,000 for Junior ISAs while for those saving into a pension, the allowance for the 2024/25 tax year has increased from £40,000 to £60,000. We unravel what this all means to your finances and why now could be the perfect time to discuss your financial options with an adviser.

Elsewhere in this Budget special, we look at the consequences the Government's decision to end the stamp duty holiday on homes bought for £125,000 - £250,000 will have on first-time buyers and why buying a second home will now see the amount of stamp duty you pay rise from 3% to 5%.

Finally, we reflect on the importance of taking out income protection and the reassurance that will give you should you find yourself unable to work through illness. Cover doesn't have to cost a fortune, and by speaking to an adviser you can get a plan in place to look after you and your loved ones should the unthinkable happen.

Here's wishing you a Merry Christmas and a happy and prosperous 2025.

Best wishes

The **moneyworks** team

Your home may be repossessed if you do not keep up repayments on your mortgage. The value of your investment can go down as well as up and you may not get back the full amount invested. The Financial Conduct Authority does not regulate taxation.

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The news in brief

A round up of the current financial stories

Be retirement realistic

Reality is proving different to expectations. At least that's the case for one in five over-55s in retirement.

August 2024 research by Pension Bee found 20% of people in this age group have consistently spent more than they'd anticipated during retirement so far. With a further 11% admitting their outgoings were much higher than they had envisaged during the early years of their retirement.

Inflation is a big reason for this and although the cost-of-living challenges are easing, we're all still left with a legacy of prices being higher than they used to be. 28% of retirees said the rising cost of living since 2022 is the biggest reason for their unexpected overspending in retirement.

Spending more than you plan could leave you short of money later in retirement. So it's really important to be realistic about your retirement spending plans before you retire.

<https://bit.ly/4fAfXHS>

The changing approach of scammers

Is it real or is it a fake? Should you click on this link or report it as spam? Trying to spot a scam attempt is a real minefield. Sadly, the problem isn't going away either. According to November 2024 research by NatWest, a considerable 42% of British adults have been targeted by scammers over the past 12 months.

NatWest also found the types of scams attempted are changing. Fake parcel delivery texts are the fastest growing scam, with 40% of people targeted saying they've received bogus messages from fraudsters claiming they have a package for them. Purchase scams are also on the rise – where criminals advertise and sell products that don't exist, or non-existent tickets to events.

Data from UK Finance's 2024 annual report suggests far too many scammers succeed, with some £570 million reported stolen in the first six months of this year. And most of us are concerned it might get worse – with 86% worried the rise of AI will give criminals new ways to con innocent people.

<https://bit.ly/4hVHXau>

A valuable lesson

It's no secret the last few years haven't been easy for personal finances. Prices and bills have risen significantly. It caused us all to think more about money and – encouragingly – has at least helped us become savvier.

At least that's what September 2024 research by SmartSave suggests. It found 51% of UK adults believe they have become more competent at managing their finances over the past year.

This is especially the case when it comes to saving and investing. 44% say they are now actively seeking out high interest savings products to maximise their savings and 51% now feel confident of how to save and invest their money in the next 12 months.

In total, 52% of us believe we have learned valuable financial lessons through the cost-of-living crisis.

<https://bit.ly/4hVYLhy>



The big Budget tax shake-up

The new government has announced a range of tax changes that could impact your financial plans in different ways.

£40 billion was the headline. That's how much the new chancellor, Rachel Reeves, says she will raise taxes by, as she unveiled a first Labour Budget in 14 years at the end of October.

It's a big number for sure, but probably not a huge shock. Sir Kier Starmer had set expectations over what was coming – as long ago as August, when he told the British public that the Budget “will be painful”.

In the weeks before the main event, speculation of what would be announced in the Budget dominated the media headlines.¹

Many of the rumours of what would be inside the famous red box proved to be unfounded. But even so, this was a Budget with significant announcements that might have implications for your financial planning. So now the dust has settled, let's take a look at what's changing with tax rules – and what it could mean to you.

Inheritance tax (and pension) rules get a shake-up

Some of the biggest changes centred on inheritance tax, which is something your family might have to pay if the value of your estate is above a certain threshold when you die.

Firstly, the Chancellor has pledged to keep these inheritance tax thresholds frozen for a further two years, meaning they will stay at the current levels until 2030.² Anything you own above your threshold is liable for inheritance tax. So, extending the freeze means even more estates are likely to pay inheritance tax over the coming years.

In addition to this, Reeves wants to bring pensions into your estate for inheritance tax purposes, starting in 2027. Up until now, a pension could be inherited without being assessed for inheritance tax, making it a tax-efficient way to pass wealth down the family. That's going to change, which could impact any plans you've made. The government is holding a consultation over how this will work, but it's likely to mean more families will face an inheritance tax bill.

Finally, it was announced that agricultural assets (like a farm) worth more than £1 million won't be exempt from 2026 and could face an inheritance tax at a rate of 20%.

However there are certain caveats to this – for example, if a farmer passes ownership of the asset at least seven years before they die, there might not be any inheritance tax to pay. The other key point is this £1 million agricultural asset threshold is on top of the regular inheritance tax nil rate bands that we all have. This means farmers could pass on an estate worth up to £1.5 million without paying inheritance tax, as long as it's left to a direct descendent like a child or grandchild. Married couples could pass on up to £3 million to direct descents without incurring inheritance tax.

If you think you might be impacted by these changes, it's important to take the time to look into the detail. The new rules are yet to be fully decided on, and they don't come into effect straightaway. This gives you time to look at your plans.

There are ways you can reduce, if not eliminate, a potential inheritance tax liability and as everyone's situation is different, financial advice comes recommended.



Capital Gains Tax changes

Capital Gains Tax, or CGT, is a tax you pay when you sell or give away an asset. It includes property (other than your main home), investments or other items of value.

The Government has changed the CGT rate with immediate effect. It has gone up from 10% to 18% for basic rate taxpayers, and from 20% to 24% for higher rate taxpayers. The CGT rates for selling property were already at this level.

That does potentially mean you will have to pay more in tax to sell an asset. But a positive is the Chancellor didn't change the £3,000 annual allowance we all have each year, before CGT applies. It was rumoured this allowance³ could be reduced (just as it has been in the recent past).

Careful planning is needed here too. There are ways to address a potential CGT liability, so you end up paying less in tax overall. For example, your annual ISA allowance allows you to invest tax-efficiently, with the returns you make free from tax.

CGT is complex – which is why speaking to a financial adviser can help. They're not just here to help you grow your money. They will look at how much tax you're paying and whether there are ways to minimise it. That way, you can potentially keep even more of your wealth.

Income tax thresholds stay the same, which could cause you to pay more tax

A third, and key change that could affect you, surrounds income tax. Whether you are paid directly by an employer; are self-employed or are retired and using a defined contribution pension for an income then that income will be subject to tax.

In the Budget, Reeves confirmed they would maintain the income tax threshold freeze until 2028. This was already

in place under the last government, but it was rumoured it might be extended further. Even though this plan hasn't changed, it has potential implications.

The freezing means more people are likely to fall into a higher tax band over the coming years, as annual earnings typically increase. It might also impact how much you can take from a pension without paying too much in tax.

The importance of planning grows

For most people, the Autumn Budget offers food for thought and highlights the importance of looking after your money.

For this and other reasons, this could be a really good time to speak to a financial adviser. The fall in inflation and interest rates gives us all a bit more breathing space to think about the future. An adviser can help you do just that by reviewing your plans and recommending options to consider to help you achieve your goals.

This includes looking at how to plan for any of the wide-ranging tax changes announced in the Budget that might impact your future.

The value of your investment can go down as well as up and you may not get back the full amount invested. Investments do not include the same security of capital which is afforded with a deposit account. The Financial Conduct Authority does not regulate taxation and trust advice. Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits. Accessing pension benefits is not suitable for everyone. You should seek advice to understand your options at retirement.

¹ <https://bit.ly/4fyGC80>

² <https://bit.ly/4frVk0p>

³ <https://bit.ly/4fyGG7K>

³ <https://bit.ly/4eDwCJ5>

The Budget ISA and pension freeze

Your annual ISA and pension allowance will remain the same, at a time when it's becoming even more important to make use of your tax allowances.

You had to look hard to find it – page 133 in fact¹ – but there, tucked inside the 170-page Government Autumn Budget document, was news that our annual ISA allowance will be frozen until 2030. This means you will continue to be able to save or invest a maximum of £20,000 a year inside an ISA or £9,000 for Junior ISAs and Child Trust Funds.

In the relatively recent past, your annual ISA allowance used to be increased almost every year by the government.² But since 2017, it's remained at £20,000. This is going to continue for the rest of this decade. And it could present some challenges in how you look after your finances.

There are a few reasons for this. The cost-of-living challenges of recent years have brought home the importance of inflation to everyone and though the rate of inflation has eased of late, prices are still going up. With the freezing of income tax thresholds until 2028, many of us could be in a situation of gradually paying more tax.

Your ISA allowance is an opportunity to balance this. It's a way to pay less tax on your savings and investments, which can make a big difference to your overall wealth. If annual allowances were to start rising each year like they used to, it might help you to protect more of your money from inflation and other tax changes.

In a time of uncertainty, your ISA allowance is vital

This year marked the 25th anniversary of the humble ISA. First launched in 1999 as a replacement to tax exempt special savings accounts (TESSAs), ISAs are designed to help you save or invest your money.

Each April 6, you get a new ISA allowance to use. It can't be carried over into the next tax year, so if you don't use it, you will lose it. That £20,000 annual total isn't going to change until 2030, but that doesn't mean you should ignore the benefits of using your allowance.

Advice can help you make the most of ISA opportunities in a way that suits you.

Pension allowances are also unchanged, and that's a positive

You'd have to look even harder in the latest Budget document for major changes to pension rules. That's because the government was light on alterations here, despite plenty of pre-Budget media speculation.

This is good news for people saving for retirement using defined contribution pension (typically private sector workers). There were suggestions that the amount you could withdraw tax-free might be scaled back, or the rate of tax relief (a major benefit) might be cut. Neither happened.

There is, however, some uncertainty with the news that pensions are to be considered part of an estate for inheritance tax reasons – a topic we cover elsewhere in Moneyworks. But when it comes to the many benefits of paying into a pension, nothing has changed.

And there really are benefits. Starting this 2024/25 tax year, the amount you can pay in annually, without paying tax, was increased from £40,000 to £60,000 in the previous tax year and will remain at £60,000 in 2025/2026. What's more, if you have unused pension allowances from the last three tax years, you can carry them forward and use them too.

Planning to make every penny count

After a period of uncertainty, we know where we are with pensions (plus have a long-term outlook on ISAs). Making the most of these opportunities is really important during a period of rising taxes. So, if you're looking for help growing and protecting your wealth, it might be worth speaking to a financial adviser.

An expert can assess your plans and where you want to be, to see if you could do more to prepare for your long-term future.

If you have old pensions, advice is especially recommended. Over your career, you might pay into different pensions and forget about them. But these old pots could still play a big role in your future. An adviser can review what you have and recommend options such as consolidating them into one place as this is an area the government is committed to exploring and supporting, post Budget.³

The value of your investment can go down as well as up and you may not get back the full amount invested. Investments do not include the same security of capital which is afforded with a deposit account. The Financial Conduct Authority does not regulate taxation and trust advice, National Savings products or deposit accounts. A pension is a long term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Pension income could also be affected by interest rates at the time benefits are taken. Pension savings are at risk of being eroded by inflation. Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits. Accessing pension benefits is not suitable for everyone. You should seek advice to understand your options at retirement.

¹ <https://bit.ly/4gf0vB1>

² <https://bit.ly/3Zdww6F>

³ <https://bit.ly/4fYokwO>





How will the Budget impact the property market?

Chancellor Rachel Reeves' first Budget will likely have some impact on homeowners.

The rush has begun. According to November 2024¹ data released by the Royal Institution of Chartered Surveyors, estate agents and surveyors across the land are reporting an uptick in home buyer enquiries.

And this is just the start of what is expected to be a stampede of house-buying.

The source of this spike in house sales is the Autumn Budget, and confirmation the stamp duty holiday on homes bought for £125,000-£250,000 will end in April. What this means is homebuyers will pay 2% stamp duty on the amount they pay to buy a home that's above £125,000.

If you purchase a property for £250,000, you'd pay no stamp duty before April. But after this, you'll have to pay £2,500. A large sum of money to find, during what's already an expensive time.

Experts predict this is going to lead to a frantic few months for the property market, as home buyers try to beat the deadline. According to Nationwide Building Society, a fifth of first-time buyers² will end up paying stamp duty, when right now they don't have to. If you plan to sell a home in the coming months, you might find the demand for it is higher.

Blow for landlords

If it was no great shock Reeves opted to end the stamp duty holiday, she caused more of a surprise for people who own second homes, such as buy-to-let landlords. That's because she announced a rise in the rate of stamp duty you pay to buy a second home, from 3% to 5%. The change took effect at the end of October.

This has left estate agents busy for different reasons, with reports that the stamp duty increase on additional homes has triggered renegotiations on prices of homes on sale.³ Research by Inventory Base⁴ has found the average stamp duty bill will increase by more than £6,000, to £18,457, for second-home buyers.

This all comes when there is evidence of a slowdown in popularity of people buying a second home to rent out, for an income. According to Rightmove,⁵ in the first half of this year, the number of homes being bought by landlords fell to a 14-year low.

So, some uncertain times ahead. The race to beat the stamp duty holiday for residential buyers is likely to push house prices up but could then see a slowdown in activity

post April. Whilst the declining popularity of buy-to-let could further impact the overall housing market.

Signs of positivity?

Helpfully for first time buyers, the government has confirmed it is holding a consultation over the future of the mortgage guarantee scheme⁶, with a view to making it permanent. The scheme offers UK citizens the option to apply for a mortgage with just a 5% deposit. The government has also committed to building more affordable homes⁷ and supporting other home building initiatives.⁸

These measures can help the overall property market, all supported by the wider backdrop of falling interest rates that are bringing the costs of mortgages down. The latter trend is likely to continue in 2025.

2025 could be a good year to look at your mortgage options

With the landscape changing, this could be a good period if you're looking to buy a first home or climb the property ladder. Even if you're not moving, it might also be a promising time to look at your next fixed rate deal or remortgage.

It can be confusing, and with that in mind it could help to speak to an expert. An adviser can assess your situation and use their in-depth knowledge of the market to find the best mortgage deal for your situation. Often, advisers get special access to mortgage deals not available if you were to approach lenders yourself.

Ultimately, an adviser can offer you a more detailed picture of your options on the next step of your home-owning journey, so you can plan with greater confidence.

Your home may be repossessed if you do not keep up repayments on your mortgage. The value of your investment can go down as well as up and you may not get back the full amount invested. Investments do not include the same security of capital which is afforded with a deposit account. Your home or property may be repossessed if you do not keep up repayments on your mortgage. You may have to pay an early repayment charge to your existing lender if you remortgage.

¹ <https://bit.ly/3CDX743>

² <https://bit.ly/40WWYCF>

³ <https://bit.ly/40XjUC2>

⁴ <https://bit.ly/3YVnZUt>

⁵ <https://bit.ly/40Xm5W6>

⁶ <https://bit.ly/4hVlzwO>

⁷ <https://bit.ly/4fAGwN4>

⁸ <https://bit.ly/4fAGwN4>

And finally...

Supporting yourself in tougher times

According to September 2024 research by Aviva, 67% of UK adults said they would struggle financially if they were unable to work. Yet a considerable 71% admit they have never investigated getting an income protection product.

Income protection would kick in if you're unable to work, for example if you were to experience long-term sickness. It's an insurance product that pays you a regular income until you return to work, or you retire. In difficult times, where your health and wellbeing absolutely come first, having income protection would mean you don't have to spend time worrying about being able to afford your living costs.

Without income protection, 47% of people said they'd have to rely on savings to cover their spending needs if they were unable to work due to long-term sickness. 40% would look to find money from elsewhere – such as borrowing from friends and family.

If you don't have income protection in place, you might face similar headaches if you were unable to work. Cover doesn't have to cost a fortune, and by speaking to an adviser you can get tailored recommendations that suit your situation.

<https://bit.ly/3OjaGsk>

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