

IHT EXPANSION

Regular gifting could mitigate legacy costs

INVESTING FOR INCOME

Finding returns at lower interest rates

STATE PENSION AGE

Threshold increases could link to life expectancy



Financial FOCUS

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AUTUMN 2025

Looking ahead to the Autumn Budget

Bracing for further tax increases



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Attention is turning to the Budget, now scheduled for late November. Having promised that her initial, tax-heavy Budget last year was a one-off, continuing pressures appear to have put that hope into doubt. Our feature in this edition looks ahead the possible avenues open for much-needed revenue raising, assuming Reeves sticks to both her commitment not to raise taxes for 'working people' and her self-imposed fiscal rules. Inheritance tax (IHT) is already changing from next April, so now is the time to review your position and possibly think about how lifetime gifts could help mitigate the impact on your estate. With pension death benefits set to fall within the IHT net, making the most of your pension income is likely to come into focus. State pension age is already changing from 2026 through to 2028, going up from 66 to 67. If you are due to retire soon, make sure you know exactly when you become eligible, and understand the benefits of taking the pension immediately, or deferring and allowing the payments to increase.

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The Chancellor is keen to encourage savers to move into investing.

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Time to boost pension contributions?

The government wants to boost retirement savings among the public and has revived the independent Pensions Commission to come up with potential solutions.

The new Commission is seeking views from businesses, unions and taxpayer groups on the best way to achieve this – and will make its recommendations in 2027. Its consensus approach mirrors the first Pensions Commission, launched over 20 years ago, which led to the introduction of auto-enrolment, creating a huge increase in the number of employees saving into workplace pensions.

Despite that boost to numbers via workplace pension engagement, there are concerns that most people make just the minimum level of contributions, which seem increasingly unlikely to fund a comfortable retirement.

Currently, employees (aged 22 and over) pay 5% of 'qualifying' earnings, with employers contributing 3%, to their workplace pension. These auto-enrolment payments are deducted from earnings between £6,240 and £50,270 – although employees are free to contribute more. Given the scale of the problem, the Commission is expected to recommend an increase to minimum contribution levels, as well as proposing an auto-enrolment style system for the self-employed who currently lag behind.

REFORMING AUTO-ENROLMENT

The Pensions and Lifetime Savings Association (PLSA) has called for a 12% minimum to be introduced by 2030 – split equally between employer and employee. Alternatives include lowering the minimum age for automatic enrolment to 18, and abolishing the lower earnings level, so pension contributions are made from the first £1 of earnings. Bear in mind that a 'comfortable' retirement is currently likely to cost a couple £5,000 a month, according to the PLSA – which will require substantial savings during people's working life.

You certainly don't have to wait until the Pension Commission reports to boost your pension funds. If your employer offers a 'matching' scheme, then consider increasing pension payments via this scheme first. Alternatively, you may want to look at personal pensions or SIPPs, particularly if you're self-employed.

If you're contributing at the minimum auto-enrolment level, or haven't increased pension contributions for years, it may be time to review whether you are on track for the kind of retirement you'd like and take advice.

❖ *The value of your investment, and the income from it, can go down as well as up and you may not get back the full amount you invested.*

Past performance is not a reliable indicator of future performance.

Occupational pension schemes are regulated by The Pensions Regulator.

The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.



TAX

Inheritance tax expands wider and deeper

As inheritance tax (IHT) is set to extend from 2026, what are your options to mitigate its impact?

Credit: PeopleImages/Shutterstock.com

Three quick questions on IHT, in ascending difficulty:

1. How much is the current nil rate band (NRB)?
2. When is the NRB next due to increase?
3. Which Chancellor originally set the current NRB level?

The answers are:

1. £325,000
2. 6 April 2030, as announced by Rachel Reeves in the October 2024 Budget.
3. Gordon Brown (in 2006, effective from April 2009).

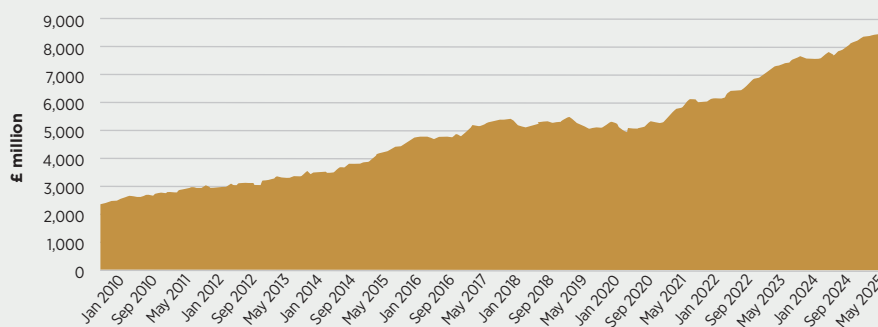
That third answer goes a long way in explaining why yearly IHT receipts have grown by 258% since January 2010 while prices (as measured by the CPI) have risen by 58%.

Rachel Reeves has also increased future IHT receipts by reducing business and agricultural reliefs from next April and bringing most pension death benefits into IHT from April 2027. Recent media reports have suggested that the coming Autumn Budget could see a further tightening of the IHT regime, focused on lifetime gifting.

GIFTING

If you are concerned about the potential impact of IHT on your family, then consider making lifetime gifts before the Budget. The current rules are generous – any outright gift attracts no immediate IHT and is free of that tax if you survive the following seven years. Even if you only survive just over three years, in some circumstances you could still save IHT.

ROLLING 12-MONTH IHT RECEIPTS



Source: HMRC

The major problem with outright lifetime gifts is that you need to be willing and able to make them, for example on downsizing the family home. However, often there are tax or other considerations (e.g. care costs) that limit their scope. Fortunately, large lifetime gifts are not the only way to help mitigate IHT.

Start by reviewing your will, which determines how your estate is divided up. If you do not have a will, then the distribution of your estate defaults to intestacy rules, which can create unnecessary IHT liabilities. If you do have a will, make sure it's up to date – changes to IHT law over the years have rendered some old wills less effective than when they were written.

With your will in place, you can then examine your lifetime planning options. Various exemptions exist for regular gifts. Some investments can be chosen or structured to reduce your IHT liability while retaining the right to receive an income for your benefit.

The ultimate backstop – a whole of life assurance policy placed under trust – has seen

a renaissance in popularity since last year's Budget. The policy premiums will often be covered by regular gift exemptions, while the trust framework ensures the policy's value is outside your estate and immediately available to your chosen trustees.

Whatever your IHT knowledge or plans, advice is vital. The nil rate band may not have changed for 16 years, but over that period the surrounding legislation has greatly expanded in complexity.

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TAX

Looking ahead to the Autumn Budget

Last year's big tax-raising Autumn Budget should have been a one-off, but Autumn 2025 promises more of the same.

Rachel Reeves' Budget premiere last October produced tax rises amounting to £41 billion a year by 2029/30, over half of which stemmed from higher employers' National Insurance contributions (NICs). In an interview following that Budget, the Chancellor said, "...there's no need to come back with a budget like this. We'll never need to do that again."

Under a year later, the notion that the 2024 Budget was a one-and-done affair now looks wishful thinking. In early August 2025 the independent National Institute of Economic

and Social Research (NIESR) suggested the Chancellor would need to find more than £50 billion in additional taxes and/or spending cuts to stay within her 'cast iron' fiscal rules. That was much higher than other estimates, but the Prime Minister's response was only to say that the NIESR's numbers were "not figures that I recognise".

If tax rises are inevitable – something the Treasury does not deny – then where could the Chancellor target? Rumours are rife, but the government's stance reiterates its manifesto promise not to increase the rates of income

tax, VAT and NI (for employees, anyway). Maintaining this line is a major constraint as these are the three largest sources of tax revenue. For instance, HMRC estimates that adding one percentage point to all income tax rates would produce over £10 billion a year, whereas doing the same for inheritance tax is worth only £0.3 billion.

LIKELY TARGETS

One likely non-rate income tax increase is a two-year extension to April 2030 of the freeze on allowances and tax bands. This allows inflation to drag more people into tax



One frequently suggested reform that might become reality is for income tax relief to be set at a flat rate – say 30% – rather than the current marginal income tax rate.

and pushes existing taxpayers into higher rates. A good example is the £12,570 personal allowance, first set in 2021/22, which would now be about £15,000 without the freeze.

A cut to income tax and/or national insurance relief on pension contributions is a regular Budget candidate which, to date, has only attracted limited tweaking via the pension annual allowance. It's a tempting target – the latest figure for the cost of relief is over £78 billion. Another frequently suggested reform is for income tax relief to be set at a flat rate – say 30% – rather than the current marginal income tax rate of up to 45% (48% in Scotland).

The Chancellor has already made clear she wants to reduce the amount that can be invested in cash ISAs (currently 100% of the maximum £20,000 subscription, itself frozen until 2030). Any restriction could have a wider impact, catching some funds currently classed as fixed interest investments within stocks and shares ISAs.

Another rise in capital gains tax rates is unlikely after last year's changes, but there could be an increase to the tax on share dividends by, for example, raising the rates to bring them into line with other income tax rates.

Some useful pre-Budget actions could be considered after seeking advice, such as making pension contributions before the Chancellor speaks. There is also strategic planning, which normally requires personalised advice. This could involve minimising taxable income as far as practical, maximising use of independent taxation and timing income so that important thresholds (e.g. £100,000 at which the personal allowance is tapered) are only crossed every other tax year.

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TAX

Could you cut your tax bill with salary sacrifice?

Many employees could cut their tax bill and boost pension savings by making the most of salary sacrifice arrangements.

Not all employers offer these schemes – but there has been more interest since the government increased national insurance (NI) payments for employers.

These schemes offer tax savings to employers and employees. Under such arrangements an employee 'sacrifices' part of their gross salary, with their employer paying this sum directly into their workplace pension.

Because income tax and NI aren't due on the sacrificed salary, this reduces the employee's overall tax bill. The employer also saves on the NI they would otherwise have paid on the sacrificed salary – a more significant saving since the recent NI increase.

Such arrangements are particularly beneficial for higher- and additional-rate

taxpayers. There are now more people falling into these higher tax bands, despite more buoyant wage growth, under the impact of long-term frozen tax thresholds. These income tax bands are due to remain at current levels until at least 2028.

Salary sacrifice can also be valuable for those close to thresholds for losing other benefits – such as child benefit, tax-free childcare or personal allowance. By keeping your taxable salary below the relevant limits you can still retain access to these benefits, on top of the tax savings.

However, employees should remember that salary sacrifice reduces their take home pay and lowers the income used in mortgage affordability assessments, and that money diverted into a pension may not be accessible until age 55 (57 from April 2028).



Credit: fizkes/Shutterstock.com

INVESTMENT

Where next when investing for income?

The Bank of England has cut interest rates three times this year and savers' rates have followed.

Credit: Credit: anon_tae/Shutterstock.com

Since last November, the Bank of England has cut its bank rate by 0.25% at every other meeting – effectively each quarter. The cuts have come despite inflation rising from 1.7% in September 2024 to 3.8% ten months later. A final 2025 rate cut (to 3.75%) might still arrive at the end of the year as the Bank has two more rate setting meetings.

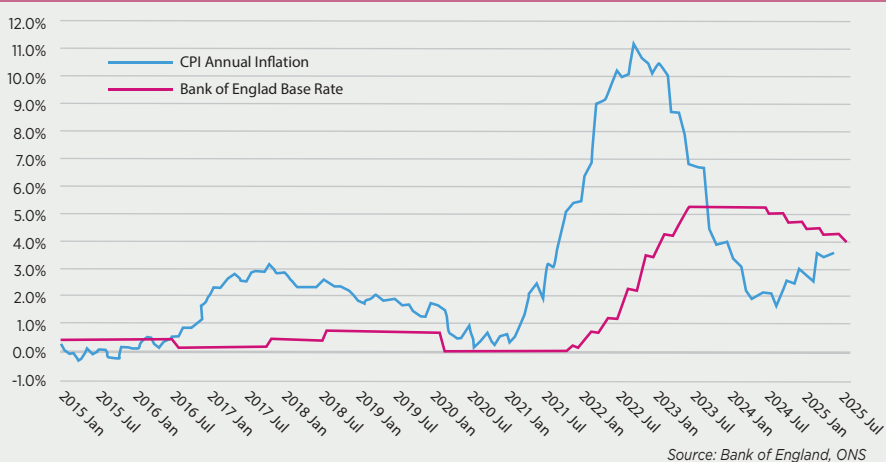
As ever, the banks and building societies have been quicker to pass on falling rates to their depositors than rising ones. Deposit interest is also likely to be falling, mirroring the bank rate's downward steps. Where the drop in rates could end is uncertain, but they have already fallen to just 2% for Eurozone countries.

The Bank's steady cutting of short-term interest rates has had much less impact outside the deposit sector, making other income-producing investments relatively more attractive. For example:

■ **Sterling fixed interest funds** These funds generally hold UK government and/or commercial bonds, which offer attractive yields to investors. In part this reflects the continued high borrowing by the government. For example, the yield on 10-year government bonds (gilts) is now around 4.6%, close to the level last seen in 2008.

■ **UK equity income funds** Usually one of the higher paying of the major equity markets,

INFLATION V BANK BASE RATE JANUARY 2015 – AUGUST 2025



the UK average is close to 3.5%, allowing investment managers to design an income portfolio offering yields of 4% and more, while the average dividend yield on US shares is down near 1%. However, a good rule of thumb is always the higher the yield, the greater the risk.

■ **Structured products** These are specialist investments that can offer higher income yields than the UK equity or fixed-interest funds but come with potentially greater complexity and risk.

TAX-FREE INVESTING

Fixed-interest funds, UK equity funds and structured products can all be wrapped within

an ISA, taking the income that they generate out of personal tax.

To learn more about these and other income options and current yields, please contact us.

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PENSIONS

Are you up to speed with your State pension?

The government has launched another review of the State pension age (SPA), which could see future increases automatically linked to life expectancy.

It comes as SPA, currently 66 for both men and women, is due to rise again, increasing in stages to 67 between 2026 and 2028. A further increase to 68 is also scheduled to take place – although not until 2044. The current review will consider whether this should be brought forward.

LINKS TO LIFE EXPECTANCY?

The Pension Act of 2014 required the government to review the SPA at regular intervals. This latest review will adopt a wider lens, considering the longer-term sustainability of the State pension, alongside the merits of permanently linking it to changes in life expectancy.

Several European countries, including the Netherlands, Italy and Portugal, already do this. The review will look at how these work in practice and the potential effect on socio-economic groups with lower life expectancy. It will also consider how changes to the State pension might impact intergenerational fairness.

SUSTAINABILITY

You might assume that it will be some time before the SPA is raised to 68, or beyond, given the fact that life expectancy has stalled in recent years. This plateauing is partly due to the Covid-19 pandemic, but other factors, such as rising obesity, physical inactivity and the type of foods we eat, are also thought to play a part.

But this actuarial data isn't being considered in isolation. By looking at the longer-term sustainability of the State pension, this review will also be looking more broadly at the potential cost savings of increasing the SPA. This may be important, given both the Labour Party and the Conservatives have publicly committed to retaining the triple lock on pensions, for the time being at least.

UNDERSTANDING YOUR STATE PENSION

For those approaching retirement, it's worth checking when you will receive your State pension – particularly if you're reaching your

66th birthday after April 2026. The increase to 67 will happen incrementally, so the exact date you get this payment will depend on the month you were born. You can check what you will get and when at gov.uk/check-state-pension.

COULD YOU DEFER?

However it's important to remember that you don't have to take your State pension on that date. Those who do not need the income, perhaps because they are still working, or have pensions or income from other sources, can defer taking their State pension, and will receive an uplift of around 5.8% for each year deferred when they eventually take the benefit. But of course those who defer are not receiving this money in the interim, so may not necessarily be better off overall.

Ultimately, whether it pays to defer depends on how long you eventually live, which none of us knows in advance. There may also be tax implications to take into account, so speaking to an



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adviser about your options is important before taking any decisions.

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Credit: Head over Heels

NEWS ROUND UP

Counting billionaires?

Lord Kinnock, the former Labour Party leader, revived talk of a wealth tax over the summer, an idea that last appeared in the wake of the pandemic. While the government refused to be drawn on the possibility, they will be aware that the Commons Public Accounts Committee discovered HMRC does not actually know how many billionaires there are in the UK.

Important October tax dates

There are two key tax dates in October:

■ **5 October** is the deadline for registering with HMRC for self assessment and a 2024/25 tax return, if you have not registered before. You can check on [you.gov](https://www.gov.uk) whether you need to register.

■ **31 October** is the final date for filing a paper self assessment return for 2024/25. If you file online, you have another three months' leeway.

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Company cars return

New HMRC data shows that company car ownership is on the rise after declining by a quarter in the second half of the 2010s. The increase has been driven by electric vehicles (EVs), which now account for 41% of the company car population. The tax advantages of salary sacrifice for EVs have played a major part. However, the government is tripling EVs' taxable benefit over the next four years.



INVESTMENT

Savings or investment? Shifting from cash to stocks

The government is keen to encourage savers to invest more of their money into stocks and shares to help boost growth.

A CAUTIOUS NATION

UK households had just 32% of their savings in stock market investments in 2023 – outside of their pension funds – a figure which has been in decline for over ten years.

The Chancellor, Rachel Reeves, is hoping new rules might encourage people to invest more. The government will roll out 'targeted support' from next year, narrowing the gap between personalised financial advice and more generic guidance.

Banks and other financial companies will be able to make product recommendations, including information about potential investment opportunities.

A NEW APPROACH TO CONSUMER ADVICE

Reeves also criticised the risk warnings that are required on all investment products. She told the City she'd like to see a shift towards "informing rather than warning" as a way to encourage people to be more adventurous with their longer-term savings.

The Chancellor also floated the idea of an advertising campaign to promote the benefits of investing. This has drawn comparisons to the 'Tell Sid' advertising campaign of the 1980s,

which encouraged millions of consumers to buy shares in newly privatised utilities.

Given the high proportion of cash savings, there may be good reasons to consider equity-based investments, particularly if you're looking to build wealth for the future.

Most people will invest in both cash and equities so may want to speak to an adviser about the best mix to meet both longer- and shorter-term savings goals – and to help ensure they are not taking too much, or too little risk with their money.

❖ *Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.*

Investments do not offer the same level of capital security as deposit accounts. The value of the investment and the income from it can fall as well as rise and investors may not get back what they originally invested.

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