First Briefing, October 2024
Autumn Budget 2024

On Wednesday 30 October 2024, the Chancellor, Rachel Reeves, delivered the autumn Budget.

In recent weeks, stories have circulated about potential changes to pensions tax relief. In the end, the impact of the Budget on pensions is more subdued, with a direct measure to bring unspent pension pots into the inheritance tax regime.

Other effects are likely to be secondary in nature, but of interest are changes to National Insurance (NI) contributions, which will increase the total cost of employment for most employers. Plus, the current freeze on income tax thresholds will end in April 2028, increasing in line with inflation thereafter.

Our specialist teams will bring you more detailed commentary in further briefings.

Background

The Chancellor delivered a budget that is forecast to increase overall tax revenue by £40 billion, while stating that basic, higher and additional rates of income tax, NI and VAT will not increase for working people.

The Chancellor confirmed that the Bank of England's Consumer Prices Index (CPI) inflation target will remain at 2.0% per annum.

Announcements

Changes to inheritance tax

The Chancellor announced that unused pension and death benefits will be brought into a person's estate for inheritance tax (IHT) purposes from 6 April 2027.

Currently, pensions in an estate don't tend to incur IHT.

This change will apply in different ways to Defined Contribution (DC) and Defined Benefit (DB) schemes. The Chancellor also confirmed that the current freeze on inheritance tax thresholds will continue until 2030.

Changes to employer National Insurance contributions

National Insurance contributions are paid by employees and the self-employed on their earnings, and employers on the earnings of those they employ.

Employer NI contributions will increase by 1.2% from 13.8% to 15.0% per annum from April 2025. The earnings threshold at which they become payable will fall from £9,100 to £5,000 over the period from April 2025 to April 2028. This will increase the overall cost of employment to employers.

Employer NI contributions are not payable on pension contributions. Ahead of the budget there was speculation that this might change, but in the event, the status quo was maintained.

The increase in employer NI contributions makes the use of **salary exchange (or salary sacrifice)** potentially more attractive for employers. We will issue a separate briefing on salary exchange later this week.

Income tax thresholds

Tax thresholds determine the point at which an individual starts paying income tax, and the point at which they pay higher rates. When these thresholds are frozen, more people have to start paying tax and NI as their wages increase, and more people have to pay higher rates.

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There will be no extension to the freeze on tax thresholds to 2028 put in place by the previous Government. From 2028, the thresholds will increase in line with inflation.

State Pension

The State Pension triple lock will remain in place for the duration of this Parliament. The basic and new State Pension will increase by 4.1% next April.

The pension credit standard minimum guarantee will also rise by 4.1% from next April.

Mineworkers' Pension Scheme

The Government will transfer the Investment Reserve Fund in the Mineworkers' Pension Scheme to the Scheme's Trustees to provide extra benefits to members.

Other measures from the accompanying report

Digging into the accompanying report, we have also identified the following changes not highlighted in the Chancellor's speech.

Reducing tax-free overseas transfers of tax-relieved UK pensions

The exclusion from the overseas transfer charge (OTC) for transfers to qualifying recognised overseas pension schemes (QROPS) in the European Economic Area (EEA) and Gibraltar will be removed from 30 October 2024. This is to *address the risk of individuals receiving double tax-free allowances.*

Any transfer to a QROPS requested before 30 October 2024 must be completed before 30 April 2025 to avoid paying the OTC.

UK resident scheme administrators

Scheme administrators (for occupational schemes this is typically the trustees) of registered schemes will be required to be UK residents from 6 April 2026.

National Wealth Fund

The Government will create a National Wealth Fund to *catalyse over £70 billion of private investment in the UK's clean energy and growth industries.*

The Government intends to use the Pensions Investment Review and the British Growth Partnership *to unlock more pension fund investment into UK growth assets.*

As a reminder, the Pensions Investment Review *aims to boost investment, increase pension pots and tackle waste in the pensions system*. The review will focus on DC workplace schemes and the Local Government Pension Scheme.

What has not changed?

There have been no changes to pensions tax relief and the maximum amount of tax-free cash that can be taken at retirement.

Market reaction

At the time of writing, reaction in the gilt market has been muted, with yields up around 0.1% over the course of Budget day.

Further information

For further information, please contact your usual First Actuarial consultant.