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November 2024| UK Autumn Budget

UK AUTUMN BUDGET 2024

The UK Autumn Budget 2024, presented by the new Labour Chancellor Rachel Reeves on October 30th, outlined a series of measures with notable implications for both individuals and small businesses in the North, with some of these policies carrying unique consequences due to the region's distinctive economic and social challenges.

KEY POINTS:

1. Income Tax and National Insurance
2. Wages and State Benefits
3. Inheritance Tax
4. Capital Gains Tax
5. Cost of Living Measures
6. Housing and Property
7. Implications of the Budget

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07742364397

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1. Income Tax and National Insurance

A point we have touched on before and one of the most striking features of this Labour Budget is the continuation of the Conservatives income tax threshold freeze until 2028. While the immediate impact might not be obvious, the freeze is set to push more workers in the North both into basic rate tax and for some into higher rate tax bands as wages increase to keep pace with inflation. This phenomenon, called “fiscal drag,” will gradually reduce the spending power of many individuals and households. Given that the North has one of the lowest average incomes in the UK, this change will disproportionately impact workers who can least afford it. As salaries rise to address the cost of living, more people will be forced to pay higher taxes, which could make financial pressures more acute.
The situation is further complicated by the rise in Employer’s National Insurance Contributions (NICs) starting in April 2025. Employer NICs will increase by 1.2 percentage points to 15%, and the threshold for employers to start paying NICs will drop from £9,100 to £5,000 per year. To offset some of this the Employment Allowance will increase from £5,000 to £10,500 per year which covers Employer’s National Insurance in certain qualifying small business. For the North’s economy—dominated by small businesses, self-employment, and sectors such as agriculture and retail—these changes could be particularly onerous. Small businesses may struggle to absorb the increased costs, potentially impacting employment opportunities and wage growth in a region already facing economic difficulties.

2. Wages & State Benefits

The proposed increase in the National Living Wage by 6.7% from April 2025 is a significant move. For workers aged 21 and over in the North, this rise will equate to more than £1,400 extra per year for full-time employees. In a region where many jobs are low paid, this uplift is crucial for staff and will provide some relief from escalating costs, especially in essential areas like food and energy. However, small businesses and family-run firms could find it challenging to manage the additional payroll expenses, which may lead to difficult decisions about staffing or service pricing.

Pensioners in the North will also benefit from a 4.1% increase in the State Pension in the 2025-26 fiscal year, keeping pace with earnings growth. This is a crucial lifeline for the region's elderly population, many of whom rely heavily on pension payments for their day-to-day living. In contrast, working-age benefits will only increase by 1.7%, matching September’s Consumer Price Index (CPI) inflation rate. For the many families in the North that depend on social benefits, this modest rise may feel inadequate when measured against the steep increases in the cost of living.

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3. Inheritance Tax

The government has announced an extension on the current Inheritance Tax (IHT) thresholds, keeping them fixed until the 2029-2030 tax year. Currently, the thresholds allow for the first £325,000 of an estate to be inherited tax-free, increasing to £500,000 if the estate includes a residence passed to direct descendants, and up to £1 million when a tax-free allowance is transferred to a surviving spouse or civil partner. The residence nil-rate band taper will continue to begin at £2 million.

Reforms to two key Inheritance Tax (IHT) reliefs—Agricultural Property Relief (APR) and Business Property Relief (BPR)—have been announced, taking effect from 6 April 2026. Currently, up to 100% relief is available on qualifying agricultural and business assets. Starting 6 April 2026, the 100% relief will apply only to the first £1 million of qualifying agricultural and business property, with a 50% relief rate applying to any value above this threshold. Additionally, relief for shares classified as "not listed" on recognized stock exchanges, such as AIM, will be reduced from 100% to 50%.

The new rules will apply to lifetime transfers made on or after 30 October 2024 if the donor passes away on or after 6 April 2026. The £1 million allowance will cover the combined value of property in an estate eligible for 100% APR and BPR. For estates exceeding this £1 million threshold, the allowance will be apportioned proportionately.

Unused portions of the allowance cannot be transferred between spouses or civil partners. The allowance will apply to:

Property in an estate at the time of death,

Lifetime transfers to individuals made within seven years before death, and

Chargeable lifetime transfers that incur an immediate IHT charge, such as property transferred into a trust.

4. Capital Gains Tax

The capital gains tax rates will rise from 10% to 18% for basic rate taxpayers and from 20% to 24% for higher rate taxpayers on all asset disposals—including land, commercial property, and shares—completed on or after 30 October 2024. Business Asset Disposal Relief (BADR) and Investors' Relief (IR) rates will increase from 10% to 14% for disposals made on or after 6 April 2025, and from 14% to 18% for disposals made on or after 6 April 2026. The current £1 million lifetime limit for BADR will remain unchanged, while the £10 million lifetime limit for IR will be reduced to £1 million starting from 30 October 2024.

As of 30 October 2024, capital gains tax rates will stand at 18% and 24%, which, notably, remain significantly below income tax rates. This change aligns capital gains tax rates for all other disposals with those already applied to residential property disposals, currently at 18% and 24%. Business owners contemplating future sales should carefully consider their timing to optimize their use of BADR and IR.

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5. Cost of Living Measures

The Chancellor's decision to continue freezing fuel duty for another year is welcome relief for motorists in the North, where public transport options are less developed compared to other parts of the UK. For many, cars are a necessity rather than a luxury, especially in rural areas. The Budget also introduces a 1p cut in beer duty for draught products, which could be positive news for the hospitality sector—a vital part of the North's economy and social fabric. Pubs and breweries are significant employers and cultural hubs, especially in rural areas. However, duties on non-draught alcohol will increase, affecting the cost of wine and spirits. Smokers, too, will feel the squeeze, as tobacco duties are set to rise sharply, adding to the overall living costs in a region where smoking rates are higher than the UK average.

6. Housing & Property

From October 31, 2024, second home buyers will face a 2% increase in stamp duty, a move that will impact the North's housing market. With the region already facing a housing shortage and a high demand for rental properties, this measure may have unintended consequences, such as higher rents (as small landlords may pass these increased costs onto their tenants) or reduced property availability.

7. Implications

This budget aims to balance support for the ordinary working person and the business sector, focusing on raising funds to support the NHS, schools, infrastructure, and investments in innovation to stimulate economic growth. Nearly £70 billion in additional spending has been proposed, with about half financed through tax increases designed to avoid affecting the average worker while still incentivizing wealth creation, and the other half through increased borrowing.

The implications for the North's small businesses are concerning. The increase in employer NICs and the higher National Living Wage will present significant challenges, especially for sectors like agriculture, hospitality, and retail. These industries are the backbone of our economy but often operate on slim profit margins. While large-scale companies may have the capacity to absorb these costs, smaller companies could struggle, potentially leading to job losses or the closure of family-run businesses.

Small & medium sized businesses, which are the lifeblood of the region, could face the heaviest burden in this budget meaning that long-term economic challenges facing the North remain pressing and complex.

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