Rail Forum

Tax Update

January 2025

DISCLAIMER – The information in these slides is based on our initial interpretation of budget announcements. We expect there to be change prior to enactment. These should not be taken as advice.

Contents

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Introduction

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Summary of main budget tax changes

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Summary of main tax changes

- Employers' costs increase with NIC up
- Minimum wage increase pushes wage costs up further
- Capital Gains Tax headline rate up to 24% (October 2024)
- Inheritance Tax reliefs for agricultural and businesses cut from April 2026
- Pensions to be charged to Inheritance Tax on death
- SDLT first time buyer relief goes
- Additional SDLT on second homes up to 5%
- Furnished holiday letting reliefs to go, still opportunities
- Personal allowances and Nil Rate Bands frozen

National Insurance Contributions & National Minimum Wage

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National Insurance Contributions (NICs)

From 6 April 2025:

- Secondary Class 1 NIC will increase to 15% from 13.8%
- Secondary threshold will decrease to £5,000 from £9,100 pa

	Employee Earning £25k				Employee Earning £50k				Employee Earning £75k			
	Now	Change	Variance		Now	Change	Variance		Now	Change	Variance	
	£	£	£		£	£	£		£	£	£	
Example Salary	25,000	25,000			50,000	50,000			75,000	75,000		
Threshold	9,100	5,000	(4,100)		9,100	5,000	(4,100)		9,100	5,000	(4,100)	
Subject to ER's NI	15,900	20,000	4,100		40,900	45,000	4,100		65,900	70,000	4,100	
Rate	13.8%	15.0%	-1.2%		13.8%	15.0%	-1.2%		13.8%	15.0%	-1.2%	
Current ER's NI	2,194	2,194			5,644	5,644			9,094	9,094		
Increase caused by rate change		191	(191)	24%		491	(491)	44%		791	(791)	56%
Increase from reduced threshold change		615	(615)	76%		615	(615)	56%		615	(615)	44%
New ER's NI	**2,194**	**3,000**	**(806)**		**5,644**	**6,750**	**(1,106)**		**9,094**	**10,500**	**(1,406)**	

National Living Wage/National Minimum Wage (NLW/NMW)

Age group	Current rates (£)	From 1 April 2025 (£)	Increase (£)	Increase (approx. %)
National Living Wage (21 and over)	11.44	**12.21**	0.77	6.7
18-20 Year Old Rate	8.60	**10.00**	1.40	16.3
16-17 Year Old Rate	6.40	**7.55**	1.15	18
Apprentice Rate	6.40	**7.55**	1.15	18

- The new rates must be applied from the next pay reference period after the increase
- Deductions and payments can reduce pay for NMW purposes
- Financial and reputational consequences for NMW breach

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What we are seeing to plan for the Employer increases

Pension salary sacrifice

- Alternative way to contribute to the pension scheme, creates both employer and employer NIC savings.
- Seek specialist advice to ensure that it is properly implemented. Incorrect implementation could lead to underpayments of PAYE income tax and NI.
- If you already have pension salary sacrifice in place but low take-up, consider increasing take up.

If monthly employee pension contributions are £10,000 (£120,000 pa), the company's NIC savings when Pension Salary Sacrifice is implemented will be in the region of £18,000 pa.

Claim NIC refund from HMRC on car allowances

- If you pay a car allowance to employees and you reimburse business travel at a rate of less than 45p per mile.

Check if you're eligible for the Employment Allowance

From 6 April 2025:

- The maximum Employment Allowance will increase to £10,500 from £5,000 pa for eligible employers.
- The removal of the £100,000 eligibility threshold .

Capital Gains Tax

Capital Gains Tax

- Main rate rises from 20% to 24% from budget day
- Lower band rate rises from 10% to 18% from budget day
- BADR rate rises from current rate of 10% gradually to 18% (14% April 2025, 18% April 2026)
- BADR £1M lifetime limit remains in place
- Main CGT reliefs remain unchanged
- Holdover and rollover reliefs can still be used without limit

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Inheritance Tax

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Inheritance Tax Summary

- Nil rate band continues to be frozen at £325,000
- Residence Nil Rate Band frozen at £175,000
- Pensions in the IHT net from 2027
- BPR on AIM shares is now 50%
- APR and BPR rates cut from April 2026
    - £1M relief at 100% on combined APR and BPR
    - Thereafter relief at 50%
    - Spouse relief untouched

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Inheritance Tax - Impacts

- Shareholders in trading companies/farmers/people with significant pension funds are therefore at risk from significant IHT exposures
- Consideration of the use of Trusts and gifting shares/assets to different generations may be required to mitigate risk
- Detailed guidance in out in April 2025 to fully understand the potential issues, but advice is required for people with significant assets and potential estate values
- A private wealth and will review is required for impacted individuals

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Case Study Example – No Debt

- Shares in Trading/Agri Business worth £6m
- Home worth £1m
- Other assets worth £500k
- Value of Total Estate £7.5m
- Owned jointly by husband and wife
- Wills leave £1m of APR/BPR assets to next generation on first death and remainder to surviving spouse
- No IHT on first death
- IHT on second death - £1.14m
- Payable 6 months after date of death
- £800k can be paid by instalments over 10 years i.e., £80k per year or c.£6.6k per month.
- IHT due under current rules - £340k

Case Study Example –
Impact on family post death

- Trading Business owned equally between 2 brothers
- Business valued at approx. £15m
- IHT arising on death of first brother £1.294m
- Could be paid by instalments over 10 years i.e. £129k per year
- If previously received dividend of £150k per year plus salary of £12.5k, net income after tax would be £113.5k
- This would not therefore be enough to cover the annual IHT instalments if income for family continued at the same rate

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Trusts

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Trusts - Summary

- Old trusts £1M relief limit per trust
- New trusts £1M limit spread between them
- APR and BPR assets have 3% charge at 10-year anniversaries
- Opportunity pre-April 2026 to plan for the changes
- Consultation to happen early 2025 will leave little time for planning, but not too late so timing is important

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Trust Ten Year Anniversary Example

Ten Year Anniversary prior to April 2026

Assets Held:

- £3m of trading company shares
- £500k investment portfolio

Ten Year anniversary charge:

= £10,500

All due 6m after Ten Year Anniversary

Ten Year Anniversary post April 2026

Assets Held:

- £3m of trading company shares
- £500k investment portfolio

Ten Year anniversary charge:

= £70,500

If choose to pay by instalments:

£16k due 6m after ten-year anniversary

Remaining can be paid by annual instalments over next 9 years i.e. approx. £6k per year

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IHT mitigation - Actions

- Lifetime giving
    - Beware of debt for gifts Holdover Relief
    - Beware of hybrid structures with less than 80% trading
- Trusts
    - May be window of opportunity
- Spouses
    - Spread assets to use both £1M allowances
    - Will planning
- Valuations – spread the asset within the family, but beware rules re spouses
- Plan for paying the tax – APR and BPR assets interest free installments
- Beware of effects on running the business…

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Pension funds prior to April 2027

Typically used for the dual purpose of providing retirement income whilst also factored into Estate Planning:

- Death pre-Age 75 currently allows the fund to be passed on free of any tax to nominated beneficiaries
- Death post-Age 75 results in nominated beneficiaries paying income tax on any withdrawals they take (timing and amount controlled).
- Generic advice would be to max fund the pension fund, and not disturb the fund until age 75.

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Pension funds after April 2027

- All pension funds will form part of an Estate for IHT purposes regardless of age at death
- 40% tax will be levied on the fund, and then beneficiaries will pay income tax at their marginal rate (67% potential total tax).
- Generic advice would be to ensure tax-free cash sums are withdrawn (if over age 55) by April 2027. Planning opportunities?
- Those with illiquid assets in the pension fund (e.g. commercial property) will need a liquidity plan to pay income and IHT.
- Income likely to be taken at a greater rate than planned...until new government is installed.

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Recommended actions

- Proposed process is onerous.
- Length of time to introduction indicates that significant detail is pending.

Actions

1. View this as a short-term challenge and tackle in a measured way.
2. Make decisions on long-term personal cash flow in context of non-pension assets – could you use Normal Expenditure out of Income exemption, for example?
3. View pensions as an income vehicle again, and not a dual-purpose income and IHT tool.
4. Cover the tax/liquidity gap with life assurance?

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Do you have any questions?

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right size
right solutions

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