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Property Owner

What the Autumn statement means for your money

Income tax:

As expected, the three main tax rates were left unchanged – 20p basic, 40p higher and 45p additional rate – with the first £12,570 of income tax-free and the 40% rate starting at £50,270. The £150,000 threshold at which Britons start paying the 45p top rate of income tax was lowered to £125,140 – a measure that will pull 250,000 people into the top rate. For someone making £150,000, the change means they will pay an additional £1,243 in income tax a year. (Note, Scotland's income tax rates and thresholds are set by the Scottish parliament.) Freezing allowances results in what economist call "fiscal drag", a term that describes the stealthy process of dragging more Britons into paying income tax and pushing others into paying a higher rate. At an individual level, if a person is making £51,000 and receives an annual pay rise of 3%, without adjusting personal allowances and thresholds to take account of inflation they will have paid an additional £8,632 in income tax after six years, with their annual tax bill rising from £8,444 this year to £11,791 in the 2027-28 tax year, according to the advisory firm Blick Rothenberg.

National Insurance:

In 2021, Boris Johnson's government decreed that NICs would go up by 1.25p in the pound in April this year to better fund the NHS and social care. Ministers agreed to push up the main rate of NICs for employees from 12% to 13.25%, while employers were told to pay 15.05%. However, Liz Truss's short lived government scrapped that increase, with the NI rate dropping back to 12% on 6 November. It is paid at this rate by employees paid between £12,570 and just over £50,000 a year. Above that level, the rate has gone back down from 3.25% to 2%. Most employees will start to receive the cut in this month's pay, though some workers may have to wait until December or January. This about-face, combined with the summer decision to increase the threshold at which the tax kicks in (from £9,880 to £12,570 a year), means the average worker's annual NIC bill has come down by about £500.

Inheritance:

Inheritance tax is paid at 40% on estates worth more than £325,000 for an individual and £650,000 for a couple. This increases by £175,000 each person to a maximum tax-free amount of £1m for a couple if a home is given to children or grandchildren. The government extended a freeze on these rates by another two years to 2028 so more people will have to pay it. This is particularly significant for families dealing with estates in London and the south-east, where house prices are the highest in the country.

Capital gains:

Capital gains tax is charged on the sale of assets such as shares and second homes. Higher-rate taxpayers pay 20% on profits from shares and securities and 28% on residential property – above an annual tax-free allowance of £12,300. Next year's allowance has been cut to £6,000, which means anyone paying the top rate will pay an additional £1,764 of tax. This allowance will be cut again to £3,000 in April 2024, which means an extra £2,604 compared with the status quo.

Cost of living crisis:

The government's energy price guarantee (EPG), which is capping typical energy bills at £2,500 this winter, will continue to provide support from April 2023, when the cap will rise to £3,000. With energy prices forecast to remain elevated throughout next year, this would save households £500 each on energy costs. There will be no universal bill support next year, with the new cost-of-living package targeted at pensioners and low-income households. Those on means-tested benefits will get £900, pensioners will receive £300 and those on disability benefit will get £150 in the financial year beginning April 2023.

All

Another tax blow for landlords

Just about every agency that has commented on the recent Autumn Statement are in agreement - changes to Capital Gains Tax, Inheritance Tax and Dividend taxes will hit the private rental sector, but overall, it could have been even worse. In summary, Chancellor Jeremy Hunt promised to keep Stamp Duty cuts in place until the end of March 2025, after which it will rise. Capital Gains Tax (CGT) allowances will be reduced from £12,300 to £3,000 by April 2024, while Inheritance Tax thresholds will be frozen. Most commentators agree that the cut to the CGT exemption is a further disincentive for landlords but, like other announcements in the Autumn Statement, it could've been worse. It will disproportionately affect landlords of lower-value properties, but CGT rates have not been aligned with income tax, so a material drop in demand or a wave of selling is unlikely. Landlords have faced a series of tax hikes in recent years but private rented property accounts for one in five of English households. At a time when living costs are rising so quickly, policy should remain rooted in economics, encouraging landlords to remain in the sector and keeping downwards pressure on rents. For the many landlords who have been planning to dispose of their rental assets due to the raft of legislation and adverse tax changes, the announcement to halve the Capital Gains Tax exemption in 2023 will come as a blow. This news will make it less favourable for landlords to sell and they will likely continue to let their properties until the conditions improve. However, tenants will benefit as there is already a shortage of rental properties available on the market.

Business Owner

The budget: how small business fared

First up is that corporation tax is set to stick to 25% for most and will be extended to 28% for banks (for profits above £100m). It is rumoured that the Chancellor wanted more (8% more for banks), the former Chancellor (and now PM) said no, 3% additional was enough not to startle the markets. For smaller businesses, the news of the crackdown on their use of Research and Development (R&D) tax credits does feel a little like a sledgehammer being used to crack a walnut. The drop from 130% relief to 86% and the repayable credit rate being decreased from 14.5% to 10% will materially impact SMEs. The idea that SMEs will face a less generous R&D tax credits scheme just as the economic winds mean that they need it most is a bitter pill. Why do these credits work so well? Firstly, businesses which would otherwise be forced to close, lay off people, reduce their investments and more can claim R&D credits and offset them to the benefit of the broader economy. The Federation of Small Businesses described Hunt's approach as follows: "the attempt to pull the rug out from small business innovation seemed to us a misreading of scant data points". We need a Government in tune with market sentiment, and this looks far from it. In another gut punch for smaller business owners, the Chancellor has cut the tax-free allowance on dividend income from £2k to £1k and then subsequently £500 over the next two financial years. The rationale is to make tax look fairer and equate what business owners earn with what they would earn as PAYE individuals. The challenge is that the economy needs a thriving SME sector and hitting those who take the highest risk, but also employ a large number of employees (in fact, the same number as large businesses in the UK) will damage not just their personal income, but their ability to invest and employ and grow.

Investor / Saver

Global dividends hit a third quarter record

Global dividends reached $415.9bn in Q3 2022, a new third quarter record, according to the Janus Henderson Global Dividend Index. In its 36th edition, the research said underlying growth was at 10.3% and the group was now expecting global dividends to hit $1.56trn this year, an 8.9% increase on an underlying basis. This is a 0.4% increase compared to the firm's previous expectations three months ago and was still firmly ahead of the 5-6% longer-term dividend growth trend. The upgraded forecast was mainly driven by higher one-off special dividends, strength in the oil sector and in Asia, the report stated. Oil producer headline dividends rose by 75.1% to a record $46.4bn, "overwhelmingly" driving Q3 growth, offsetting falling mining sector pay-outs. Analysts at Janus Henderson said oil companies all over the world hiked pay-outs, largely via special dividends rather than an increase in their regular payments. Oil dividends were strong in emerging markets, Asia and North America, with the biggest increase coming from Petrobras in Brazil. They said: "Indeed, without the positive impact from this sector, the global total would have barely risen in the third quarter." UK companies also had a strong quarter, with 84% of businesses either raising dividends or held them steady. Overall, UK dividends rose by 2.5% on an underlying basis in Q3. The poor exchange rate between sterling and the US dollar during September and October caused a headline decline of 6.4%, but the impact of this was limited, given that two fifths of UK dividends are declared in dollars by larger-cap stocks headquartered in London. Many of the UK's big dividend players are in the banking and oil sectors and were strong enough to hold up the decline in mining dividends, which were down by a third on a headline basis.

All

Mini budget’s threat to pensions

Britain’s financial regulator has admitted that it was not prepared for the threat to pension funds posed by sharp rise in bond yields in the wake of Liz Truss’s “mini” Budget, saying the issue had not been “right at the top of the radar”. Nikhil Rathi, chief of the Financial Conduct Authority, made the admission during a hearing of the House of Lords’ industry and regulators committee, which was examining how turmoil in the bond market led the Bank of England to pledge an emergency intervention worth up to £65bn. The central bank was forced to intervene after the bungled “mini” Budget on September 23 sent UK bond yields soaring, with the 30-year gilt surging from 3.7% to a peak of 5.1%. The spike triggered cash calls on thousands of pension funds which used hedging contracts, or liability-driven investing strategies (LDIs), which are sensitive to movements in bond prices. This forced the plans to rapidly sell liquid assets, including gilts, putting more upward pressure on yields. Giving evidence to the committee, Rathi said that at the height of the bond market storm, banks which were counterparties to the LDI contracts faced potential losses of tens of billions of pounds if demand for gilts collapsed. Asked why the FCA had not been more alert to this systemic risk, Rathi said: “I don’t think that the particular scenario of a 250 basis point move in a space of five days in index-linked gilts, which has just never happened at any major [time] in our history, that particular risk wasn’t tested for.” He added: “This didn’t come up, ultimately, as right at the top of the radar. There were many others [risks] . . . where we were really focusing our energy. Clearly, that’s something for us to think about.” Rathi said the FCA was now considering stronger safeguards — including leverage caps and higher capital buffers — on LDI strategies, which have been used by up to 60% of the UK’s 5,200 defined-benefit pension plans to mitigate interest rate and inflation risks.

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