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WILL THE SPRING FORECAST MEAN HIGHER TAXES FOR ME?

BY RATHBONES FINANCIAL PLANNING
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While the Chancellor was adamant that she wouldn't tinker with her Budget every six months, economic and political reality may force her hand. If so, what could be the repercussions for you and your finances?

The rumour mill is grinding away with potential changes that the Chancellor may make at her Spring Forecast on 26 March. Its called a 'forecast' rather than the usual 'statement' because it hasn't been added to the parliamentary calendar as an opportunity for the Chancellor to tinker with the Budget set out in the autumn, as has been the habit of past years. Instead, it's to allow the Office for Budget Responsibility (OBR) to deliver its half-year report card for the public coffers along with updated forecasts for the coming years.

This legally mandated report must be delivered to Parliament every six months to track the government's progress against its fiscal rules: to pay day-to-day spending from tax revenue only and to reduce debt to GDP over the course of the Parliament. So, despite the government not wanting to chop and change its fiscal plans, it may have to if its OBR report card is particularly bad.

What could you do about it?

IF PENSIONS TAX RELIEF CHANGED TO A STANDARD FLAT 30%

This would greatly reduce the benefit of surrendering your income to a pension to avoid higher rates of tax. For higher earners, it would also mean paying tax twice – once when it's put in a pension and then again when it's withdrawn as income. Financial advice can help determine whether it makes sense to add to a pension and then how to arrange your affairs to keep taxes to a minimum in retirement.

What you need to know

- Our article is based on our current understanding of UK tax laws and should not be taken as financial advice. We recommend you speak to a financial adviser or tax specialist if you're unsure what to do
- Tax treatment depends on the individual circumstances of each client and may be subject to change in future
- The value of investments and the income from them may go down as well as up and you may not get back what you originally invested

It's unclear what the OBR will reveal in its forecast or how the government will respond, if at all. Regardless, it could be a good trigger to sort out your finances and ensure they are in the best possible shape for whatever the rest of 2025 has in store.

Better to be early than late with your finances

Some say that the government plans to curtail the flexibility of the £20,000 annual ISA allowance at the Spring Forecast. By capping the amount that can be added to cash ISAs at £4,000 a year – which is the number floated in news reports – it would either push savers into greater investment in stocks and shares or reduce the ISA take-up completely.

There are arguments for both sides of this. ISA cash deposits with lenders should help them reduce the mortgage rates they can offer, so pushing Brits out of their overwhelming preference for cash could mean slightly more expensive mortgages. However, if it encouraged more people to invest in stocks and bonds – particularly in the UK – it could help reduce financing costs for businesses and the government while also increasing the long-term returns that UK savers can expect (albeit with greater chance of losses along the way).

Still, as a way to shore up any current yawning hole in the finances, it doesn't seem like the right sort of tool to get the job done. It could perhaps be thrown in as part of wider policy changes – if the Budget must be changed anyway, why not tinker a bit on other areas? If you are concerned about your ability to hold cash in an ISA, it could be worthwhile ensuring you have used all your allowance well before the tax year ends on 5 April and securing fixed-term deposits that work for you. Although it's important you leave enough cash available for any expenses you're expecting – and emergencies that you're not – as breaking reneging on fixed-term deals can be costly.

What could you do about it?

IF DIVIDEND TAX RATES AND ALLOWANCES CHANGE

It could make sense to adjust your investment portfolio to reduce exposure dividend-paying stocks in favour of those companies that reinvest in themselves or buy back stock. We suggest talking to an adviser first.

Remember, it's always better to be early than late with your finances, especially when it comes to tax-year end.

Will I pay more tax?

It would be a massive U-turn if the Chancellor increases taxes again just six months after raising an extra £40bn a year in the largest hike since the early 1990s. Yet if the books are bad enough, the money would have to come from somewhere.

One option would be raising Corporation Tax, which the previous government had boosted to 25% in 2023. Given businesses were hit hardest in the **Autumn Budget** – roughly 60% of the tax increase is coming from higher National Insurance Contributions (NICs) – and business conditions have deteriorated significantly since, any new taxes would most likely fall on households. The extra revenue HMRC would receive from hiking the tax rates on capital gains or inheritance is relatively low. And both areas were already tweaked just six months ago. Fiddling further with Inheritance Tax (IHT) by reducing the tax-free threshold or extending the seven years it takes before a gift becomes exempt from IHT also seem unlikely.

The Chancellor may reach for National Insurance once again – this time on employee contributions. If so, that would hit workers harder than the retired, investors and businessowners, as NICs are only paid on wages. This would be a strange move for a Labour administration. Therefore, if the Chancellor were to raise more money from income, it seems more likely that she would increase the rates of Income Tax or perhaps lower the tax-free allowance. Although, given the government's campaign promises to avoid raising taxes on workers, it seems politically impossible for the government to do this. Unless things are truly very bad.

The tax-free allowance is frozen at £12,570 until April 2028 and it has already led to uncomfortable headlines – for Labour but also for the Conservative government that implemented the policy – because it means more pensioners may be dragged into paying tax on their state benefit. That's due to the pension triple-lock, which means it rises annually by the higher of 2.5%, wage growth (currently 6%) and inflation (currently 3%). Two more years of 3% inflation uplifts would put the pension just £400 below the allowance.

What could you do about it?

IF ISAS ARE MADE UK-ONLY INVESTMENT VEHICLES

This policy has been discussed around Westminster. It would greatly reduce the diversification and potential returns of all UK taxpayers. If it were to be introduced, portfolios would need to be reappraised to determine whether the tax-sheltering benefits of the ISA were outweighed by the lack of diversification and limited opportunities that the ISA would then offer.

An increase in Income Tax would avoid that problem – although it would still affect most retirees because they pay tax on other pension and investment income. An increase in the Income Tax rate never goes down well, yet it has the benefit of being simple to understand, easy to implement and because it hits a broad range of the population it raises a lot of money, especially if the Basic Rate is increased. Changing higher and additional rates of tax raise much less.

Any increase to Income Tax would make employees' salary sacrifice schemes and higher pension contributions more attractive as these are deposited before tax (although, it's important to know how your workplace pension is set up and how to claim the tax relief you're due). It's also important to manage your income where possible to avoid straying into higher tax bands.

Are more pension changes coming?

At the October Budget, the government brought defined contribution pensions back into the estate for Inheritance Tax (IHT), although the change won't take effect until April 2027. In previous years, any unused money in a defined contribution pension – like the one in your auto enrolment workplace scheme – could be passed to the next generation tax free.

That had meant it usually made sense to draw from ISA savings first before taking an income from a pension. No longer. It's still possible to transfer wealth to your children and grandchildren without losing much of it to the taxman, but one of the easiest ways has now been closed off. We can help you plan ways to pass on your money in the most tax-efficient way possible, but these transfers need to be done years before death, so they really need to be embarked on early.

What could you do about it?

CAPITAL GAINS TAX RATES INCREASE OR ALLOWANCES FALL

You can crystalise losses before the change, maximising your £3,000 allowance. Also, you can use losses from prior years to reduce your liability. You have up to four tax years to report a loss to HMRC, but the losses can be brought forward indefinitely. These losses become more useful as CGT rises because it shields a greater portion of gains from tax. You can also defer CGT by investing in the Enterprise Investment Scheme, but that comes with the risk of loss. Advice is recommended.

The government has been running a review of pensions in the background since it was elected, so more tinkering may be on the way. However, there are reports that it may have been paused indefinitely. The government could offer a flat 30% Income Tax relief on pension contributions, rather than at your marginal tax rate as it does currently. That would benefit lower earners, who would get bigger bumps on deposits to their pension pots, but penalise higher earners and make investing in a pension less attractive than otherwise.

One really important thing that you can do ahead of any changes is to ensure that you have given your pension provider the names of the people you may want to pass your pension onto should you die. This is done through an Expression of Wish form, and you can set out more than one person, so your spouse, children, grandchildren, a charity, or whoever you choose. There are lots of rules around how this transfer is taxed and whether it can remain in a pension wrapper, and they change often. For instance, without naming your child on the Expression of Wishes form, if your pension passes to them after April 2027 and they are over 23 years old, it would form part of your estate, be subject to IHT at 40%, and then be paid as a cash lump sum that attracts Income Tax at your child's marginal rate. Getting advice on the best way to pass on your unused pension assets can save a lot of money for those who survive you.

What could you do about it?

IF CAPITAL GAINS TAX RELIEF ON DEATH IS REMOVED

Currently, any bequeathed assets that have appreciated over the life of their owner are passed on without Capital Gains Tax. A cash-strapped government may decide to abolish this long-standing rule to increase revenue. This would make it more beneficial to make use of allowances and offset losses where possible. Astute tax planning could help reduce tax liabilities and ensure more of your money is passed on to your loved ones

Getting the right financial advice

Whatever the government announces this month, you can prepare by taking full advantage of your personal allowances and ensuring that your financial affairs are as well set up as they can be. You can't change what the government does, but you can ensure that you make the most of what's available to you. Taxes are always changing and in today's world there are so many different levies and rules it can be hard to keep track.

Meanwhile, your circumstances change over time as well, often altering the balance between the cash receive and that you need to spend. Financial advice helps you maximise the opportunities available now and avoid some of the pitfalls the future may bring. Life, rather than money, should be your focus. We can give you peace of mind that the future is provided for, letting you concentrate on those you love.

Get in touch with us today to see if we can help, through your usual Rathbones contact, your financial planner, or by emailing us **here**.

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