Sackers

Autumn Budget 2024

Alert | 31 October 2024

Introduction

The first female Chancellor, Rachel Reeves, delivered the new Government's Autumn Budget on 30 October 2024. Rumours of subjecting employer pension contributions to NI proved unfounded, with pension changes crucially focusing on the inheritance tax treatment of "unused" pension pots. While detail of the proposals is limited, we set out the main headlines below.

Key points

- The Budget has been designed to "fix the foundations of the economy and deliver change by protecting working people, fixing the NHS and rebuilding Britain", with individual policies focused on "strengthening the fiscal framework", "supporting people with the cost of living" and "raising revenue to fund public services".
- To make the inheritance tax ("IHT") system "fairer" and "less economically distortive", the Government proposes to introduce IHT on "unspent" pension pots from April 2027. Most authorised death benefits, including DB lump sum death benefits and DC benefits paid as income to a dependant through an annuity or drawdown are in scope.
- From 6 April 2025, the rate of employer NICs will increase by 1.2% to 15% and the "per-employee threshold" at which employers become liable to pay NICs will reduce from £9,100 to £5,000 per year. However, changes to the "Employment Allowance" will mean that 865,000 businesses will pay no NICs at all.
- The state pension triple lock is being maintained, and the basic and new state pension will increase by 4.1% from April 2025. This will see the weekly amount of new state pension rise from £221.20 in 2024/25 to £230.25 a week in 2025/26.
- Finally, minor changes are being made to the tax regime for overseas pension schemes.

IHT on pension death benefits

Alongside other changes to IHT and an extension of the freeze in the IHT tax-free allowance of £325,000 to 2030, the Government intends to bring "most unused pension funds and death benefits" into scope of IHT from April 2027. This seeks to ensure that "tax reliefs on pensions are being used for their intended purpose

– to encourage saving for retirement and later life" by removing "the opportunity for individuals to use pensions as a vehicle" for IHT planning.

The changes are also intended to address a "distortion" in tax treatment between discretionary and non-discretionary death benefits. Discretionary death benefits paid from a registered pension scheme do not currently attract IHT, but non-discretionary death benefits, where the scheme member can choose the recipient, are already treated as part of the member's estate for IHT purposes. The majority of registered pension schemes currently provide discretionary death benefits.

It is estimated that the changes will affect around 8% of estates each year, given that the majority of estates in the UK fall below IHT thresholds.

Technical consultation

A technical consultation was published alongside the Budget. It seeks views on the processes to report and pay any IHT due to HMRC, including ensuring that relevant information is exchanged between HMRC, pension schemes, legal personal representatives and beneficiaries.

Scope of the changes

Under the proposals, most authorised death benefit payments, except a dependant's scheme pension and a charity lump sum death benefit, would be brought within the value of a person's estate for IHT purposes. This goes beyond death benefits paid from uncrystallised rights and includes changes to the tax treatment of both DB lump sum death benefits and DC benefits paid as income to a dependant.

The consultation states that "[a]ll life policy products purchased with pension funds or alongside them as part of a pension package offered by an employer are not in scope of the changes". But it is unclear precisely what this captures, and whether insured death in service benefits are, for example, carved out. In addition, it is uncertain how payments from unregistered life assurance schemes will be affected by the proposals.

Scheme administrators to calculate and pay IHT

In a significant change to the current position, pension scheme administrators would report and pay the IHT due on pension elements of a scheme member's estate. This would involve the member's legal personal representatives apportioning the IHT nil-rate band to all unused pension funds and death benefits in scope of IHT using a new HMRC calculator, and then providing this information to pension schemes.

Views are sought on the detail of this process and the impact of the different reporting and payment deadlines that would apply, including late payment interest if IHT is not paid within six months of the member's death.

Income tax

While pension funds will be required to pay IHT directly to prevent an additional income tax liability becoming due on the funds used to pay IHT, there is no plan to change the income tax treatment of death benefits. This means that a death benefit could be subject to both IHT and income tax at the recipient's marginal rate.

Next steps

The technical consultation closes on 22 January 2025. The Government intends to publish a response document and carry out a technical consultation on draft legislation for these changes in 2025.

Sacker & Partners LLP
20 Gresham Street
London EC2V 7JE
T +44 (0)20 7329 6699
E enquiries@sackers.com
www.sackers.com