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MONTHLY NEWSLETTER

THROP FINANCIAL PLANNING

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PART OF

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"Stealth taxes"

will push more than 3 million workers into a higher Income Tax bracket by 2029

"Stealth taxes" refer to government policies that increase tax revenue even though they're not labelled as tax hikes. Through freezing Income Tax thresholds, the government may benefit more than you expect.

Income Tax thresholds are frozen until April 2028

Income above your Personal Allowance, which is £12,570 in 2024/25, could be subject to Income Tax.

The rate of Income Tax you pay depends on which band your earnings fall into. The current Income Tax thresholds and rates are:

Band	Taxable income	Tax rate
Personal allowance	Up to £12,570	0%
Basic rate	£12,571 to £50,270	20%
Higher rate	£50,271 to £125,140	40%
Additional rate	over £125,140	45%

NB Income Tax bands, thresholds, and rates are different in Scotland.

Crucially, the Personal Allowance and Income Tax thresholds are frozen until the 2027/28 tax year rather than increasing in line with inflation. This can lead to "fiscal drag", where taxpayers are dragged into a higher tax bracket, even if their income hasn't increased in real terms.

While you might have benefited from a rise in income, for much of the last two years, inflation has been higher than wage growth. So, many workers haven't experienced a boost in their salary in real terms.

Millions of taxpayers are expected to be affected by fiscal drag

According to figures from the Office for Budget Responsibility (OBR), the government's policy of freezing Income Tax thresholds means that by 2028/29:

- Nearly 4 million additional people are expected to pay Income Tax
- 3 million more will start paying the higher rate
- 400,000 workers will be dragged into the additional-rate bracket.

The figures represent a significant increase in the number of taxpayers in each band of Income Tax. The number of higher-rate and additional-rate taxpayers is expected to soar by 68% and 49% respectively.

Of course, this will boost government coffers. The freezes are estimated to raise £42.9 billion by 2027/28.

Indeed, the OBR said frozen thresholds are the ***"largest contributor to the rising overall economy-wide tax burden – responsible for almost a third of the 4.5% of GDP increase in taxes from 2019/20 to 2028/29".***

Source: Office for Budget Responsibility. Economic and fiscal outlook – November 2023

The cuts to National Insurance (NI) offset some of the fiscal drag, but many taxpayers are likely to find their tax burden is higher overall.

On 6 January 2024, the main rate of employee NI was cut from 12% to 10% – saving the average employee earning £35,400 a year more than £450 annually. In addition, NI contributions for the self-employed will be cut from April 2024.

Yet, the OBR finds that the reduction in the employee rate of NI will reduce the government's budget by only £180 million – far below the amount it expects to raise through Income Tax threshold freezes.

There may be ways you could reduce your Income Tax bill

The good news is that there may be steps you could take to reduce your Income Tax bill in a way that supports your finances now as well as your long-term goals.

Depending on your circumstances, you may want to:

- Check if you could use the Marriage Allowance if your spouse or civil partner's income doesn't exceed the Personal Allowance
- Increase your pension contributions to reduce your taxable income
- Save through an ISA to reduce the tax you pay on the interest your savings earn
- Make use of salary sacrifice schemes your employer offers
- Use dividends to supplement your salary.

The above list isn't exhaustive and it's important to weigh up the pros and cons before you proceed.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

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Investing or saving?

Investing can beat inflation

Investing is a better option if you've got longer-term goals because inflation can erode the value of cash savings over the medium to short term, and your money may not have the same spending power as when you first put it away.

For example
If you have £2,000 in savings and the bank offers a 1% interest rate, each year you will get back £20. However, if the inflation rate is 6% the cash in your savings account will fall in value. After one year your cash would be worth £1,887. After five years it would be worth only £1,495.[1]

Saving money is a great way to prepare for unexpected expenses and investing your money can have the potential for higher growth than saving.

A lot of people put their money in a savings account and leave it there to accumulate interest. While this is a good strategy in the short term, you potentially risk losing out on higher returns in the long run, while also struggling to keep up with inflation. However, investing is a good approach if you have long-term financial goals and want to earn more money than you could by saving it.

What's the difference between saving and investing?

With saving you are setting aside cash for future use, while investing means using cash to buy assets that you expect to produce a profit or income. The biggest difference between saving and investing is the level of risk. With saving you will always get back at the very least what you have put in, as well as any interest on your deposits. You won't lose any money, making it a less risky option.

Investing your money means it will rise and fall over time and there is a chance you could lose some of your initial investment. Your financial adviser will be able to help you make sure you're aware of the risks and the minimum time you should consider investing for. A longer timeframe (at least five years) will give your investment more time to recover if there are any sudden market swings.

Speak to your financial adviser to find out about a range of investment opportunities to help you meet your financial goals.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

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Types of investments

The main types of asset classes that investors could choose from – which your adviser can go into detail with you – are equities, bonds, and property. Different asset classes have different levels of risk and return. Usually, the safer an asset is the lower the returns will be, while the riskier an asset is, the higher the returns.

Property this could be investing in commercial property through investment funds, including retail, office, and industrial property. It makes a good long-term investment and is effective at beating inflation. Property can add diversification to your portfolio as it tends to perform differently to other assets in response to different market conditions. However, property does come with its risks, including a risk of a fall in value as well as the maintenance costs.

Bonds sometimes called fixed-term investments, bonds are issued by governments and companies looking to raise money. A bond is essentially a loan made to a company or a government by an investor for a set period – usually several years. In return they pay you a regular income in the form of interest over the life of the bond, after which they must repay your loan. Bonds typically offer stable returns and are a lower risk than equities, although they tend to offer lower returns in the long term.

Equities also known as stocks and shares, equities are issued by a public limited company and can be bought and sold on stock exchanges. When you buy an equity, you are basically buying a piece of that company and become a shareholder. Equities can make you money through increases in share price or you can receive income in the form of dividend payments. The disadvantage is that returns are not guaranteed, and the share price could fall below the level that you invested.

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Navigating the mortgage market

Three useful ways a financial adviser can help you navigate a mortgage market that changes quickly.

Mortgage deals have a record low shelf life, and the market is changing quickly. If you're searching for a new mortgage, it can make it difficult to find a suitable deal for you. In a situation like this, a financial adviser can help.

The average mortgage shelf life is 15 days

The average shelf life of a mortgage deal fell to a record low of 12 days in July 2023. That is now back up to 15 days but this means deals are only available for a little longer than two weeks before lenders pull them off the market.

If you're searching the market for a mortgage, it can mean there's added pressure. A deal you believe could be right for you, but you want some time to think about, may not be available when you've made a decision.

The figures also show that the number of mortgages available is on the rise, so you have more choice. While this is good news, it can make finding a mortgage overwhelming.

Combined with interest rates, which have increased significantly in the last year, navigating the mortgage market to find a deal that suits your needs can be difficult. Here are three ways working with a mortgage adviser in today's market could be valuable.

1. A mortgage adviser will help you understand the type of mortgage that's right for you

Whether you're a first-time buyer or are remortgaging your current home, understanding the type of mortgage that suits your needs can be difficult. Should you choose a variable- or fixed-rate option? What term should you choose, and how would it affect your repayments?

A mortgage adviser can help you get to grips with the different options and explain the pros and cons of each. Having a clear idea about the type of mortgage you need means you can narrow down the market and focus on the deals that make sense for you.

2. A mortgage adviser will keep track of interest rates

One of the reasons mortgage deals are being pulled from the market so quickly has been the increasing Bank of England Base Rate.

Average interest rates are falling there are still large differences in the market, and even a small change could affect your monthly repayments and overall cost of borrowing.

If you borrow £200,000 through a repayment mortgage over 25 years with an interest rate of 3%, your monthly repayment would be £948 and over the full term you'd pay more than £84,000 in interest. If the interest rate increased to 5%, your monthly repayments would rise to £1,170 and you'd pay more than £150,000 in interest over 25 years.

So, working with a mortgage adviser to potentially access a lower interest rate could save you money in the short and long term.

Remember, it's not just the interest rate that's important when taking out a mortgage. Other factors, such as the ability to make overpayments, may be just as crucial depending on your circumstances.

3. A mortgage adviser understands the criteria of each lender

One of the challenges of getting a mortgage is not only finding a deal that's right for you but understanding how likely a lender is to approve your application.

Each lender will set its own criteria, from how much they're willing to lend relative to your income to the level of risk they will take. With lots of different options, including some that aren't well-known, finding this information and relating it to your needs can be challenging and time-consuming.

A mortgage adviser will take the time to understand your circumstances and select lenders that are more likely to say "yes" to your application.

If your situation isn't straightforward – perhaps you're self-employed or have a poor credit score – a mortgage adviser could also identify specialist lenders to help you reach your home ownership goals.

Choosing the right lender for you means you can have more confidence when you submit your mortgage application.

Contact us to talk about your mortgage needs

We're here to help navigate the mortgage market. We'll work with you to understand your needs and help find a deal that's right for you. Please get in touch to arrange a meeting.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR OTHER LOANS SECURED ON IT.