

Money Wise



financial planning and wealth management

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WINTER 2025

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Well enough to work

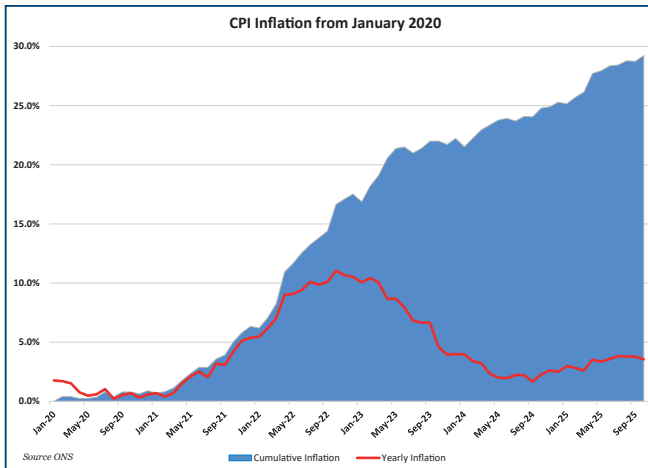
Protecting your wellbeing in employment

Missing tax uncovered

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Understanding the inflation factor

September's 3.8% inflation rate was probably the peak. How does it affect your planning?



can go up and down, the overall CPI rarely drops over the year. You can see this in the graph – the red line is yearly CPI inflation and the blue area is the cumulative rise in prices since January 2020.

As the end of 2025 approaches, overall prices (based on October's CPI) are almost 30% higher than in January 2020 – an effective 5.5% average yearly inflation rate. Those numbers have important consequences for your financial planning:

Most people are familiar with the inflation rate, published each month by the Office for National Statistics as the yearly Consumer Prices Index (CPI) inflation rate. The current consensus is that the figure reached a peak in September and will fall in 2026.

Despite being widely covered in the media, CPI inflation is poorly understood. For example:

- While food price inflation is often highlighted, the 'Food (and non-alcoholic drinks)' category accounts for only about a tenth of the CPI basket of 752 goods and services.
- CPI inflation takes no account of mortgage interest or other costs associated with home ownership.

Cumulative inflation effect

A key point is that a falling rate of inflation means price growth is slowing, not that prices are falling. While prices of individual CPI items

- All other things being equal, any life cover or income protection that you have in place should be at a level 30% higher than it was at the start of 2020.
- Your retirement planning and other future savings goals probably need to be reviewed and contributions increased. When they were set up, it is unlikely an allowance was made for the inflation of the past half decade.

Even though inflation outlook has improved, do not think that because it now appears to be on the way down you can ignore inflation's past effects.

✚ *The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested.*

Past performance is not a reliable indicator of future performance.

Can you afford your retirement?

More than half of adults working today (51%) don't expect there to be a State pension by the time they retire. So building your own pot of retirement savings is the bedrock of future financial security.

Despite an inflation busting uplift, the State pension will provide just over £240 a week. At that level, building up your own retirement income funds through workplace pensions, SIPPs and ISAs, and understanding how long you will need that income, is fundamental.

Many underestimate this last factor and risk outliving their savings as a result. Research from Aviva found that one in three 70-year-olds said they had already lived longer than expected. This is an ongoing under-estimation, with almost seven out of 10 of these retirees saying they did not expect to live beyond 85.

In reality, a 70-year-old man can expect to live to 86 and a woman to 88. Both have a one in four chance of reaching 92 – so should plan for this eventuality.

To return to that £240 a week State pension – if it isn't enough, what sort of income should you be targeting for retirement? Pensions UK's Retirement Living Standards estimates a single person needs £31,700 a year for a 'moderate' standard of living (and a couple £43,900). This translates to around £610 a week (or £844 for a couple) – significantly more than the State pension. Time to get saving.

❖ *The value of pensions and investments and the income from them can fall as well as rise. You may get back less than you invested.*

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Occupational pension schemes are regulated by The Pensions Regulator.



Credit: GaudiLab/Shutterstock.com

Untangling the Autumn Budget

The protracted, rumour-filled wait for Rachel Reeves' second Budget finally revealed a range of less than headline-grabbing measures.

The twelve-week period from the Chancellor announcing the Budget date saw an armada of possible Budget measures floated into the media. You could be forgiven for some confusion about which rumours sailed into the Chancellor's Budget speech and which sunk on route.

Once the Chancellor had abandoned a straightforward rise in income tax rates, it was inevitable that there would be a raft of tax changes, complicating the tax system still further and making advice more important than ever. Some are likely to be significant for you:

- **Income tax freezes:** A further three years have been added to the freeze on income tax bands and the personal allowances, taking it to the end of 2030/31 – one year longer than the rumour mill had suggested. The extended freeze will mean more taxpayers in general and more higher- and additional-rate taxpayers in particular. If you are married or in a civil partnership,

you should review whether you can save tax by transferring the ownership of investments (and thus their income and capital gains) to your spouse/partner. There may also be scope for reducing taxable income without reducing your spendable income by restructuring how you hold your investments.

- **Salary sacrifice:** A £2,000 cap on the amount of salary that can be tax-efficiently sacrificed for pension contributions will be introduced from 2029/30. Any amount over the cap will be liable to national insurance contributions for both employer and employee. This may appear a buy-now-while-stocks-last opportunity, but while pensions remain highly tax-efficient, very large contributions may push some individuals above the lump-sum allowance, limiting how much tax-free cash they can take at retirement. With IHT rules changing from April 2027, those expecting very large pots should consider how much of their pot they expect to draw personally versus leave to beneficiaries.

“A further three years have been added to the freeze on income tax bands and the personal allowances, taking it to the end of 2030/31.”

■ **Dividends tax:** The rate of tax on dividends for basic-rate and higher-rate taxpayers increases by two percentage points to 10.75% to 35.75%, respectively from 6 April 2026. The dividend tax rate is unchanged at 39.35% for additional rate taxpayers, as is the dividend allowance of £500.

ISAs are an obvious route to shelter dividend income from tax, but their frozen contribution ceiling of £20,000 limits the scope for moving funds across a large portfolio. Other investments can shield dividends from an immediate tax charge, but whether they are right for you depends on your current and future circumstances and some complex number crunching.

■ **Property and savings:** One year after the dividend tax increase, all tax bands for property income and savings income will be subject to a two-percentage point rise. At the same time there will be a reduction to £12,000 in the maximum subscription to a cash ISA for anyone aged under 65. If you hold a large cash buffer on deposit, the higher tax on interest should prompt a review of whether you can reduce the reserve or hold it in a way which defers or lowers your tax bill.

For more information on how any of these changes affect you, please contact us.

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Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.

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News in brief...

PAYE collection for HICBC

The High Income Child Benefit Charge (HICBC) was introduced in January 2013 as a way to claw back child benefit via the tax system. It has always caused administrative problems for HMRC and taxpaying families, as it dragged many employees into the self-assessment regime simply to pay their HICBC. At long last, HMRC has launched a system to allow the charge to be collected through PAYE without the need for a full tax return. For more information, see <https://www.gov.uk/child-benefit-tax-charge/pay-tax-charge-pay>

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Cap lifted on tuition fees

In England, university tuition fees for the 2025/26 academic year rose for the first time since 2017. However, the £285 rise (to £9,535) will not be the last for another eight years. In October the government announced that fees will rise in line with forecast inflation for the next two academic years by which time fresh legislation would trigger automatic yearly increases in line with inflation. The £10,000+ tuition fee may be only two years away...





Help for healthy working

Almost 3 million adults are unable to work due to poor health – a 40% increase since 2019.

The surge in younger adults (under 35) who are economically inactive due to mental health issues is most striking. This number has risen by 76% since 2019, before the Covid-19 pandemic.

A recent government-sponsored report called for employers to do more to help prevent long-term ill-health, and to ensure people can access appropriate treatment more quickly when problems arise. This could be offered via occupational health programmes and insurance-based products.

Many large employers already offer these services, which can include access to private GPs, health assessment, physiotherapy and counselling services.

If you work for an employer who doesn't currently offer such provision, or are self-employed, it may be worth looking at what options are available privately, given the prevalence of health problems, and potential delays when it comes to accessing NHS treatment, particularly for mental health issues.

Protecting your lifestyle

One option is an income protection policy. This is designed to provide a replacement income, should you find yourself unable to work through ill-health. You can insure a fixed monthly amount, usually paid after a deferral period, to make sure essential bills get paid.

Such insurance can provide valuable breathing space to re-set for those experiencing physical or mental health problems, without exacerbating issues by rushing back to work.

As well as paying a replacement income, some policies offer additional support services. They can include rehabilitation support, to help policyholders with their recovery, or apps offering health and wellbeing information. These 'add-ons' vary between providers so check terms and conditions in advance.

Policies can be tailored, to suit circumstances in terms of the deferral period or the maximum payout period. Limiting this to just one or two years will lower the cost of this insurance.

“ *An income protection policy will provide a replacement income, if you are unable to work through ill-health. You can insure a fixed monthly amount to make sure essential bills get paid.*

HMRC turns the screws

The tax authorities are finding new ways to close the 'tax gap'.

A Budget would not be a Budget without a raft of measures designed to 'close the tax gap' (estimated at £46.8bn in 2023/24) and 'collect tax that is due'. As the overall burden of tax rises, chasing down the tax that should have been paid rather than raising fresh taxes becomes an ever more attractive option for the Chancellor.

One consequence is that HMRC has grown increasingly zealous in its search for missing tax. For example, it regularly sends out 'nudge' letters covering areas such as:

- **Dividends** Some self-assessment taxpayers received a letter recently asking them to check that their tax return included all dividends received in 2023/24. Unlike bank and building society interest, there is no automatic reporting to HMRC of dividends, something that has become more significant following the drastic cuts to the dividend allowance.
- **Crypto** Last tax year HMRC sent out 65,000 letters to people suspected of not declaring gains on cryptocurrencies, such as Bitcoin. Normally crypto gains are subject to capital gains tax, but active traders can face an income tax charge.
- **Online marketplace earnings** Early in 2025 HMRC mailed people which it thought had earnings from an online marketplace (for example, eBay) made before 6 April 2023 and had not yet paid tax on their sales.
- **Overseas income and gains** Most countries, including the main tax havens, automatically send HMRC details each year of offshore accounts held by UK residents. In 2024/25 HMRC received over 10 million reports, issued

20,000 letters and collected £80.1 million in 'compliance yield'.

Alongside 'nudge' letters, HMRC is using its own big data system, Connect, to join the dots and identify anomalies in tax returns. In October 2025, a Freedom of Information request revealed that in 2024/25 Connect had enabled HMRC to find 540,000 cases of undeclared tax, producing £4.6 billion for the Exchequer. A recently announced partnership with a leading US data analytics company, Palantir, means that in the future more powerful artificial intelligence will become available to exploit Connect data.

With the 2024/25 self-assessment deadline nearing, HMRC's growing ability to spot errors is a reminder to take great care when assembling the information for your tax return. It may also be a reminder that you should review whether you can simplify your tax affairs by restructuring how you hold investments.

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Interest rates: going down...

The Bank of England is set to make its fourth interest-rate cut before the end of the year. What are the implications for your savings strategy?

UK short-term interest rates have been on a rollercoaster ride in the past five years. The Bank of England base rate started the decade at 0.75% and three months later as the Covid-19 pandemic took hold, fell to a mere 0.1%, the lowest-ever level. Then from December 2021 a steep climb began which ended at 5.25% in August 2023.

A year later rates started a gentle descent, with a final cut for 2025 (to 3.75%) expected to be announced on 18 December.

If you are holding cash on deposit, the steady decline in interest rates is not good news. Current deposit rates roughly match inflation, but that is before any tax is considered, so after tax your buying power is shrinking. If you are a UK higher-rate taxpayer your personal savings allowance takes only £500 of interest out of tax (£1,000 if you are a basic-rate taxpayer, but nothing if you are one of the 1.23 million additional-rate taxpayers).

There are good reasons for holding cash – we all need some instant funds to cover unexpected costs. However, how much you hold and how you hold it both need to be reviewed regularly. Accumulate too much cash and you could be missing an opportunity to invest for the longer term. Choose the wrong cash home and what was once an attractive interest rate might have evaporated over time.

For advice on the level of cash reserve you should be holding and where it should be, please talk to us.

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