PILLING & Co
STOCKBROKERS LIMITED

November Newsletter

UK Autumn 2024 Budget

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Rachel Reeves delivered Labour's first, highly anticipated, Budget in fourteen years. I am sure most of you will have digested the key takeaways, however, to recap they are as follows:

Capital Gains Tax rates increased. The Capital Gains Tax rate increased from 10% to 18% for basic rate taxpayers, and from 20% to 24% for higher rate taxpayers, effective immediately. For those selling a house that was not their principal residence, CGT rates remained the same. The Capital Gains Tax allowance remains unchanged at £3,000 a year for individuals and £1,500 for trusts.

No change to Income Tax or National Insurance for employees. This was flagged previously, and Labour kept their word. In addition, no changes were announced to dividend taxation. It should be noted, dividends will still be taxed at a lower rate than interest income.

ISA rules were unchanged, and contribution allowances are frozen to 2030. The annual subscription limits will be frozen until 5th April 2030 at £20,000 for ISAs, £4,000 for Lifetime ISAs and £9,000 for Junior ISAs and CTFs. The proposed British ISA will not proceed, due to a mixed response from the consultation in March 2024. There were no changes to SIPP contributions, as far as Income Tax rebates on contributions. I have previously written about pensions in the November 2023 newsletter, and if you would like more information then please do not hesitate to contact us.

Inheritance Tax changes. A potentially impactful change here, with the Government effectively applying Inheritance Tax to unspent pension pots from April 2027. The Government published a consultation on the policy immediately after the announcement, and further details should therefore follow in due course. Inheritance Tax thresholds were due to be frozen in nominal terms until April 2028, this has been extended to April 2030. The Government will also reduce the rate of Business Property Relief to 50% in all circumstances for shares designated as "not listed" on the markets of a recognised exchange, such as AIM. This means that a 20% Inheritance Tax will be applied to AIM shares held at the date of death from April 2026.

Increase on Stamp Duty surcharge. For property investors with more than one property, or investing via a limited company, the surcharge increased from 3% to 5%. There was no increase to Stamp Duty when buying fully listed equities. Buying AIM shares still carries no Stamp Duty.

<u>Stock Market Impact</u>

It is fair to say most investors had been bracing themselves for a torrent of bad news, with many citing Capital Gains Tax increasing to match Income Tax rates as well as potential impacts to ISA and SIPP contributions. Some of the policies announced had an immediate impact on the market. The AIM index rose by over 4% on Budget Day as investors were relieved to see the Inheritance Tax relief for investments in AIM companies had not been completely removed, and indeed remained fully in place until April 2026. AIM had sold off compared to main listed companies since Labour won the election.

There were announcements for large investments into certain areas of the economy, such as an additional £2.9bn of funding for the UK Ministry of Defence next year. This provides total UK Defence funding of £59.8bn in 2025-26, representing 5.1% growth versus the current year. The Budget document reiterated the ambition to increase UK Defence spending to 2.5% of GDP 'at a future fiscal event' although the timing remains uncertain. The Government also reiterated its pledge to spend £3bn per year in military assistance to Ukraine for as long as necessary. Expectations were low ahead of the Budget, but this announcement was a positive surprise for the sector, and reflected in the UK mid cap defence stocks such as **Babcock, Chemring** and **QinetiQ** not to mention **BAE Systems**.

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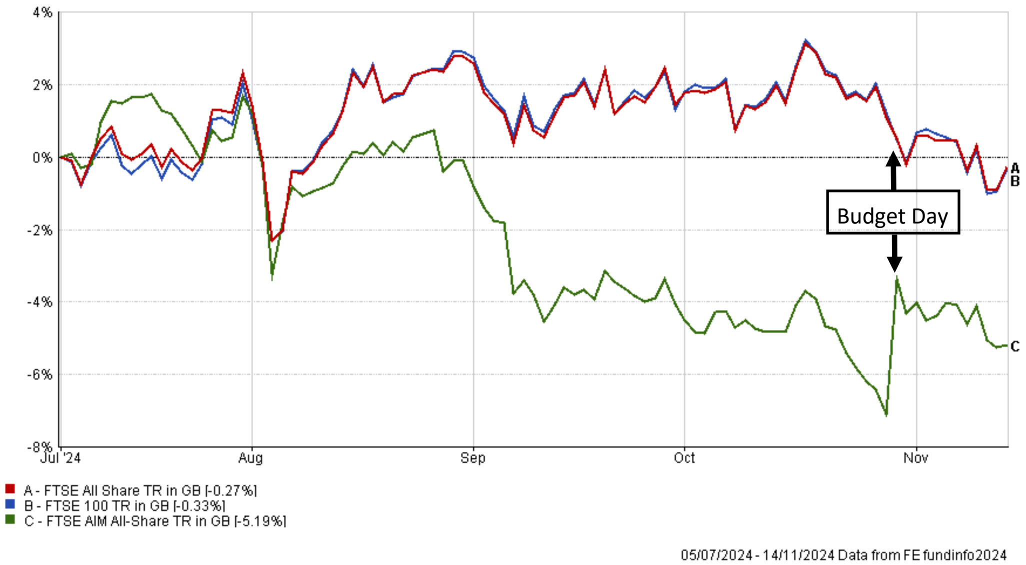
Investors needed to assess the impact of increased Government debt levels due to higher spending. This resulted in a fall in gilt prices and rise in yields and could yet create upward pressure on inflation in the system prompting the Bank of England to keep interest rates higher for longer. There was a positive reaction from the financial sector with all the high street banks trading higher, perhaps most notably **NatWest Group** highlighted by my colleague Alistair, up 7.6% since 30th October.

There has been much comment over the bold targets set for increasing annual housebuilding and the Chancellor provided further colour. There is to be an increase to the affordable home budget by £500m as well as support for small housebuilders. Labour's desire to improve the efficacy of the planning system was stated again, which may speed the process up. Analysts expect 2024 to be the trough in housebuilding volumes, leading to a steady recovery through to 2030. From a construction perspective, £1bn will be used to accelerate the removal of dangerous cladding on homes, as well as a £500m increase in road maintenance. This should be broadly supportive for the UK construction industry. As for the real estate sector, if rates are going to stay higher for longer, this is a negative for REITs as well as equity investments that are structured primarily for income. That being said, Business Rate reforms to help smaller retailers should be positive for convenience shopping centre owners. However, intention to fund this reduction by increasing costs for large distribution warehouses used by online retailers may be a negative for **Segro** and **Tritax Big Box**.



Across the broader retail, hospitality and leisure space the increase in the National Living Wage will likely have a negative effect on operators. I recently spoke to Jean Roche the portfolio co-manager for **Schroder UK Mid Cap Trust** which is held in both the Growth and Aggressive Growth Pilling Ideal Portfolios, and who used to be a retail sector analyst. I asked her if there was anything she was particularly focussed on post the Budget. Automation was the key message, with her looking to invest into those companies that were either less labour intensive, or had made investment to reduce their headcount in recent years. **Cranswick**, a leading UK food producer to the major supermarkets (a company I have previously highlighted) is held in the trust, and one that could benefit after a prolonged period of investment into automation, improving their margins and competitive edge. **Dunelm**, the homeware retail was another name mentioned as a net beneficiary of the increased National Living Wage, as it is a destination for the shoppers most likely to feel the uptick coming through their wages.

Prior to the Budget, reports of a possible tax increase on the **UK gambling industry** negatively affected the sector. This didn't materialise, driving a reversal in share price performance – albeit concerns remain as the Government will consult next year on proposals to bring remote gambling from a three-tax structure into a single one. Elsewhere in the leisure sector, the bus fare cap has increased from £2 to £3 next year, positively affecting **FirstGroup**. Pub operators' share prices also rose on the announcement of a cut to alcohol duty on draught products, reducing the price of an average strength pint by 1p.

In the oil and gas sector, the much-anticipated Energy Profits Levy introduced in 2022 increased to 38%, taking the marginal rate on UK producers to 78%. On a more positive note, the capital relief will be maintained at 100% in year one. There had been concerns this would be adjusted down, effectively cutting future investment. The fact this wasn't the case saw a positive reaction for those UK energy focussed names such as **Kistos** and **Harbour Energy**. For the UK oilfield service names, the relief provides some support for future investment within the North Sea causing a positive reaction in **Ashtead Technology** (a name in our AIM portfolio) as well as **Hunting** and **Wood Group**.

Disclaimer – the companies highlighted in this article are not recommendations by Pilling & Co.