

TAX

Higher-rate tax: the club you don't want to join



Are you on course to join the ballooning numbers of higher rate taxpayers?

Over the last seven years the number of people paying the higher or additional rates of income tax has doubled. In 2026/27, HMRC estimates that nearly one in five taxpayers is on the higher rate, while almost one in 30 pays the additional rate.

The increase in numbers of higher- and additional-rate taxpayers has three main causes:

- Since April 2021, the higher-rate threshold (outside Scotland) has been frozen at £50,270. Had the threshold been inflation-linked, it would now be around £64,00.
- The additional-rate threshold (48% top rate threshold in Scotland) was frozen at £150,000 from April 2010 to April 2023, when it was reduced to a frozen £125,140.
- From April 2017, Scotland adopted a different tax path from the rest of the UK and now has a higher-rate threshold of £43,663 and a threshold for 45% tax (advanced rate in Scotland, introduced in 2024/25) of £75,000.

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Lower down the income scale, the frozen personal allowance has helped to drag 9.5 million more people into income tax since 2010/11. Andy Burnham said in an interview with *The Times* the weekend after becoming Prime Minister that he had encountered “frustration about the personal allowance” when campaigning in Makerfield. However, a couple of days later he made clear that there was “no commitment to change”. Each £100 increase in the personal allowance is estimated to cost £810 million in 2026/27, rising to around £1 billion a year by 2028/29, according to HMRC’s ready reckoner.

With UK (excluding Scotland) higher-rate and additional-rate thresholds currently frozen until April 2031, you could find yourself changing tax bands, if you have not already done so. Now is a good time to check that you’re making the most of the income tax-planning opportunities that remain.

❖ The Financial Conduct Authority does not regulate tax advice.

INVESTMENTS

NS&I increases fixed rates

NS&I is trying to attract more savers’ cash.

In March, the government set NS&I’s target for 2026/27 fundraising to £15 billion, up from a provisional £12.1 billion in 2025/26. As the government expects to borrow £268 billion this financial year, NS&I’s contribution to the Treasury’s coffers seems relatively small beer. However, there are signs that NS&I is making a serious effort to bring in savers’ money.

Take, for example, British Savings Bonds – Guaranteed Growth Bonds and Guaranteed Income Bonds with terms of one, two, three and five years. Since late April, NS&I has raised the rates on these bonds four times, with a rate increase in August arriving less than three weeks after an end of July rise of a mere 0.03% for all but the five-year term.

Standing up to the competition

The August uplift pushed NS&I’s bonds close to the top of the league tables, with the one-year Guaranteed Income Bond only just missing out on the top spot. If you’re tempted by the newly competitive British Savings Bonds, there are two important points to note:

- After a short cooling-off period, you cannot take money out until the Bond reaches the end of its term.
- Guaranteed Growth Bonds pay all their interest at maturity, which could be enough to push you into a different tax band or remove entitlement for the Winter Fuel Allowance. For instance, the five-year bond’s maturity interest is around 26.7% of the amount invested.



Will your retirement meet your expectations?

Are you on target for a comfortable retirement or will you have to manage on the minimum?

The question of how much income is necessary for retirement has attracted plenty of research and last year the government's Pensions Commission was revived to examine the adequacy of pension provision "through to 2050 and beyond". The Commission is widely seen as an independent body that will help the government justify an increase to the minimum levels of contributions to auto-enrolment pension schemes. The Commission's final report is due next year.

Meanwhile, Pensions UK, the main pensions industry organisation, has updated its costings for retirement based on three different retirement living standards:



- Minimum – "Covers all your needs, with some left over for fun". This level includes only one week's holiday in the UK and no car.
- Moderate – "More financial security and flexibility". A small three-year-old car is included and holidays are better – a fortnight 3* all-inclusive holiday in the Med and a long weekend off-peak break in the UK.

- Comfortable – "More financial freedom and some luxuries". The same small car is replaced more frequently and holiday entitlement expands to a fortnight 3*/4* half-board holiday in the Med with extra spending money and three long-weekend breaks in the UK.

The cost of these three lifestyles in 2025 starts at £1,875 a month for a couple outside of London. If you find the comfortable standard the most appealing, that comes with a price tag of £5,400 a month in the capital. The figure assumes home ownership – rent would be an additional expense – and takes no account of income tax.

To discover where your retirement may fall on the minimum-comfortable scale, why not ask us for an assessment based on your personal circumstances and planned retirement date?

❖ *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.

ESTATE PLANNING



How to stress test your estate planning

Arguments over inheritance can cause major family rifts, and evidence suggests the number of disputes is rising.

Since 2019, there has been a 55% increase in people applying for a 'probate caveat'. This pauses the legal process of sorting out an estate while concerns are investigated. Last year, 126 inheritance disputes reached the High Court, a figure described as 'elevated' compared with previous years.

Meanwhile, the government is collecting record levels of inheritance tax (IHT). This looks set to rise further when unspent pensions are included within people's estates for IHT purposes. Taking time to stress test your estate planning now should ensure you aren't leaving your family with a potential feud or unnecessary tax bill.

First, make sure you have an up-to-date will. This should clearly state how assets should be divided and ideally explain your reasoning, particularly if beneficiaries are being treated differently. Keep a comprehensive record of savings, investments and other assets so executors can obtain relevant valuations. Documentation of gifts is also important:

record the value, recipient and date. Everyone can generally give away up to £3,000 a year and make regular gifts out of income, subject to relevant rules, without these becoming part of your estate for IHT purposes.

Larger gifts can also become entirely free of IHT if you survive for seven years after making them. Keep records of charitable donations too, as these may reduce an IHT bill.

Good estate planning should ensure others can easily and effectively carry out your wishes. If that would be difficult if you were suddenly struck down tomorrow, it may be time for a review.

❖ *The Financial Conduct Authority does not regulate tax, Wills or estate planning advice.*

The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.

For specialist tax advice, please refer to an accountant or tax specialist.

Probate costs see steep rise

The court charge for obtaining probate in England and Wales jumped by over 75% in mid-July.

In May 2024, the Ministry of Justice (MoJ) increased the cost of obtaining probate in England and Wales for estates valued at over £5,000 to £300. Just 26 months later, the MoJ raised the charge to £526 – a 75.3% increase. Over the period between May 2024 and July 2026, prices, as measured by CPI inflation, rose by 6.7%.

The MoJ justified the rise by saying it "recovers the cost of an ever-improving service".

Ironically, less than three weeks after the fee rise took effect, the MoJ introduced a new probate application escalation process for applications if no response has been received in twelve weeks.

Dealing with estates can be a complex and slow process. As the frozen inheritance tax thresholds drag more estates into tax, make sure that you don't add to the complexities with an outdated will, or worse, no will at all.

❖ *The Financial Conduct Authority does not regulate estate planning or will writing advice.*