Autumn Budget 2024

Private Client Tax Summary

taxadvisory partnership

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Finally, Chancellor Rachel Reeves has announced the much anticipated first Budget delivered by a Labour Government since 2010.

In a lengthy and detailed speech, the Chancellor spoke of Labour rebuilding Britain once again by restoring economic stability and she forecasted moving from an annual fiscal deficit to surplus within the next two years. Investment will be made in developing the skills of our workforce, a modern industrial strategy, funding research and development, and further investment in renewable energy.

News commentary has been focused on the funds required to pay for all of this investment and obviously a large proportion of this will be done by raising an extra £40bn of taxes.

What do these tax announcements mean for Private Clients?

Since the Labour Government was elected in July 2024 discussions around taxes and the economy have barely been out of the press. We already anticipated that employers' NIC was increasing, capital gains tax rates would increase and that certain inheritance tax reliefs were being targeted. It had also already been announced and confirmed that VAT would apply to independent school fees from 1 January 2025.

Alongside this, the Conservative Party's final Spring Budget 2024 had confirmed that the non-dom tax regime would be abolished and the tax treatment of offshore trusts would materially change. We also knew that the taxation of carried interest earned by Private Equity fund managers would be subject to reform. However, very little has been released in terms of the detail, between the date of Labour's election to power and now.

The Chancellor's speech and related documents now provide us with some clarity. Whilst we await the draft legislation, we are pleased to report our initial findings.

We set out here the headlines from the Chancellor's speech and those which did not make the speech, which we have identified as having immediate interest and relevance. Some of the changes are more complex than others and we will be digesting the details and considering how they apply to our clients over the coming days.

If you would like to discuss how the proposed changes will impact you, please do get in touch.

Thresholds, National Insurance Contributions, and Allowances

- The personal income tax and employee's NIC thresholds will be frozen until April 2028 and then will start to increase in line with inflation.
- The employers' NIC threshold will be reduced from £9,100 to £5,000 per annum (with effect from 6 April 2025 until 5 April 2028, increasing in line with CPI thereafter).
- Employers' NIC rate will increase from 13.8% to 15% from April 2025.
- There have been other small changes to NICs but no material changes to most individual's personal positions.
- ISA allowances will remain unchanged.
- The savings allowance and dividend allowances remain unchanged.
- The late payment interest rate applied to unpaid tax liabilities will increase by 1.5% from 6 April 2025.
- The corporation tax rate is being maintained at 25% and the small profits rate at 19%, for the 2026/27 financial year.

Capital Gains Tax

- There will be an increase of the main rates of Capital Gains Tax ("CGT") from 10% and 20%, (applicable to assets other than residential property and carried interest), to 18% and 24% respectively for disposals made on or after 30 October 2024, i.e. with immediate effect.
- The main rate of CGT payable by UK trustees and personal representatives will also increase from 20% to 24%.
- The rate of CGT applicable for Business Asset Disposal Relief ("BADR") and Investors' Relief is increasing to 14% for disposals made on or after 6 April 2025 and from 14% to 18% for disposals made on or after 6 April 2026
- The Investor's Relief lifetime limit will be reduced from £10 million to £1 million, applying to qualifying disposals made on or after 30 October 2024, i.e. with immediate effect.
- The lifetime limit of BADR will be maintained at £1 million.
- The rates on the sale of residential property, remain unchanged.
- Carried interest will be charged at a flat rate of 32% for 2025/26.

Other carried interest changes proposed

- Whilst, after a period of consultation, larger scale reforms will take effect from April 2026, for the 2025/26 tax year the current carried interest rules remain unchanged, except for the above mentioned increase in the CGT rate to 32%.
- From April 2026, the Government has the intention of introducing a revised tax regime, with all carried interest treated as trading profits and subject to income tax and Class 4 NICs.
- It is proposed that taxable carried interest income will be reduced by a multiplier of 72.5%, before applying income tax rates. Therefore, a higher rate taxpayer would face an effective rate of 32.625% for the 2026/27 tax year.
- The deemed trade under the revised regime will be treated as either performed in the UK, or outside the UK, to the extent that the respective investment management services were carried out in the UK, or outside the UK.
- Non-UK residents could therefore be subject to UK Income Tax if they are working in the UK.
- Any qualified carried interest which relates to non-UK services will benefit from relief under the FIG regime (see non-dom section) for those in their first 4 years of tax residence.
- There appear to be no changes to the taxation of co-investment returns made by Private Equity executives.

Pension tax changes

- Unused pension funds will be brought into the taxpayer's death estate for the purposes of Inheritance Tax (IHT) from 6 April 2027. Amounts invested in a UK private pension have been outside the scope of Inheritance Tax until now, so this represents a significant shift in IHT exposure for those with larger pension pots.
- Pension scheme administrators will become liable for reporting and paying the IHT due.
- There has been no comment as yet on how this would interact with the income tax payable by the beneficiaries of inherited pension funds.
- The Overseas Transfer Charge (OTC) is a 25% tax charge on transfers to overseas pensions. An exclusion from the OTC has previously applied to QROPS established in the EEA and Gibraltar. This Budget removes the exclusion for the EEA and Gibraltar.
- No changes were announced to the rate of relief available for pension contributions or to the amounts a taxpayer is able to contribute each year. Therefore, the annual allowance continues to be set at a maximum of £60,000.

Changes to the taxation of Non-Doms

The Government have confirmed the changes they intend to bring into force from 6 April 2025. The measures are broadly as previously proposed but with some additional detail and some small differences.

In overview, the concept of domicile will no longer be used as a means of assessing liability to UK taxation. Instead, this will be based on tax residence under the UK Statutory Residence Test (SRT).

There are also significant proposed changes to how inheritance tax will apply to non-doms and their trusts. Please see the Inheritance Tax section below for further details.

Foreign Income and Gains Regime

- The new 4 year foreign income and gains (FIG) regime will come into effect, applying to individuals within their first 4 years of UK tax residence after a period of 10 consecutive years of non-UK residence (Treaty non-UK residence and split years are ignored for these purposes).
- Under a claim to use the new 4 year FIG regime, individuals will not pay tax on FIG arising in those four years. Foreign losses will also not be available.
- Certain income sources will not be covered by the FIG regime, including
    - offshore life insurance policies and investment bonds subject to chargeable event gains,
    - foreign employment income paid through third parties,
    - income related to sportspersons and entertainers, including payments to or distributions by personal service companies
- In relation to foreign gains that fall under the FIG regime, the normal CGT situs rules will apply in determining whether an asset is situated outside the UK. However, for the purposes of the FIG regime only, an asset that derives at least 75% of its value from UK land, where the person has a substantial interest in that land, will be treated as a UK-situated asset.
- A taxpayer must identify and disclose the amounts of FIG upon which they are claiming relief and unless such amounts are identified and disclosed, the FIG regime will not be available. This will materially increase the reporting and disclosure requirements of many individuals who previously used the remittance basis.

Capital Gains Rebasing

- For Capital Gains Tax (CGT) purposes, individuals subject to the remittance basis (either currently or historically), may be able to rebase their personally held foreign assets to market value at 5 April 2017 on a disposal, as long as they not have been UK domiciled or deemed UK-domiciled at any time before 6 April 2025.
- This rebasing date has been changed from the previously proposed date of 5 April 2019.

Overseas Workday Relief

The Overseas Workday Relief rules will be simplified and brought into line with the FIG rules by:

- removing the need to keep the income offshore,
- extending the period of relief from three to four years, and
- introducing an annual limit on the amount claimed to the lower of,
    - 30% of the qualifying employment income, or
    - £300,000 per tax year.

Temporary Repatriation Facility

A new Temporary Repatriation Facility (TRF) will be introduced, allowing individuals previously taxed on the remittance basis to:

- Designate amounts derived from pre-6 April 2025 FIG (this does not have to follow normal mixed fund ordering rules)
- Pay a reduced tax rate for a period of three tax years, starting from 2025/26
- The tax rate will be 12% for the first two years and 15% for the third year
- The individual must be UK resident in the relevant tax years to take advantage of the TRF.
- It will not be possible to set any foreign tax or remittance basis charge paid against the TRF charge.
- The new TRF facility will also cover distributions from qualifying overseas trust structures where:
    - the individual is a former remittance basis user,
    - the benefit is received during the TRF period, and
    - it must be capable of being matched to FIG that arose within the settlement before 6 April 2025
- FIG that has been used to make qualifying Business Investment Relief investments will be eligible to be designated under the TRF without the need to make a withdrawal from the company.

Ending the Remittance Basis regime

- Amounts previously sheltered from UK tax using the remittance basis will continue to be taxable if remitted.
- There will be some simplification of the way in which taxable remittances are identified.

Inheritance tax

Agricultural and Business Property Relief

- From 6 April 2026, changes will be made to Business Property Relief (BPR) and Agricultural Property Relief (APR). The current rules, in most cases, allow for a 100% deduction to the asset value in the estate, meaning qualifying business assets and agricultural property do not typically attract any Inheritance Tax (IHT).
- From 6 April 2026, there will be a cap on receiving 100% BPR and APR relief. This will limit 100% relief to the first £1,000,000 of value. Any value above the first £1,000,000, will attract only 50% relief.
- The £1,000,000 cap is a combined value for all BPR/APR claims.
- In addition, certain shares that are not "listed" on a recognised stock exchange, such as AIM shares, will have BPR relief reduced to 50% of the value (previously 100%).

Inheritance tax, non-doms and trusts

- As previously announced, IHT will no longer be based on the domicile status of an individual. A residence-based system will instead be implemented, under which an individual will be considered within the scope of IHT on all their assets (including non-UK assets) once they have been UK resident for 10 of the previous 20 years.
- UK assets will remain in the scope of UK IHT, regardless of an individual's residence status.
- In relation to trusts, if the settlor is considered long-term resident (resident in the UK for 10 years), any non-UK assets settled in a trust will now be within the scope of the IHT rules for "relevant property trusts" and subject to IHT charges at trust level (even if the trust was created prior to 30 October 2024). This applies whether or not the settlor is able to benefit from the trust.
- An IHT "tail" rule will be imposed for those who have been UK tax resident for 10 years. The previously suggested "tail" period of 10 years has been adjusted to apply on a pro-rata basis. For those who are UK resident between 10 to 13 years, this "tail" will be reduced to 3 years. For each additional year of UK residence (year 14 onwards), one extra year will be added to this tail period, up to a maximum "tail" of 10 years.
- The only way for an individual to return to the UK and re-start their IHT clock after such a period, would be stay non-resident for 10 ten years.
- A transitional rule will apply for 2025/26, to non-residents who were previously UK resident, where they are either currently non-domiciled or are/were deemed domiciled under the old rules (UK resident for 15 out of 20 years).
- Where these individuals are still within the new maximum 10 year "tail" period (due to having been UK resident for 10 years or more), but the old IHT "tail" rules applied when they left the UK, these rules will continue to apply unless the individual returns to the UK (and becomes resident again). In this case, the new rules would apply. So, an existing non-dom or deemed-dom individual could take steps to leave the UK now in order to avoid being caught by the new 10 year "tail" rules.

Meet the team

Our specialist tax advisers have a wealth of experience and up to date knowledge on all UK tax matters together with their interaction with overseas matters.

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