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Autumn Budget 2024

What will the changes mean for you?

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Summary

Two months ago the new Prime Minister warned that today's Budget would be painful and it certainly was for businesses, particularly owner-managed businesses.

The majority of the extra £40bn of tax that was announced in today's Budget will fall on the business sector, with £25bn alone being collected from the two changes that were announced in relation to employers NIC (the 13.8% rate being increased to 15% and the starting threshold being reduced from £9,100 to £5,000). When coupled with the increase in the minimum wage and the cost of implementing the recently announced new employment laws some businesses might even describe today's Budget as brutal!

Owner-managed businesses have the additional worry over the changes that were announced in relation to Business Property Relief whereby some will have a significant proportion of their business subject to Inheritance Tax which may prevent the passing down of the business to the next generation and force a sale of the business instead.

If the additional £40bn of tax and NIC ultimately leads to significantly improved public services then many people (including businesses) will accept that "the pain is worth the gain" but given that the government's strategy for improving public services has been publicly stated as being dependent upon generating economic growth there is a degree of worry over whether today's announcements will achieve the government's stated aim. Furthermore, the independent OBR's report suggests that future economic growth may be relatively weak following today's announcements.

The government have indicated that today's Budget is intended to do most of the "heavy lifting" during the course of their 5 year term and they don't have any plans to raise significant levels of tax in future Budgets. Many businesses will certainly be hoping that this is true, but will no doubt remember what was said in the run up to the Election!

Capital Gains Tax (CGT)

Changes to CGT had been widely expected in the lead up to the Budget, with rumours of a significant increase to the top rate of CGT.

The measures that were announced were perhaps not as drastic as they could have been, although they will still result in many taxpayers having a much higher CGT liability following asset sales.

The Chancellor announced that the 10% rate which currently applies to non-residential gains falling into the basic tax band would increase to 18% from 30 October 2024.

The 20% rate which currently applies to gains falling into the higher rate tax band will increase to 24%, again from 30 October 2024. This brings the rate into line with the rate which applies to higher rate residential property gains.

The rate that applies to residential property gains in the basic rate band will remain at 18%.

It was announced that the lifetime limit for Business Asset Disposal Relief (BADR), which applies to gains realised on the disposal of businesses or certain business assets, would remain at £1m.

Gains qualifying for BADR currently attract a 10% CGT rate. This rate will increase to 14% from April 2025, and to 18% from 6 April 2026.

Taxpayers considering making disposals of business or business assets are therefore likely to want to exchange contracts by 5 April 2025 in order to benefit from the current 10% CGT rates afforded by BADR.

Separately, the CGT rate which applies to carried interest (a performance-related reward paid to private equity fund managers) will increase from 28% to 32% from April 2025. There will then be further reform from April 2026, which will result in carried interest being subject to income tax and class 4 National Insurance (i.e. it will be taxed in the same way as trading income).

Income Tax & NIC

National Insurance Contributions (NIC)

The new Labour government promised to not increase tax/NIC for “working people”. In fairness, tax/NIC rates for the employed and self-employed remained untouched, and in fact it was announced that the current freezing of the thresholds would stop from April 2028, and they would be then increased with inflation.

Employers however did not get off so lightly. The rate of employers NIC is currently 13.8% and is charged to the employer on salaries above a £9,100 threshold. From 6 April 2025, the rate of employers NIC will increase by 1.2% to 15% and in addition, the threshold on each salary at which this rate is charged will be reduced to £5,000.

These two changes combined are likely to be costly for a lot of employers. The reduction of the threshold alone will cost employers £615 for each member of staff paid over £9,100. There will then be the 1.2% employers NIC increase on all salaries above this point too.

To soften the blow for smaller employers, the “employment allowance” which currently exempts the first £5,000 of employers NIC, will be increased to £10,500.

Income Tax Rates

No changes were announced with regards to income tax directly, other than the thresholds will increase with inflation from April 2028.

Next year we will therefore have the same £12,570 tax free personal allowance, basic rate tax band (20%) to £50,270, higher rate tax band (40%) to £125,140 and additional rate tax band (45%) thereafter, as we have had in recent years.

The tax-free personal allowance continues to be tapered between £100,000 and £125,140.

Tax rates on dividends were also untouched, despite arguably not being “working people” who pay these rates.

Corporation Tax

S455 tax on shareholders overdrawn loan accounts

Whilst there were thankfully no changes to the corporation tax rates announced in the budget, an anti-avoidance measure has been announced to counteract attempts of close companies to avoid paying S455 tax on overdrawn shareholders' loan accounts by using related companies to repay the loans. In short, a close company is a company controlled by five or fewer shareholders and so includes most family companies. A charge of 33.75% is levied on loans made by close companies to shareholders if not repaid within 9 months of a company's year-end. This is usually referred to as S455 tax.

Some companies had been seeking to get round these rules by using one or more group or related companies to repay the loan to avoid a S455 charge. Legislation is to be introduced in the Finance Bill 2024-25 to catch these, and possibly similar arrangements, with effect from 30 October 2024.

Corporation Tax Roadmap

The government has set out a paper titled Corporation Tax roadmap 2024. The government's commitments include:

- capping the main rate of Corporation Tax at 25% for the duration of parliament. NB. It was increased from 19% to 25% in April 2023.
- retaining the small profits rate (19%) at current rates and thresholds. NB. For a company with no associated companies the first £50,000 taxable profits are taxed at 19%.
- maintaining the £1M annual investment allowance and permanent full expensing.
- maintaining R & D reliefs.
- working collaboratively with companies on simplification and improving user experience, including HMRC's path on digitisation.
- developing a new process for increasing the tax certainty available in advance for major investments.

There is a high appetite for policy stability on Corporation Tax following several years of significant change. So, no news is good news!

Research & Development

The Chancellor confirmed that the new merged R&D Expenditure Credit (RDEC) scheme and the Enhanced Support for R&D Intensive SME (ERIS) scheme (for accounting periods starting on or after 1 April 2024) will remain unchanged from that announced by the previous Government.

The Government will be enhancing the administration of R&D reliefs by launching an R&D disclosure facility by the end of 2024. It will also proceed with establishing an R&D expert advisory panel. A consultation will also begin in Spring 2025 on the use of advance clearances for R&D relief. The aim of this is to reduce error and fraud, improve the claimant's experience, and provide certainty to companies, which is to be welcomed.

Benefits in Kind

Taxation of company cars

It was announced that the appropriate percentage used to calculate an individual's company car tax for zero emission vehicles will increase for 2028-29 and 2029-30 by 2 percentage points per year. It has previously been announced that the benefit in kind for zero emission cars will rise 1% in 2025-26 from 2% to 3%, then to 4% in 2026-27 and 5% in 2027-28. We are now being told that the rate will be 7% in 2028-29 and 9% in 2029-30.

Other emission bands will generally see a further 1% increase in the benefit in kind rate in 2028-29 and another 1% increase in 2029-30 up to a maximum percentage of 38% in 2028-29 and 39% for 2029-30.

Some of these changes may sound like a long way off, however, if a company is buying an electric car for use by an employee today and expecting to keep it for four or five years, they will have an impact. Is net zero being pushed back we wonder?

Taxation of double cab pick-ups

The government has announced that from 1 April 2025 for Corporation Tax, and 6 April 2025 for income tax, double cab pick-up vehicles (DCPUs) with a payload of one tonne or more will be treated as cars for the purposes of capital allowances, benefits in kind, and some deductions from business profits. The existing capital allowances treatment will apply to those who purchase DCPUs before April 2025. Transitional benefit in kind arrangements will apply for employers that have purchased, leased, or ordered a DCPU before 6 April 2025. They will be able to use the previous treatment, until the earlier of disposal, lease expiry, or 5 April 2029. The existing beneficial VAT treatment that effectively treats DCPUs as vans will remain the same.

The previous government made a very similar announcement in the spring following a Court of Appeal judgement. However, in the run up to the general election it very quickly back tracked after pressure from the National Farmers Union and others. So, it will be interesting to see what happens this time!

Business Rates

In their election manifesto, the new government gave a commitment that the current business rates system would be replaced with a new fairer system that would level the playing field between high street businesses and online giants.

Similar pledges have been made before by previous governments and it was pleasing today that the new government have taken a first step and announced that changes will take place in April 2026. These changes will include:

- The introduction of two permanently lower multipliers for retail, hospitality and leisure (RHL) properties with a rateable value (RV) under £500,000.
- To fund this sustainably via a higher multiplier on properties with RV of £500,000 and above, which includes the majority of large distribution warehouses including those used by online giants.

The new multipliers will be announced in next Autumn's Budget in advance of their introduction in April 2026.

The government have also announced that it will enter into a consultation with interested parties up to March 2025 with a view to introducing further reforms to the current system.

One disappointing announcement is that rather than simply keep the current 75% reduction in business rates for RHL properties for the 2025-26 year, the relief will be reduced down to 40% (subject to the current cash cap of £110,000 per business).

VAT

VAT on private school fees has been a labour government policy commitment for some time, and private schools will be obliged to add VAT to fees in respect of periods from 1 January 2025 onwards. Fees will be caught by the VAT charge even if paid in advance, as long as they were paid on or after 29 July 2024, that being the date on which special anti-forestalling legislation was brought in.

The legislation is targeted at fees charged for students of school age, together with those under 19 in settings such as sixth form colleges but excludes children of nursery age and providers of adult education. VAT will have to be charged on boarding fees (board and lodgings), but other closely related supplies such as meals, stationery, books and transport will still be VAT exempt.

Duties

Fuel duties are frozen for a further year, with the temporary 5p/litre reduction that was first introduced in March 2022 being extended until the end of 25/26. The previously planned inflationary increase in duties has also been shelved.

Alcohol duties will be reviewed to support the hospitality industry by reducing by 1p/litre the duty on draught products with less than 8.5% ABV. Other alcohol duties will increase by RPI. All these changes will take effect from 1 February 2025.

Air passenger duties will increase from 26/27 by:

- £1 / passenger for domestic economy flights, or £2 for non-economy
- £2 / passenger for short-haul economy flights, or £4 for non-economy
- £12 / passenger for long-haul economy flights, or £28 for non-economy

The premium rate of air passenger duty for private jets will increase by a further 50% in 26/27, bringing the rates to between £142 for domestic flights to £468 for ultra long-haul flights.

Tobacco duties will increase by RPI + 2%, with a further increase for hand rolling tobacco of 10%. A new vaping products duty will be introduced from 1 October 2026 at a rate of £2.20 per 10ml of vaping liquid and will be accompanied by an equivalent increase in tobacco duty.

Inheritance Tax

With very little to report in respect of Inheritance Tax for the past few budgets, this budget has produced a number of announcements which will have a significant impact.

Thresholds and exemptions

The nil rate band threshold of £325,000 and the residential nil rate band threshold of £175,000 will remain in place until 2030. For a couple (married or civil partnership), this means that there is potentially £1 million of taxable estate before Inheritance Tax is payable. Transfers between spouses and civil partners will continue to be exempt from Inheritance Tax. Transfers to individuals more than 7 years before death will continue to fall outside the scope of inheritance tax in the normal way.

Reforms to agricultural property relief and business property relief

The government has confirmed it will extend the existing scope of agricultural property relief from 6 April 2025 to land managed under an environmental agreement with, or on behalf of, the UK government, devolved governments, public bodies, local authorities, or relevant approved responsible bodies.

£1 million allowance for individuals

What the government gives with one hand, it will take away with the other, by the fistful! It will reform agricultural property relief and business property relief from 6 April 2026. Currently, relief of up to 100% is available on qualifying business and agricultural assets. In addition to existing nil-rate bands and exemptions, the 100% rate of relief will continue for the first £1 million of **combined agricultural and business property** to help protect family farms and businesses, and it will be 50% thereafter. The government will also reduce the rate of business property relief available from 100% to 50% in all circumstances for shares designated as “not listed” on the markets of recognised stock exchanges, such as AIM.

The government will publish a technical consultation in early 2025, however the £1 million is a lifetime allowance (similar to the BADR allowance for capital gains tax) and will apply for transfers on or after **30 October 2024** if the donor dies on or after 6 April 2026.

Assets automatically receiving 50% relief will not use up the allowance and any unused allowance will not be transferable between spouses and civil partners.
The allowance covers the following transfers:

- property in the estate at death
- lifetime transfers to individuals in the 7 years before death (“failed potentially exempt transfers”)
- chargeable lifetime transfers where there is an immediate lifetime charge, so for example when property is transferred into trust

Where the rate of relief for the agricultural property or business property is at 50%, for example quoted shares in company giving the transferor control, the rate of relief will not be affected by the new allowance.

£1 million allowance for trusts

The trustees of certain trusts are liable to an inheritance tax charge of up to 6% of the value of property held in a trust every 10 years. There is also an exit charge when property leaves the trust. Agricultural property relief and business property relief can apply to property in trust.

There will be a combined £1 million allowance for trustees on the value of qualifying property to which 100% relief applies, on each ten-year anniversary charge and exit charge, consistent with the treatment of qualifying property chargeable to inheritance tax on death. The government will publish a technical consultation in early 2025 on the detailed application of the policy to charges on property within trust.

Settlors may have set up more than one trust comprising qualifying business property and/or agricultural property before 30 October 2024, in which case from 6 April 2026, each trust would have a £1 million allowance for 100% relief.

The government intends to introduce rules to ensure that the allowance is divided between these trusts where a settlor sets up multiple trusts on or after 30 October 2024.

Example

A farm that qualifies for APR/BPR is valued at £2 million on death. The normal nil rate bands have been used by other assets. Currently there will be no Inheritance Tax payable in respect of the farm on death. Roll forward to a death on or after 6 April 2026, on the first £1 million there will be no Inheritance Tax, on the balance, in this case £1 million, 50% will be taxable at 40%, so £200,000.

Pensions

Currently, unspent pension pots are not taken into account when calculating Inheritance Tax on death. This has been a hugely beneficial estate tax planning tool for a number of years. From April 2027 any unspent pension pots will be brought into the scope of Inheritance Tax.

Pension/estate planning will need to be reviewed in light of this announcement, as this could result in a significant increased Inheritance Tax charge for high value pension pots. Previously the advice has been to pay as much as possible into pensions and leave the pension pot undrawn until other sources of funds have been used. It may now be the case that uncrystallised pension lump sums are taken and gifted to the next generation, potentially taking those funds out of Inheritance Tax, provided there is a seven year survival period.

On a positive note for pensions, despite speculations, no changes to tax-free cash amounts or pension tax relief were announced and employer pension contributions remain exempt from national insurance contributions.

Please see further commentary on this topic in the pensions and investments section.

Pensions & Investments

Inherited Pensions and Inheritance Tax

In the lead up to today's budget speculation was rife that pensions were in the chancellors' crosshairs. Rumours of flat rates of income tax relief, reductions to the amount of tax-free cash that could be accessed and changes to employer's pension contributions were all off target. You can still access 25% of your pension fund tax-free, capped at £268,275 in most cases and the state pension triple lock system lives to see another day.

However, 'inherited pensions' will be brought into the Inheritance tax (IHT) arena from April 2027, meaning unused pension funds and death benefits will be included in the value of an individual's estate for IHT purposes.

This will not only have an impact upon how one plans to fund their retirement, but it will also have a significant effect on estate planning and how people intend to leave assets to loved ones, especially for those with larger pension pots and estates.

Currently in many cases it makes more sense to spend down other savings and investments such as bank accounts and Isa's etc, before turning to pension funds in retirement. These changes to pension legislation may mean that we see pension savings being accessed sooner to avoid them forming part of the IHT calculation down the line.

As part of the changes pension scheme administrators will become liable for reporting and paying IHT due on pensions to HMRC.

The government estimates that, out of around 213,000 estates with inheritable pension wealth in 2027 to 2028, 10,500 estates – or around 1.5% of total UK deaths - will become liable to pay Inheritance Tax where this would not previously have been the case. Around 38,500 estates will pay more Inheritance Tax than would previously have been the case. This group are forecast to have an existing average Inheritance Tax liability of £169,000, increasing by around £34,000 on average when pension assets are included in the value of the estate. These figures do not take into account potential behavioural changes following the announcement of these measures, such as people drawing down pension funds at a faster rate and/or making greater use of other exemptions or reliefs to reduce their estate's overall Inheritance Tax liability.

Most UK registered pensions schemes are currently beyond the reach of IHT as unused pension funds from discretionary schemes (most private pensions) do not form part of an individual's estate, however some schemes such as NHS and Judicial schemes are treated as being part of an estate.
Any pension wealth liable to IHT will be taxed at a rate of 40%. Not only this, where a pension holder dies after age 75 their beneficiaries pay income tax on withdrawals, so this could be 20%, 40% or even 45% income tax.

Many people will need to revisit their retirement income planning strategies and we may even see people more willing to 'give with a warm hand' by gifting to family whilst they are still alive to avoid leaving pensions untouched and liable to IHT.

Alternative Investment Market changes

Investing in Alternative Investment Market shares, either directly by buying shares of companies listed on this exchange or through packaged investments products, may after today's budget be less attractive to investors.

Previously, 100% of the value of AIM shares was exempt for Inheritance Tax (IHT) under Business Property Relief rules (BPR). Today it was announced that only 50% of the share or portfolio value will be exempt leaving the remainder to be taxed at a rate of 20%, which is a lower rate that the usual IHT rate of 40%.

Investments on the AIM market can be highly volatile due to lower liquidity and the speculative nature of many companies listed there, it's often referred to as the 'Wild-West' of the London Stock Exchange.

Stamp Duty Land Tax (SDLT)

The Chancellor announced that, with effect from tomorrow, the 3% surcharge which applies to residential property purchases by individuals who already own residential property, by companies, or by certain trusts, would increase to 5%.

This will in the main have a detrimental impact on property investors but may also increase the SDLT liability for those buying a new home if they already own another residential property and don't meet the criteria for the 'replacement main residence' relaxation.

The Government have also announced that the current 15% rate which applies to certain purchases of residential property over £500,000 by limited companies (or partnerships which have corporate partners) will increase to 17%. In general terms this charge will apply to purchases where the property will not be used in the company's business and will instead be occupied by directors/shareholders (or people connected with them).

The 0% band for residential property is currently subject to a temporary increase from £125,000 to £250,000. This will come to an end on 31 March 2025, at which time the 0% band will revert to £125,000.

First time buyers also currently benefit from a temporarily increased 0% band of £425,000 on purchases of property up to a price of £625,000. From 1 April 2025 the 0% band available to first time buyers will reduce to £300,000 on property purchases up to a price of £500,000.

Non-UK Domiciled Individuals (Non-Doms)

Backdrop

Non-doms are individuals who are resident in the UK for tax purposes, but who are not domiciled in the UK (meaning the UK is not deemed to be their permanent home) – usually because they were not born in the UK, and they do not intend to stay in the UK forever.

As things stand, non-doms can choose to restrict their UK tax exposure on foreign income and gains (FIG) to the extent that they bring or 'remit' FIG to the UK. This is known as the remittance basis of taxation, and it allows very wealthy individuals who live in the UK to significantly reduce their exposure to UK tax. These individuals sometimes have to pay a charge to take advantage of this, but the charge will in many cases be significantly less than they would be paying HMRC if their worldwide income and gains were subject to tax in the UK.

Changes Announced

The Conservatives had already pledged to reform the regime from April 2026 when they delivered their March 2024 budget. Labour have to a large extent adopted the changes proposed by the Conservatives, but with some amendments. In simple terms however they will bring into the scope of UK tax all FIG which arise from April 2025.

There will be some protection available to new arrivals to the UK. Those who have a period of 10 years consecutive non-residence will enjoy full relief on FIG for their first 4 years of UK tax residence, and during this time they will be able to bring the money back to the UK without a tax charge.

Settlor-interested trusts that have been set up by non-UK domiciled settlors will also lose protection, although there will be some transitional provisions in respect of pre-2025 FIG.

The concept of domicile will also be removed for Inheritance Tax (IHT) purposes, and again a residence based system will be introduced, which in broad terms will mean that an individual who has been tax resident for at least 10 of the previous 20 tax years will be liable to IHT on their worldwide assets. Subject to transitional points, trusts containing assets settled whilst an individual was non-UK domiciled will lose their protection from IHT once the settlor becomes 'long term resident' in the UK.

Existing Non-Doms

There will of course be a number of UK tax residents currently using the remittance basis who will be affected. The Government have confirmed the following transitional measures to soften the impact on them:

- For disposals after 6 April 2025 by current non-doms who have recently claimed the remittance basis, a re-basing of capital assets to the value at April 2017 (meaning only growth in value from that date will be taxed);

- A 12% tax rate on remittances of pre-April 2025 FIG which take place in 2025/2026 or 2026/2027, and a 15% tax rate on remittances of pre-April 2025 FIG which take place in 2027/2028.

If you have any queries on the Autumn Budget 2024 please do not hesitate to contact one of our tax specialists on 01228 530913 or 01768 864466.