Spring Budget 2024

Private Client Tax Summary

taxadvisory partnership

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It is anticipated that this will be the last Budget delivered by a Conservative Chancellor for some time with Labour leading in the voting polls and there's been much speculation over what announcements would be made.

The first 50 minutes of the Chancellor's speech was quite sedatory. We were told by the Chancellor that inflation was about to drop below the 2% target "in just a few months' time", according to the Office for Budget Responsibility (OBR) and emphasized the aim to deliver tax cuts for working families. He concentrated on perceived anomalies in the UK tax system, abolishing 'unfair' reliefs and ironing out 'cliff edges' where benefits are lost.

Several changes which will affect private clients were announced which we cover later in this update, but, as is customary, the Chancellor saved the big announcements until the end of his Budget speech.

During his speech, Jeremy Hunt avoided the issue of Inheritance Tax, which had previously been touted as ripe for reform, instead doubling down on the National Insurance cuts he had introduced in the Autumn Statement.

The Government had already leaked the 2% cut in national insurance rates, so that announcement was no rabbit out of the hat and has little overall impact for our private clients.

Almost right at the end of his speech the Chancellor announced the abolishment of the non-dom tax regime and the introduction of an almost fully formed set of residency based rules and tax reliefs.

Labour have been loudly proclaiming their intention to abolish the non-dom tax regime for quite a while, so it seems that Jeremy Hunt has decided to take the wind from their sails as we wait for the General Election.

The new "modernised" system will restrict the availability of any relief from up to fifteen years to just four. However it does promote, rather than penalise, the remittance of overseas wealth into the British economy for those that do benefit from the relief.

The changes which we detail in this update will be a particular concern for non-doms already in the UK and for those planning an imminent move to the UK.

The Chancellor apparently believes that the new system will ensure the UK remains an attractive destination for affluent individuals and their families with overseas assets to want to come and live. In their policy summary which considers these changes they make a statement that the new regime will ensure the UK is more attractive than countries with no equivalent scheme (which is quite obvious) and a bold statement which suggests the new rules are competitive when compared to those which do operate a similar system – which is debatable and not a statement we particularly agree with. There's nothing forcing non-doms to stay in the UK, so although the UK remains a very attractive place to live, it is also a nice place to visit and we anticipate that the changes will result in a migration to jurisdictions with more favorable tax regimes and new arrivals will likely leave after 4 years if viable. It is our view that the tax impact of these changes will not be as beneficial as the Treasury believes.

As international private client specialists we will be considering these changes and how they impact our clients and other non-doms. The Government did not publish much detail and have said they will consult on various elements of their new plans. We will be issuing updates as appropriate. It is also worth remembering that these rules are not due to come in until after the next General Election so if we do have a change in Government, these changes may be changed again.

There were of course other announcements which may impact you. The headlines for private clients are:-

- Abolishing the current regime for Non-domiciled individuals
- A further reduction in National Insurance rates for employees and the self-employed
- Abolishing Furnished Holiday Lettings Relief
- Abolishing Multiple Dwellings Relief for Stamp Duty Land Tax
- Change to Capital Gains Tax on Residential Property
- Introduction of a UK ISA
- Reform of the High Income Child Benefit rules

This document summarises what we know from the limited information released by the Government earlier today.

Non-domicile regime - Abolished

From 6 April 2025, there will be no tax on foreign income or gains for the first four years of residency (regardless of whether funds are remitted). An individual must be non-resident for ten consecutive years to qualify for this regime. The concept of the remittance basis will be removed, which means all foreign income and gains arising post 6 April 2025 can be remitted without further tax consequences.

Remittances of foreign income and gains realised prior to 05 April 2025 will subject to a transitional relief in the 2025-26 and 2026-27 tax years, where remittances of these income and gains will be subject to a flat rate of 12%. This flat rate will cease from 2027-28 under the current proposals.

Non-domiciled individuals who have previously claimed the remittance basis will be able to rebase the cost of their directly held foreign assets to 5 April 2019, which means any assets acquired prior to this will benefit from an uplifted cost basis.

During the first tax year of these changes, previously non-domiciled individuals will benefit from a 50% deduction in their taxable foreign income. Overseas workday relief will remain, but it will be simplified subject to further consultation.

Excluded Property Trusts set up prior to April 2025 by a non-domiciled individual will keep existing Inheritance Tax Protections. Trusts set up after this date will not have excluded property status. The wider scope of inheritance tax and how this will impact previously non-domiciled individuals will be subject to further consultation.

Existing and future settlor-interested trusts will not retain non-domicile trust protections on foreign income and gains post 6 April 2025. This means any settlor who can benefit from trusts that they have created, will be taxed on all income and gains as they arise. If a settlor is within their first four years of UK residency, they should not be taxed on the settlement's foreign income or gains during this time under the new regime, but any long-term UK resident will be affected by these rules immediately from 6 April 2025.

As already stated, whilst we are still awaiting the finer details of the legislative changes, it is also important to bear in mind the extent to which Labour are likely to adopt these Conservative proposals, should they win the General Election later this year. Any tax planning undertaken in anticipation of the April 2025 rules will need careful consideration. We will share our thoughts further once the specifics are released.

We appreciate that today's announcements will be significant for many of our clients. We will keep you up to date on important developments. If you would like a call to discuss how this impacts you please get in touch with your usual client team.

Stamp Duty Land Tax (SDLT)

Multiple Dwellings Relief (MDR) will be abolished for transactions in residential property on or after 1 June 2024.

MDR provides SDLT relief to buyers involved in purchasing two or more dwellings in one transaction and allows the purchaser to calculate SDLT based on the average value of the individual properties within the transaction, rather than treating it as a single transaction.

Transitional rules mean that MDR can still be claimed for contracts which are exchanged on or before 6 March 2024 regardless of when completion takes place, although this will be subject to various exclusions.

High Income Child Benefit Charge

At present, the income threshold for the HICBC is £50,000, with the benefit withdrawn in full once income reaches £60,000. The income threshold will be increasing to £60,000 from 6 April 2024, meaning the charge will not apply until an individual or their partner's income exceeds £60,000 (rather than £50,000). The rate at which the charge applies will also be reduced from 1% of the Child Benefit payment for every additional £100 earned above the threshold, to 1% for every £200, meaning the full withdrawal does not occur until income reaches £80,000.

A further change to make the charge fairer is planned for April 2026 and involves assessing the HICBC on a household basis rather than an individual basis. Further details in this regard will be issued in due course.

Abolition of the Furnished Holiday Lettings (FHL) regime

In order to make the tax system fairer between those who own short-term and long-term holiday lets, the Government will abolish the FHL tax regime with effect from April 2025.

This will eliminate the tax advantages currently available for landlords who let out short-term furnished holiday properties. Individuals with FHL and non-FHL properties will no longer need to calculate and report the income separately.

Draft legislation will be published in due course and include an anti-forestalling rule. This will prevent the obtaining of a tax advantage through the use of unconditional contracts to obtain capital gains relief under the current FHL rules. This rule will apply from 6 March 2024.

Inheritance Tax (IHT)

From 1 April 2024 personal representatives of estates will no longer need to have sought commercial loans to pay inheritance tax before applying to obtain a "grant on credit" from HMRC. A "grant on credit" is where HMRC allow a personal representative to postpone payment of part or all of the IHT due, which is awarded in exceptional circumstances.

The Government is also announcing the intention to move to a residence-based regime for Inheritance Tax (IHT) and will consult in due course on the best way to achieve this, followed by draft legislation, later in the year.

No changes to IHT will take effect before 6 April 2025.

Capital Gains on Residential Property

The Chancellor announced that the higher rate of Capital Gains Tax (CGT) of 28% which currently applies to gains made on residential property disposals will be cut to 24% from April 2024.

The lower rate will remain at 18% for any gains that fall within an individual's basic rate band.

Private Residence Relief will continue to apply in its current form.

The reduction in the CGT rate only applies to residential property, the carried interest rate will remain at 28% for higher rate taxpayers.

UK Individual Savings Allowance (ISA)

The Chancellor announced the introduction of a new UK ISA allowing an additional £5,000 annual investment in UK equities tax-free, on top of the existing £20,000 annual ISA allowance. The Government have opened a consultation on how to design and implement the UK ISA and will refer on the details at a later date. At present there is no timescale for this to be implemented.

Other changes announced...

- To help reduce the burden for some small businesses, with effect from 1 April 2024 the taxable turnover threshold which determines whether a person must be registered for VAT, will be increased from £85,000 to £90,000 and the deregistration threshold will be increased from £83,000 to £88,000, freezing them at these levels.
- Fuel Duty remains frozen for a further year
- Freeze on Alcohol Duty to remain until February 2025
- New tax on Vaping from October 2026

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.

Jamie Favell

Partner

T +44 (0)20 8037 1052

E jamie.favell@tap-london.com

Sophia Watsham

Partner

T +44 (0)20 8037 1060

E sophia.watsham@tap-london.com

Sucheta Thomas

UK Tax Director

T +44 (0)20 8037 1055

E sucheta.thomas@tap-london.com

Rachel Alabaster

UK Tax Director

T +44 (0)20 8037 1062

E rachel.alabaster@tap-london.com

James Graham

UK Senior Tax Manager

T +44 (0)20 8037 1064

E james.graham@tap-london.com

Richard Middleditch

UK Senior Tax Manager

T +44 (0)20 8037 1061

E richard.middleditch@tap-london.com