UK tax changes following the 30 October 2024 Budget

bdh Tax is pleased to provide a high level summary of the tax changes that have been introduced as a result of the 2024 Autumn Budget in the UK.

Please feel able to contact us if you think you require help with UK tax matters.

E&OE.

Private client tax

'Non-doms' before 6 April 2025

1. **Pre-2008 Rules:**
    i. Non-UK domiciled individuals were taxed only on foreign income and gains remitted to the UK.
    ii. No annual charge was applied to claim the remittance basis.
2. **2008 Reforms by the Labour Government:** From the 2008/09 tax year, non-UK domiciled taxpayers who had been UK resident for a specified period had to pay an annual charge to claim the remittance basis:
    i. £30,000 for those UK resident for at least 7 of the previous 9 tax years.
    ii. £60,000 for those UK resident for 12 of the previous 14 tax years.
    iii. £90,000 for those UK resident for at least 17 of the previous 20 tax years.
3. **2017 Reforms by the Conservative Government:** Introduction of the deemed domicile rules for income tax, capital gains tax, and inheritance tax:
    i. An individual is considered deemed UK domiciled if they have been UK resident for 15 of the past 20 tax years or if they were born in the UK and have a UK domicile of origin.
    ii. Deemed-UK domiciled individuals are taxed on worldwide income and gains and cannot use the remittance basis.
    iii. Their worldwide estate is also exposed to inheritance tax.
    iv. Non-domiciled individuals who are not deemed UK domiciled can still claim the remittance basis.
    v. The remittance basis charge remained for non-UK domiciled individuals who have been resident for at least 7 of the past 9 tax years, though the highest £90,000 charge was abolished.
4. **Trust Rules:** Settlor-Interested Trusts: Foreign income and capital gains in non-UK resident settlor-interested trusts are not taxed in the UK if:
    i. They are not distributed or matched to benefits or capital payments.
    ii. No new property is added to the trust while the settlor is UK domiciled or deemed UK domiciled.
5. Non-UK assets held in trusts remain excluded from IHT if the settlor was non-UK domiciled when the trust was created.

New regime from 6 April 2025

6. In his Budget speech in March 2024, the former Conservative Chancellor announced that the remittance basis would be abolished from 6 April 2025 and replaced with a new foreign income and gains regime.
7. We now have confirmation that the current Labour Chancellor has adopted the main aspects of these rules, with adjustments, mainly to the available transitional measures and the inheritance tax rules.

New Foreign Income and Gains (FIG) regime

8. **Abolition of Remittance Basis:** From 6 April 2025, the remittance basis regime will be replaced by a residence-based regime.
9. **4-Year Tax Relief for New Arrivals:** Individuals who have been non-UK tax resident for at least 10 consecutive UK tax years will receive full tax relief on Foreign Income and Gains (FIG) for their first four tax years of UK residence. These funds can be remitted to the UK without tax.
10. **Current Residents:** Those who are UK tax resident on 6 April 2025 but have fewer than four years of UK residence (following 10 consecutive years of non-UK residence) can still benefit from FIG relief for the remainder of their initial four tax years.
11. **Do not qualify for the FIG regime**: After the four-year period, worldwide income and gains will be subject to UK tax.
12. **Temporary Absence**: Temporary absences from the UK within the four-year relief period may not disqualify an individual, provided they return and still fall within this period.
13. **Residence Status:** The Statutory Residence Test (SRT) applies to an individual's eligibility to claim the FIG regime, additionally:
    i. Split year under the SRT applies will be regarded as a full year for the purposes of this test, and
    ii. Treaty residence in another jurisdiction under a Double Taxation Agreement will still be treated as a year of UK residence if the individual was UK tax resident under the SRT.
14. **Reporting and Claims:** Claims must be made by 31 January of the second tax year following the relevant tax year, requiring detailed reporting of the foreign income and gains. This will ordinarily be actioned through the submission of a UK tax return.
15. Claimants will forgo personal income tax allowances, the capital gains annual exemption, and cannot claim foreign losses, consistent with current remittance basis rules.

New Temporary Repatriation Facility (TRF)

16. **Temporary Repatriation Facility (TRF):**
    i. Available to those taxed on the remittance basis before 6 April 2025.
    ii. Allows designation of pre-6 April 2025 foreign income and gains, taxed at reduced rates: 12% for remittances before 6 April 2027, increasing to 15% thereafter.
    iii. Designated income and gains can be brought into the UK tax-free after the TRF charge is paid. Remittances do not need to occur within the TRF window and can be deferred to future tax years.
    iv. Mixed fund remittance rules will be adjusted, prioritising TRF-designated amounts.
17. **Trust Provisions:** The TRF will extend to settlors and beneficiaries of non-UK resident trusts who receive capital payments or benefits during the TRF period, matched to trust income and gains generated before 6 April 2025.

18. **Capital Gains Tax (CGT) Rebasing**:
    i. Available for individuals who are non-UK domiciled and not deemed UK domiciled, having claimed the remittance basis from 2017/18 onwards.
    ii. Rebasing will apply to non-UK assets held continuously offshore from 6 March 2024 to 5 April 2025, based on their value as of 5 April 2017.
    iii. Previous 2017 rebasing rules remain unaffected for those who became deemed UK domiciled from 6 April 2017.
19. **Policy Update**: The proposal for a 50% reduction on taxable foreign income for former remittance basis users from 2025/26 has been cancelled.

Changes to Overseas Workday Relief (OWR)

20. **Income Tax Exemption Simplified:** Currently, non-UK domiciled employees can claim an income tax exemption on earnings from non-UK duties for the first three years of UK residence, provided the income is kept offshore and not remitted to the UK.
21. From 6 April 2025, this requirement will be removed. The overseas employment income can be brought into the UK without triggering a tax charge.
22. **Extended Claim Period:** The OWR will be claimable for up to four tax years after becoming a UK resident, aligning with the qualifying period for the FIG regime.
23. The exemption will be capped at the lower of 30% of qualifying employment income or £300,000.
24. **Restrictions on Tax Allowances:** Individuals claiming OWR will not be eligible for the income tax personal allowance or the capital gains tax annual exemption in the tax year they claim OWR.
25. Additionally, they will be unable to claim UK tax relief for foreign income losses and capital losses for that tax year.

Business Investment Relief (BIR)

26. **Background:** Business Investment Relief has been available since 6 April 2012. From this date, non-UK domiciled individuals who invest in certain qualifying companies have been able to bring non-UK source income and gains into the UK without a UK tax charge.
27. **Designation of Foreign Income:** Individuals can designate foreign income and gains used for existing BIR investments to be subject to the Temporary Repatriation Facility. A tax charge will occur in the year of designation, with no further charges on subsequent chargeable events, such as investment sales.
28. **New BIR Investments:** From 6 April 2025, new BIR investments can be made using non-designated foreign income and gains accrued before 5 April 2025. This opportunity will be available until 5 April 2028, after which no new BIR claims can be made.

Trust income and gains from 6 April 2025

29. **End of Tax Protection:** From 6 April 2025, income and gains within settlor-interested trusts will no longer be tax-exempt for the settlor.
30. The income and gains will be taxable unless the settlor qualifies for and claims the FIG regime.

31. **2008 Rebasing Election:** If the trustees have previously made a 2008 rebasing election, this election will still be effective. It will continue to influence the calculation of capital gains on disposals made by the trustees after 5 April 2025.

32. **Trust Beneficiaries and FIG Regime:** A trust beneficiary who receives a payment or benefit from a non-UK resident trust that would otherwise be matched to trust income and gains can avoid tax on that payment or benefit if they qualify for and claim the FIG regime. However, in these instances, the pool of trust income and gains will not decrease, and the modified onward gifting and close family member rules will apply.

New Inheritance Tax (IHT) Residence-Based Regime (Effective 6 April 2025)

33. **Current position:**
    i. UK assets always within the scope of UK IHT.
    ii. Non-UK assets are within the scope of UK IHT if the individual is UK domiciled or UK deemed domicile.

34. **IHT Scope for New Arrivals:**
    i. Non-UK assets of new UK residents will be exempt from IHT for the first 10 years of UK residence.
    ii. After 10 years, they will be considered Long Term Residents and UK IHT will apply to their worldwide assets.

35. **'Tail Provision' for Departing Residents:** Individuals will remain within the IHT net for a period after ceasing UK residence and the duration of this period depends on prior UK residency:
    i. 3 years for those resident between 10-13 of the previous 20 tax years.
    ii. Increases by 1 year per additional year of UK residence, up to a maximum of 10 years.

36. **Reset of Long-Term Residence:** Returning individuals who have been non-UK resident for 10 consecutive years will have their long-term residence status reset, even if they previously met long-term criteria.

37. **Long-Term Residents:** Long Term Residents will be within the scope of UK IHT on their worldwide assets.

38. **Transitional rule:** Those who are neither UK resident nor UK domiciled in 2025/26 will only be treated as long-term residents if they meet the current conditions to be deemed-UK domiciled.

39. Broadly, this requires an individual to have been UK resident for 15 of the previous 20 UK tax years and for one of the four UK tax years ending in the current tax year.

40. If those individuals resume UK residence, then the new IHT rules for determining long-term residence status will apply to them.

41. **Impact on Trusts:**
    i. Trust assets will be subject to IHT based on the long-term residence status of the settlor at chargeable events.
    ii. This means that assets held in trusts might move in and out of the scope of UK inheritance tax depending on the status of the settlor at the relevant time.
    iii. Trusts may face exit charges (up to 6%) if property becomes excluded upon the settlor ceasing long-term residency.

42. The new rules will apply to all trusts from 6 April 2025, except for those where the settlor has died before this date, preserving the excluded property status for non-UK assets.

43. **Gift with Reservation of Benefit (GWROB):** Non-UK assets held in trusts with a retained benefit will be subject to IHT if the settlor is a long-term resident at death.

44. There will be an exemption for non-UK assets that were added to excluded property trusts before 30 October 2024. Such assets will be subject to the relevant property regime, so will be chargeable to IHT on trust 10-year anniversaries and exits after 6 April 2025.

Inheritance Tax (IHT)

45. The IHT nil rate band (£325,000) and residence nil rate band (up to £175,000) remain frozen until 2030, the rates of tax remain unchanged, and the rumoured concept of a gift tax was not mentioned.

46. Changes were introduced to business relief and agricultural relief. Currently, businesses and farms, including shares in unquoted trading companies, trading partnerships and agricultural businesses meeting certain conditions can qualify for 100% relief from IHT. The aim of these reliefs is to ensure the survival of family-owned businesses and farms following the death of the owner, without the need to sell the assets to pay the IHT liability.

47. With effect from 6 April 2026, these reliefs will be reduced significantly with the 100% relief limited to the first £1m of combined value of agricultural and business property. Above that limit, relief will be restricted to 50% giving an effective tax rate of 20%.

48. This £1m allowance will cover the value of an estate at death, failed lifetime gifts (due to the death of the donor within seven years) and chargeable lifetime transfers such as transfers into trust.

49. Assets currently qualifying for the lower 50% relief, for example personally owned assets used in the business, will continue to qualify for relief at 50%.

50. The government has confirmed that the scope of agricultural property will be extended to include land managed under environmental schemes from 6 April 2025.

51. Also, from 6 April 2026, shares held in a business quoted on the Alternative Investment Market (AIM) will not be eligible for the £1m allowance and will only qualify for relief at 50%.

Pensions

52. With effect from 6 April 2027, most unused pension funds and death benefits will come within an individual's estate for IHT purposes.

53. Currently, unused pension funds can be passed to beneficiaries without an IHT charge. Broadly, there is generally no tax on the payment of the monies to a beneficiary if the deceased was under 75 and tax will be payable at the recipient's marginal rate of income tax if the deceased was over 75.

54. As an example, Mr Smith dies at the age of 70 and has unused pension funds of £100,000.
    i. Current rules: No IHT payable, no income tax payable by the beneficiary. The beneficiary receives £100,000.
    ii. From 6 April 2027, up to £40,000 of IHT payable, no income tax payable by the beneficiary. The beneficiary receives £60,000.

Capital Gains Tax (CGT)

55. **CGT Rate Increases:** CGT rates on chargeable assets, like shares, now match residential property rates. The lower rate has increased from 10% to 18% and the higher rate from 20% to 24%, effective immediately from 30 October 2024.
56. **Business Asset Disposal Relief (BADR):** Lifetime gains eligible for BADR remain capped at £1 million. However, the CGT rate rises from 10% to 14% on 6 April 2025 and to 18% on 6 April 2026. Disposals before 5 April 2025 could still benefit from up to £140,000 in tax relief.
57. **Investors' Relief (IR):** From 30 October 2024, the lifetime gains limit drops from £10 million to £1 million, with CGT rates aligning with those for BADR. IR applies to gains on qualifying unlisted trading company shares.

Employment tax

Employer National Insurance Contributions (NIC)

58. **NIC Rate Increase:** From April 2025, the employer NIC rate will rise from 13.8% to 15%. This increase comes with a significant threshold reduction.
59. **Threshold Reduction:** The NIC threshold, above which employers pay contributions, will decrease from £9,100 to £5,000. This means £4,100 of earnings that were previously NIC-free will be taxed at 15%, resulting in higher costs for employers. For an employee earning £36,000, the employer's NIC expense will rise by approximately £940.
60. **Tax Relief:** Employers will receive tax relief on this added cost, but the impact remains substantial.
61. **Employment Allowance Increase:** Currently an employer with a total NICs liability of under £100,000 can benefit from a £5,000 discount. That discount is increasing to £10,500 in April 2025, and the £100,000 threshold is being removed, so more employers will be able to benefit.
62. **Mitigation Strategies:** Employers may consider pension salary sacrifice schemes, especially as an employer NIC charge on pension contributions was not introduced.

National Minimum Wage (NMW) Increases

63. **Single NMW Rate:** The government aims to standardise the NMW for adults, eliminating age-based differences.
64. **Over 21s Rate:** From April 2025, the NMW for over 21s will increase by 6.7%, from £11.44 to £12.21 per hour, yielding an annual increase of over £1,500 for full-time workers.
65. **18-20s Rate:** A 16.3% increase will raise the wage from £8.60 to £10 per hour. NIC charges do not apply to wages of under-21s up to £50,270, so the NIC increase will not affect this group.
66. **Apprentice Rates:** These will increase from £6.40 to £7.55 per hour, providing an annual boost of over £2,200 for full-time apprentices.
67. **Sectoral Challenges:** Industries with many lower-paid workers, like childcare, retail, leisure, and hospitality, will feel the strain, especially with the added cost of complying with regulations on fair pay, such as holiday pay enforcement.

Business tax

Overview

68. The budget was largely quiet on new business tax measures. The primary impact for businesses comes from rising employer national insurance contributions and the national minimum wage increase.

69. **Corporate Tax Roadmap:** The government prioritises stability, with a focus on maintaining current measures. Key areas include:

    i. **Corporation Tax:** No major rate changes or capital allowance overhauls; full expensing for plant and machinery remains.

    ii. **R&D Relief:** Existing regimes stay unchanged, though leasing business benefits are delayed until “fiscal conditions allow.”

    iii. **Exemptions:** Continuation of corporation tax exemptions for income and gains from shares, plus ongoing support for the patent box and intangible assets regime.

Business Rates

70. **Business Rates Adjustments**: Starting in 2026-27, the government plans to introduce permanently lower business rates multipliers for retail, hospitality, and leisure businesses in England. This will be funded by increasing rates on higher-value properties. Interim reliefs will be available, and stakeholder feedback is being sought to develop a fairer system.

71. **Impact Considerations:** While these changes may be beneficial, they offer limited consolation to consumer-facing businesses grappling with higher employer national insurance contributions and increased national minimum wages.

Property tax

Stamp Duty Land Tax (SDLT)

72. Starting 31 October 2024, the higher rate for additional dwellings (HRAD) supplement on SDLT will increase from 3% to 5%. This affects buyers of second homes and buy-to-let properties in England and Northern Ireland. HRAD applies on top of the standard residential property SDLT rates, aiming to make housing more affordable for families and first-time buyers.
73. **Impact on Property Investment**
    i. **Affordability Concerns:** The HRAD increase represents a significant rise, potentially making second homes and residential investment properties less attractive and affordable.
    ii. **Company Purchases:** The SDLT rate for companies purchasing residential properties over £500,000 will increase from 15% to 17%. This could deter landlords from incorporating their property portfolios to benefit from corporate tax rates and full mortgage interest deductibility.
    iii. **Re-evaluating Investments:** With the increased SDLT rate, alongside restricted tax relief on mortgage interest and rising compliance demands, some individual landlords may reconsider whether owning buy-to-let properties remains financially viable.
74. **Nil Rate Band Change:** The temporary increase in the SDLT nil rate band to £250,000 for non-first-time buyers will revert to £125,000 on 31 March 2025. This reduction could further diminish interest in residential property investments.

Value Added Tax

VAT on Private School Fees

75. **Effective Date:** From 1 January 2025, all fees for educational services and vocational training provided by private schools in the UK, including boarding services, will be subject to VAT at the standard rate of 20%.
76. **Special Educational Needs:** Local authorities and devolved governments funding places for pupils with special educational needs, who can only be accommodated in private schools, will be compensated for the VAT incurred on these fees.
77. **Protection for Military and Diplomatic Staff:** Diplomatic staff and serving military personnel will receive partial protection from the VAT increase, with additional funding provided to cover the VAT impact on the fees funded by the Continuity of Education Allowance.
78. **Clarification on Nursery Classes:** The definition of a nursery class has been revised to include classes composed wholly (or almost wholly) of children under compulsory school age (or school age in Scotland). This change aims to maintain VAT exemption for services provided by standalone nursery schools and nursery classes attached to private schools.
79. **Anti-Avoidance Measures:** A connected persons test will be introduced to prevent private schools from contracting services out to related bodies to circumvent VAT obligations.

HMRC Administrative Changes

80. **More staff:** In a bid to narrow the tax gap, the government will recruit an additional 5,000 compliance staff for HMRC. This is consistent with the recent uptick in HMRC's activity and signals a continued focus on enforcing compliance across various tax areas.
81. **Interest Rate Hike:** The interest on late tax payments will increase by 1.5%, totalling the Bank of England base rate plus 4%. This rise aims to encourage timely payments, particularly impacting companies making quarterly instalments. Businesses may need to improve the accuracy of tax liability forecasts to avoid higher charges, and it’s hoped the measures will consider the complexities in large-scale tax estimations.
82. **Modernisation Efforts:** Tax administration modernisation is set for consultation in spring 2025.

Have questions?

Please feel able to contact us if you have any questions regarding your tax affairs.

We are in the UK and in Australia:

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Please contact us for a free no obligation consultation about how bdh Tax can help you plan and manage your taxation affairs.

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