

Budget 2024 - Personal tax (Lecture P1427 – 13.16 minutes)

Reduction in national insurance rates

The Government has decided to implement further reductions in national insurance contributions (NIC) rates.

With effect from 6 April 2024:

- the main Class 1 (employee) rate of NIC will reduce from 10% to 8%;
- the married woman's reduced NIC rate will similarly reduce by 2%, from 3.85% to 1.85%;
- the main Class 4 NIC rate for self-employed individuals will reduce from 9% to 6% (instead of the previously proposed 8%).

For both employed and self-employed workers, the new rates will apply on earnings between £12,570 and £50,270.

This additional reduction, to be introduced in one month's time, will no doubt present software providers with a further payroll update challenge.

For the self-employed it had also previously been confirmed in the Autumn Statement 2023 that Class 2 NIC would no longer be mandatory from 6 April 2024. Self-employed persons who would have otherwise paid Class 2 NIC will however still be given national insurance credit e.g., for state benefits purposes, as if they had paid the charge. In addition, certain individuals will continue to be permitted to make Class 2 contributions on a voluntary basis. The Government has stated it will consult on how to deliver the statutory methodology, to ensure these transitional matters are dealt with satisfactorily.

Tackling non-compliance in the Umbrella Company Market

Umbrella payroll providers are typically used, by a client or employment agency, to hire and pay temporary workers. However, concerns remain on the extent of their compliance with various tax obligations, including PAYE, NIC, and VAT.

Following the conclusion of a recent consultation on the matter, the Government will provide an update on Tax Administration and Maintenance Day in summer 2024, setting out its proposed next steps to tackle any such non-compliance.

Abolition of the furnished holiday lettings regime

The Government has announced the abolition of the furnished holiday lettings (FHL) tax regime from 6 April 2025. The FHL tax regime meant that the qualifying letting of a furnished let was treated as a trade which was advantageous for the purposes of claiming capital allowances, interest costs and pension contributions.

In addition, on disposal of a qualifying FHL property, the owner could claim business asset disposal relief which taxed the gain at 10%, replacement of business assets relief if they reinvested in qualifying assets and gift relief if they gave the property away.

To prevent using unconditional contracts to access the beneficial capital gains tax treatment the proposed legislation, which will be published in due course, will also include an anti-forestalling rule which will apply from 6 March 2024.

There will, presumably, be a deemed disposal on 5 April 2025 of all assets on which capital allowances were claimed, giving rise to balancing charges. It is also presumed that any accrued losses from the FHL will be carried forward to future property business profits, but there is no confirmation on this in the Budget documents.

Abolition of the remittance basis of taxation

UK resident individuals who are not domiciled and not deemed domiciled in the UK currently have the choice to pay tax on the remittance basis (meaning UK tax is only paid on foreign income and gains to the extent that these are brought to the UK in a particular tax year) or the arising basis (meaning UK tax is payable on worldwide income and gains arising in the tax year).

From 6 April 2025, the remittance basis of taxation is to be abolished.

This is to be replaced by a new system called the 'foreign income and gains' regime (also known as FIG).

Individuals will not be taxed in the UK on their foreign income and gains for the first four tax years of UK residency. They will:

- be free to bring the foreign income and gains arising in those tax years to the UK without suffering a UK tax liability;
- not pay tax on non-resident trust distributions;
- not be entitled to a UK personal allowance or annual exempt amount.

From the fifth year, the individual will be fully taxable on their worldwide income and gains.

Overseas workday relief (also known as OWR) is to be retained, but the rules will be modified. For those arriving in the UK from 2025/26 onwards, an individual will not be eligible for overseas workday relief if they qualify for the foreign income and gains regime. Presumably further changes will also need to be made to the overseas workday relief rules to deal with the associated special mixed fund rules.

Years of UK tax residency under the statutory residence test prior to 6 April 2025 will be counted when deciding whether the individual qualifies for the new regime. However, unlike under the existing remittance basis rules, split tax years and years of treaty residence will not be ignored for these purposes.

Any long-term UK resident individuals thinking of leaving the UK to reset the clock to qualify for the new regime will have to be non-UK resident for 10 tax years in order to re-qualify.

The following transitional rules are expected:

- individuals paying tax on the remittance basis who are not eligible for the new foreign income and gains regime will be taxed in the UK on 50% of their foreign income arising in the 2025/26 tax year. For 2026/27 onwards, UK tax will be due on all worldwide income in the normal way;

- individuals who have claimed the remittance basis and are not UK domiciled or deemed domiciled by 5 April 2025 who become taxable on their worldwide income and gains can choose to rebase any chargeable assets held on 5 April 2019. Rebasing the asset means that the market value of the asset as at that date becomes the cost figure for the capital gains tax calculation. Therefore, only the portion of the gain that has arisen since 6 April 2019 will be taxable. It is unclear whether the individual can choose to rebase assets on an asset-by-asset basis or whether it will be an election that covers all assets held at that date. Also note the use of 'claimed' in the Policy Paper, which may be imprecise wording or may mean that only those who have claimed the remittance basis under s.809B ITA 2007 rather than those who qualify automatically under ss.809D or 809E ITA 2007 will benefit from rebasing;
- individuals who have been taxed on the remittance basis will be able to elect to pay UK tax at a reduced rate of 12% on remittances of pre-6 April 2025 foreign income and gains under a 'temporary repatriation facility' (also known as the TRF) that will be available for the 2025/26 and 2026/27 tax years only. The policy paper states that there will be a relaxation of the existing mixed fund rules, but no details are given. The temporary repatriation facility will not apply to pre-6 April 2025 foreign income and gains generated within trusts and trust structures.

To the extent that previously unremitted income and gains are not brought to the UK under the temporary repatriation facility and are instead remitted later, these will be continued to be taxed on the remittance basis. This is the same treatment as under the current rules for any UK resident individual who remits previously unremitted foreign income and gains to the UK after they have become UK domiciled or deemed domiciled. Therefore, advisers will need to know and be able to apply the current remittance rules for a long time into the future.

Note that business investment relief will be available for qualifying investments of pre-6 April 2025 foreign income and gains made on or after 6 April 2025 and will continue to be available for qualifying investments made prior to 6 April 2025.

From 6 April 2025 any income or gains arising in a trust, whenever established, will be subject to tax in the normal way unless the individual qualifies for the new FIG regime. Foreign income and gains arising in non-resident trusts from 6 April 2025 will be taxed on the settlor on the arising basis if they do not qualify for the FIG regime in the same way as for UK domiciled settlors under the current regime. Foreign income and gains which arose in the trust before 6 April 2025 will be taxed on settlors or beneficiaries if they are matched to worldwide trust distributions.

From 6 April 2025 the matching of pre-6 April 2025 foreign income and gains to trust distributions will continue, but UK resident non-domiciled individuals will no longer be entitled to the remittance basis in respect of worldwide trust distributions. Beneficiaries and settlors who are within the FIG regime will also be able to receive benefits from 6 April 2025 free from any UK tax charges whether or not the benefits are received in the UK. However, such benefits are not matched to trust income and gains and will be subject to a modified onwards gift rule.

These changes are to be legislated in a future Finance Bill and will not be included in Spring Finance Bill 2024.

The High Income Child Benefit Charge threshold

From 6 April 2024 the adjusted net income threshold for the High Income Child Benefit Charge (HICBC) will increase from £50,000 to £60,000.

For individuals with income between £60,000 and £80,000, the rate at which HICBC is charged will be halved to 1% for every £200 of income that exceeds £60,000.

For individuals with income above £80,000, the amount of the tax charge will equal the amount of the Child Benefit payment.

For new child benefit claims made after 6 April 2024, any backdated payment will be treated for HICBC purposes as if the entitlement fell in 2024/25 if backdating would otherwise create a HICBC liability in 2023/24.

In the longer term, the Government is committed to moving to a system based on household rather than individual incomes by April 2026, and will consult in due course.

Individual Savings Account

The Government will introduce a new UK ISA with its own allowance of £5,000 a year where the funds are invested in UK listed companies. This would be in addition to the £20,000 that can be subscribed into an ISA. The Government will consult on the details at a later date.

It was announced at Autumn Statement 2023 that the Government would engage with the finance industry on allowing certain fractional shares contracts to become permitted ISA investments. They confirm that they are working as quickly as possible to bring forward legislation on this by the end of the Summer following detailed engagement with industry and the Financial Conduct Authority (FCA).

Collective money purchase pension schemes

Collective money purchase arrangements (also known as CMP), which were introduced in April 2021, are a sub-category of money purchase arrangements that are intended to bridge the gap between defined benefits arrangements and money purchase arrangements. Members' collective money purchase funds are pooled, meaning that the amount available in the fund to provide benefits is for all the members collectively. The only pension that a collective money purchase arrangement can pay to a member is a scheme pension and the only pension death benefit that can be paid is a dependants' scheme pension. See PTM023450 for more details.

Since 2021 the Government has been gradually making the necessary changes to the tax legislation to accommodate collective money purchase arrangements. Further amendments will be made in Spring Finance Bill 2024 and in subsequent regulations to deal with the treatment of funds transferred from a collective money purchase scheme in the process of winding up.

Transfer of assets abroad

With effect from 6 April 2024, the transfer of assets abroad rules (ss.714-751 ITA 2007) will be amended.

Individuals who are participators in a close company, or a non-resident company that would be close, if it were UK resident, will be deemed to be individuals making a relevant transfer, where the transfer is made by the close company.

The more punitive provisions for transferors will therefore apply. Transferors are charged to tax on income arising where they have a power to receive income, whereas non-transferors are charged on the benefits actually received.

The exemption for non-tax avoidance motivated transfers will still apply. The change could be seen as a government response to the Supreme Court decision in *HMRC v Fisher* [2023] UKSC 44. In *Fisher*, while commercial and tax motivation were found to be inextricably linked, the court held that the company was the transferor, not the controlling directors.