

## **Budget 2024 - Personal tax issues (Lecture P1453 – 17.26 minutes)**

### **Income tax rates and allowances**

There is no change in the main rate of income tax for taxpayers in England, Wales and Northern Ireland, including savings rates and dividend rates. There is also no change in rate bands which are frozen until 5 April 2028. The Chancellor did indicate that they would not remain frozen beyond that date, but would begin to rise with CPI, as is the default position.

The only allowances which increase are Married Couple's Allowance for those born before 6 April 1935 which increases for 2025/26 to £11,270 (from £11,080) and Blind Person's Allowance which increases for 2025/26 to £4,360 (from £4,280).

There is no mention of dividend allowance or savings allowance but material published online shows that these remain the same.

### **National insurance contributions**

Changes for employers are covered below.

For individuals the following changes are made:

- The lower earnings limit increases from £123 to £125 per week;
- There is no change in the primary threshold (£242 per week);
- The upper earnings limit remains at £967 per week;
- Rates remain the same;
- The small profits threshold for Class 2 purposes increases from £6,725 to £6,845 with the rate increasing to £3.50 (although this only applies to voluntary contributions);
- Class 3 rates increase from £17.45 per week to £17.75;
- No changes are made to Class 4 rates or allowances.

### **Changes in taxation for non-domiciled individuals**

It has been confirmed that the remittance basis of taxation for individuals who are not domiciled in the UK will be abolished and replaced with a new regime from 6 April 2025. Changes are also made for IHT purposes, which are detailed below.

The basics of the new regime are as follows:

- A new arrival to the UK, who has not been UK tax resident for any of the 10 consecutive tax years prior to their arrival will not pay tax on their foreign income or gains for the first 4 years of tax residence.
- Foreign income and gains arising to settlor-interested trusts will be taxed if the individuals do not qualify within the 4-year regime.

- For CGT purposes, current and past remittance basis users will be able to rebase foreign assets held on 5 April 2017 to their value at that date when calculating any gains arising on disposal.
- Income arising on or before 5 April 2025 will continue to be taxed if remitted, if it arose whilst the individual was claiming remittance basis.
- The 50% relief for income in the first year of operation of this regime (as proposed by the previous Government) is not to be included.
- A temporary repatriation facility will be available for those who have previously claimed remittance basis. This will be available for 3 years with the tax rate being 12% in the first two years and 15% in the final year. This does not actually have to be brought into the UK during this time. This will also cover unattributed foreign income and gains held within trust structures.
- Overseas workday relief (OWR) will be extended to 4 years to align with the main regime and will be simplified as there will be no need to keep overseas earnings offshore. This will be subject to a financial limit of the lower of £300,000 or 30% of their total employment income.
- There will be no income tax relief on chargeable overseas earnings which derive from a foreign employment carried out wholly abroad where OWR does not apply.
- The exemption for travel costs incurred by non-domiciled employees that are paid when they come to work in the UK and then subsequent business-related travel within the first five years will be reduced to four years.

A call to evidence has been launched into the anti-avoidance rules (the settlements provisions, the transfer of assets abroad rules and the offshore trust matching rules for gains) to see if they need to be amended in the light of the above changes.

## Pensions

A couple of technical announcements were made relating to overseas pension issues.

There is an overseas transfer charge (OTC) of 25% where a pension is transferred from a UK scheme to a Qualifying Recognised Overseas Pension Scheme (QROPS), introduced in 2017 at a time when HMRC believed that this was motivated by tax avoidance. Various exclusions applied for the purposes of these provisions, including where there was a transfer to a QROPS established in Gibraltar or a country within the EEA where the member was resident in the UK or within the EEA.

This exclusion will no longer apply for transfers made on or after 30 October 2024.

Additionally with effect from 6 April 2025, Overseas Pension Schemes (OPS) and Recognised Overseas Pension Schemes (ROPS) established in the EEA will have to meet the conditions which apply to schemes established in the rest of the world so that OPS will have to be regulated by a regulator of pension schemes wherever they are established and ROPS will have to be in a country with which the UK has a double taxation agreement providing for exchange of information.

Finally, from 6 April 2026, scheme administrators of registered pension schemes will have to be UK resident.

## Car benefit

Company car rates are set for 2028/29 and 2029/30.

The figures are below, with 2027/28 included for comparison purposes.

<u>Emissions</u>	<u>Electric range</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>
0	n/a	5%	7%	9%
1-50	130 or more	5%	18%	19%
1-50	70 – 129	8%	18%	19%
1-50	40 – 69	11%	18%	19%
1-50	30 – 39	15%	18%	19%
1-50	Less than 30	17%	18%	19%
51 – 54		18%	19%	20%
55 – 59		19%	20%	21%
60 – 64		20%	21%	22%
And then a 1% increase for each band up to a maximum as shown below				
155 +		37%	38%	39%

The car fuel benefit multiplier for 2025/26 will be £28,200. The van benefit charge for 2025/26 will be £4,020 and the van fuel benefit charge will be £769.

Legislation is to be introduced so that certain double cab pick-ups will be treated as cars for the purposes of car benefit and capital allowances. Specific details will be available when draft legislation is published and transitional provisions will apply for those who have purchased cars before 6 April 2025 when the rules will be introduced.

## Foreign interest mismatch

HMRC have launched a consultation regarding the mismatch of information relating to offshore interest which is often provided on a calendar year basis rather than the tax year basis. They are seeking opinions as to whether to tax non-UK interest arising in the year ended 31 December in the tax year and other options.

## Official rate of interest

The official rate of interest is used to calculate certain tax liabilities, such as charges under the beneficial loans and accommodation benefit regimes. In 2000, the Inland Revenue committed to a policy that these figures would not change in-year. This is now being abandoned, with a review of the rate to be considered on a quarterly basis.

## ISAs and other savings

The ISA, Lifetime ISA, Junior ISA and Child Trust Fund annual subscription limits remain frozen at £20,000, £4,000, £9,000 and £9,000 respectively. They will remain at this level until April 2030.

There will be no introduction of a British ISA, as had been proposed by the previous Government.

## Capital taxes

### Capital gains tax rates

The rate of capital gains tax is increasing as follows:

- the rate of CGT for gains falling within the basic rate band will increase to 18% and falling above the basic rate band will increase to 24%. There is no change in the rate of tax on residential property. This will apply for disposals on or after 30 October 2024.
- Business asset disposal relief (BADR) will still be available on gains up to £1 million but the rate will increase to 14% for disposals made on or after 6 April 2025 and to 18% for disposal made on or after 6 April 2026.
- The rate of tax charged where investors relief (IR) is claimed will also go up in line with the BADR rates on the same dates but the lifetime limit is reduced from £10m to £1m in relation to disposals made on or after 30 October 2024.

The taxation of carried interest, which is subject to CGT in many situations, is to be reformed. The rate of CGT on such amounts will increase to a single rate of 32% from 6 April 2025. With effect from 6 April 2026, the intention is to start subjecting these amounts to income tax with a 72.5% multiplier where it is qualifying carried interest.

### Liquidations of Limited Liability Partnerships (LLPs)

A new anti-avoidance provision is introduced which will apply where an LLP is liquidated from 30 October 2024. This is targeted at specific schemes which HMRC have seen, mainly in relation to incorporation of property businesses.

An LLP is transparent, such that the assets are treated as held by the partners. As such, no chargeable gain will accrue when a member contributes an asset to the LLP, as there is deemed to be no change in ownership and so no disposal. This new provision introduces a tax charge where the LLP is liquidated and the assets which have been contributed are disposed of to the member, or to a company or other person connected with the member. The gain which will arise is the amount which would have arisen at the time the asset was originally contributed to the LLP.

Any gains which arise on the actual disposal of the asset on liquidation will arise as normal, although many schemes rely on this happening soon after the assets have been contributed so that no gain arises at that point.

## **IHT nil rate bands**

The IHT nil rate band is currently frozen until 5 April 2028 at £325,000 with the residential nil rate band being £175,000. The level at which the residential nil rate band commences to waste away is set at £2m. Legislation will be introduced to maintain this freeze in rate bands until 5 April 2030.

## **Changes for non-domiciled individuals**

The current regime, whereby non-domiciled (or not deemed domiciled) individuals are not subject to UK IHT on non-UK assets, will be replaced by a residence-based system. Residence will be determined using the statutory residency test.

An individual will become liable to IHT on non-UK assets when they have been resident for at least 10 out of the last 20 tax years. These persons are referred to as 'long term residents'.

Those who leave the UK will remain in scope for between 3 and 10 years after leaving the UK. The exact period will depend on how long they were resident in the UK. If you were resident between 10 and 13 years, the assets will remain within scope for 3 years. This then increases by one tax year for each additional year of residence.

An individual will not be treated as long term resident in the year following 10 consecutive years of non-residence, even if they return to the UK, as the test is effectively reset.

An individual who is not resident in 2025/26 will be long-term resident if they satisfy the existing deemed domicile rule.

The rules for overseas trusts are also amended. IHT will be charged on non-UK assets in settlements based on whether the settlor is a long-term resident at the time of the charge or at the time of death if it was created on death. There are complex associated provisions.

## **Agricultural property relief and business property relief**

It has been announced that agricultural property relief (APR) and business property relief (BPR) will be reformed to take effect from 6 April 2026. The 100% relief which is currently available on all qualifying assets without any limit on value will be available only on the first £1m of assets (in total), with a rate of 50% for assets above this limit.

It will apply to transfers on death and in the seven years before death and will not be transferrable to the spouse.

There will be a consultation as to how the rules will apply to exit and ten-year charges for trusts. However, trusts set up by the same settlor before 30 October 2024 will each have a £1m allowance and trusts set up by the same settlor after this date will share the £1m allowance between them.

BPR on shares which are quoted on a recognised stock exchange but treated as unquoted (such as AIM) will be 50% from this date and will not be able to benefit from 100% relief.

For both of these measures, anti-forestalling provisions mean that the new rules will apply for lifetime transfers on or after 30 October 2024 if the donor dies on or after 6 April 2026. This will limit planning before the new rules are introduced.

### **Agricultural property relief: environmental land management**

From 6 April 2025, APR will be extended to cover land managed under an environmental agreement with the UK government, devolved governments, public bodies, local authorities or other approved bodies.

### **Pension funds**

The Government has announced that from 6 April 2027, unused pension funds and death benefits payable from a pension will fall within the estate of the pension holder for IHT purposes. Pension scheme administrators will become liable for reporting and paying any IHT due.

No further details are available and these provisions will not be included in the Finance Bill.

### **Digitisation of IHT**

The IHT service will be digitised in 2027/28 which should herald a new compliance regime for this tax.