UK BUDGET SUMMARY NOTES

30 OCTOBER 2024

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KEY POINTS

- As in previous years, this Budget has mainly focused on plans for the recovery of the economy following the myriad of issues in recent times. It was also the Labour Party's first Budget since March 2010 when Alistair Darling presented his Budget under the watchful eye of Gordon Brown.
- A lot of the fiscal policy for 2025/26 was already announced during the Conservative Budget of March 2024, including the further freezing of various tax bands and rates, which Labour has continued with in this Budget although it has been confirmed that some rates and allowances won't be frozen beyond the current timescales.
- The Budget also outlined significant changes to the Inheritance Tax (IHT) regime and confirmed the abolition of the remittance basis of taxation from 6 April 2025. It also introduced a move to a simplified residence-based IHT regime and a complete overhaul of the taxation of persons moving to the UK in the form of the new Foreign Income and Gains (FIG) regime from 6 April 2025.
- There are also changes to Capital Gains Tax (CGT) where the rates applying to gains over the annual exemption have increased to 18% and 24% for basic rate taxpayers and higher rate taxpayers respectively. This aligns the figures with the residential property rates.
- Overseas Insurance Bonds remain very attractive to a wide range of individuals with the announced changes to the remittance regime enhancing their attractiveness to those who cannot benefit from the new FIG regime (or those who intend to remain in the UK beyond the period in which they can).

INTRODUCTION

Following the Labour victory in July's general election, it fell to the new Chancellor of the Exchequer, Rachel Reeves, to deliver her party's first Budget in over 14 years amid continued instability caused by various national and international issues.

Despite the change in Government, and in keeping with the pattern of previous years, this Budget builds on many matters confirmed or discussed in the previous, Conservative, Budget when many of the various tax rates and thresholds were established or frozen.

The Chancellor also confirmed a complete shake up to the remittance regime and a move to a simplified residence-based Inheritance Tax (IHT) system.

This briefing therefore brings together the announcements made in the October Budget and many of the changes announced over the last year.

PERSONAL INCOME TAX

PERSONAL ALLOWANCES, RATES AND THRESHOLDS[1]

› Although the personal allowance and the Basic Rate Thresholds are currently frozen until tax year 2027/28, the Chancellor confirmed that they will not remain frozen beyond that point and will increase from 2028/29. However, the rates for 2025/26 do remain unchanged from 2024/25 and are therefore as follows:

i. the income tax personal allowance for the whole of the UK is £12,570;

ii. the Basic Rate Threshold is £37,700 (taxable income) which means that the Higher Rate Threshold (the personal allowance added to the basic rate limit) is £50,270;

iii. the Higher Rate Threshold reduces to £125,140 (taxable income) meaning the Additional Rate is applicable for any taxable income exceeding this amount.

› From 6 April 2025, individuals who have 'adjusted net income' of £100,000 p.a. or more will lose their personal allowance by £1 for every £2 of income over £100,000. Where income exceeds £125,140, the entire allowance is lost. These individuals will suffer an effective tax rate of 60% for income between £100,000 and £125,140.

› The Dividend Allowance, whereby individuals will not have to pay tax on an amount of dividend income, decreased to £500 for 2024/25 and will remain at that level for 2025/26. There were no further measures announced in this area in this Budget. Dividend income above the Dividend Allowance will be taxed at 8.75% (basic rate), 33.75% (higher rate) and 39.35% (additional and trust rate).

[1] For Scottish taxpayers the rates for non-savings income are set by the Scottish Parliament. HMRC will determine whether someone is deemed a Scottish taxpayer based on their main place of residence.

PERSONAL INCOME TAX (CONTINUED)

- The Personal Savings Allowance (PSA) will continue unchanged for 2025/26, meaning that a basic rate taxpayer will not have to pay tax on the first £1,000 of savings income received, whilst a higher rate taxpayer will not have to pay tax on the first £500 of savings income received. Additional rate taxpayers are not eligible for the PSA.
- The Married Couple's Allowance (only available where at least one of the spouses was born before 6 April 1935) will increase to £11,270. This allowance is given as a tax reducer at the rate of 10% and reduced by £1 for every £2 of adjusted net income that exceeds the £37,700 income limit, subject to a minimum of £4,360.
- The Blind Person's Allowance will increase to £3,130.
- There were no changes to the main rates of income tax which will remain at 20% for basic rate taxpayers, 40% for higher rate taxpayers and 45% for additional rate taxpayers with 'adjusted net income' in excess of £125,140 p.a. (which is the threshold at which taxable income is subject to the additional rate).
- The threshold for the starting rate for savings income will remain at £5,000 with a corresponding nil rate of tax. Should an individual's taxable non-savings income exceed the starting rate limit for savings income, then this is not available.
- A spouse or civil partner who is not in receipt of Married Couples Allowance (MCA) and not liable to income tax at the higher or additional rates, will be entitled to transfer £1,260 of their personal allowance to their spouse or civil partner (this is providing the recipient is not subject to income tax at the higher or additional rate). This will mean that the receiving spouse/civil partner could benefit from a tax saving of £252 (i.e. £1,260 at 20%). The MCA may also be claimed where a spouse or civil partner has died.

Full details of the rates of tax and personal allowances etc. are set out in our separate Tax Summary.

COMMENT

Whilst this Budget didn't announce any additional measures in the area of personal income tax, the impact of the freezing of most of the income tax thresholds and allowances in previous Budgets and statements shouldn't be underestimated.

Overseas insurance bonds for UK residents can help to defer any charge to tax on gains and this may be useful in light of these various tax freezes and cuts to the Dividend Allowance in the last few years.

NATIONAL INSURANCE CONTRIBUTIONS (NICs)

The main rate of employees' Class 1 NICs (between the primary threshold and the upper earnings limit) will remain at 8% from 6 April 2025. The primary rate (above the upper earnings limit) will remain at 2%.

- The employer's secondary threshold will be £96 per week, and the employer's rate will be 15%.
- The primary threshold for employee's NICs remains at £242 per week.
- The upper earnings limit for NICs remains at £967 per week.
- For the self-employed, the rate of voluntary Class 2 contributions for those below the Small Profits Threshold will be £3.50 per week.
- The rate of voluntary Class 3 contributions will be £17.75 per week.
- The rate of Class 4 NICs between the lower profits limit (£12,570) and the upper profits limit (£50,270) will be 6%, and 2% above the upper profits limit.
- Employers are not required to pay Class 1 secondary NICs on earnings paid up to the upper earnings limit in respect of any employee under the age of 21 or apprentices under the age of 25 who are working within a government-approved framework.

COMMENT

Whilst the Labour manifesto pledged not to raise taxes on "working people", the Chancellor did announce an increase to the employee Class 1A NICs taking the rate from 13.8% in 2024/25 to 15% for 2025/26. There are already rumblings of discontent from the business community with regards to this step.

CAPITAL GAINS TAX (CGT)

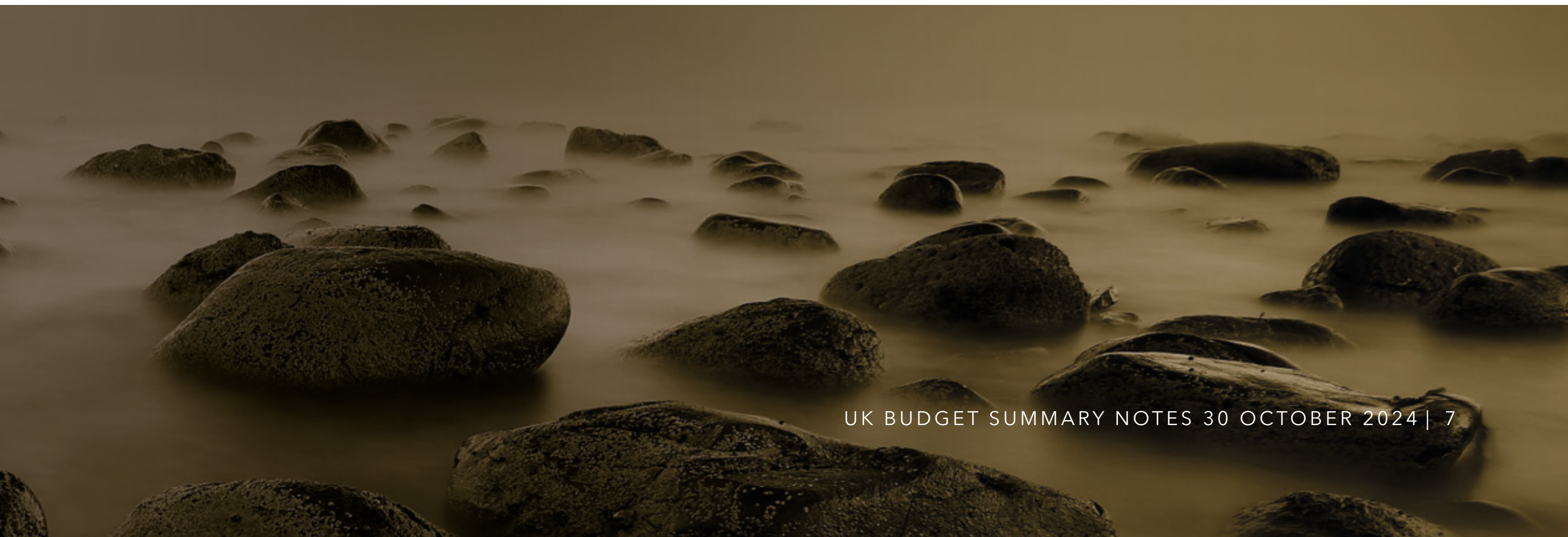
The annual exemption is to remain at £3,000 for 2025/26 for individuals and £1,500 for trusts.

- The main rate of CGT for non and basic rate taxpayers will rise from the current rate of 10% to 18% and for higher and additional rate taxpayers from 20% to 24% for disposals made on or after 30 October 2024.
- For 2025/26, these rates will also apply to capital gains on disposals of residential property (that do not qualify for private residence relief).

The rates for individuals for gains on carried interest are 32% for both basic and higher rate taxpayers.

COMMENT

The immediate increase of the CGT rates for individuals as outlined above was widely anticipated prior to the Budget. These increased rates mean that UK investors currently holding individual assets directly may wish to look at investments in insurance bonds as an alternative. Insurance bonds are non-income producing assets and therefore are only charged to savings rates of income tax on the happening of a chargeable event, such as surrender or death. The increase in the CGT rates, without any corresponding changes to the savings rates of income tax, will certainly make investments in offshore bonds more appealing as we approach the new tax year.



INHERITANCE TAX (IHT)

- As confirmed previously, the Nil Rate Band (NRB) was to remain frozen at £325,000 until 2027/28 but will now be further frozen at this level until 2029/30.
- The Residence Nil Rate Band (RNRB) remains unchanged and, in line with the NRB, the RNRB limit will also be frozen at £175,000 until 2029/30. A full Briefing on the RNRB is available from our website.
- The Budget today confirmed significant changes to the IHT regime with the Government removing the link between domicile and IHT and move to, what they refer to as, "a simpler and fairer" residence-based tax system (linked to the Statutory Residence Test).
- From 6th April 2025, the test for whether non-UK assets are in scope for IHT will be whether an individual has been resident in the UK for at least 10 out of the last 20 years immediately preceding the tax year in which the chargeable event arises. The time an individual remains in scope after leaving the UK is shortened where they have been UK resident for between 10 and 19 years.
- The current IHT treatment for non-domiciled individuals will no longer apply to non-UK property that is settled into trust (excluded property trusts). Instead, non-UK settled assets will only be excluded property at times when the settlor is not a long-term resident. This means that assets in settlements may come into and out of the charge on the same basis as the settlor's personally held assets with potential ten year and exit charges being due.
- Major changes to Business Relief, Agricultural Property Relief and Pension death benefits were announced. BR and APR is to be restricted to 50% for assets in excess of £1m, however there is to be no £1m exemption available in relation to AIM shares. See the pension section for further details of the pension changes.

COMMENT

Both the NRB and RNRB had been destined to rise with CPI from April 2021 but in line with other headline rates of tax, the previously announced freezing of the levels will continue to increase the tax take. This will mean that more and more estates will exceed the thresholds as the economy continues to recover.

Advisers should consider the implications of the freeze and the potential for more of their clients being caught in the IHT net.

The change to a residence-based IHT system shouldn't make any difference to tried and tested IHT mitigation schemes currently used in the UK such as discounted gift trusts, reversionary interest trusts and loan trusts as these can still be used to protect against the effect of this rate freeze.

The changes to the treatment of excluded property trusts will impact long term residents if the trust becomes a relevant property trust and/or the gift with reservation of benefit provisions apply.

The amendments announced today are designed to try and make the IHT system clearer and fairer, especially for those leaving, or arriving in, the UK. However, advisers will need to keep an eye on the details as they emerge.

FOREIGN INCOME AND GAINS (FIG) REGIME

In addition to changes to the domicile-based IHT regime, today's Budget also contained significant changes to the remittance-basis regime. The Government announced that they will abolish the current (and complicated) remittance-based regime entirely from 6 April 2025 and replace this with a much 'simpler' system. The new residence-based regime will link to the Statutory Residence Test and a person, who has been resident outside of the UK for at least 10 years who moves to the UK will not be taxed on overseas income and gains for up to four tax years. In this period, they will be able to bring income and gains into the UK without any charge to UK tax. Similar to the previous remittance regime, if a person chooses to use the new FIG regime, they will lose access to the personal allowances and capital gains tax annual exempt amount.

Transitional rules will apply in some areas, in the form of the Temporary Repatriation Facility (TRF) and Capital Gains Tax Rebasing.

Current and past remittance basis users will, for disposals on or after 6 April 2025, be entitled to rebase a personally held foreign asset for CGT purposes to its market value at 5 April 2017.

From 6 April 2025, a new TRF will be introduced to encourage individuals to remit to the UK their FIGs which arose in earlier periods and which have not been taxed in the UK where the remittance basis previously applied. The TRF will be available for three years with a tax charge on designated amounts of 12% initially rising to 15% from tax year 2027/28.

The protected trust regime will be brought to an end by 6 April 2025 and will no longer be available for those individuals who do not qualify for the new FIG regime.

COMMENT

The new FIG regime appears to be much simpler and, unlike the complex remittance regime, is free of charge, is treated as a claim to relief for tax purposes and will need to be made in a Self-Assessment tax return. Individuals will need to quantify the amount of income and gains for which relief is being claimed under the regime. If amounts of FIG are not quantified and included in the return, then individuals will remain chargeable and subject to tax at their usual rates.

However, the removal of trust protections, and the loss of any income and capital gains tax advantages, will make investment bonds a very attractive alternative for UK-resident individuals wanting to preserve tax-deferred growth. We will continue to monitor this area and will produce more guidance when further details become available.

PENSIONS

- The Lifetime Allowance Charge was abolished entirely from 6 April 2023 and has now been removed from pension tax legislation. However, the Pension Commencement Lump Sum (PCLS) that can be taken will be aligned, and fixed, to the 2022/23 lifetime allowance – meaning that the PCLS is limited to 25% of £1,073,100 (£268,275).
- Further, a Lump Sum and Death Benefit Allowance was introduced for 2024/25 matching the previous lifetime allowance and this has been maintained for 2025/26.
- The Annual Allowance for 2025/26 is £60,000.
- For 2025/26 the 'threshold income' will be £260,000, so individuals with income below this level will not be affected by the tapered annual allowance, and the annual allowance will only begin to taper down for individuals who also have an 'adjusted income' above £260,000.
- For those on the very highest incomes, the minimum level to which the annual allowance can taper down will be £10,000 from tax year 2025/26.
- QROPS transfers: members of UK registered pensions will no longer be able to transfer UK pension funds to an EEA or Gibraltar based QROPS without a 25% overseas transfer tax liability, unless they live in the country where the QROPS is resident.
- IHT on unused pensions: This is subject to consultation, but the intent is that ALL unused pension funds (including UK registered schemes, QROPS and QNUPS) will be part of the member's estate on death. This is intended to take effect from 6 April 2027.

CORPORATION TAX

- The Corporation Tax rate will remain at 25% for those companies making profits over £250,000.
- Companies classed as making 'small' profits (£50,000 or less) will continue to benefit from the 19% Corporation Tax rate and there will be relief for businesses with profits between £50,000 and £250,000 so that they pay less than the main rate.

CORPORATION TAX RATES

	2025/26
MAIN RATE	25%
SMALL PROFITS RATE	19%
LOWER THRESHOLD	£50,000
UPPER THRESHOLD	£250,000

VALUE ADDED TAX (VAT)

- The standard rate of VAT remains at 20%.
- The Government confirmed in today's Budget that the VAT registration threshold will remain at £90,000 for 2025/26. The corresponding rate whereby a person may apply for deregistration will be £88,000.

INDIVIDUAL SAVINGS ACCOUNT (ISA)

- The overall annual contribution limit will remain at £20,000 for 2025/26. It is possible for savers to contribute the full amount to a cash account. They can also withdraw and replace money within their cash ISA without it counting towards their annual subscription limit.
- The maximum contribution under a Junior ISA (JISA) will also remain unchanged at £9,000, as has the maximum contribution to a Child Trust Fund (CTF). It has been possible from 6 April 2015 to convert a CTF to a JISA.

SUMMARY

As expected, this Budget, much like the previous two, focused heavily on how the Government plans to support the recovery of the economy in light of various ongoing national and international issues.

With respect to the taxation of Utmost's products in the UK market, little has changed following this Budget. The continuing freeze in the rates of taxation and the changes to the remittance regime make overseas insurance bonds more attractive to a greater number of investors.

This briefing represents our current understanding of the major issues arising from the Labour Budget 2024. Inevitably some further details will emerge over the coming weeks and the impact of the changes can then be assessed. We will, of course, keep you informed of all major developments.

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