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UK BUDGET SUMMARY NOTES

6 MARCH 2024

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KEY POINTS

- As in previous years, today's Budget has mainly focused on the plans for the recovery of the economy following the myriad issues of recent times such as Brexit, the pandemic, the cost of living crisis and the continuing war in Ukraine.
- The majority of the changes for 2024/25, were already announced in last year's 'Autumn Statement', including the further freezing of various tax bands and rates, but we did see significant changes announced today.
- It should also be noted that between the Autumn Statement and today's Budget, there were alterations to National Insurance Contributions (NICs) which came into effect in January 2024. As widely expected, there were further alterations in today's Budget in this area.
- The Budget also outlined significant changes to the inheritance tax regime and abolished the remittance basis of taxation from 6 April 2025. It also introduced a move to a simplified residence-based Inheritance Tax (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.
- As previously announced, the CGT annual exemption (CGT AE) will decrease to £3,000 from 6 April 2024 and the Dividend Allowance (DA) will also reduce to £500.
- Overseas Insurance Bonds therefore remain attractive to a wide range of individuals, especially as the reduction in both the CGT AE and the DA continues to impact on direct investors. Further, the changes to the remittance regime announced today will make Bonds attractive to those who cannot benefit from the new FIG regime.

INTRODUCTION

The Chancellor of the Exchequer, Jeremy Hunt, delivered his second Budget amid continued instability caused by the cost of living crisis and various international issues. Although it wasn't directly commented on, we must also remember that there is a general election on the horizon and this will have been on the mind of the Chancellor and the Prime Minister.

So, in keeping with the pattern of previous years, this Spring Budget builds on the Autumn Statement of last year when many of the tax rates and thresholds were established.

As widely leaked prior to the Budget, the Chancellor confirmed a 2% reduction in the headline rate of National Insurance (NI) for both Employees and the Self-Employed.

He also confirmed a complete shake up to the remittance regime and a move to a simplified residence-based IHT system.

This briefing therefore brings together the many changes announced over the last year and looks at the changes confirmed today.

PERSONAL INCOME TAX

PERSONAL ALLOWANCES, RATES AND THRESHOLDS[1]

› As previously confirmed, the Personal Allowance and the Basic Rate Threshold will be frozen until tax year 2027/28. Therefore the rates for 2024/25 are 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.

› Individuals who have 'adjusted net income' of £100,000 p.a. or more from 6 April 2024 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 2022 Autumn Statement announced that the Dividend Allowance, whereby individuals will not have to pay tax on an amount of dividend income, will decrease to £500 for 2024/25. There were no further measures announced in this area in the 2023 Autumn Statement or 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 2024/25, 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 £11,080. 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 £37,000 income limit, subject to a minimum of £4,280.
- The blind person's allowance will increase to £3,070.
- 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 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 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 marriage allowance 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 freezing of most of the income tax thresholds and allowances in previous Budgets and statements shouldn't be underestimated.

The reduction of the Dividend Allowance, which comes into force from 6 April 2024, combined with increases to the Dividend Rates announced previously, will further erode the attractiveness of unwrapped investments. This may be of particular interest to company shareholders, such as those with holdings in Family Investment Companies or those who rely on dividends from unwrapped investment portfolios.

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.

NATIONAL INSURANCE CONTRIBUTIONS (NICs)

The main rate of employees' Class 1 NICs (between the primary threshold and the upper earnings limit) will be reduced again to 8% from 6 April 2024, an overall 4% drop from the same time last year. The primary rate (above the upper earnings limit) will remain at 2%.

- the employer's secondary threshold will be £175 per week, and the employer's rate will be 13.8%.
- 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 £3.45 per week.
- the rate of voluntary Class 3 contributions will be £17.45 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 this.
- 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

As widely anticipated prior to the Budget, the Chancellor announced a further cut to the main rate for employee Class 1 NICs, cutting it a further 2% to 8%. This takes the rate from 12% in April 2023 to 8% for 2024/25. This measure is aligned to the Government's goal of getting people back into work and rewarding them with targeted tax cuts.

Still, the continued freezing of bands and other measures mentioned in previous statements will no doubt continue to plug the gap in finances. This further reduction in NICs will no doubt continue to spark debate for those savers and pensioners who cannot benefit from this measure.

CAPITAL GAINS TAX (CGT)

- As announced in the 2022 Autumn Statement, the annual exemption is to reduce to £3,000 for 2024/25 for individuals and therefore £1,500 for trusts.
- For 2024/25, the main rate for non and basic rate taxpayers will be 10% and for higher and additional rate taxpayers and most trusts, 20%.
- These rates do not apply to capital gains on disposals of residential property (that do not qualify for private residence relief) and today's Budget made a change in this area for higher rate taxpayers. Gains on residential property will continue to be taxed at at 18% for basic rate taxpayers, but the rate will reduce to 24% for higher rate taxpayers for 2024/25.

COMMENT

The measure announced in previous statements will significantly impact savers using direct investments. The reduction of the CGT Annual Exemption combined with the reduction of the Dividend Allowance and increase to Dividend Rates in general will make unwrapped investments less attractive to some savers.

The surprise change to the higher rate tax charge for residential gains may encourage the sale and reinvestment of UK property portfolios.

As overseas insurance bonds are taxed to savings rates of income tax and allow for tax deferral these may become more attractive to a wider audience.

INHERITANCE TAX (IHT)

- As confirmed previously, the Nil Rate Band (NRB) will remain frozen at £325,000 until 2027/28.
- The Resident Nil Rate Band (RNRB) legislation remains unchanged and, in line with the NRB, the RNRB limit will be frozen at £175,000 until 2027/28. A full Briefing on the RNRB is available from our website.
- The Budget today announced significant changes to the IHT regime and the Government is looking to move away from the concept of 'domicile' for IHT and move to, what they refer to as, a simpler and fairer residence-based tax system (linked to the Statutory Residence Test).
- They have made it clear that the current IHT treatment for non-domiciled individuals will continue to apply to any non-UK property that is settled into trust (excluded property trusts) prior to 6 April 2025. It's not yet clear whether this same planning opportunity will continue to apply in the residence-based IHT system they are looking to introduce.
- The exact technical details of this new residence-based IHT system are unknown at this time and the Government are looking to consult on this matter. However, they have said that they envisage that the new residence based system will:
  - Bring someone into scope when they have been resident for 10 years (the 'residence criteria')
  - Stay in scope for 10 years after leaving the UK (the so called 'tail-provision')

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 can be used to protect against the effect of this rate freeze.
The amendments announced today are designed to try and make the IHT system clearer and fairer, especially for those leaving from, or arriving in, the UK. However, advisers will need to keep an eye on the details as they emerge and of course bear in mind that any change of Government following the election may result in further changes in this area.

NON-DOMICILE (IHT) AND FOREIGN INCOME AND GAINS (FIG) REGIME

In addition to the Government announcing changes to the domicile-based IHT regime, there were also significant changes to the remittance-basis regime announced in today's Budget. 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. Transitional rules will then apply in some areas, such as the Temporary Repatriation Facility (TRF) and Capital Gains Tax Rebasing.

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.

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 and would appear to be automatic to claim - although details in this area are not clear at the moment. 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 where further clarity becomes 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, the Lump Sum and Death Benefit Allowance has been introduced for 2024/25 and will also match the previous lifetime allowance.
- The Annual Allowance for 2024/25 is £60,000.
- For 2024/25 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 2024/25.

COMMENT

Many higher earners have cited the lifetime allowance as a restrictive barrier for staying in work longer.

CORPORATION TAX

- The Corporation Tax rate will remain at 25% for those companies making profits over £250,000. Unsurprisingly, there was no change to this measure in today's Budget statement.
- 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

	2024/25
MAIN RATE	25%
SMALL PROFITS RATE	19%
LOWER THRESHOLD	£50,000
UPPER THRESHOLD	£250,000

VALUE ADDED TAX

- The standard rate of VAT remains at 20%.
- The Government confirmed in today's Budget that the VAT registration threshold will increase to £90,000 for 2024/25. 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 2024/25. 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.
- The Government has announced a new ISA, referred to as the 'British ISA', which will be introduced following a consultation process on the exact details. This new ISA will encourage investment in British companies by allowing a further £5,000 pa investment into the ISA regime.

TRUSTS

There were minor changes in the area of trust and estate taxation.

- The £1,000 starting rate for discretionary trusts will be removed from April 2024.
- Where trusts and estates have income of less that £500 there will be no tax to pay from April 2024.

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 the ongoing cost of living crisis. Of course we need to bear in mind this Budget is probably the last one before a General Election and we will have to see what the year brings in the area of tax reform, but we can expect some changes in several areas if we see a change of Government.

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 Spring 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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