PKF

Autumn Budget 2024

What it means for you

pkf-l.com

Key measures announced today at a glance:

CGT
increasing from 20% to 24% from 30 October 2024

IHT
band freeze to 2030

Employers NI
increased to 15% from April 2025

VAT on private school fees
from 1 January 2025

Carried interest
increased to 32% from April 2025

Business Asset Disposal Relief
increasing from 10% to 14% and then 18%

IHT BPR & APR
£1m cap for 100% relief

Non-dom regime
replaced with residence-based test

Income tax & NI
threshold freeze to end in 2028

The time has finally come. A historic moment with Chancellor Rachel Reeves delivering her first Budget as the UK's first female Chancellor.

It is nearly four months since Labour won the election of 4 July, and for much of that time, the domestic political headlines have been filled with frenzied speculation regarding significant tax raises in the Budget, a narrative that the Chancellor has not sought to change.

The item most likely to grab headlines is the increase in National Insurance contributions, and the pre-Budget discussion as to whether this breaches the Manifesto commitments to not increase National Insurance, where the Chancellor confirmed that this commitment only extended to Employee costs. However, many studies support that ultimately, it is employees who bear the burden of charges on the employer, through resultant lower wage settlements. Expect this argument to run and run.

Similarly, the headline grabbing changes to Inheritance Tax will give concerns to many. A cap of £1m has been brought into APR and BPR, and inherited pensions are also in scope from 2027. For as long as only 6% of estates fall within the charge to Inheritance Tax, the coverage of the restrictions may be disproportionate to the number impacted.

There is perhaps some relief that CGT changes have not gone as far as they could have done with an increase to 18% for the lower rate, and 24% for the higher rate from 30 October 2024. In addition, BADR has not been abolished, but there will be an increased rate of 14% applying from April 2025 and 18% from April 2026.

Finally, there is some further welcome news that the freeze on Income Tax and National Insurance thresholds will not be extended beyond 2028, perhaps giving some compensation especially to those pensioners missing out on the winter fuel allowance.

With the first Budget of a new government traditionally being the "noisiest", perhaps we can now look forward to a calmer 12 months.

Corporate Tax
Catherine Heyes, Partner
+44 (0)20 7516 2237
cheyes@pkf-l.com

Your business

The headline announcement for the day was the increase to employer's National Insurance, with an increase in both the rate and the threshold from which this applies. It was however reassuring to hear that reliefs such as R&D and capital allowances will be retained at their current rates.

National Insurance

Whilst the Government has committed to not changing the rate at which employees pay NICs, they have confirmed that the employer's NICs rate for earnings above the secondary threshold will be increasing from 13.8% to 15%, an increase of 1.2%, from 6 April 2025.

Additionally, the threshold at which employers start to pay secondary NICs will be reduced from £9,100 to £5,000 per year, from the same date.

To help small businesses with this increase, the Employment Allowance will rise from £5,000 to £10,500, and the previous £100,000 eligibility threshold for accessing this allowance will be eliminated, making it available to all eligible employers. It is expected that at least half of all employers will see no changes in their NIC liabilities as a result of these changes.

Corporate Tax roadmap

The Government's Budget and Manifesto emphasise the importance of providing businesses with certainty. To achieve this, the Government has confirmed that the Corporation Tax rate will be capped at 25%. Additionally, the Government has committed to maintaining the current Small Profits Rate and preserving existing marginal relief rates and thresholds.

The Budget highlighted the Government's dedication to increasing investment. To support this goal, it has preserved the UK's generous Research and Development (R&D) tax relief schemes and maintained competitive capital allowances, such as Full Expensing and the Annual Investment Allowance of £1 million.

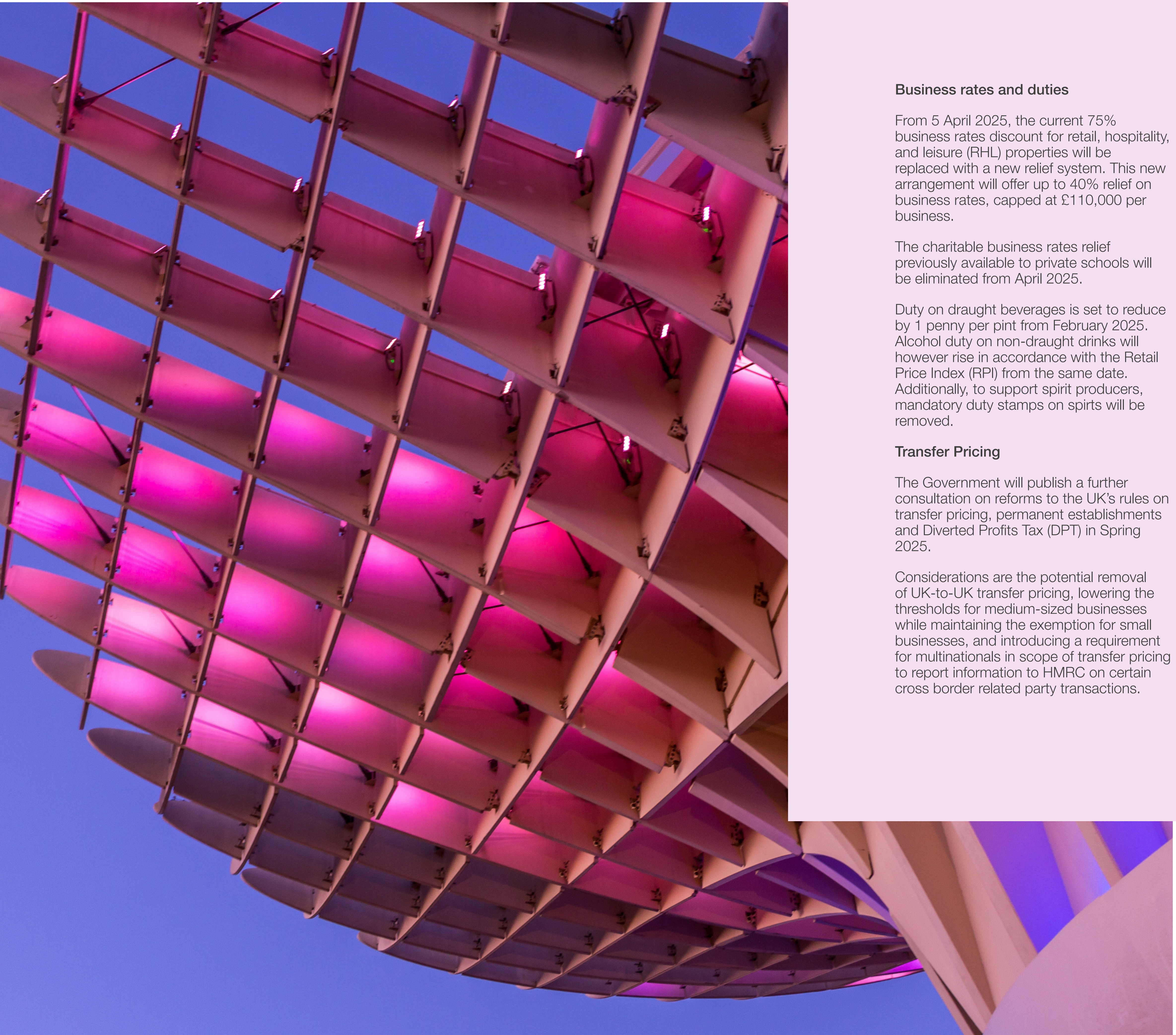
Capital allowances

The Government has confirmed that the 100% First Year Allowances (FYA) for qualifying expenditure on zero-emission cars, and the 100% FYA for qualifying expenditure on plant or machinery for electric vehicle charge points will be extended to 31 March 2026 for Corporation Tax purposes and 5 April 2026 for Income Tax purposes.

Incentives, reliefs and windfalls

The Government has confirmed that the Energy Profits Levy (EPL) rate will increase from 35% to 38% from 1 November 2024, with the removal of the 29% investment allowance, and extension of the levy by a further year until 31 March 2030. To facilitate a stable energy transition, it has been confirmed that the 100% FYA will remain in place.

Furthermore, in early 2025, the Government plans to conduct further analysis to determine how the oil and gas tax regime should effectively respond to price volatility after the EPL expires in 2030.



Business rates and duties

From 5 April 2025, the current 75% business rates discount for retail, hospitality, and leisure (RHL) properties will be replaced with a new relief system. This new arrangement will offer up to 40% relief on business rates, capped at £110,000 per business.

The charitable business rates relief previously available to private schools will be eliminated from April 2025.

Duty on draught beverages is set to reduce by 1 penny per pint from February 2025. Alcohol duty on non-draught drinks will however rise in accordance with the Retail Price Index (RPI) from the same date. Additionally, to support spirit producers, mandatory duty stamps on spirts will be removed.

Transfer Pricing

The Government will publish a further consultation on reforms to the UK's rules on transfer pricing, permanent establishments and Diverted Profits Tax (DPT) in Spring 2025.

Considerations are the potential removal of UK-to-UK transfer pricing, lowering the thresholds for medium-sized businesses while maintaining the exemption for small businesses, and introducing a requirement for multinationals in scope of transfer pricing to report information to HMRC on certain cross border related party transactions.

Pillar 2

The Government will legislate for the Undertaxed Profits Rule in Finance Bill 2024 – 25. This is the final part of the Global Minimum Tax rules, and confirms the position that was already expected.

Anti-avoidance

There is still significant tax avoidance in the umbrella company market. From April 2026, the Government will make recruitment agencies responsible for accounting for PAYE on payments made to workers that are supplied via umbrella companies. Where there is no agency, this responsibility will fall to the end client business.

HMRC approach

The Government has committed to promoting timely tax payments. To achieve this, the interest rate charged on underpaid tax liabilities has been confirmed to increase by 1.5%, effective from 6 April 2025. This will be applicable to all unpaid taxes and not just those applicable to businesses.

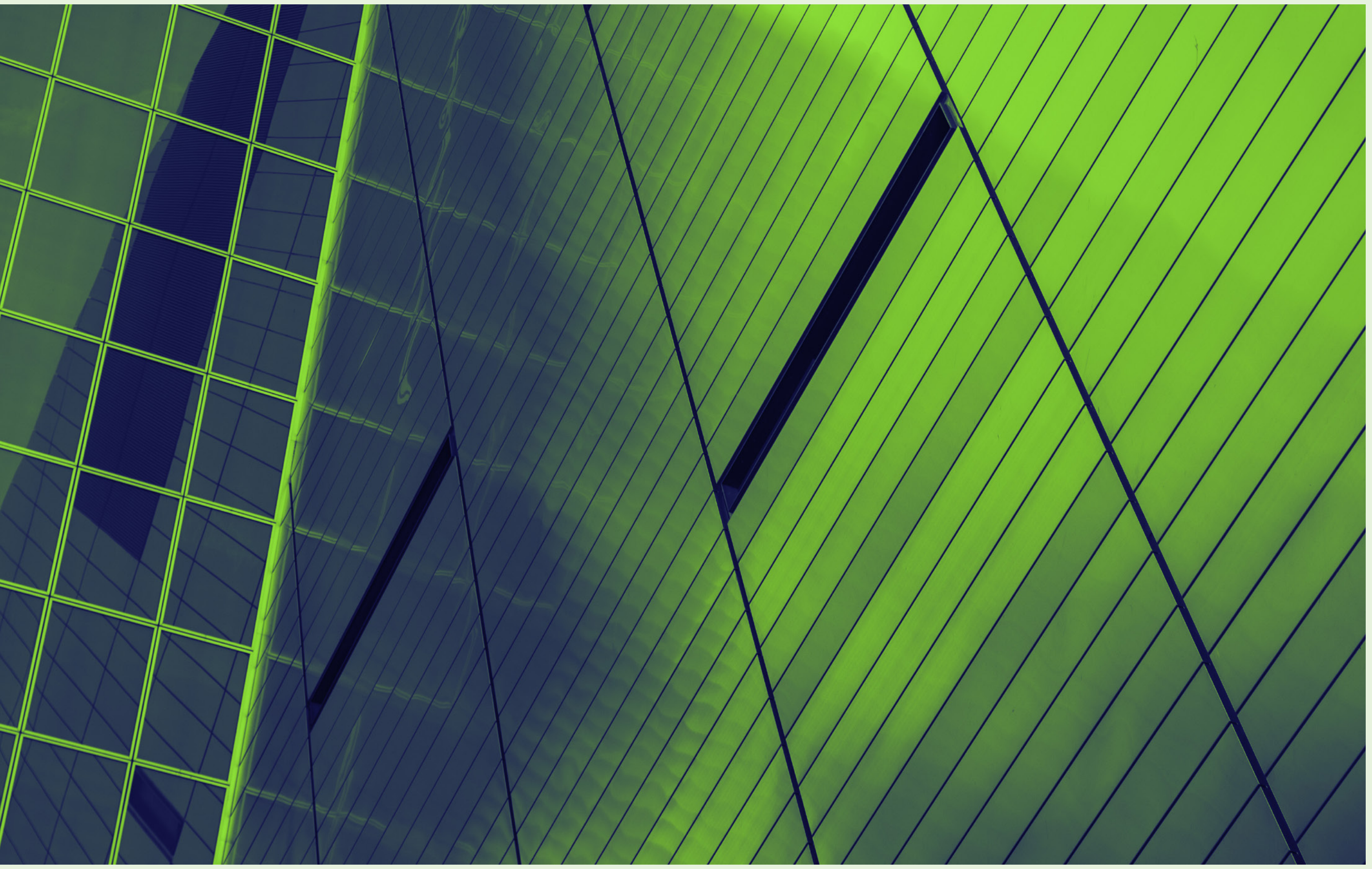
Your income

Income Tax and National Insurance thresholds will no longer be frozen from 2028, however this is of little consolation to those now needing to fund VAT on private school fees. For non-domiciled individuals, a new set of rules will require careful review and consideration in respect of their application.

Though anticipated, the Government announced that there will not be an extension to freeze thresholds applying to Income Tax and NICs from the 2027/28 tax year. It is now expected that these thresholds will increase in line with inflation from 6 April 2028.

Additionally, the Chancellor acknowledged the impact of the cost of living on individuals and has committed to freeze fuel duty at current levels for a further year, meaning that the planned increase in line with inflation for 2025/26 will be cancelled, and the current 5p cut will remain in place for a further 12 months.

The subscription levels for ISAs, Lifetime ISAs and Junior ISAs will remain at the current levels of £20,000, £4,000 and £9,000 respectively until 5 April 2030.



Domicile

The Chancellor confirmed the abolition of the non-domicile concept from UK taxation from April 2025. Instead, it will be replaced with a residence-based test.

Individuals who opt-in to the regime will not pay UK tax on foreign income and gains for the first four years of tax residence.

The Government has also confirmed that it will scrap the planned 50% reduction in foreign income subject to tax in the first year of the new regime as proposed by the Conservatives.

Overseas Workday Relief will be retained and reformed, with the relief extended to a four-year period, and the need to keep the income offshore removed. The amount claimed annually will be limited to the lower of £300,000 or 30% of the employee's net employment income.

The Government is extending the Temporary Repatriation Facility to three years, expanding the scope to offshore structures, and simplifying the mixed fund rules to encourage individuals to spend and invest their foreign income and gains in the UK.

VAT on school fees

The Government has confirmed that private school education and boarding services are subject to a 20% VAT charge as of 1 January 2025.

Duties

Today's increases in the rates of indirect taxes other than VAT are an effective way to increase the tax take on discretionary consumer spending.

As an incentive for smokers to stop smoking, the Government has confirmed that the Tobacco Duty escalator of RPI + 2% will be renewed for the remainder of the Labour parliament, with a further increase by 10% on hand-rolled tobacco this year, and a one-off increase in Tobacco Duty to incentivise the switch from tobacco to vaping.

A Vaping Products Duty is also set to be introduced from 1 October 2026 at a flat rate of £2.20 per 10ml vaping liquid.

Separately, Air Passenger Duty is set to increase from April 2026, with an increase of no more than £2 for economy-class short haul flights. The higher rate for larger private jets is set to rise by a further 50%.

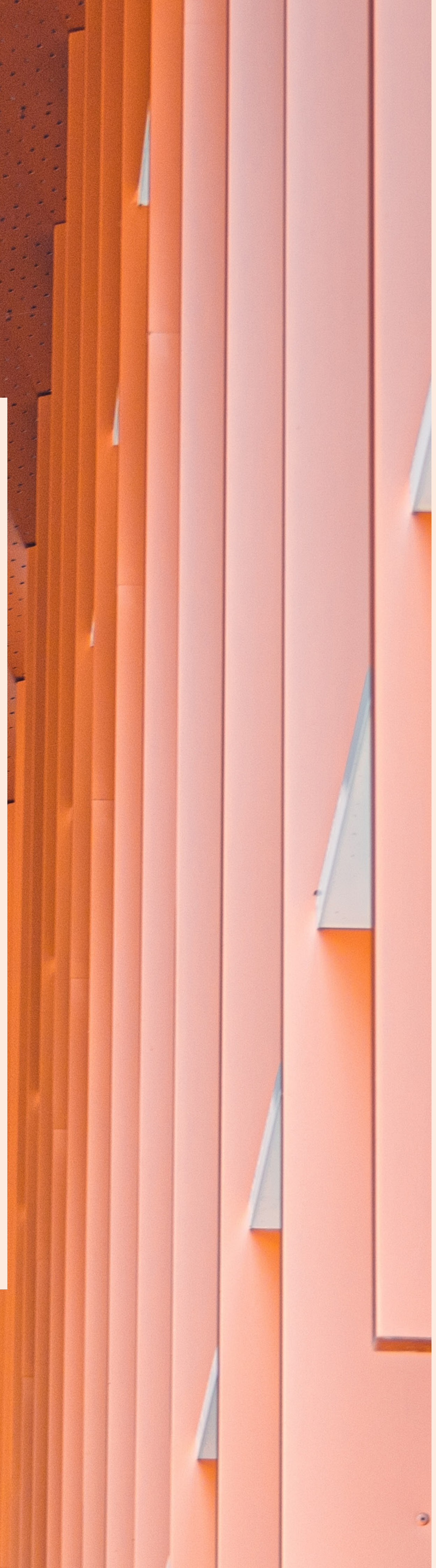
Your capital

Some of the more significant changes were in respect of CGT and IHT, however there will no doubt be relief that increases were not as significant as anticipated with key reliefs not completely abolished. The increase in SDLT for additional dwellings will be unwelcome, especially for anyone part way through a purchase on Budget Day.

Capital Gains Tax and Reliefs

As widely anticipated, the Chancellor announced increases to the lower rate of Capital Gains Tax (CGT) from 10% to 18% and the higher rate from 20% to 24% immediately (i.e. from 30 October 2024). CGT rates for residential property will, however, be maintained at 18% and 24%, meaning that the main rates will now match these.

To allow business owners to adjust to the increase in rates, Business Asset Disposal Relief (BADR) and Investors' Relief (IR) will be increased gradually, resulting in an increase in the rate of CGT on eligible assets to 14% from 6 April 2025, then 18% from 6 April 2026. The lifetime allowance for BADR will, however, remain unchanged at £1 million. The limit for Investors' Relief will be reduced to £1m, from the current limit of £10m.



Inheritance Tax

Bands

The Inheritance Tax (IHT) nil rate bands are already set at current levels until 5 April 2028 and will stay fixed at these levels for a further two years until 5 April 2030. The current bands have not changed since April 2009.

Accordingly, the nil rate band will continue at £325,000, the residence nil rate band will continue at £175,000, and the residence nil rate band taper will continue to start at £2m.

Pension Funds

The Government will bring unused pension funds and death benefits payable from a pension into a person's estate for IHT purposes from 6 April 2027.

Business Property Relief and Agricultural Relief

From 6 April 2026 the 100% rates of relief will be capped at a combined £1m from both agricultural and business property.

Unlike the nil rate band, any unused allowance can't be transferred to a surviving spouse.

Trusts will have a £1m cap for their periodic charges.

AIM shares

AIM shares which currently qualify for BPR relief at 100% will be restricted to 50% from April 2025. This restriction will apply to quoted shares designated as 'not listed' on the markets of recognised stock exchanges, such as Aquis.

Non-domicile

As part of the abolition of the non-domiciled regime from April 2025, IHT (which previously determined liability to worldwide assets based on domicile) will be replaced by a residence-based test.

From 6 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 20 tax years immediately preceding the tax year in which the chargeable event (including death) arises.

There will be also a significant impact on trusts which have been settled by non-domiciled individuals.

For CGT purposes, current and past remittance basis users will be able to rebase personally held foreign assets to 5 April 2017 on a disposal where certain conditions are met.

Carried interest

It has been announced that carried interest will increase to 32% from April 2025. The Red Book has confirmed that from April 2026 carried interest will be treated as income with a 72.5% multiplier applied to qualifying carried interest that is brought within charge. For an additional rate taxpayer, this would give an effective rate of 32.6%. There will be further consultation about the scope of income brought within the carried interest regime.

Stamp Duty Land Tax

As a further blow to landlords, the Government has announced an increase to the rate of Stamp Duty Land Tax (SDLT) on additional dwellings from 3% to 5% from 31 October 2024. This rate not only applies to the purchase of buy-to-let properties and companies buying residential property but also to the purchase of second homes by individuals.

Venture Capital

Both the Enterprise Investment Scheme and Venture Capital Trust schemes will be extended to 2035.

Our expert team can help you understand the impact of the Autumn Budget on you and your business

To find out more please contact our Tax team.

Corporate Tax
Chris Riley, Partner
+44 (0)20 7516 2427
criley@pkf-l.com

Private Client
Stephen Kenny, Partner
+44 (0)20 7516 2200
skenny@pkf-l.com

Corporate Tax
Catherine Heyes, Partner
+44 (0)20 7516 2237
cheyes@pkf-l.com

Indirect Taxes
Mark Ellis, Partner
+44 (0)20 7072 1102
mellis@pkf-l.com

Corporate Tax
Tom Golding, Partner
+44 (0)20 7516 2413
tgolding@pkf-l.com

Corporate Tax
Mimi Chan, Partner
+44 (0)20 7516 2264
mchan@pkf-l.com

Private Client
Phil Clayton, Director
+44 (0)20 7516 2412
pclayton@pkf-l.com

Private Client
Karen Anderson, Director
+44 (0)20 7516 2273
kozen@pkf-l.com

Indirect Taxes
Luigi Lungarella, Director
+44 (0)20 7516 2228
llungarella@pkf-l.com

Transfer Pricing
Farhan Azeem, Director
+44 (0)113 360 8385
fazeem@pkf-l.com

PKF Littlejohn LLP

London
15 Westferry Circus
Canary Wharf
London E14 4HD
+44 (0)20 7516 2200

Leeds
3rd Floor, One Park Row,
Leeds, Yorkshire,
LS1 5HN
+44 (0)113 244 5141

Manchester
11 York Street,
Manchester,
M2 2AW
+44 (0)161 552 4220

www.pkf-l.com