Spring Budget 2024

# SPRING BUDGET SUMMARY

Focus on what matters with help from Xeinadin

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# Introduction

Today's Spring Budget was surprisingly bold. Despite limited fiscal room for manoeuvre, the Chancellor was nonetheless able to fund several welcome tax saving measures for small businesses and workers alike.

Highlights include a further reduction in national insurance cost for employees and the self-employed (at 2p in the pound), and an increase in the threshold for the high-income benefit charge (from £50,000 to £60,000). Additional recovery loan support for smaller businesses was announced, as well as measures to assist hospitality, and pubs in particular, which will be greatly welcome for those operating in this challenging sector. The increase in the VAT registration threshold - from £85,000 to £90,000 - is a positive step, albeit we might have hoped Hunt to have been more adventurous with this.

Of course, not everyone will benefit. Property investors – particularly those owning holiday lets – are expected to see their tax cost increase markedly, as the favourable "furnished holiday let" tax regime is to be abolished (one of many unfavourable tax changes for landlords in recent years). Additionally, non-domiciles will also see their tax rates increase, as the government adopts a radical rethink in tax policy favoured by their opposition.

In all, it was a Budget where the upcoming general election clearly loomed large. Given its potential to be the last financial milestone in 14 years of Conservative government, the Chancellor took every opportunity to celebrate historic government successes. But in spite, or perhaps because of this context, the measures announced in the Spring Budget are expected to be positive for the small and medium sized enterprises that form the backbone of our country's economy.

**Adam Owens CTA**
Director of Tax Advisory

# Headlines

## For Individuals:

A notable change involves the abolishment of the non-domiciled tax status, set to be replaced by a new system based on residency starting April 2025. This new system will exempt foreign income and gains from UK tax for the first four years of UK tax residency.

The Budget also announced a reduction in Capital Gains Tax rates for residential properties from 28% to 24%.

Changes to the High Income Child Benefit Charge are planned, with a system based on household income to be introduced by April 2026. Until then, the threshold at which the benefit starts to reduce will be increased to £60,000, with a taper for earnings between £60,000 and £80,000.

A new 'British ISA' is being introduced with an additional £5,000 allowance for investments in UK assets.

## For Businesses:

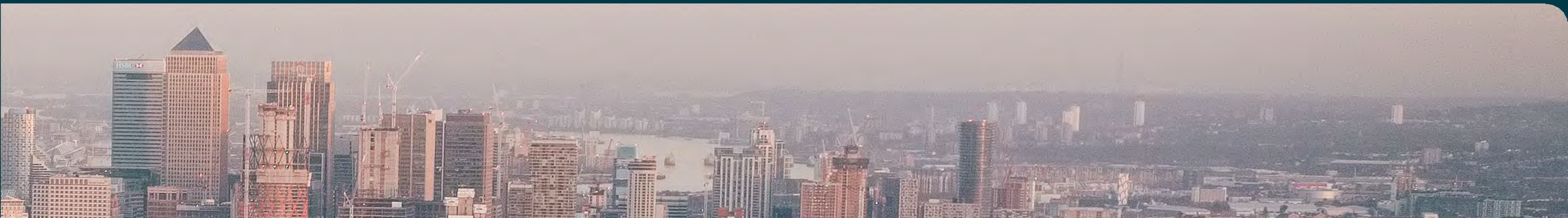
There will be an increase in the VAT registration threshold from £85,000 to £90,000 effective from 1 April 2024.

Extension of the windfall tax Energy Profits Levy for oil and gas for an additional year, ending March 2029.

Various enhancements in tax reliefs for the creative industries, including a 5% increase for visual effects in film and high-end TV and the introduction of a new tax credit for UK independent films with budgets under £15 million.

## Employment & Pensions:

From 6 April 2024, the Employee's Class 1 National Insurance Contributions (NICs) main rate will be reduced from 10% to 8%, and for the self-employed, the Class 4 NIC rate will decrease from 8% to 6%.



# Rewarding Working People

One major announcement was a further reduction to national insurance contribution (NIC) rates from 6 April 2024, following the previous reduction from 6 January onwards, which was announced in the Autumn Budget.

Today's announcement reduced the 10% Class 1 NIC rate to 8% for employees, which means that the average employee, earning £35,400, would save £450.

For self-employed individuals, the 8% Class 4 NIC rate which applied from 6 January 2024, will now be reduced to 6% from 6 April 2024.

These announcements will undoubtedly be welcome news for all working-age individuals.

However, it is important to note that the continued freezing of the personal allowance and basic rate tax threshold (£50,270) until 2027/28 - the so-called “stealth tax rises” or “fiscal drag” - will significantly reduce the benefit in real terms.

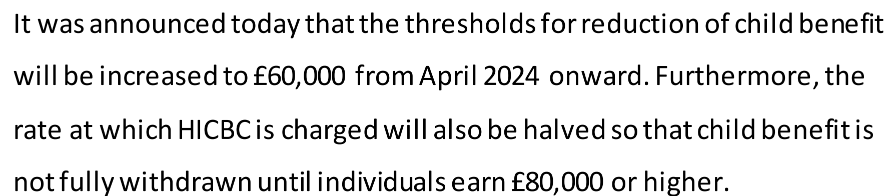
The new rates of national insurance rates – which apply equally to Directors – may affect the preferred remuneration for shareholders/directors. We recommend reviewing your remuneration strategy with your local Xeinadin office in light of these rule changes.

## Child Benefit Threshold

Another welcome surprise for many taxpayers will be the Chancellor’s reforms of the high-income child benefit charge (HICBC).

Currently, where one person in a household earns over £50,000, a child benefit charge will arise on a tapered basis. Once a person earns over £60,000 within the tax year 100% of child benefit will be repaid.

This has meant that a couple that earn £49,999 each – or £99,998 in total – will get the full child benefit, whereas a single individual earning above £60,000 will receive no benefit whatsoever.
The punitive effect that this has on single earning families was highlighted by the Chancellor as an issue to be resolved.



It was announced today that the thresholds for reduction of child benefit will be increased to £60,000 from April 2024 onward. Furthermore, the rate at which HICBC is charged will also be halved so that child benefit is not fully withdrawn until individuals earn £80,000 or higher.

Additionally, plans are to be introduced to administer the HICBC on a household rather than an individual basis from April 2026 onward, with a consultation on these measures to follow shortly.

These changes are clearly sensible and will reduce the effective marginal tax rate suffered by those within the scope of the HICBC from 64% to 53%, for someone with two children. Overall, the government estimates 485,000 families will gain an average of £1,260 in Child Benefit in 2024-25 as a result.

Additional changes in this area include the 30 hours of free childcare, available to support eligible working parents in England, are to be extended to cover children aged from 9 months to 4 years old (previously it was only available from year one onward).

# Pensions & Savings

## UK ISA

The treasury has announced a new UK ISA, with a £5,000 allowance in addition to the £20,000 annual allowance. This is intended to increase investment activity in the UK, by requiring that investments are made in UK businesses.

The government is consulting on details before the UK ISA is officially created. The practicalities of the UK ISA may be challenging and there could be additional restrictions and costs for both the providers and individuals to deal with. The consultation will be eagerly awaited so that the details can be provided and may be a welcome addition to certain individuals, since the ISA allowance has been fixed at £20,000 since 2017/18.

## Pensions

The government has also been looking at how the vast amounts of capital held within UK pension funds could drive the UK's startup and high growth companies. Using the financial system, pensions and savings, the following measures were announced:

- A consultation on a new Private Intermittent Securities and Capital Exchange System (PISCES). PISCES will be a new innovative market allowing private companies to scale and grow and increase the future public offerings in the UK.
- New reporting requirements for local government, which will require councils to provide a summary of asset allocation (including UK equity investment).
- New reporting rules are to be introduced, which will require pension providers to publicly disclose where their funds are invested (according to HMRC, UK pension providers currently dedicate just 6% of funds to UK equities).
- The Long-Term Investment for Technology and Science (LIFTS) initiative aims to create two new investment vehicles — which pension funds are also able to invest in — in order to support science and technology companies in the U.K
- British savings bond to be launched from NS&I which is fixed for three years.

# Property Taxation

## Capital Gains Tax on Residential Property

CGT rates on residential property have been reduced from 28% to 24%, with effect from 6th April 2024. Note that the 18% rate will continue to apply where within the basic rate band.

This does not however affect the availability tax reliefs, such as principal residence relief on main dwellings.

Given the upcoming reduction in tax rates, those with upcoming residential property transactions are likely to consider delaying for a month if there is an anticipated gain, and they have not yet exchanged.

## Furnished Holiday Lets

Furnished holiday lets (FHLs) have benefitted from preferential tax rules for many years. However, in recent times the UK has seen a significant increase in short-term holiday lets.

This is largely due an abundance of online booking agents and often favourable commercial returns. However, the more beneficial tax regulations, in comparison to other property investments, have no doubt played a part.

From 6th April 2025 the tax rules on FHLs will be abolished and all residential property income will be taxed under the same rules.

The most pronounced impact of these measures is that mortgage interest will be restricted on FHLs, in the same way as other residential properties.

Capital allowances will also no longer be available on qualifying expenditure.

Undoubtedly this will significantly increase the tax burden on FHL landlords, and many may choose to sell their property, return to long-term lettings or move the property into a limited company to benefit from full relief for interest.

Given that qualifying FHLs can currently benefit from a favourable tax cost of 10% on sale, we recommend that affected clients work with their trusted advisors to consider their options at the earliest opportunity. Your local Xeinadin office would be happy to help.

## Stamp Duty & Multiple Dwellings Relief (MDR)

Multiple Dwellings Relief (MDR) is an SDLT relief which is available when purchasing multiple properties. In effect, the total cost of the properties is averaged with SDLT chargeable on this, rather than an aggregated basis. This relief can often provide favourable results for taxpayers.

In a surprise announcement, MDR has been abolished for any transactions being completed on or after 1st June 2024 (unless formally exchanged before 6th March 2024). This short window of opportunity will undoubtedly see a glut of transactions being pushed through over the next few months to be able to claim this relief.

The abolishment of this relief will have significant impact on property-related investors operating in the Buy to Let and Property Development sectors.

However, acquisitions of 6 or more dwellings or purchases which consist of both residential and non-residential property will continue to qualify for the more favourable non-residential rates of SDLT.

# Domicile

## Replacing Non-UK Domicile tax rules with a residence-based regime

In another major change, the government has decided to abolish the non-UK domicile regime from April 2025, in favour of a new residence-based regime.

Under the newly introduced Foreign Income and Gains (FIG) regime, qualifying individuals will not be liable to tax on any foreign income and gains arising in the first 4 tax years after becoming UK tax residents. Qualifying individuals will be able to transfer these funds onshore without suffering any additional charges (as contrasted with the current remittance basis of taxation rules).

The new regime will apply to both non-domiciled individuals currently resident in the UK and those who are currently non-resident and plan to move to the UK imminently.

Those already resident in the UK, who on 6 April 2025 have been tax resident for less than 4 years (after a 10-year non-UK tax residence period) will be able to avail of the new regime up to this 4 year limit. A claim needs to be made for those wishing to take advantage of the new rules and for those who opt in their entitlement to personal allowances and capital gains tax annual exempt amount will be lost, similarly to the current system.

The end to remittance basis of taxation for non-UK domiciled individuals will see a transitionary period which will involve:

- An option to rebase the value of capital assets to 5 April 2019
- A temporary 50% exemption for the taxation of foreign income for the first year of the new regime i.e. 2025/26 tax year
- A two-year Temporary Repatriation Facility to bring previously accrued foreign income and gains into the UK at a 12% rate of tax.

These rules are complex, and it is important for affected clients to seek advice at the earliest possible opportunity.

## Inheritance Tax

The government is also planning to depart from the domicile to a residence-based regime in respect of Inheritance Tax, and a consultation has been published.

The initial suggestions are that only once you have been UK resident for 10 years you would become liable to IHT on worldwide assets. However, this also means if you have left the U.K. for more than 10 years then UK inheritance taxes will not be due.

## Trusts

Trusts funded pre-April 2025 by non-domiciled individuals are expected to remain as excluded property (i.e. outside the scope of UK inheritance taxes) forever, whereas trusts funded after April 2025 will look at the residency of the settlor at the time.

The changes to non-UK domiciled regimes will also affect protected settlements. Effective 6 April 2025, non-domiciled and deemed domiciled settlors in settlor-interested trusts will be liable to tax on income and gains as they arise.

Clients that may be affected could consider the establishment of trusts pre-April 2025, as an excellent way to protect non-UK assets from UK inheritance taxes. Please contact your local Xeinadin office if this may be helpful.

# Full Expensing

The ‘full expensing’ policy for capital allowances allows companies to claim a deduction from taxable profits equal to 100% of their qualifying expenditure in the year that expenditure is incurred (subject to the qualifying conditions being met).

In its present form, this relief excludes assets purchased to be leased to third parties, and second-hand assets. It has today been announced that the government are seeking to extend this policy to include assets purchased for leasing purposes.

At the time of writing, a date has not been proposed for the extension of this relief, other than ‘when fiscal conditions allow’. Draft legislation will shortly be published by the government, which will contain further information on the proposal.

As mentioned in our Autumn update, the main beneficiaries of this policy will continue to be larger corporate entities. The proposed extension of this relief will primarily benefit plant hire, and vehicle-leasing companies.

# Creative Industries

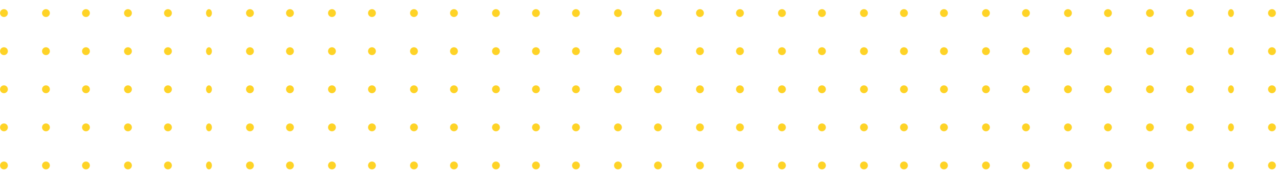
The creative industries sector in the UK is one of the most highly regarded in the world. The Chancellor announced plans to further stimulate this area by providing additional reliefs of over £1 billion over the next 5 years, with the ultimate aim of generating an additional £50 billion in revenue and supporting an extra 1 million jobs.

The government will introduce a new UK Independent Film Tax Credit at a rate of 53% for films with budgets under £15 million, where the requirements of a new British Film Institute test are met.

To promote investment in new studio space, helping ensure that the UK continues to be a world leader in producing film and high-end TV, the government will introduce tax relief of 40% on gross business rates bills for eligible film studios in England. This relief is expected to continue until 2034, to encourage the long lead-in time for some productions and encourage future development.

The government will introduce a 5% increase in tax relief for UK visual effects costs in film and high-end TV. UK visual effects costs will also be exempt from the 80% cap on qualifying expenditure

Finally, the government will set tax reliefs for theatres, orchestras, museums and galleries to continue its support in this area. From 1 April 2025 these rates will be set at 45% for theatres, museums, galleries and touring productions, 40% for non-touring productions, and at 45% for orchestras.



# Fuel & Alcohol Duties

Fuel duty will be frozen at its current rate for another 12 months, with the temporary 5p cut on fuel duty extended beyond this month (when it was originally set to end). The difference between petrol and diesel duty rates will also remain the same until 2032.

Commentators have however suggested that any cuts in fuel duty tend to benefit retailers, rather than customers, as margins are increased to cover "increased costs".

The freezing of alcohol duty has been hailed as a victory for the struggling pub sector, which will continue from 1 August 2024 until 1 February 2025. This extends the six-month freeze announced at Autumn Statement 2023 to support the hospitality sector and help consumers with the cost of living.

The freeze is an additional benefit to the 75% business rates discount announced in the Autumn statement which saves a typical pub £13k a year.

# HMRC Investment

## HMRC Investment

The Chancellor announced a further £140 million investment to improve HMRC's ability to manage tax debts. The additional funding will be used to:

- Expand HMRC's capacity: recruiting more staff and acquiring new resources to handle debt management activities more effectively.
- Enhance debt collection: allowing HMRC to better target individuals and businesses with outstanding tax liabilities.
- Provide tailored support: enabling HMRC to distinguish between those who can afford to pay their debts and those who genuinely need assistance.

The investment in HMRC's debt management capabilities is intended to signify the government's commitment to collecting owed taxes while aiming to provide support to those genuinely struggling to meet their obligations.

## Crypto-Asset Reporting Consultation

The recent budget announcement included the implementation of the Crypto-Asset Reporting Framework (CARF), a major development in the realm of digital assets and taxation. This framework aims to establish a standardised approach for reporting tax-related information on crypto-asset transactions.

This information exchange is designed to:

- Enhance tax transparency: By providing authorities with a clearer picture of crypto-asset holdings and activities, CARF aims to combat tax evasion and ensure fair contribution to public finances.
- Level the playing field: This framework creates a more consistent approach to crypto-asset taxation across participating countries, reducing the potential for loopholes and unfair advantages.

What will be reported under CARF? Relevant details on crypto-asset transactions like:

- Account holder information: This includes personal details of individuals or entities involved in the transactions.
- Type of crypto-asset: The specific digital asset (e.g., Bitcoin, Ethereum) involved in the transaction will be identified.
- Transaction details: This encompasses the nature of the transaction (purchase, sale, transfer) and its value in a designated fiat currency.

The announcement outlines a gradual implementation process, with participating countries aiming to initiate information exchange by 2027. These measures are expected to provide valuable data to ensure proper taxation of crypto-assets, increasing tax revenue and promoting fairer tax practices.

However, we have no doubt that many in this sector will raise concerns about privacy implications.

# VAT & Indirect Tax

## VAT registration threshold increased

Small businesses have lobbied the Chancellor for an increase in the VAT threshold for many years, and finally, this year's Budget delivered some results. With effect from 1 April 2024, the VAT registration threshold will increase from £85,000 per annum to £90,000. From the same date, the threshold for de-registration will increase from £83,000 to £88,000.

Businesses that make mainly zero-rated supplies but are below the registration threshold can still become VAT registered on a voluntary basis and reclaim VAT on costs. The measure also makes no changes to the obligation for overseas businesses that trade in the UK to register regardless of what their turnover is.

Whilst long-awaited, the increase is not particularly large, particularly given the rates of inflation in recent years. It is expected that the change will be insufficient to satisfy many.

For now, businesses below the published threshold still need to monitor their turnover on a rolling monthly basis and compare it to the existing annual registration threshold. They also should be mindful that if they expect their turnover to exceed the threshold over the next 30 days, they have an obligation to notify HMRC of their requirement to VAT register.

## VAT Retail Export Scheme

A good deal of recent publicity has focused on whether the historic VAT scheme, allowing overseas visitors to reclaim VAT incurred on UK purchases, should be reintroduced. Retailers have argued that being able to sell goods to visitors 'tax free' was essential to encouraging sales of expensive and luxury goods (in particular) and the withdrawal of the scheme several years ago was considered to have damaged businesses.

The OBR has reviewed the scheme for the government and commented upon its effectiveness in encouraging spending by UK visitors, but – for now anyway – the government has announced only that it will seek out further views before deciding on the scheme's future.

It remains the case that retailers can zero rate supplies of goods they ship directly overseas, but doing so can be administratively cumbersome and often does not appeal to the shopper. So, this will be disappointing news for retailers in parts of the UK where sales to overseas visitors form a sizeable part of their business.

## VAT & Carbon Credit Trading

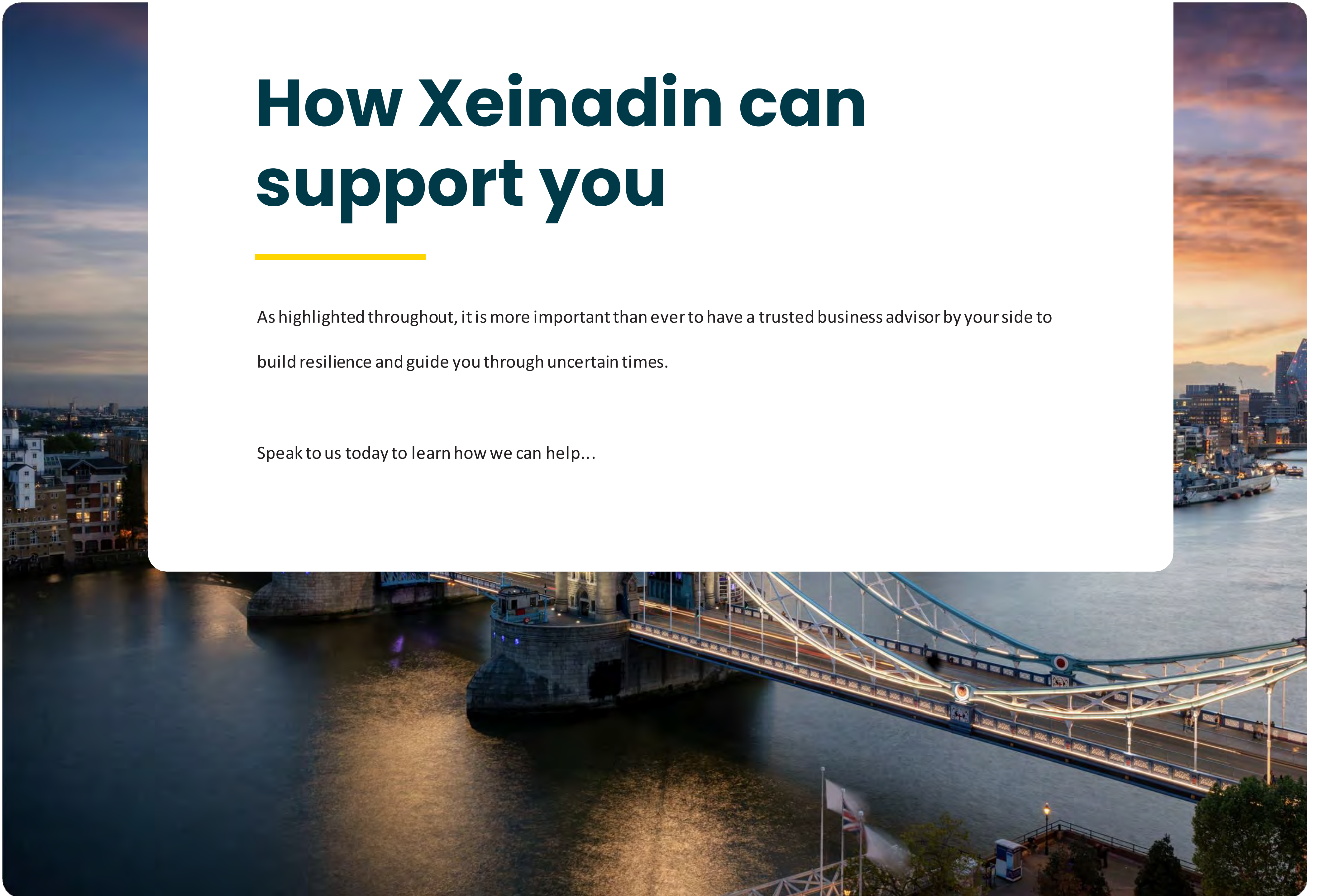
In the drive towards net zero, offsetting emissions by purchasing carbon credits is becoming increasingly popular for large and small businesses alike.

The VAT liability of carbon credits has been relatively uncertain over the years, depending mainly on the type of credit ('compliance' market credit or 'voluntary' market credit).

Compliance market credits are a part of government designed schemes to reduce emissions and have been seen as non-business for VAT purposes and outside the scope of the tax.

Credits in the less regulated voluntary market are more difficult to define and have generally been viewed as relating to a taxable supply for VAT purposes and standard rated when supplied in the UK. It is likely that the application of VAT to such trades may disincentivise VAT exempt sectors from taking part, hampering net zero plans in the process.

The Budget announced that trades in carbon credits will be made zero rated for VAT. This was expected to help enhance carbon trading in sectors that have been averse to taking part so far.



# How Xeinadin can support you

As highlighted throughout, it is more important than ever to have a trusted business advisor by your side to build resilience and guide you through uncertain times.

Speak to us today to learn how we can help...

xeinadin group

# We are XEINADIN

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