



2024 AUTUMN BUDGET SUMMARY

Our Insights on the UK Budget

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Introduction.

The Chancellor referred to today's announcement as a "Budget for Growth" – but for many UK employers, it could prove the opposite.

Today's Budget saw the most significant announcement of tax increases since 1993, generating an additional £40 billion in revenue for the Exchequer.

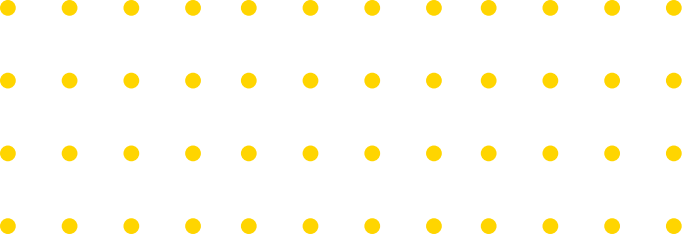
The most impactful measure relates to employers' national insurance contributions. Whilst an increase in rates – from 13.8% to 15% - was broadly expected, the slashing of the threshold from £9,100 to £5,000 will represent an additional cost of £615 per employee.

While reliefs are available for the smallest of businesses, the additional expense will be felt broadly across the UK's SME sector. The chancellor stated Britain was falling behind other countries in the race for new jobs, but increasing the cost of UK based employees - and simultaneously increasing workers protections – will make the UK a less attractive place for hiring new talent.

It is not only the employers that will bear this cost. The Office for Budget Responsibility (OBR), which monitors the government's spending plans and performance, said most of the burden from the increase will be passed on to workers through lower wages.

The total tax raised with this single measure is expected to be £25 billion, more than covering the budgetary "black hole".

Adam Owens
Tax Advisory Partner
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Several other important tax changes were also announced.

Capital gains rates tax will increase, effective immediately, to 18% / 24%. Whilst significant, it is still less than expected and a far cry from aligning with income tax rates. And business owners will certainly be relieved that Business Asset Disposal Relief will remain and hasn't taken quite the drastic hit we all feared.

Inheritance tax changes to Business / Agricultural Relief were expected, but are nonetheless significant. Relief is limited to 50% (i.e. 20% IHT) on qualifying assets exceeding £1m and AIM shares. IHT will also apply to undrawn pensions. Estate planning options may need to be revisited.



Read on to find out more about these and other tax changes from the Xeinadin tax team. If you would like to discuss how these changes may impact you, please get in touch with your local Xeinadin advisor.



Employer Taxes.

National Insurance Contributions.

In the build-up to the Budget much of the Government narrative focused on the £22bn black hole in public finances. Restricted by a commitment to not raise taxes on working people, Rachel Reeves has focused instead on Employer's National Insurance Contributions (NICs) to make good the shortfall.

The Budget has introduced two increases. The threshold at which Employer's NIC starts to be paid was reduced from £9,100 to £5,000 per annum, and the rate of tax is increased from 13.8% to 15%. These changes apply from 6 April 2025.

Based on the average salary in the UK of £34,000 the employer's NIC payable from April 2025 on £29,000 at 15% is £4,350. This represents an increase of £914 per annum (or £686 after Corporation Tax Relief) on an average employee compared to the current rules. For a business with 20 employees, this could result in an increase of £18,276 (or £13,720 after Corporation Tax Relief) each year.

Smaller employers will have relief under the Employment Allowance, which is increased from 6 April 2025 to £10,500 from £5,000. Additionally, the previous requirement for the total NIC contributions to be below £100k is removed. This will provide relief to many, but even smaller businesses employing 6 average earners will face an increased NIC cost.

National Minimum Wage.

Compounding the additional burden employers are expected to bear is the significant increase in National Minimum Wage (NMW).

Rachel Reeves has announced a 6.7% increase to National Minimum Wage for over 21 year olds increasing the hourly rate from £11.44 to £12.21 from 6 April 2025.

There is an even steeper increase in the rates paid to 18-20 year olds with a 16.3% increase from £8.60 to £10. This is the first step in a long-term plan under this government to align the NMW for all adults.

As an example, if a business employs a 21-year-old on NMW this increase, combined with the NIC increases detailed above, would result in an additional cost of £2,368 over the course of the year. (Assuming a 35-hour working week and ignoring employer pension contributions.)

Benefits in Kind.

Rachel Reeves reiterated the government's commitment to Electric Vehicles by confirming that the generous Benefit in Kind rates such vehicles attract are set to continue.

It has been confirmed that the reporting of Benefits in Kind (previously via form P11D) will be payrolled from April 2026. This represents a significant change, and businesses will need to ensure their payroll departments are ready to deal with this in the near future.

There has been no confirmation as to whether Class 1A NICs – the National Insurance Contributions paid by employers on the value of a benefit – will change. If Class 1A NICs were to be aligned to Employers NIC on salary (as has historically been the case), that would mean an increase to 15% and would make the provision of benefits more expensive.



Income Taxes.

Unsurprisingly, given the Government's commitment not to raise taxes for working people there was no movement in income tax rates or thresholds. However, the freezing of income tax thresholds continues the process of fiscal drag, under which the effects of inflation will result in more taxpayers paying tax or higher rates of tax.

Rachel Reeves did however confirm that the threshold freeze that have been in place since 2020/21 would end at the originally planned date of 2027/28, confirming that from the 2028/29 tax year the thresholds are to increase in line with inflation.



Capital Gains Tax.

In today's Budget the changes to capital gains tax were not as drastic as feared. The lower rate of CGT will see an increase from 10% to 18%, while the higher rate will be upped from 20% to 24%. These new rates will apply to transactions made on or after 30 October 2024.

Capital gains rates for qualifying disposals of residential property will remain the same at 18% and 24% respectively.



Business Asset Disposal Relief and Investor's Relief.

Business Asset disposal Relief (BADR) is a capital gains tax relief on qualifying business disposals including shares in a personal company, sole traders, partners, or trustees of a settlement with a qualifying beneficiary.

Where relief is available, CGT is payable at only 10% up to the lifetime allowance of £1m per individual. Qualifying gains in excess of this are taxed at ordinary rates.

An extension of the above BADR rules is Investor's Relief (IR) which applies to disposals of qualifying shares in an unlisted company. It also attracts a reduced rate of CGT at 10% however the lifetime limit for IR is currently set at £10m. It is worth noting IR is only available in instances where availability of BADR has been ruled out.

Following the Budget it has been announced that BADR will remain with its current lifetime limit of £1m, whereas IR will be reduced from £10m to £1m, effective immediately. However, from 6 April 2025 the CGT rate applicable under both reliefs will increase from 10% to 14%, with a further increase from 6 April 2026 to 18%. Until 5 April 2025 however, the current rate of 10% applies.

This provides an opportunity for shareholders of owner-managed and smaller businesses in particular, as well as seasonal investors to consider exit / succession planning to take advantage of the existing 10% lower rate before the end of the current tax year.

Carried interest .

Carried interest is a performance-related reward received by a small population of fund management executives and where certain conditions are met, can be subject to Capital Gains Tax (CGT) at rates of 18% or 28%, rather than Income Tax which could be taxed at rates as high as 45%.

The Budget has announced a reform on the taxation of carried interest in a bid to close loopholes within the tax system and put an end to, what can be considered, unfair tax treatment. Whilst it was expected by many that income tax would apply, instead an increased capital gains tax rate will apply at 32% from April 2025.

Inheritance Tax.

Nil rate bands unchanged.

Inheritance tax is taxed at 40% on the death estate, after deduction of the nil rates bands – this is the amount of value within an estate which is effectively taxed at 0%.

The nil rate band entitles individuals to a tax-free estate value worth £325,000 with an additional £175,000 residential nil rate band available for when your main home is left to direct descendants. Married couples have a combined tax-free nil rate band of up to £1m.

Despite some concern, these allowances remain unchanged. The freeze has been extended until April 2030. However, this freeze – alongside the expected rise in asset values – is expected to result in a further 86,200 estates becoming subject to Inheritance tax.



Many estate planning strategies involving BPR / APR assets – including investing in AIM shares – may need to be considered as a result of these significant changes. We recommend speaking with your Xeinaadin advisor, if you are impacted.

Unspent pensions no longer free from IHT.

It was widely reported that there would be a change in relation to pensions, so it is no surprise that from 6th April 2027 most unused pension funds and death benefits will be included within the value of a person's estate for Inheritance Tax purposes.

Pension scheme administrators will become liable for reporting and paying any Inheritance Tax due on pensions. HMRC is undergoing a consultation to understand the best way for this to be administered. It is estimated that this change will result in around 38,500 estates facing an increased inheritance tax burden.

In terms of implications, the typical rule of spending your pension last will no longer apply. It may instead be beneficial for affected taxpayers to draw on pensions earlier than previously planned.

Pensions withdrawals will of course be subject to income taxes. It may however be surprising that the 25% tax free lump sum remains unchanged. Consider speaking to your advisors to assess whether it is worth utilising this relief.



■ ■ ■
see *Changes to
APR / BPR
on the next page.*



Changes to APR / BPR.

The biggest change to inheritance tax came in the reform of business property relief and agricultural property relief. Relief of up to 100% is currently available on qualifying business and agricultural assets, regardless of value.

From 6th April 2026 onward these reliefs will be capped at £1 million of combined agricultural and business property. The remaining value will then qualify for a 50% relief (i.e. inheritance tax at 20%).

Trusts will also be affected, as trustees will face a similar £1 million combined allowance for 100% inheritance tax relief applies, on each ten-year anniversary charge and exit charge.

Assets automatically receiving 50% relief will not use up the allowance and any unused allowance will not be transferable between spouses and civil partners.

The Government will also reduce the rate of business property relief available from 100% to 50% in all circumstances for shares designated as “not listed” on the markets of recognised stock exchanges, such as AIM.

There is anti-forestalling in place so 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.

Previously it was generally advisable for assets that qualified for BPR & APR to be retained within the estate. No inheritance tax would be payable, but they would still benefit for the capital gains uplift on death. This type of tax planning may need to be reconsidered, as in-life transfers may prove to be more favourable moving forward.

Many estate planning strategies involving BPR / APR assets – including investing in AIM shares – may need to be considered as a result of these significant changes. We recommend speaking with your Xeinaadin advisor, if you are impacted.



If you have any questions about the points raised in our Budget Summary, please contact your local Xeinaadin Advisor.





Other key changes.

HMRC Funding and Interest rates.

During the past few years, great emphasis has been placed on closing the “tax gap” which is the difference between tax owed against tax collected. In a bid to reduce this, the Government is recruiting an additional 5,000 compliance staff and 1,800 debt management staff. In addition, the rates of interest which apply to unpaid tax will rise – by 1.5% to Bank Rate plus 4%.

Additionally, the government is investing in modernising IT and data systems to improve HMRC’s productivity and improve taxpayers’ experience of dealing with the tax system, delivering the modern and digital service businesses and individuals expect. We hope this will improve the HMRC service levels.

If you have any concerns about your tax affairs, Xeinadin staff have considerable experience in dealing with HMRC - contact us for further advice.

Research & Development Relief.

There are already substantial tax reliefs for those companies who engage in Research & Development activities. In recent years HMRC have taken a much stronger line in checking these, making it much more difficult to agree a claim. It was expected that changes would be announced in this area, but surprisingly this tax relief remains unchanged. This remains a complicated and at times contentious area of tax - professional advice is essential to maximising claims.





Taxation of Employee Ownership Trusts.

Employee Ownership Trusts (“EOTs”) represent a collective structure for business ownership, under which the business is held for the benefit of the staff. This can provide several favourable tax advantages, including a potential tax rate on sale to an EOT at 0%. As a result, they can provide an excellent exit planning vehicle for business owners.

Several conditions must be met to obtain favourable tax-free treatment on a sale of company shares to an EOT. For disposals on or after 30 October 2024, these qualifying conditions are now made more stringent.

It is expected that these requirements will not deter genuine commercial transactions and are generally sensible in nature. EOTs continue to represent a highly advantageous structure for exit planning, which will only improve as capital gains tax rates increase.

Close Company Loans to Shareholders.

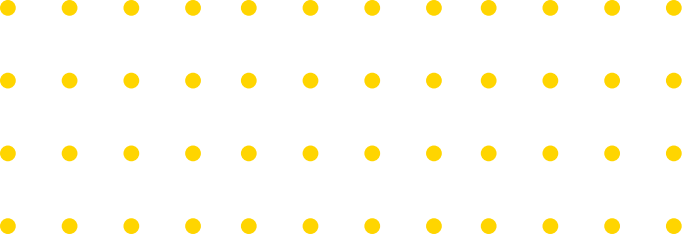
In certain circumstances, loans to shareholders can result in an unfavourable tax cost. These rules exist to prevent individuals from avoiding income taxes by simply taking a loan, rather than taxable income from a company.

This is known as a s.455 tax charge, which applies a withholding tax of 33.75% to the value of the loan which is outstanding 9 months and 1 day after the financial year end.

This charge is eventually repaid when the loan is repaid, with the theory being that the shareholder in question would crystallize a personal liability to repay the loan, for instance by taking a dividend.

HMRC have become aware of arrangements where individuals who are shareholders of a group, or a number of associated companies, are moving loans between those entities to avoid paying the s.455 charge.

Accordingly, to combat these arrangements, HMRC have extended their anti-avoidance provisions to prevent such an arrangement from succeeding, meaning that s.455 would be payable in any event. This change has been brought in from 30 October 2024.



Capital Gains Tax on liquidation of a Limited Liability Partnership.

The Chancellor has announced a change to the treatment of how assets contributed to a Limited Liability Partnership by one of its members will be taxed on liquidation of the partnership. Legislation will be introduced in Finance Bill 2024-25 that will require a deemed disposal calculation to be performed where a Limited Liability Partnership (LLP) is liquidated and assets a member has contributed are disposed of to the member, or to a company or other person connected to them. This change will take effect for liquidations that commence on or after 30 October 2024.

Under the current rules, as LLPs, are treated as transparent for tax purposes, no chargeable gain calculation is required when a member initially introduces an asset into the LLP. Although this treatment ceases when an LLP is placed into liquidation, this does not trigger a disposal of assets by its members at this point.

The new legislation will ensure that any chargeable gains that have accrued up to the date the asset was contributed to the LLP will be charged to tax when the Limited Liability Partnership is liquidated and the assets are disposed of to the member, or a person connected to them.

The Limited Liability Partnership will be liable in the normal way for gains that arise between the date the asset was contributed to the LLP by the member and the date of actual disposal of the asset.

If liquidation is being considered for your LLP, it is important that tax advice is obtained at an early stage.

Tax Treatment of Umbrella Companies.

Umbrella companies are employment intermediaries that employ workers on behalf of agencies and end clients. Although many of the businesses which operate in this way are fully compliant with relevant tax legislation, some have been used to facilitate tax fraud, often leaving workers with unexpected tax liabilities.

Under newly introduced legislation, if an agency uses an umbrella company to employ workers, the agency is responsible for ensuring that the correct income tax and National Insurance contributions (NICs) are deducted and paid to HMRC. If there is no agency involved in the supply of the umbrella company worker, the end client itself will take on this responsibility. The new rules will take effect from April 2026.

There should be no impact on workers involved in these arrangements as they will continue to receive their pay net of PAYE and NIC.



If you have any concerns that this new legislation will affect you or your business, please contact us.



Non-Domicile Tax Changes.



Under the current tax rules, UK residents who are not domiciled in the UK - i.e. are considered to have their “permanent home” overseas - can choose to be taxed on a remittance basis (unless deemed to be UK domiciled). This means they pay tax on their UK income and gains in the same manner as other UK residents, but only pay tax on Foreign Income and Gains (FIGs) when these are brought into, or remitted to, the UK.

Starting 6 April 2025, HMRC will implement changes to the taxation of non-domiciled individuals, abolishing the current remittance basis taxation regime. The last year to make a remittance basis claim will be the 2024/25 tax year. This will be replaced by a new four-year regime based on the taxpayer's residence status.

New Four-Year FIG Regime.

Individuals who become UK tax resident after being non-residents for 10 years will not pay tax on foreign income and gains during the first four tax years of UK residency. They can bring these funds into the UK without incurring additional charges, but they will still be liable for tax on UK income and gains, similar to current non-domiciles.

Former Remittance Basis Users Not Eligible for the Four-Year FIG.

From 6 April 2025, former remittance basis users who do not qualify for the new four-year FIG regime will be taxed at the same rates as other UK residents on any newly arising FIG. However, a Temporary Repatriation Facility (TRF) will be available to promote remittance into the UK for those who have previously claimed the remittance basis and have untaxed FIG.

Designated amounts will be taxed at a rate of 12% for the tax years 2025/26 and 2026/27, increasing to 15% in the tax year 2027/28. For Capital Gains Tax (CGT) purposes, current and past remittance basis users can rebase their personally held foreign assets to 5 April 2017 upon disposal, subject to specific conditions.

Trusts and the TRF.

The TRF will also be available for qualifying UK resident settlors or individuals who benefit from an offshore trust structure during the three tax years from 6 April 2025.

Subject to transitional points, the excluded property status of non-UK settled assets will not be fixed at the time the assets are added to a settlement. Instead, they will only be excluded property (and so not subject to IHT charges) at times when the settlor is not long-term resident. When a settlor is long-term resident, any assets they have settled (even when not long-term resident) will be subject to IHT.

If you are expected to be impacted by these changes it is recommended that professional advice is sought.

Indirect Tax.

VAT and private schools.

Despite the calls for postponement of the implementation date to September 2025 to give schools more time to prepare, the Chancellor confirmed the new rules relating to the supply of education by private schools will apply for terms starting on or after 1 January 2025.

Any payments received or invoices issued from Budget Day will be liable to VAT at 20% if relating to the supply of education starting on or after 1 January 25. As previously announced, any payments received between 29 July 2024 and 30 October 2024 which relate to the January 25 term will also be liable to VAT at 20%.

Schools are finding the proposed legislation complex and there remains the risk of errors arising in how the new rules will apply.

It's important therefore for the financial impact of this important VAT change to be fully explored by bursars and finance officers in the sector.

Outside of this major change though, from a VAT perspective, this Budget was light on content. We would alert clients to the future VAT issue for operators of private hire vehicles to consider though and we'd advise that the sector needs to remain alert to this fundamental change in VAT accounting that could arise.

VAT is not going away though...

VAT remains the second biggest tax revenue source for the public finances. Estimated to rise to £214bn in 25/26. This Budget indicates that another 5000 staff will be added to the tax compliance teams that HMRC operate. This will mean that businesses of all sizes need to be alert to the frequency of VAT inspections increasing as these staff bed into their compliance roles. .

What this Budget failed to address.

This Budget continued to fail to address the profound impact that VAT reliefs can have to encourage behavioural change. This is particularly true for the use of Electric vehicles where the lobbying for a lower VAT rate on EV Charging costs was again ignored.

With the drive to improve the fuel efficiency across our social housing stock, it was disappointing that no flexibility to the VAT rules when mixed contracts are let by housing associations, which include 20% VAT rate repairs to homes with 0% VAT rate insulation improvement works, was not addressed. The whole contract gets hit with 20% VAT which is costing social landlords £m's in VAT they cannot recover.

In all, this Budget will likely be remembered, from the VAT perspective, for the impact it will have on increasing pressures in the state education sector should the concerns from the movement of pupils from the private sector system that has been voiced by the sector, materialise.



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