BUDGET 2024 - PRIVATE CLIENT ANNOUNCEMENTS

The Budget announced by Chancellor of the Exchequer Rachel Reeves on 30 October 2024 - the first by a Labour government for over a decade - was one of the most significant Budgets in recent years in terms of changes to the taxation of individuals.

A BIG BUDGET, BUT LITTLE UNEXPECTED...

As has been increasingly the case over the last few years, many of the key policy announcements had already been trailed in the media and as a result there weren't too many complete surprises. Nevertheless, many individuals will be significantly impacted by the various changes, although there are certain key areas where the announcements were not as drastic as feared.

This note sets out some of the key announcements relevant to the taxation of private individuals and their affairs. As has been widely publicised, some of the biggest changes made by the Budget are the removal of the remittance basis of taxation for UK resident, non-UK domiciled individuals and the shift to residence, rather than domicile, as the nexus for inheritance tax. We have outlined those changes in a separate briefing note and they are not covered here.

KEY CHANGES FOR INDIVIDUALS

Income tax

Having been promised throughout the general election campaign that there would be no increases to income tax rates, we were unsurprised that no changes were made to the headline rates of 20% for basic rate income taxpayers, 40% for higher rate payers and 45% for those paying the additional rate. These will therefore remain the same for the 2025/26 tax year. Dividend tax rates also remain untouched at 8.75% for basic rate payers, 33.75% for those who pay the higher rate and 39.35% for additional rate payers.

> Income taxpayers, including those receiving dividend income, will be pleased to see no increase in the headline rates of tax

In a further positive move the freezing of the income tax thresholds until 5 April 2028, which was previously announced by the Conservative government, was not extended by the Labour government in the Budget. We can therefore hope that the thresholds will start to increase again with effect from the 2028/29 tax year.

Unfortunately, the good news ended when it came to national insurance contributions (NICs), with changes announced which will have a significant impact on some business owners. For further detail, see the paragraph on NICs below.

Capital Gains Tax (CGT)

When economic times are tough for the country, rumours tend to start that the CGT rate will be increased to be closer to, if not fall in line with, income tax rates. As a result, there was widespread anticipation of a CGT rate rise before the Budget. When this inevitably came, there was some feeling of relief that the rise had not been as bad as many feared.

Unlike some of the other tax changes announced, the first round of CGT rate rises takes place with effect from the date of the Budget. This means that, for disposals on or after 30 October 2024, there will be a standard CGT rate of 18% (for basic rate taxpayers) and a higher rate of 24% (for higher and additional rate taxpayers). From now on, disposals of residential property will no longer be subject to a different capital gains tax rate but will instead be taxed at the same rates as other capital disposals.

While CGT rates did not increase as much as some feared, rates did rise and, in particular, the reduced scope of BADR and Investors' Relief will be a disappointment to many investors

The tax benefits given by Business Asset Disposal Relief (BADR – formerly known as Entrepreneurs' Relief), which acts to reduce the CGT rate on disposals of certain business assets, was slightly reduced in the Budget. While the lifetime cap of £1m of gains remains the same, the reduced CGT rate which applies to those disposals will increase from 10% to 14% for disposals made on or after 6 April 2025 and to 18% for disposals made on or after 6 April 2026. Similarly, the reduced CGT rate which applies to disposals to which Investors' Relief applies (broadly, disposals of ordinary shares in an unquoted trading company) will increase from 10% to 14% and then to 18%, with the same timeframe as the rates for BADR. In this case, however, the lifetime cap (previously £10m) has been reduced to £1m for disposals with effect from 30 October 2024, which is a very significant reduction in the usefulness of this relief. It also appears that there will be a "look-back" provision, meaning that individuals who have already made use of over £1m of Investors' Relief in the past will not be able to benefit any further.

Some taxpayers, anticipating some or all of these changes, may have engaged in tax planning before the Budget, designed to "lock in" the previous CGT rates and reliefs. For those who were able to complete the transaction before the day of the Budget, the old rates will apply. However, some people may have been unable to complete the transaction entirely and therefore entered into an "uncompleted contract" (whereby contracts for disposal are exchanged, normally with an entity connected to the taxpayer, but are not completed and payment is not made). The draft legislation which introduces this Budget's CGT changes contains extensive provisions, known as anti-forestalling measures, aimed at ensuring that this planning will not be effective, and the new rates will (broadly) apply to any disposition not fully completed before the Budget.

It is clear that extensive changes to carried interest are planned - those affected may wish to review their structures once more detail is known

Carried interest (in high level terms, the share of profits arising to fund managers when a fund performs above a certain level) was also targeted in the Budget. Stating her aim "*to ensure that the specific rules for carried interest are simpler, fairer and better targeted"*, the Chancellor announced an immediate CGT rate rise. With effect from 30 October 2024, CGT on carried interest will apply at a rate of 32%, rather than 28%. However, wider changes are expected to be enacted with effect from 6 April 2026 when new legislation will come into force bringing carried interest into the scope of income tax (albeit with a lower effective tax rate for additional rate taxpayers for "qualifying" carried interest). Although a consultation will take place in the interim, significant changes to this proposal are not expected.

Inheritance tax (IHT)

Some media outlets speculated before the Budget that significant changes would be made. Rumours included the extension of the 7-year "tail" on gifts to 10 years, meaning that someone who made a lifetime gift to another person would have to survive 10 years to be sure of paying no IHT on that gift. There was some concern that IHT-free lifetime gifting would be removed altogether, meaning that any outright gifts would immediately be subject to IHT.

In the event, no changes were made to these provisions but, as was also expected, significant changes *were* announced which will affect business property relief (which broadly applies to trading assets – including shared in unquoted trading companies) and agricultural property relief (which broadly applies to UK land which is used for agricultural purposes and certain types of buildings and woodland).

Before the Budget, these valuable reliefs (which, in policy terms, are aimed at ensuring that farms and businesses do not have to be broken up on the death of the owner, in order to pay taxes due on that death) operated at up to 100% relief, without any form of cap. In the Budget, however, the Chancellor announced that, with effect from 6 April 2026, there will be a cap of £1m per person on those assets which previously qualified for unlimited 100% relief. The cap will cover both BPR and APR combined. Once this cap has been exceeded, any assets which qualify for the relevant relief will be subject to a reduced relief of 50% (meaning an effective 20% inheritance tax rate).

The introduction of a cap on 100% relief for assets eligible for APR and BPR will have a huge impact for many. Once a consultation response is published, those affected may wish to revisit their current estate and succession plans.

In contrast to the nil-rate band and residence nil-rate band, any of this £1m allowance which is unused by one spouse will not automatically transfer to the other spouse meaning that, without additional planning, if the first spouse to die does not make full use of their own allowance it will be lost. For many businesses, farms and landed estates, this new IHT charge will come as something of a shock and, in some cases, be very difficult to meet. In a small saving grace, it appears that property which previously qualified for 50% relief will continue to qualify for the same rate of relief once the new rules come into effect, and will not count towards the £1m allowance.

The draft legislation has not yet been published, as the changes will be subject to consultation. These changes have been among the most unpopular announced in the Budget, with farmers in particular protesting strongly about the negative impact they fear they will have on family farms.

The tax advantages offered by BPR have also been narrowed by reducing the BPR applicable to shares listed on the Alternative Investment Market (AIM) from 100% to 50%, giving an effective IHT rate of 20% on these assets.

These changes will have significant effects on individuals and trustees who hold assets currently subject to BPR and/or APR. As more detail becomes known, succession plans will need to be reviewed and adapted, current wills may need to be amended, and funding plans put in place for higher than anticipated tax charges. We may see increased lifetime transfers of farms and family businesses to the next generation, with individuals hoping to live a further seven years after the gift, thereby ensuring no IHT is paid. However, the tax advantage will need to be balanced with the reality of the situation, and ensuring the ongoing financial security of the older generation in their later years while being alive to family dynamics and the potential emotional difficulty of giving away these assets too early.

The current IHT nil-rate band and residence nil-rate band thresholds will remain frozen at £325,00 and £175,000 respectively for a further two years until 5 April 2030. While unexpected, this will continue to drag more estates into the IHT net.

NICS

In a further blow for business owners, it became increasingly clear in the final days before the Budget that the Government was considering targeting NICs and this was indeed the case. There will be no changes to employees' NIC rates (in line with the pre-election promise that there would be no additional taxes on "working people"). However, employers' class 1 NIC rates will increase from 13.8% to 15% with effect from 6 April 2025. The threshold at which employers' NICs start to be paid will fall from £9,100 to £5,000 per annum with effect from 6 April 2025 until 5 April 2028, after which it will rise in line with the Consumer Price Index.

Increased employers' NICs will be a concern for many entrepreneurs, increasing the costs of doing business

For business owners, this represents a significant increase in the cost of doing business and will inevitably affect profits, or future plans to increase salaries of existing staff or hire additional employees.

Bringing pensions within a person's estate will turn some people's estate planning on its head - this will need to be revisited when further detail is known

Pensions

Currently, if an individual dies with unused funds held in a pension scheme, these will generally fall outside that individual's estate for inheritance purposes and can therefore be passed to beneficiaries of their estate free from inheritance tax on death. Using other available funds during lifetime and leaving pension pots untouched in order to pass on free of IHT has therefore been a key planning technique for many individuals in recent years.

Following announcements in the Budget, in which the government stated their view that "*pensions should not be used as a vehicle for the accumulation of capital sums for the purpose of inheritance*", this position will change with effect from 6 April 2027, after which time any funds held in pension pots will fall within the individual's estate for IHT purposes and be taxed accordingly. Primary responsibility for reporting and paying any IHT due will fall on the pension scheme administrators (with many suggesting therefore that administration costs may rise as a result).

A consultation will run until January 2025 and draft legislation has not yet been published. However, this will have a clear effect on individuals with large pension pots who had been planning not to use them in favour of passing them on to descendants. As the detail is made clear, individuals may wish to take further advice to consider estate planning alternatives.

Stamp Duty Land Tax (SDLT)

The higher rate surcharge (which applies to companies purchasing property, or individuals purchasing a second or additional property) will increase to 5% (rather than the previous 3%) above standard residential SDLT rates for purchases with an effective date on or after 31 October 2024. The flat rate of SDLT payable by companies and non-natural persons acquiring high value residential property (i.e. valued at more than £500,000) was increased from 15% to 17%, with effect from the same date.

Next steps…

Although some measures remain subject to consultation, we now have a clear policy direction of travel and draft legislation for some of the changes. Individuals and their advisers are therefore finally in a position, after months of uncertainty, to start reviewing their current estate planning and putting new plans in place for the future.

For those tax changes which came into immediate effect, or have comprehensive anti-forestalling measures, planning options may be limited. However, there are many areas where alternative planning options exist but, in some cases, only for a limited time. Early engagement on these issues is therefore highly recommended.

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