Forbes Dawson
THE TAX SPECIALISTS

Budget 2024

Forbes Dawson’s Top 10

BUDGET 2024 – THE 'TAX (RELIEF) CUTTING' BUDGET

Jeremy Hunt today delivered what is almost certain to be the last budget before the public get the chance to decide who will actually be in control of the purse strings for at least the next 4 years.

Traditionally, in the circumstances, this would be a giveaway budget with aim of winning around disaffected or floating voters, and whilst he repeatedly told us that it was indeed a "tax cutting budget", in the final analysis there were few tax cuts in evidence. The 'pre-announced' 2p cut to NI was perhaps the most obvious measure he was referring to, and there was also some good news for landlords looking to dispose of some of their portfolio in the form of a cut to residential property CGT.

What was very much in evidence was the abolition of several well-known reliefs, in particular the furnished holiday letting regime, SDLT multiple dwellings relief and the much maligned 'non-dom' regime were all axed.

IHT, income tax, corporation tax and CGT all escaped otherwise unscathed, as did the thresholds at which those taxes are applied, meaning that fiscal drag continues to stealthily increase the overall tax burden.

We hope you enjoy reading, and if there are any tax topics covered here or in general that you would like to discuss please get in touch with your usual FD contact.

THE FORBES DAWSON TEAM - 06 MARCH 2024

FURTHER NATIONAL INSURANCE ('NI') CUTS

Following the reductions to NI announced in the Autumn Statement, the Chancellor today announced further cuts to the tax on earnings.

The main rate of Class 1 primary NI, being the NI that employees pay on their earnings between £12,570 and £50,270, is being reduced to 8%. This is down from 10% and is an additional 2% reduction to the one which commenced in January this year.

The reduction will mean an individual earning the average salary of £30,400 will save over £450 annually. On top of the January reduction, this individual will now save £900 in NI a year.

Individuals on higher salaries will continue to pay 2% NI on their earnings over the £50,270 threshold.

In addition, the headline rate of Class 4 NI for the self-employed will also be reduced by 2%, down to 6%. Again, this reduction mirrors that announced in the Autumn Statement and applies to self-employed profits between £12,560 and £50,270.

These changes will apply from 6 April 2024 in line with the start of the new tax year.

OUR VIEW

Mr Hunt's NI cuts certainly favour the employed, being the second reduction in quick succession.

With income tax rates and thresholds staying put, these reforms do nothing to assist those who generate a living through other means, such as rental income or pensioners.

Small business owners will also see no benefit from the NI decreases, as they typically extract profits via dividends in preference to a salary. With the dividend allowance reducing to £500 from 6 April and the corporation tax increase to 25%, small business owners may be yet again left feeling overlooked.

CHANGES TO THE TAXATION OF NON-DOMS

The Chancellor has announced sweeping reforms to the taxation of non-domiciled individuals ('non-doms') effective from 6 April 2025.

The current remittance basis of taxation – where certain non-doms can elect to only be taxed only on their foreign income and gains if they are remitted to the UK – is to be abolished in its current form. It is to be replaced with a new four-year regime for individuals becoming UK tax resident after a period of at least 10-years of non-UK residence.

From 6 April 2025, qualifying individuals moving to the UK will benefit from a four-year 'grace period', during which time foreign income and gains (including distributions from non-resident trusts) will not be subject to tax, even if they are brought into the UK. However, after the four-year grace period, those non-doms will be taxed in the UK on their worldwide income and gains. This brings their foreign income and gains into the UK tax net much earlier as there is no ability to defer and control remittances.

Non-doms who are UK resident before 6 April 2025, but who have been UK resident for fewer than four years, will also be able to benefit from the grace period for the remainder of those four years.

OUR VIEW

Radical changes to the taxation of non-doms is flagship tax policy of the Labour party, so it is perhaps not surprising that the Government has announced non-dom tax reforms in an election year, as it will undoubtedly force a rethink of Labour's manifesto pledges.

Clearly, the policy intention is to encourage spending and investment in the UK, as well as increasing the tax take.

These rules are unlikely to deter talented non-doms from moving to the UK for work. However, those longer-term UK resident non-doms currently enjoying the remittance basis will find their privileged tax status eroded significantly.

This measure makes it a simpler and fairer system, levelling the playing field between long-term UK residents and UK nationals.

BIG SHAKE UP FOR LONG-TERM RESIDENTS

Alongside the significant changes to the taxation of non-doms newly arriving in the UK, transitional rules have been introduced from 6 April 2025 to ease existing residents who have been claiming the remittance basis into the new 'arising' basis of taxation.

These include:

- A flat rate of 12% on any pre-5 April 2025 personal foreign income and gains remitted to the UK between 6 April 2025 and 5 April 2027. This does not apply to remittances of historical foreign income and gains from offshore trust structures, which will be taxed at normal rates.
- A restriction to 50% of the foreign income (not gains) assessable on an arising basis for 2025-2026 only.
- A rebasing election for assets held on 5 April 2019, to reduce capital gains tax on later disposals.

From 6 April 2026 100% of foreign income and gains will be assessable on an arising basis, regardless of whether it has been brought into the UK.

Settlors of offshore trusts will be assessable on trust income and gains on an arising basis from 6 April 2025.

OUR VIEW

In providing a window in which foreign wealth can be brought into the UK to boost the economy, the government have announced what seems like a relatively straightforward transitional regime (compared to the current remittance basis).

Most UK non-doms will welcome the two-year window to bring in previously unremitted personal foreign income and gains at a low rate of tax, particularly if they plan to remain in the UK for some time. Unfortunately, limited reliefs are available for those who have set up offshore trusts.

Simplification of the horrendously complicated 'mixed-fund' rules to facilitate remittances is also good news, as is the ability to rebase assets to reduce future capital gains taxes (but those not holding the asset as at 5 April 2019 will miss out).

HIGH INCOME CHILD BENEFIT CHARGE

From 6 April 2024, the income threshold at which individuals pay the High Income Child Benefit Charge (HICBC) will increase from £50,000 to £60,000.

The rate at which the HICBC claws back the benefit will also halve, as the current threshold at which benefit is fully repaid will jump from £60,000 to £80,000.

Currently for every £100 of 'adjusted net income' above £50,000, 1% of the maximum child benefit entitlement must be repaid by the claimant, so that for earnings of, say, £55,000, 50% is repaid via self-assessment and 100% is repaid at £60,000.

The budget changes mean the 'clawback' will be 1% for every £200 above £60,000, so that for adjusted net income of £70,000, 50% of the child benefit is repayable, with 100% repaid at £80,000.

Hunt also announced plans to consult on assessing child benefit on a household income-based system rather than an individual basis by April 2026. This will address criticism that single parents or parents with one earning over the threshold and the other with lower or no income are unfairly penalised compared with those where the combined income is split more evenly.

OUR VIEW

The increase in the HICBC threshold, which has been unchanged since its introduction in 2013, is a welcome measure designed to help those on middle incomes. And whilst the Chancellor has an electorate to win over, it is pleasing to see him succumb to pressure to make the system fairer for single parent households or parents with one main earner.

'Net adjusted income' broadly includes salary, trading profits and rental income but is after deducting pension contributions, gift aid donations and trading losses.

Individuals earning more than £60,000 should therefore consider whether they can increase pension contributions to bring income below the threshold in the meantime and take advantage of employer salary sacrifice schemes for pension contributions or electric vehicles.

REDUCTION IN RATE OF RESIDENTIAL PROPERTY CAPITAL GAINS TAX

Currently the highest rate of capital gains tax (CGT) is paid on gains on residential property, at 28%. Today it was announced that this rate will be reduced to 24%. While this is still a higher rate of CGT than applies to other assets it halves the surcharge on residential property, previously 8%, now only 4%.

Private Residence Relief (PRR) will still apply, so this will have no effect on people selling their only or main home. PRR renders any gain on your main residence to be exempt from CGT. Therefore, someone selling their only home will continue to pay no CGT on the gain.

A basic rate taxpayer should also see no difference, as the basic rate for residential gains is remaining unchanged at 18%. This is only available to those who have not used their full basic rate band for income tax.

The objective of reducing this rate of tax is to incentivise residential property sales by landlords and second home-owners. With more homes on the market, it will hopefully be easier for those looking to buy as well as sell.

OUR VIEW

Whilst at face value this looks beneficial to those looking to sell their homes, there has been no change in the scheduled reduction of the annual exempt amount ('AEA') for CGT. This is being reduced from £6,000 to £3,000, meaning that £3,000 more of the overall gain will be taxed than it used to be.

In 23/24 for a £20,000 gain on residential property, £14,000 would be taxed at 28%, meaning tax of £3,920.

In 24/25 however a gain of £17,000 would be taxed at 24%, resulting in £4,080 of tax.

The larger the overall gain, the less the reduction of the AEA will cancel out the benefit of the 4% reduction. A gain of £24,000 or above will see a benefit.

THE END OF THE FURNISHED HOLIDAY LETS ('FHL') REGIME

The FHL tax regime, which provides an attractive set of tax reliefs is set to be abolished from April 2025. The removal of the FHL regime may be welcomed by local residents in many tourist hotspots, if it leads to an increase in properties available for locals.

However, it will come with a string for many holiday let businesses:

- They will no longer be able to claim capital allowances on expenditure such as furniture used in the business and fixtures & fittings (plumbing and wiring etc.) within the property. This will likely mean that the income on which tax is payable by FHL operators will increase.

- Disposals of an FHL business will no longer qualify for the reduced 10% BADR CGT rate. Although the main residential property CGT rate is reducing from 28% to 24%, for FHL operators this represents a 14% increase in CGT rates.

- Rental income from FHLs will also no longer qualify as relevant earnings for pension contributions.

OUR VIEW

As the government attempts to balance the books and fund NI cuts, it has once again targeted the property sector.

From April 2025, FHLs will likely face higher taxes on their rental profits and also on property disposals. This should trigger all FHL businesses to consider what actions they can take before the changes come into effect.

FHL operators may want to consider disposing of their FHL business now, while they are still able to benefit from BADR.

Alternatively, they may wish to consider whether their operating model could be adapted to continue to attract similar benefits as those that they currently enjoy.

MULTIPLE DWELLINGS RELIEF (MDR) ABOLISHED

This measure is a simple abolition of the whole MDR regime and not a targeted attack on some of the more abusive aspects, as was mooted in a HMRC consultation launched back in November 2021.

MDR is a valuable stamp duty land tax (SDLT) relief which usually leads to less SDLT being paid. It was originally introduced in 2011 to provide relief to buy to let investors (at a time when the Government did not have such a downer on that sector!). It worked by applying SDLT rates to the average value of the properties acquired and then multiplying this SDLT charge by the number of properties. This approach limited the impact of higher residential SDLT rates which would otherwise apply if the total consideration was subject to SDLT in the same way as if a single property was acquired.

MDR has been abolished for any transactions which exchange after 5 March 2024 and do not complete before the end of May 2024. Any transactions which have exchanged by 5 March 2024 will still be able to benefit from the relief on completion as long as there is no variation in the contract after that date.

OUR VIEW

This is not wholly surprising as buy to let investors have been on the receiving end of some punitive tax regime changes over the last few years.

It is well known that HMRC does not like the fact that MDR has increasingly been applied to 'single' house purchases with a separate annexe (or 'Granny flat'). Anecdotally, this has led to certain 'reclaim outfits' enabling spurious MDR related SDLT reclaims.

It is worth remembering that purchases of six or more properties do still benefit from commercial SDLT rates (with a top rate of 5%) which is lower than the top residential rates.

Any purchasers for whom MDR is relevant should now be looking to race through transactions by 31 May 2024 or else SDLT could be substantially higher from 1 June.

FULL EXPENSING FOR COMPANIES INVESTING IN LEASED PLANT AND MACHINERY

In the Autumn Statement it was announced that the temporary introduction of 'full expensing' relief was to be made permanent. Today, Jeremy Hunt has taken this one step further by announcing plans to extend full expensing to leased assets, "when fiscal conditions allow". Leased assets also includes internally developed software which is licenced, on which full expensing was previously unavailable.

Full expensing is an uncapped, 100% first-year capital allowance for qualifying main pool expenditure and 50% first-year allowance for special rate pool expenditure. This allows businesses to write off the full costs of qualifying plant and machinery investment and is in addition to the commitment to permanently keep the Annual Investment Allowance ('AIA') at its current level of £1m.

Unlike the AIA, disposals of plant and machinery for which full expensing has been claimed will be subject to immediate balancing charges, equal to 100% of the disposal value (or 50% of the disposal value in the case of special pool expenditure).

OUR VIEW

Given the recent hike in the rate of corporation tax, any additional relief for companies is to be welcomed.

The objective of full expensing is primarily targeted at large, capital intensive companies which otherwise would exceed their AIA on an annual basis.

The extension of this to include assets for leasing will provide companies with more opportunities to claim full relief for their investment in assets. This will further reduce the cost of capital for companies and incentivise investment.

The actual detail published suggests that there will be technical consultation to consider how this extension is to be implemented.

INCREASE IN VAT THRESHOLDS

The Chancellor announced the first increase in the VAT registration and deregistration thresholds since 2017. The new thresholds will be increased by £5,000 and will apply from 1 April 2024.

The changes are as follows:

	Current threshold	New threshold
Registration	£85,000	£90,000
Deregistration	£83,000	£88,000

The aim of this measure is to delay the point at which small and medium sized enterprises ('SMEs') need to register for VAT, encouraging SMEs to grow through the competitive advantage of not needing to charge VAT on their sales of taxable supplies.

OUR VIEW

The change in the VAT thresholds is relatively small and, given the recent high levels of inflation and that the current threshold has been frozen since 2017, we question whether this measure goes far enough for SMEs to feel a real benefit.

For a number of years, critics have expressed the view that the existing thresholds distort behaviour, creating a disincentivise to grow turnover beyond the threshold.

Some have argued for a more radical approach, such as significantly reducing the registration threshold along with the introduction of reduced and gradually increasing rates of VAT to eliminate the cliff edge disincentive to growth.

The measure introduced at least has the benefit of being simple.

GREAT BRITISH SAVINGS AND INVESTMENTS

In today's Budget, Jeremy Hunt announced the introduction of a new British ISA, following an initial period of consultation on the design and implementation.

This additional ISA allowance will offer tax benefits on up to £5,000 of investments in UK assets, with the aim of supporting UK companies. This is in addition to the £20,000 ISA allowance that currently exists.

The extra £5,000 per annum will be a welcome first increase in the ISA allowance since 2017, albeit restricted to investments in UK equities. Many people have been calling for an increase in the ISA allowance for many years so this measure will be a positive step for savers, whilst also supporting British businesses.

Individuals will also be able to invest in 'British Savings Bonds', a product set to be launched by National Savings and Investments (NS&I). This product will have the benefit of offering a guaranteed fixed interest rate from April 2024, for the first three years, and funds will be reinvested into UK businesses.

OUR VIEW

Whilst there may be a patriotic feel-good factor for savers investing in these products, we believe that it will generally only be beneficial for those that have maxed out their ISA limits and are already invested in a diversified global portfolio.

There are other ways in which the ISA system could have been improved, such as simply increasing the overall ISA limit from the £20,000 threshold, to give people more freedom to diversify their savings portfolio.

Additionally, at present it can be difficult to switch between stocks and shares ISAs and cash ISAs. Having a single combined ISA system might create a more balanced split and lead to greater overall investment in the UK.

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