PAYNE HICKS BEACH

4 NOVEMBER 2024

Autumn budget 2024 - key 'onshore' announcements

The Chancellor delivered the first (and much anticipated) Budget of the current Government on 30 October. In this note, we summarise the key 'onshore' announcements – please refer to our separate note for details about the abolition of the non-dom tax regime.

Inheritance Tax

There were widespread rumours ahead of the Budget of very substantial amendments to the IHT regime. Although some of these (such as the rumour that the run-off period for lifetime gifts would be increased from 7 years to 10 years) did not come to pass, significant changes did make the final cut.

Agricultural Property Relief (APR) and Business Property Relief (BPR)

APR currently provides 100% IHT relief for the agricultural value of land if it has been owned for at least two years and farmed by the owner or owned for at least seven years and farmed by a third party (except for some Agricultural Holdings Act tenancies where the relief is limited to 50%).

BPR currently provides 100% IHT relief for the value of interests in a trading business and unquoted shares in trading companies (and 50% relief for control holdings of quoted trading companies and for certain assets used by a trading business), subject to a two year ownership condition.

Both reliefs are currently unrestricted.

From 6 April 2026, 100% APR and BPR will be subject to a combined £1m cap – any value above that cap will be restricted to 50% relief. For an individual, this means that assets which currently qualify for 100% relief will be subject to an effective IHT rate of 20% on death to the extent that their value exceeds £1m (subject to the IHT nil rate band and any available exemptions etc).

The cap will also apply to lifetime gifts made on or after 30 October 2024 (if the donor dies after 6 April 2026 but before 7 years has elapsed from the date of the gift – eligibility for APR/BPR is retested on death). If the gift was made before 30 October 2024, the current unrestricted reliefs will continue to apply if the donor dies within 7 years (again subject to retesting APR/BPR on death).

The cap will also apply to trusts. Any trusts made before 30 October 2024 will have a full £1m allowance. Trusts made by the same settlor after that date will have the £1m allowance divided between them.

We assume that where a beneficiary has a 'qualifying' interest in possession (ie where the assets are treated as forming part of their estate for IHT purposes) in one or more trusts, a single £1m cap will apply to all of the beneficiary's interests in APR and BPR assets including the assets held in the trust or trusts.

Draft legislation has not yet been published and the changes are subject to consultation.

AIM listed shares

Shares in trading companies which are listed on AIM rather than the main market of the London Stock Exchange are currently treated as being "unquoted" for IHT purposes (as are any shares which are not listed on a "recognised stock exchange"). AIM shares currently therefore qualify for 100% BPR after they have been held for two years.

From 6 April 2026, BPR on such shares will be limited to 50% only. We assume that this reduction in the rate of relief is only intended to apply to shares which are listed on a non-recognised exchange (and not to unlisted shares in private companies) but the Government's Policy Paper is not clear on this point. Again, the changes are subject to consultation and draft legislation has not yet been published.

Pension Funds

Under current rules, unused funds within a registered pension scheme generally pass free of IHT on the death of a pension scheme member (and benefits paid from the scheme post-death are also free of income tax if the member dies under the age of 75 – otherwise they are taxed at the recipient's marginal income tax rate).

From 6 April 2027, unused funds held within a registered pension scheme will be treated as being part of the member's estate and will generally be charged to IHT on the member's death (subject to the spouse exemption if the unused funds pass to the surviving spouse or civil partner). It is not yet clear whether death-in-service schemes will be affected.

The income tax treatment of the unused funds will not change, so if the pension scheme member was 75 or over at the time of death, IHT will be payable on the fund and income tax will be payable on benefits received from the remainder of the fund.

These changes are also subject to consultation and draft legislation is awaited.

IHT nil rate bands

The freeze on the current IHT nil rate band at £325,000 (which has remained at that level since 6 April 2009 and was already due to be frozen until 5 April 2028) will be extended to 5 April 2030.

The residence nil rate band of £175,000 will also be frozen until 5 April 2030.

Capital Gains Tax

Increase in headline rates

An increase in capital gains rates was all but inevitable (given that CGT was conspicuously absent from the Government's manifesto pledge on tax increases). In the run up to the Budget, speculation was rife that the rates would be significantly hiked, perhaps even aligning them with income tax rates. It was even suggested that the CGT-free uplift to market value on death might be abolished.

However, the reality was far more restrained than had been feared. For disposals on or after 30 October 2024, the standard rate of CGT has increased from 10% to 18% and the higher rate has increased from 20% to 24% (so bringing the general CGT rates into line with the existing rates for disposals of residential property, which remain unchanged).

This is not the first time that CGT rates have risen part way through a tax year (the June 2010 Budget is the most recent example); a well-trodden set of transitional rules will ensure that pre-Budget day gains will be taxed at the old rates.

Historic stockpiled capital gains in an offshore trust which are taxed on UK resident beneficiaries when matched to benefits received from the trust are subject to a supplemental CGT charge (depending on how long ago the gains were originally realised). The increase in the headline CGT rate means that the maximum effective rate for such matched gains has risen from 32% to 38.4%.

Business Asset Disposal Relief (BADR) and Investor's Relief

BADR currently reduces the CGT rate on disposals of certain business assets to 10%, subject to a lifetime cap of £1m of gains (and Investors' Relief similarly reduces the CGT rate on disposals of qualifying shares in unquoted trading companies to 10%; subject to a higher lifetime cap of £10m).

From 6 April 2025, the CGT rate for both of these reliefs will rise to 14% and from 6 April 2026 the rate will increase again to 18%. The lifetime cap for Investors' Relief was reduced to £1m in line with that for BADR with effect from 30 October 2024.

Carried interest

The CGT rate for carried interest will rise from 28% to 32% from 6 April 2025.

However, this is only a temporary measure while the government consults on treating carried interest as trading income subject to income tax from 6 April 2026. It is proposed that qualifying carry will be taxed on the basis of a 72.5% multiplier, so that the maximum effective income tax rate will be just over 32.6% rather than 45%.

CGT annual exempt amount

The previous Government slashed the CGT annual exempt amount from £12,300 to £6,000 from 6 April 2023 and halved it again to £3,000 from 6 April 2024. This was not changed in the Budget, so will remain at £3,000 for the time being (for individuals – note that trusts are generally entitled to only half of the annual exempt amount for an individual).

Stamp Duty Land Tax

The Government had made a manifesto pledge to raise the SDLT surcharge for non-residents from 2% so 3%, so it was surprising that this was not in fact enacted in the Budget.

Instead, there was an unexpected hike in the additional dwelling surcharge, which rose from 3% to 5% with effect from 31 October 2024 (with a corresponding increase in the SDLT residential rate for purchases by non-natural persons, which has risen from 15% to 17%).

This means that non-residents purchasing residential property in England or Northern Ireland now face paying SDLT at up to 19% (the Scottish and Welsh devolved administrations have not yet followed suit with their equivalents of SDLT).

Income Tax and National Insurance

Income tax rates and thresholds

The Government honoured its manifesto pledge not to raise income tax rates or the basic, higher and additional rate thresholds (which the previous Government had already frozen until 5 April 2028). It had been widely expected that the thresholds would be frozen again until 5 April 2030; the Chancellor's rather low key "rabbit out of the hat" at the end of her Budget speech was to confirm that the freeze would not be extended but she has plenty of time before 2028 to change her mind...

Income tax rates and thresholds to 5 April 2030

	Threshold	**Normal rate**	**Dividend rate**
Basic rate	to £37,700*	20%	8.75%
Higher rate	to £125,140	40%	33.75%
Additional rate**	over £125,140	45%	39.35%

*Plus personal allowance of £12,570 if available (reduced by £1 for every £2 of income over £100,000)

**These rates also apply to non-interest in possession trusts

National Insurance Contributions

It became abundantly clear in the lead up to the Budget that the Government would honour its manifesto pledge not to raise NICs only in relation to employees. It was therefore no surprise that the rate of employers' Class 1 NICs will rise from 13.8% to 15% from 6 April 2025 (with the 'double whammy' of the threshold at which NICs are levied being lowered from £9,100 to £5,000 per annum from the same date).

VAT on Private School Fees

The Government announced shortly after the General Election in July that it would implement its manifesto pledge to charge VAT on private school fees from the start of the 2025 calendar year. There were rumours before the Budget that this might be delayed until the start of the new academic year in September 2025 (in the face of considerable lobbying from affected institutions and parents) but the Chancellor confirmed that VAT would apply from 1 January 2025 (and that private schools would lose business rates exemption from 1 April 2025)

In addition, VAT will also be levied on fees paid in advance (on or after 29 July 2024) to the extent that they relate to education provided on or after 1 January 2025 (and the Government has also announced that it will look to challenge pre-payment arrangements entered into before 29 July).

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