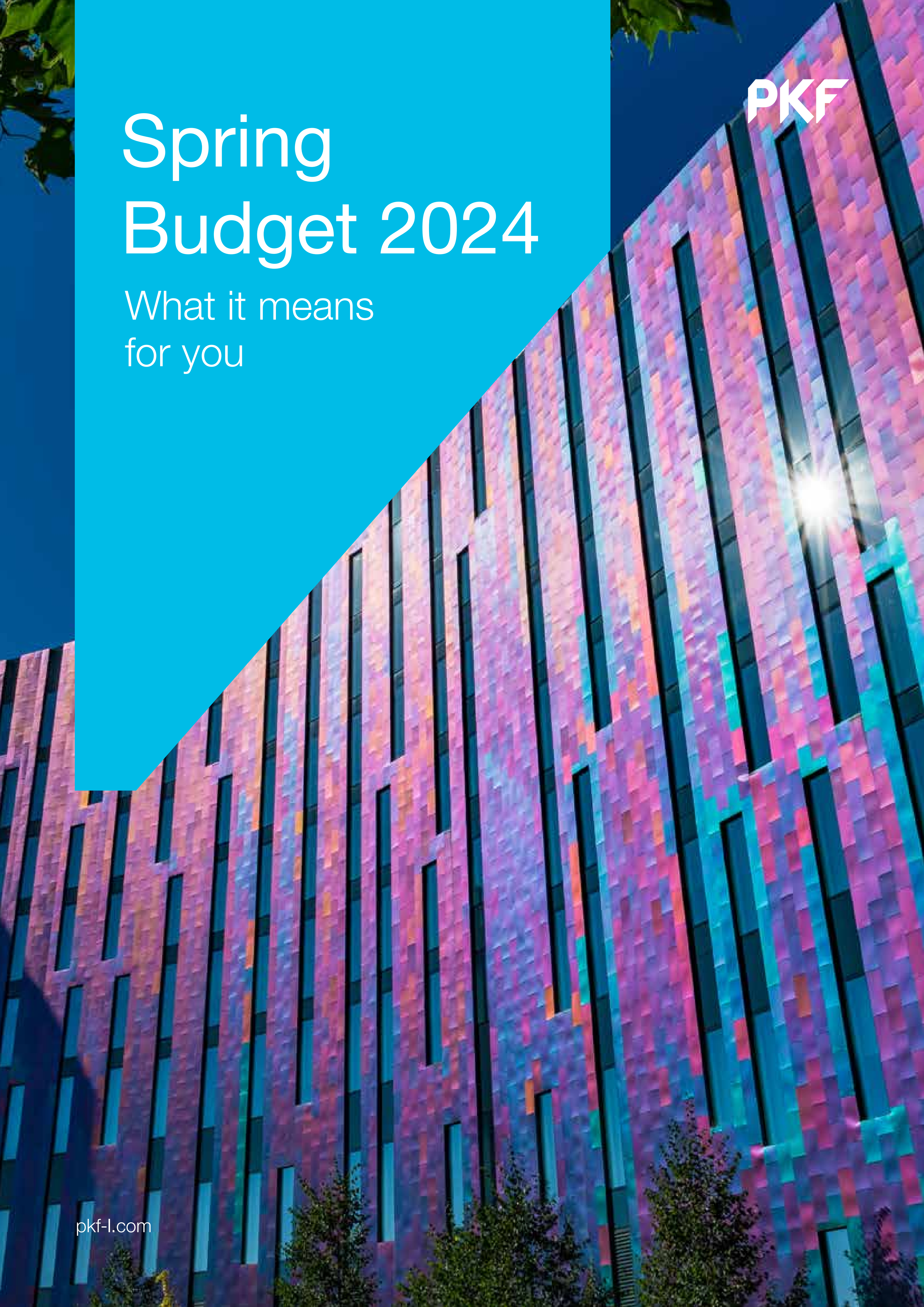


PKF

Spring Budget 2024

What it means for you

pkf-l.com

Key measures announced today at a glance:

Residential CGT
Reduced to 24%

Non-Dom Regime
Scrapped

Employee National Insurance
Further 2% reduction to 8%

Self-Employed NICs
Further 2% reduction to 6%

Child Benefit
Fairer clawback

VAT Reg Threshold
Increased to £90,000

Furnished Holiday Lets
Scrapped

New "UK ISA"
Additional £5,000pa limit

Following today's Budget speech, it certainly feels like a General Election is near now, with a headline tax reduction ostensibly funded by abolishing the long standing political hot potato that is the Non-Dom tax regime.

When the initial 2% cut in National Insurance was announced in the Autumn Statement, our publication was sceptical of the impact of the reduction. Whilst undoubtedly a headline grabbing rate cut at the time, the impact of inflationary wage growth combined with freezing of key tax thresholds meant that many people would be paying more Income Tax and National Insurance combined in April 2024 compared to December 2023. However, aggregated with that earlier reduction (which took effect from January 2024 for employees), it is clear that for many, this is a genuine “tax” cut.

However, a fundamental aspect of our personal tax system that sadly remains unchanged is the significant complexity that arises from withdrawing reliefs from individuals (and families) as income increases. The removal of Child Benefit, Personal Allowance and the availability of Pension Tax relief at various income thresholds gives rise to effective income tax rates of up to 70% per additional £1 of income. While steps have been taken to increase the threshold at which the clawback of Child Benefit for higher earnings bites (and in the longer term, make the clawback “fairer”), a clawback will still exist and give an effective additional income tax charge.

These complexities mean that for many, the net effect of additional income (promotion, overtime, bonuses) in terms of increased net pay for an individual is completely unknown for both the employee and the employer. A key objective of whichever party wins the election that wishes to incentivise work and increase productivity should be to simplify this complexity so that the tax system is clearer and the consequences of work known – even if this means sacrificing future headline grabbing cuts in the rate of Income Tax.

Head of Tax
Chris Riley
+44 (0)20 7516 2427
criley@pkf-l.com

Your business

It's not surprising that in the final Budget before a General Election, that measures affecting business were limited in scope, with a definite focus on tax measures affecting individuals. However, the cut to National Insurance can be considered in part a business related measure, and the first increase in the VAT registration threshold for 7 years. While modest, this will be a relief to many small businesses.

National Insurance

The main rate of Class 1 employee national insurance will further reduce from 10% to 8% from 6 April 2024, having been cut by 2% at the start of the calendar year. This will be mirrored with a further 2% cut from the main rate of Class 4 self-employed national insurance; which in addition to the 1% drop announced in the Autumn Statement will see an overall reduction from 9% to 6% from 6 April 2024 compared to the prior year. Class 2 national insurance for the self-employed was previously announced as abolished from 6 April 2024.

VAT

The VAT registration threshold which has been at £85,000 since 2017, will be increased to £90,000 from 1 April 2024. In addition, the deregistration threshold will increase from £83,000 to £88,000 from the same date.

Capital Allowances for companies

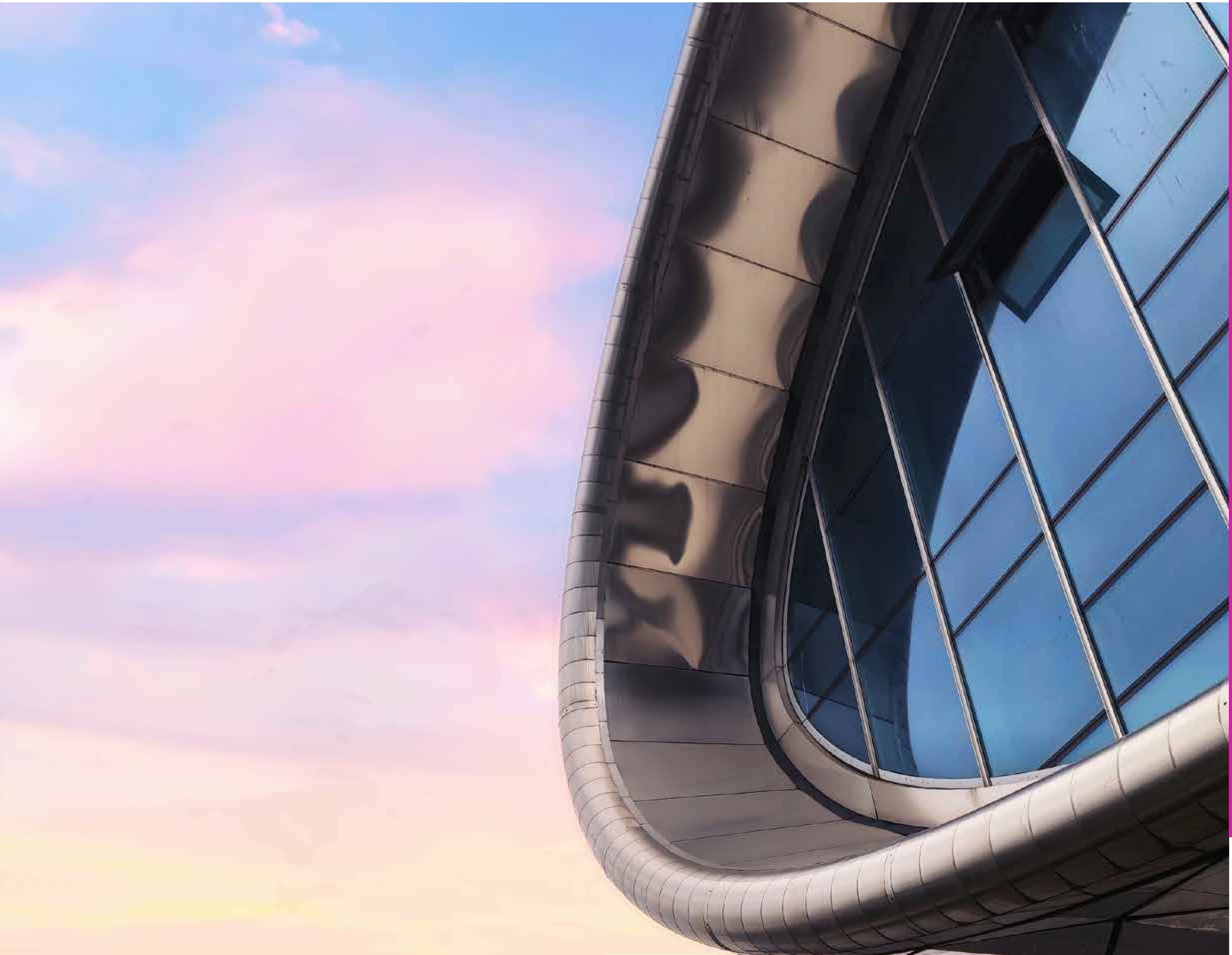
Full expensing, which was first announced in the 2023 Spring Budget, allowing companies to claim a 100% first year allowance on qualifying plant and machinery, is to be extended to leased assets when fiscal conditions permit. Full expensing was made permanent in the 2023 Autumn Statement, alongside the 50% first year allowance for special rate assets.

Incentive reliefs

There is perhaps some light at the end of the tunnel for R&D tax reliefs. HMRC will establish an expert advisory panel to support the administration of the reliefs, which will provide insights into the cutting edge R&D occurring across key sectors such as tech and life sciences. They will also work with HMRC to review relevant guidance, ensuring it remains up to date and provides clarity to claimants.

To promote the British film industry, the government intends to introduce a new independent film tax credit of 53% for films with budgets under £15 million that meet the conditions of a new British Film Institute test. It also intends to provide a 5% increase in tax relief for UK visual effects costs in film and high-end TV under the Audio-Visual Expenditure Credit (AVEC). UK visual effects costs will also be exempt from the AVECs cap on qualifying expenditure.

From 1 April 2025, the rates of Theatre Tax Relief, Orchestra Tax Relief and Museums and Galleries Exhibitions Tax Relief will be permanently set at 40% (for non-touring productions) and 45% for touring productions and all orchestra productions. The sunset clause for Museums and Galleries Exhibitions Tax Relief will also be removed.



Other measures

For sole traders and the self-employed, new guidance has been published in relation to the tax deductibility of training costs. This is to ensure that updating existing skills, and keeping pace with technological advancements or changes in industry practices, are allowable costs when calculating taxable profits.

The tax reliefs available in Freeport tax sites are being extended from 5 to 10 years, until September 2031 in England, and September 2034 in Scotland and Wales.

The Energy Profits Levy (EPL) was introduced in 2022 to ensure that oil and gas producers in the UK pay their fair share of tax from extraordinary profits. Gas prices are forecast to remain abnormally high until at least 2028-29. The government is therefore extending the EPL by an additional year to the end of March 2029. They are also bringing forward legislation to provide the oil and gas sector with certainty that the EPL will not apply if oil and gas prices drop below the levels set by the Energy Security Investment Mechanism before then.

A consultation will be published in respect of raising standards in the tax advice market, to strengthen the regulatory framework and require registration when advisors want to liaise with HMRC on their client's behalf. Following consultation, the government will also shortly set out next steps for tackling non-compliance in the umbrella company market.

Your income and capital

This Budget looks at property taxes, UK investment and the aim to create a "fairer" system for Child Benefit. Short term letting landlords will not be happy with the abolition of the Furnished Holiday Letting scheme, but will be pleased to be saving some tax if pushed to sell.

An introduction of a UK ISA and British Savings Bonds looks to drive investment into UK focused assets, and an increase to the HICBC thresholds gives some relief to those families in the clawback of Child Benefit, with the intention to move to a household income assessment position.

ISA reform – British ISA additional £5k limit

Along with the current £20,000 per year ISA limit, there will be a new "UK ISA", allowing an additional £5,000 allowance to be invested in UK-focused assets.

From April 2024, there will also be British Savings Bonds, delivered through National Savings and Investments (NS&I), offering guaranteed interest rates over a fixed three-year period.

Scrapping Furnished Holiday Let rules

Draft legislation is yet to be released, but from 6 April 2025 the beneficial Furnished Holiday Lettings regime will be abolished, treating all landlords of property the same for Income Tax purposes. This removes the beneficial treatment of Capital Allowances and the full deduction of mortgage interest from profits prior to tax.

Stamp Duty Land Tax (SDLT)

Multiple Dwellings Relief, which reduces the amount of SDLT if there is more than one dwelling in a purchase, will be abolished from 1 June 2024.Property transactions with contracts that were exchanged on or before 6 March 2024 will continue to benefit from the relief regardless of when they complete, as will any other purchases that are completed before 1 June 2024.

Residential CGT reduction to 24%

From 6 April 2024, the higher rate of Capital Gains Tax (CGT) on the disposal of residential property will drop from 28% to 24%. The lower rate of 18%, and the Annual Exemption, will not change. Private Residence Relief will also not be affected. This could lead to a slight stall in the property market over the next month, as sellers of second properties might delay their disposals until after 6 April 2024.

The higher rate for carried interest, however, remains at 28% and will not benefit from the same reduction, now giving five different Capital Gains Tax rates depending on the asset and income of the individual.

High Income Child Benefit Charge

The government will consult on the implementation but intend to move the assessment of the High Income Child Benefit Charge (HICBC) from the highest single earner of the family, to an assessment of the household income. This aims to level the unfairness of higher joint earning households, in comparison to single earner families, by April 2026.

In the meantime, from April 2024 the HICBC threshold will increase from £50,000 to £60,000. The rate of the charge will also be increased from 1% of Child Benefit clawed back for every £100 earned above the threshold, to 1% for every £200 earned about the threshold. This means Child Benefit will not be fully withdrawn until income exceeds £80,000.

Other measures

The government will invest, improve and simplify HMRC's digital services to support Income Tax Self-Assessment taxpayers seeking to pay tax in instalments from September 2025.

Legislation will be brought in in the Spring Finance Bill to ensure that the Transfer of Assets Abroad legislation cannot be bypassed by the use of companies to avoid a charge to UK Income Tax.

A new duty will be brought in on vaping products from 1 October 2026, linked with a one-off increase in tobacco duty from the same date.

The government has confirmed that the Fuel Duty will be frozen for 2024/25 and the temporary 5p cut in fuel duty rates will be extended until March 2025. They will also freeze alcohol duty from 1 August 2024 to 1 February 2025, extending the freeze announced in the 2023 Autumn Statement.

Non-Domiciled regime scrapped

The non-domiciled tax regime has been part of the UK tax regime since introduced by King George III in 1799.

Recent debate around reform started in the mid 1970's and 2008 saw the first big change for non-domiciled with the introduction for the Remittance basis charge; 2016 saw a further narrowing of the scope of the remittance basis for the non-domiciled with increased remittance basis charges and deemed domicile now applying for all taxes after 15 years.

Following years of debate, years of arguing about the economic impact, and political blustering the non-domiciled basis has now been scrapped from UK tax. Having finally crossed the Rubicon, we have an outline of how the new "residence-based" system will work. However, only time will reveal the economic impact and whether existing non-doms will have a turbulent few years whilst the true effect of the change comes to light. Early advice will be essential to ensure UK resident non-doms can adapt to the new system and take full advantage of the transitional rules.

The abolition of non-domiciled status will apply to both Income and Capital Gains Tax.

Historically non-domiciled individuals have been able to exclude foreign income and gains not brought into the UK from UK taxation for up to 15 years, subject to paying the remittance basis charge.

Now this will be replaced with a residence-based test.

For new arrivals, who have a period of 10 years of consecutive non-residence, there will be full tax relief on foreign income and gains for the first 4 years of UK residence. Unlike the domicile-based system, this seems to apply to everyone and during that time money can be brought into the UK without an additional tax charge.

Existing residents who have been in the UK for fewer than 4 years will be able to benefit from the relief until the end of their 4th year of tax residence.

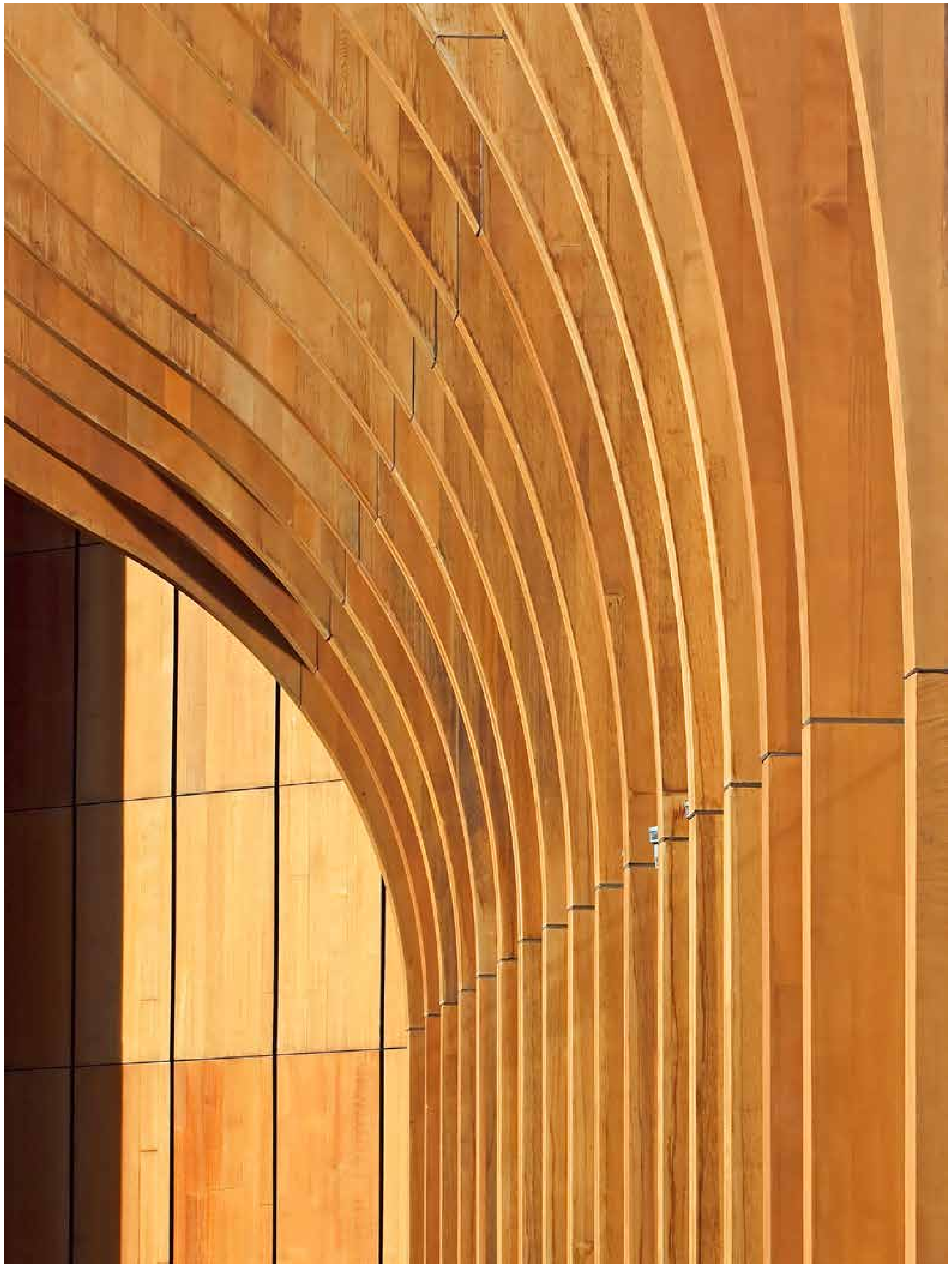
Under the new system, regardless of domicile, after 4 years of UK tax residence, the individual will pay UK tax on all their worldwide income and gains.

HMRC says this scheme is more generous than countries which have no equivalent scheme, and will be competitive against countries which operate similar systems for new residents. However, it will be considerably less generous than the existing non-domiciled regime, although existing non-doms will get some transitional relief.

Transitional relief

There will be transitional relief for existing affected non-domiciled individuals:

- There will be a temporary 50% reduction in personal foreign income tax subject to tax in 2025/26 for non-domiciled individuals who will lose access to the remittance basis on 6 April 2025 and are not eligible for the new 4-year regime.
- There will be re-basis of capital assets to 5 April 2019 for disposals taking place after 6 April 2025 for current non-domiciled individuals who have claimed the remittance basis. This means that when foreign assets are disposed of, affected individuals can elect to be taxed only on capital gains since that date.
- Non-domiciled individuals will be able to remit foreign income and gains that arose before 6 April 2025 to the UK at the rate of 12% under a new Temporary Repatriation Facility in the 2025/-26 and 2026/-27 tax years.
- The government is removing protections of non-resident trusts for all new foreign income and gains that arise within them after 6 April 2025. Foreign income and gains that arose in protected trusts before 6 April 2025 will not be taxed unless distributions or benefits are paid to UK residents who have been here more than 4 years.



What about Inheritance Tax?

Liability to Inheritance Tax depends on domicile status and location of assets. Under the current regime, no Inheritance Tax is due on non-UK assets of non-doms until they have been UK resident for 15 out of the past 20 tax years. The government will consult on the best way to move IHT to a residence-based regime. To provide certainty to affected taxpayers, the treatment of non-UK assets settled into a trust by a non-UK domiciled settlor prior to April 2025 will not change, so these will not be within the scope of the UK IHT regime.

Our expert team can help you understand the impact of the Spring Budget on you and your business

To find out more please contact our Tax team.

Corporate Tax
Chris Riley, Partner
+44 (0)20 7516 2427
criley@pkf-l.com

Corporate Tax
Catherine Heyes, Partner
+44 (0)20 7516 2237
cheyes@pkf-l.com

Corporate Tax
Tom Golding, Partner
+44 (0)20 7516 2413
tgolding@pkf-l.com

Human Capital
Louise Fryer, Director
+44 (0)20 7516 2446
lfryer@pkf-l.com

Indirect Taxes
Luigi Lungarella, Director
+44 (0)20 7516 2228
llungarella@pkf-l.com

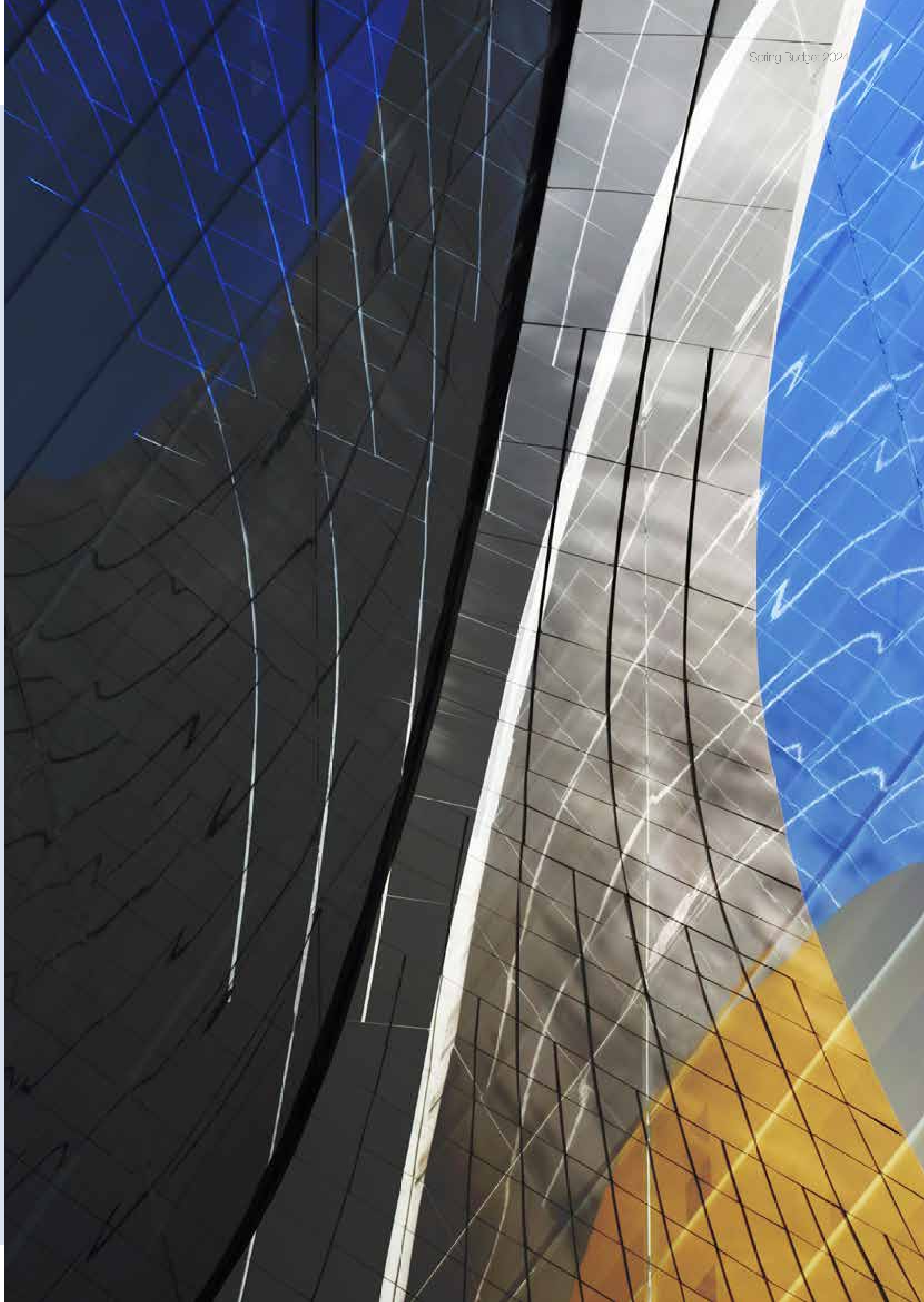
Personal Tax
Stephen Kenny, Partner
+44 (0)20 7516 2200
skenny@pkf-l.com

Indirect Taxes
Mark Ellis, Partner
+44 (0)20 7072 1102
mellis@pkf-l.com

Corporate Tax
Mimi Chan, Partner
+44 (0)20 7516 2264
mchan@pkf-l.com

Personal Tax
Karen Ozen, Director
+44 (0)20 7516 2273
kozen@pkf-l.com

Transfer Pricing
Farhan Azeem, Director
+44 (0)113 360 8385
fazeem@pkf-l.com



PKF Littlejohn LLP

London
15 Westferry Circus
Canary Wharf
London E14 4HD
+44 (0)20 7516 2200

Leeds
3rd Floor, One Park Row,
Leeds, Yorkshire,
LS1 5HN
+44 (0)113 244 5141

Manchester
11 York Street,
Manchester,
M2 2AW
+44 (0)161 552 4220

www.pkf-l.com