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Spring Budget 2024

What will the changes mean for you?

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Summary

Jeremy Hunt's second (and possibly last!) Spring Budget was described by the Chancellor as a "Budget for Long Term Growth".

The Chancellor announced several changes to deliver this objective, including another 2% reduction in the employee rate of NIC (which, when combined with last Autumn's reduction, has now fallen from 12% to 8%). The Chancellor's stated aim is to "reduce the penalty for working" and hopefully fill some of the current 900,000 job vacancies in the UK. The independent OBR has commented that last Autumn's and today's NIC reductions are equivalent to 200,000 more people in work, which will be welcomed by most businesses who continue to face the significant challenge of finding new staff.

Other announcements that were aimed at "reducing the penalty for working" were reforms to the £50k child benefit threshold and an increase in the VAT registration threshold from £85k to £90k. This latter change is long overdue as it is 7 years since it was last increased, and we continue to wonder why the inheritance tax nil rate band of £325k has not been increased given it is 15 years since it was last increased (ignoring the complex residence nil rate band that was introduced back in 2017). Inheritance tax changes did not make an appearance today and we suspect that the much-debated potential changes (or even abolition of inheritance tax!) will feature in the Conservatives election manifesto later this year.

Other areas of tax did however see some fundamental reforms, with the favourable tax regime for furnished holiday lettings being completely abolished, stamp duty land tax multiple dwellings relief being withdrawn and significant changes to the "non-dom" tax regime.

It wasn't all bad news for residential property owners, with the higher 28% Capital Gains Tax rate being reduced to 24%, but this change appeared to have an element of politics behind it as it allowed the Chancellor the opportunity to refer to the recent media coverage over Angela Rayner's sale of a house back in 2015.

Whilst today's Budget was presented as being a "Budget for Long Term Growth" it was, as expected, largely politically driven with the forthcoming general election very much in mind.

Income Tax & NIC

National Insurance Contributions (NIC)

As recently as January 2024, the main rate of class 1 NIC paid by employees was reduced from 12% to 10%, along with a corresponding drop in the main rate of class 4 NIC paid by the self employed from 9% to 8%.

It was announced today that both the main rates of class 1 NIC and class 4 NIC would be cut by a further 2% each from April 2024. The main rate of class 1 NIC will therefore drop from 10% to 8% and the main rate of class 4 NIC will drop from 8% to 6%.

As a reminder, the main rate of both class 1 and class 4 NIC is payable on earnings/profits between £12,570 and £50,270.

These two recent cuts in January 2024 and April 2024 between them can result in over £1,500 in NIC savings potentially.

Already previously announced, the flat rate class 2 NIC that is also paid by the self employed (currently around £180 per year) is being scrapped from April 2024. Access to contributory benefits such as the state pension will continue for all self employed individuals with profits over £6,725 despite not paying any class 2 NIC. Those with profits under £6,725 can continue to elect to voluntarily pay class 2 NIC to retain these benefits.

Income Tax Rates

No changes were announced with regards to income tax directly.

We therefore have the same £12,570 tax free personal allowance, basic rate tax band (20%) to £50,270, higher rate tax band (40%) to £125,140 and additional rate tax band (45%) thereafter, as we have had in recent years.

The tax free personal allowance continues to be tapered between £100,000 and £125,140.

As previously announced, the tax free dividend allowance is reducing again in April 2024 from £1,000 to £500.

There were changes announced to the unpopular “high income child benefit charge” which you can read more about below.

Capital Gains Tax (CGT)

Residential Property Gains – Higher Rate

It was announced that the CGT rate which applies to disposals of residential property which fall into the higher rate tax band would be reduced from the current 28% to 24% from April 2024. The Chancellor’s rationale for this was to encourage more property sales, which should in fact result in more tax being collected than is currently the case. The 18% rate which applies within the basic rate tax band will be unchanged.

Furnished Holiday Lets

It wasn't all good news on the CGT front though – the abolition of the special rules for Furnished Holiday Let (FHL) properties will significantly restrict tax planning options available to owners of such properties. Currently FHL properties can qualify for:

- CGT Holdover Relief (meaning capital gains arising on a gift can be deferred);
- Business Asset Disposal Relief (meaning gains realised on sale can be taxed at 10%), and
- CGT Rollover Relief (meaning that gains arising on sale can be deferred by reinvesting into other business assets (and conversely FHLs will no longer be a qualifying asset for the purposes of reinvesting funds realised on sales of other business assets)).

These favourable rules will be abolished with effect from April 2025, although anti-forestalling provisions will prevent the use of unconditional contracts entered into on or after 6 March 2024 in order to accelerate the effective date of a property transaction (and therefore benefit from CGT reliefs).

Non-Doms

As explained in more detail in our 'Non-Doms' section, taxpayers who are resident in the UK, but not domiciled here have previously been able to limit their exposure to UK CGT by realising capital gains offshore and not bringing the proceeds of sale back to the UK – this is known as the remittance basis.

From April 2025 these rules will be reformed such that the remittance basis will be removed and UK tax residents will in broad terms pay tax on all worldwide gains (and income).

New arrivals to the UK who have a period of 10 years consecutive non-residence will have full tax relief on foreign gains for their first 4 years of UK tax residency, and proceeds from overseas gains can be brought back to the UK without charge. Relatively recent arrivals to the UK will also be able to benefit from full relief for their first 4 years of tax residency.

Transitional rules will seek to soften the blow for existing non-doms, and these will include a rebasing for CGT purposes to values at 6 April 2019, and a reduced rate of tax of 12% on gains which arose before 6 April 2025 which are brought into the UK in 2025/2026 and 2026/2027.

High Income Child Benefit Charge

The "high income child benefit charge" (HICBC) is an unpopular tax charge, designed to claw back child benefit received from "high earners".

The higher earner in a household can be subject to the HICBC if their income exceeds £50,000 and their household is in receipt of child benefit.

Between £50,000 and £60,000 of income, the charge is gradually clawed back, so at say £55,000 of income you are liable to repay 50% of your child benefit and by the time you hit £60,000 of income you are liable to repay 100% of your child benefit.

The charge is arguably unfair as it looks solely at the income of the higher earner in the household so if that person has income of say £60,000 and the lower earner has no income (ie. £60,000 total household income) then 100% of the child benefit must be repaid. Contrast this to a household where both people earn £50,000 each (ie. £100,000 total household income) and 0% of the child benefit must be repaid.

The government have announced that they are addressing this issue by introducing a "household based system" from April 2026 and will consult on this in due course.

In the meantime from April 2024, they have announced that the £50,000 to £60,000 band will be increased so that the child benefit charge is clawed back from £60,000 to £80,000 instead.

Not only is the starting point increased, but the band itself is doubled which results in a more gradual claw back and reduction to the marginal tax rate levied which is a welcome change.

Furnished Holiday Lets (FHL)

The furnished holiday let (FHL) rules are special rules for qualifying short term let properties which attract various tax advantages.

It was announced today that the FHL regime would be scrapped entirely from April 2025, meaning that all let properties would be treated the same whether they are long term lets or short term "holiday let" type properties.

The various tax advantages which will be removed from April 2025 are as follows:

- FHL properties are currently entitled to full tax relief on mortgage interest, whereas long term lets are only entitled to a 20% tax credit on mortgage interest.
- The current rules for allocating FHL profits/losses between property owners are generally more flexible than those on long term let properties.
- CGT Holdover Relief (meaning capital gains arising on a gift can be deferred).
- Business Asset Disposal Relief (meaning gains realised on sale can be taxed at 10%).
- CGT Rollover Relief (meaning that gains arising on sale can be deferred by reinvesting into other business assets (and conversely FHLs will no longer be a qualifying asset for the purposes of reinvesting funds realised on sales of other business assets).

Non-UK Domiciled Individuals (Non-Doms)

Backdrop

One of Labour's key pledges in the run up to the election has been to abolish the 'non-dom regime', not least because it has given them an opportunity to remind the electorate that until recently, Rishi Sunak's wife was benefitting from these rules!

Non-doms are individuals who are resident in the UK for tax purposes, but who are not domiciled in the UK (meaning the UK is not deemed to be their permanent home) – usually because they were not born in the UK, and they do not intend to stay in the UK forever.

As things stand, non-doms can choose to restrict their UK tax exposure on foreign income and gains (FIG) to the extent that they bring or 'remit' FIG to the UK. This is known as the remittance basis of taxation, and it allows very wealthy individuals who live in the UK to significantly reduce their exposure to UK tax. These individuals sometimes have to pay a charge to take advantage of this, but the charge will in many cases be significantly less than they would be paying HMRC if their worldwide income and gains were subject to tax in the UK.

Changes Announced

Arguably stealing Labour's thunder, the Chancellor announced that the Government would be reforming or 'modernising' the regime for taxing non-doms with effect from April 2025. In simple terms, they will bring into the scope of UK tax all FIG which arise from April 2025.

There will however be some protection available to new arrivals to the UK. Those who have a period of 10 years consecutive non-residence will enjoy full relief on FIG for their first 4 years of UK tax residence, and during this time they will be able to bring the money back to the UK without a tax charge.

Existing tax residents who have been in the UK for fewer than 4 tax years will benefit on the same terms until the end of their 4th year of UK residency.

Although the detail that has been announced is significant for Income Tax and Capital Gains Tax purposes, the Government also plan to reform the way in which an individual's domicile status determines their Inheritance Tax position, with a move towards a residence-based system. Further detail is expected on this later in the year, although the Government have confirmed that the treatment of excluded property trusts created prior to April 2025 will not be changed.

Existing Non-Doms

There will of course be a number of UK tax residents currently using the remittance basis who will be affected. The Government have announced the following transitional measures to soften the impact on them:

- A temporary 50% reduction in the foreign income that will be subject to tax in 2025/2026 for those non-doms who will not be eligible for the new 4 year FIG exemption;
- For disposals after 6 April 2025 by current non-doms who have claimed the remittance basis, a re-basing of capital assets to the value at April 2019 (meaning only growth in value from that date will be taxed);
- A 12% tax rate on remittances of pre-April 2025 FIG which take place in 2025/2026 or 2026/2027.

Capital Allowances

The £1M Annual Investment Allowance (AIA) remains in force on qualifying plant and machinery purchases.

"Full Expensing" was first announced in the Spring 2023 budget and was made permanent in the Autumn Statement 2023. Full Expensing is only of benefit to companies whose expenditure exceeds the £1M AIA threshold.

Full Expensing enables companies who invest in brand new plant and machinery to qualify for 100% tax relief in the year of spend. There are certain expenditures that don't currently qualify for Full Expensing, including cars and also plant and machinery that is hired out without an operator.

It was announced today that Full Expensing will be extended to assets that are hired out/leased without an operator.

Draft legislation will be published shortly and this extension to Full Expensing should be introduced "when fiscal conditions allow".

Research & Development

The policy paper accompanying the Spring Budget notes that HMRC will establish an expert advisory panel to support the administration of R&D reliefs, in order to improve the functioning of the R&D tax reliefs system. The aim is that the panel will provide insights into the cutting-edge R&D occurring across key sectors, and work with HMRC to review relevant guidance, ensuring it remains up to date and provides clarity to claimants. Those companies claiming or wanting to claim R&D relief will surely appreciate clarity given the recent multiple changes to the R&D regime.

To recap on changes to the R&D regime for companies with accounting periods commencing on or after 1 April 2024;

All companies (with the exception of loss making "SME R&D intensive companies") will get tax relief at a headline rate of 20% of qualifying R&D expenditure. This is known as an "Above the line" (ATL) scheme. Relief will be reduced by a "notional tax" charge based on the company's applicable tax rate (if profit making) or at a flat 19% if loss making. Any "notional tax" retained can be carried forward as a credit against the company's next available corporation tax liability (subject to having a PAYE/NIC liability equal to or more than the tax credit). The current complexities around grant funding, subsidised expenditure and contracted R&D will be removed to simplify the claims and so that tax relief is not reduced.

Loss making "SME R&D intensive companies" are subject to a different R&D regime. A company with an accounting period starting on or after 1 April 2024 needs to have qualifying R&D spend worth at least 30% of its total expenditure to be classed as an "intensive SME". Loss making intense SME companies can claim £27 from HMRC for every £100 of R&D investment (calculated as an 86% uplift on spend x 14.5% "cash back"), instead of being in the ATL scheme.

Cultural Tax Reliefs

The Chancellor announced that the temporarily increased Theatre Tax Relief (TTR) & Orchestra relief credit rates of 45% (for touring productions) and 40% (for non-touring productions), which were due to revert to the lower rates of 25%/20% respectively in March 2025, will now be made permanent.

The Chancellor announced a new UK Independent Film Tax Credit (IFTC). Under IFTC, eligible films will be able to opt-in to claim enhanced Audio-Visual Expenditure Credit (AVEC), at a rate of 53%, on their qualifying expenditure. This is designed to boost the production of UK independent films and support UK talent in films.

Films will need to have production budgets (excluding marketing and distribution) of below £15 million and either a UK writer OR a UK director OR be certified as an official UK co-production. The IFTC will not be available for TV programmes. Productions will need to have a 'theatrical release' to qualify.

If claiming the IFTC, separate claims for the existing visual effects and animation tax relief (AVEC) cannot also be made.

Claims can be submitted to HMRC from 1 April 2025 onwards, in respect of expenditure incurred from 1 April 2024, as long as a film did not begin principal photography until after 1 April 2024.

The BFI will assess film budgets to certify that IFTC films meet the budget condition. When submitting claims, companies must submit an additional information form for the relevant period (accompanied by their BFI certificate). The claim then needs to be submitted as part of the Company Tax Return. This procedure mirrors the new AIF procedure for the Research & Development regime.

Stamp Duty Land Tax (SDLT)

The Government had previously consulted in relation to mixed property transactions (where a purchase comprises both residential and non-residential property), and Multiple Dwellings Relief (MDR), which is a relief which can apply where a property comprises two or more dwellings.

The Chancellor announced that legislation will be introduced to abolish MDR with effect from 1 June 2024. This does mean that there is a 'window of opportunity' of just under 3 months whereby those who exchange contracts and complete purchases comprising multiple dwellings before 1 June will still be able to qualify for relief – we would envisage there being some very busy solicitors! It is also worth noting that where contracts have been exchanged on or before 6 March 2024, MDR can still be claimed regardless of when the transaction ultimately completes.

On a more positive note, the Government had confirmed that it will not take forward any changes to the rules relating to mixed property transactions. This means that the (typically lower) non-residential rates of SDLT will continue to apply to transactions which comprise both residential and non-residential property.

A very minor change will also be made to First Time Buyer's Relief, ensuring that this relief can be claimed by an individual acquiring leasehold residential property through a nominee or bare trustee.

Inheritance Tax

Now that the UK is no longer part of the EEA following Brexit, the government has announced that it will introduce legislation in the Spring Finance Bill 2024 to restrict the scope of agricultural property relief and woodlands relief to property in the UK. Property located in the EEA, the Channel Islands and the Isle of Man will be treated the same as other property located outside the UK. The changes will take effect from 6 April 2024.

Universal Credit

Universal credit claimants will have more time to pay back a budgeting advance loan as a result of changes announced today.

A budgeting advance can be used for certain expenses such as emergency household costs, rent in advance or a deposit for moving home, travel costs for starting a new job or funeral costs.

The minimum budgeting advance you can borrow is £100 but claimants may be able to borrow up to £348 if single, £464 if part of a couple or £812 if they have children. If the claimant has savings of over £1,000 the loan amount is reduced by £1 for every £1 a claimant has in savings above £1,000.

Currently claimants have 12 months to pay back a budgeting advance loan, but a welcome announcement today confirmed that this will increase to 24 months. The option to repay the interest free loan over a longer period will be a welcome announcement to those claimants who have been struggling to repay it over the 12 month window.

Investments and Pensions

The UK ISA is expected to be launched which will support savers and open up UK retail investment opportunities for individuals. The UK ISA will have a £5,000 allowance in addition to the existing ISA allowance and will be a new tax-free product for people to invest in UK-focused assets although the Government will consult on the details from 6th June 2024 on how to implement it.

A reintroduction of British Savings Bonds was announced. These will be delivered through National Savings and Investments and will be launched in April 2024. This product will offer a guaranteed interest rate, fixed for three years although interest rates have yet to be released.

All other allowances are to remain the same; The pension annual allowance is still £60,000 with the money purchase annual allowance (MPAA) being £10,000. The ISA allowance is to remain at £20,000, Lifetime ISA at £4,000 and Junior ISA at £9,000.

VAT

The VAT registration threshold has been fixed at £85,000 since 1 April 2017, but will increase to £90,000 on 1 April 2024. This will be a welcome increase for those small businesses at risk of being dragged into VAT registration due to thresholds not keeping up with inflation. The deregistration threshold (i.e. the level of supplies that a business already registered for VAT would need their supplies to fall beneath before they can cancel their registration) will increase from £83,000 to £88,000 from the same date.

Duties

The freeze in alcohol duties will continue for another year until 1 February 2025.

The 5p cut in fuel duties implemented by the 2022 Spring Statement will continue for another 12 months.

A new duty on vaping products will be introduced, but this is not expected to be until October 2026, after a period of consultation.

Tobacco duties will increase from the same date.

If you have any queries on the Spring Budget 2024 please do not hesitate to contact one of our tax specialists on 01228 530913 or 01768 864466.