Ryecroft Glenton

Clear advice
Creative thinking

# Autumn Budget 2024

6 November 2024

# Agenda

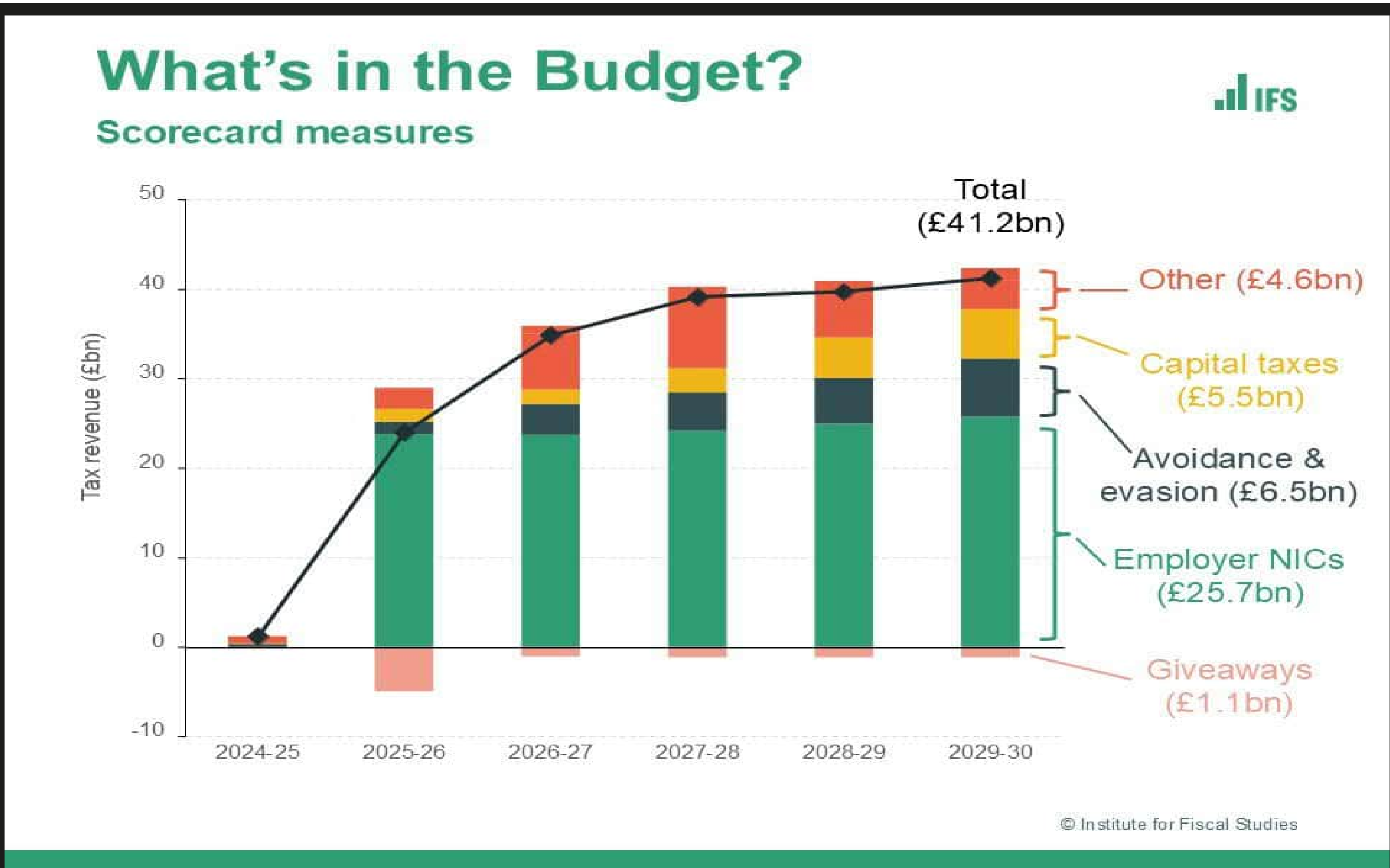
- Introduction
- Inheritance Tax
- Capital Gains Tax
- Non Domicile changes
- Other
- Business Tax
- Looking Forward
- Q&A

# Introduction – Budget messages

The key messages emerging from last weeks' Budget and related announcements are:

- Halloween Budget with a £41bn "black hole" to fill
- Some aspects less painful than predicted
- Employers' major contribution with NIC hike and minimum wage uplift
- Inheritance tax major changes (vocal feedback)
- CGT changes, but not as bad as feared
- Confirmation on private school fees VAT changes, non-Doms, improved collection
- Corporate Tax "Roadmap"
- Fuel duty and Business Rates "give aways" !

# Introduction



# Inheritance Tax (IHT)


Freeze it to tax it?

# Nil rate bands frozen until 2030

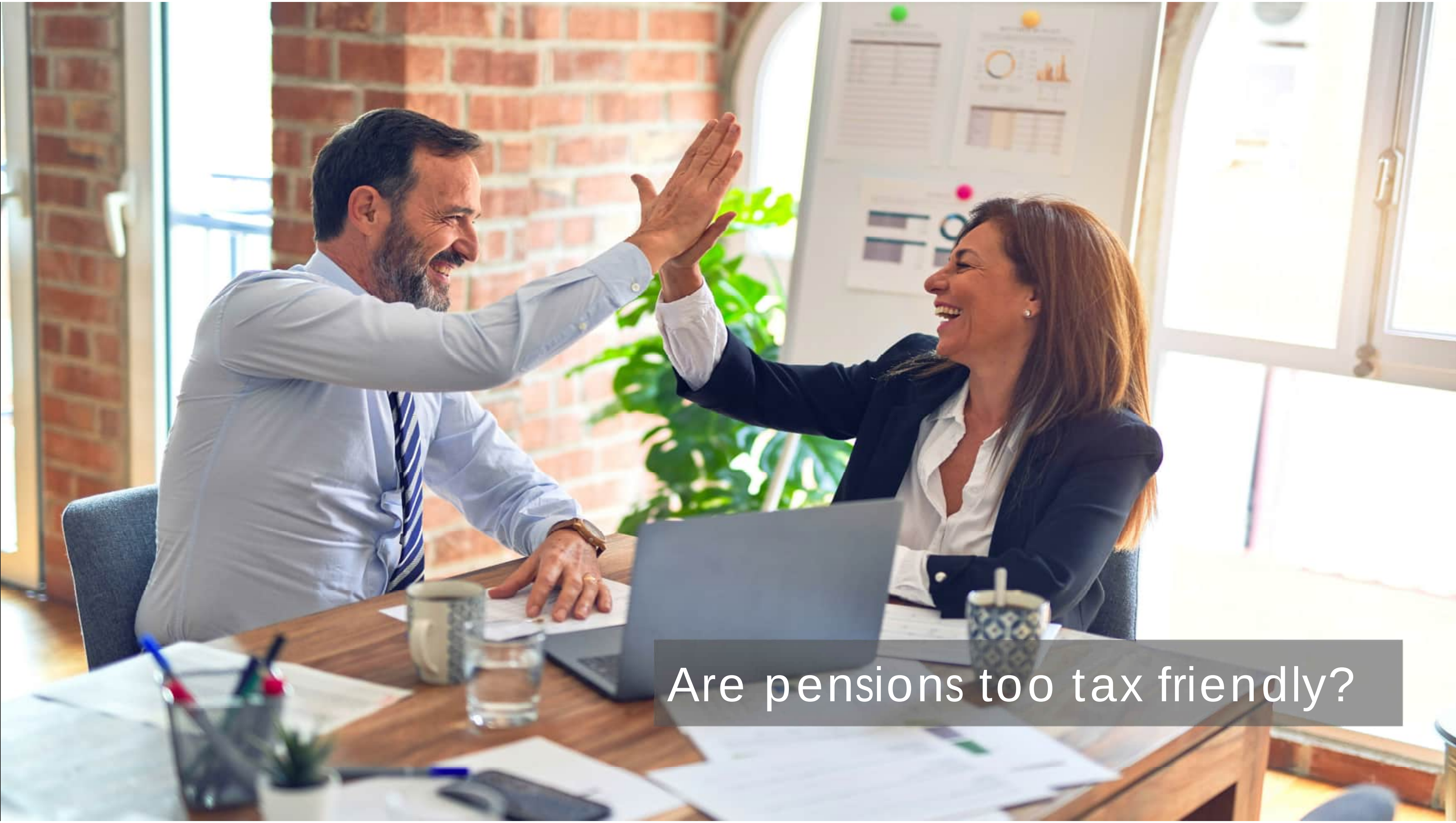
- Main nil rate band
  - Frozen at £325,000 since 2009
  - Adjusted for inflation, it should be £500,000 today
- Residential nil rate band
  - Frozen at £175,000 since 2020
  - Adjusted for inflation, it should be £215,000 today
- RNRB taper
  - Threshold frozen at £2million
  - Zero RNRB for estates worth more than £2.35million

# Nil rate bands frozen until 2030

- Expected tax cost:

| | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 |
|---|---|---|---|---|---|---|
| Exchequer impact | +£0m | +£0m | +£0m | +£0m | +£110m | +£355m |

- What can you do?


Are pensions too tax friendly?

# Unspent pensions to be taxed

- Current rules:
  - Pensions generally passed on tax efficiently
  - Unspent pensions not normally considered part of your estate
  - Broadly, tax is only due if:
    - You die after age 75; and
    - Beneficiaries exposed to income tax when they take money out

# Unspent pensions to be taxed

- What's changing:
  - From April 2027
  - Unspent pension included in your estate
  - Up to 40% inheritance tax cost before it reaches your beneficiaries
  - You die after age 75, beneficiaries still pay income tax to draw down from the fund

# Unspent pensions to be taxed – an example

- Geraldine:

  - Widowed and inherited entirety of husband's estate
  - Dies age 77
  - Estate includes:
    - Main home valued at £1million
    - Savings of £1million
    - Pension fund £750k
  - Estate left to daughter

- Until April 2027, assuming RNRB conditions are met, inheritance tax exposure of £400k

# Unspent pensions to be taxed – an example

- From April 2027 onwards:
  - RNRB would be tapered to zero – tax cost £140k
  - Inheritance tax on unspent pension – tax cost £300k
- £440k additional inheritance tax cost because of pension
- 58.6% rate of inheritance tax
- Daughter gets pension fund of £450k and would suffer income tax of up to £202k
- £750k pension now worth £248k net of tax and £140k less to inherit from house

# Unspent pensions to be taxed

- Expected tax cost:

| | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 |
|---|---|---|---|---|---|---|
| Exchequer impact | +£0m | +£0m | +£0m | +£640m | +£1,340m | +£1,460m |

# Unspent pensions to be taxed – what can you do?

- These new measures may discourage people from accumulating wealth to be passed on

# Unspent pensions to be taxed – what can you do?

- These new measures may discourage people from accumulating wealth to be passed on
- Is the solution to draw down your pension taking the income tax hit and:
  - Spend it
  - Give the money away hoping to survive the gift by seven years
  - Invest in tax privileged assets that attract some other form of inheritance tax relief
  - EIS/SEIS might be an option to consider as these investments give an upfront credit for income tax

# Tax privileged assets

# Agricultural / Business Property Relief

- Currently:
  - Private businesses can qualify for Business Property Relief ("BPR")
  - BPR allows these businesses to be passed down through generations tax efficiently
  - If a business qualifies, the owners / shareholders could benefit from 100% relief from inheritance tax
  - Likewise, most farming businesses and land let to those businesses can also qualify for Agricultural Property Relief ("APR") of up to 100% from inheritance tax

# Agricultural / Business Property Relief

- What's changing:
  - APR / BPR assets will still benefit from some IHT relief
  - From April 2026, however, there will effectively be a nil rate band specifically for these assets
  - APR / BPR will be subject to a £1million combined cap of 100% inheritance tax relief
  - Value in excess of this amount will only benefit from 50% inheritance tax relief – an effective 20% rate of inheritance tax above £1million
  - A simple illustration…

# A simple example…

| | Now (£) | 2026 (£) |
|---|---|---|
| Home / investments | 1,000,000 | 1,000,000 |
| Business value | 5,000,000 | 5,000,000 |
| APR / BPR | -5,000,000 | -1,000,000 |
| Nil rate band | -325,000 | -325,000 |
| Residence nil rate band | 0 | 0 |
| Chargeable estate | 675,000 | 4,675,000 |

| | Now (£) | 2026 (£) |
|---|---|---|
| IHT on home / investments | 270,000 | 270,000 |
| IHT on business | 0 | 800,000 |
| Total IHT | 270,000 | 1,070,000 |

# APR/BPR – What can you do?

- Hold assets until death and take life assurance

# APR/BPR – What can you do?

- Hold assets until death and take life assurance
- Give and live, but challenges
  - Income needs
  - Capital gains tax
  - Life assurance to cover seven-year shadow
  - Gifts with reservation of benefit
  - Anti-forestalling rules between now and April 2026

# APR/BPR – What can you do?

- Making a gift into trust during lifetime, but challenges
  - Income needs
  - Capital gains tax
  - Life assurance to cover seven-year shadow
  - Anti-forestalling rules between now and April 2026
  - Get this done before 6 April 2026 or else upfront effective 10% inheritance tax charge if more than £1m APR/BPR assets settled

# Alternative Investment Market

# Shares listed on the AIM

- Currently:
  - AIM is not a ‘recognised’ stock exchange for inheritance tax purposes
  - Therefore, certain AIM shares qualify for inheritance tax BPR
  - Once held for two years, on death, eligible for 100% inheritance tax relief
  - A popular and accessible inheritance tax investment

# Shares listed on the AIM

- What's changing:
  - It's not as bad as we had feared
  - AIM shares will continue to benefit from inheritance tax BPR
  - However, from 6 April 2026 the relief will be given at only 50%
  - An effective 20% rate of inheritance tax on the value of AIM shares
  - Note – the APR/BPR nil rate band cannot be used against the value of AIM shares

# Shares listed on the AIM – what can you do?

- Maybe nothing? AIM shares will have a less favourable regime, but still capable of being passed on more tax efficiently than shares listed on the main markets

- As with more general BPR qualifying assets, consider lifetime gifts or settling these assets on trust?

- If you don't have any other qualifying Business or Agricultural Property, consider:

    - Selling up; and

    - Reinvesting in S/EIS companies or offerings from investment houses that qualify for BPR

# APR/BPR/AIM

- Expected tax cost:

| | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 |
|---|---|---|---|---|---|---|
| Exchequer impact | +£0m | +£0m | £230m | £495m | +£520m | +£520m |


IHT winners and losers?

# IHT winners

- Government / Exchequer / Treasury
- Those on their deathbed with APR/BPR qualifying assets who die before 6 April 2026
- AIM shareholders and the wider AIM market
- Individuals young enough to make lifetime gifts and survive seven-year shadow
- Married couples / civil partners who have flexible Wills to bank their APR/BPR nil rate band on first death

# IHT losers

- Business owners, farmers, and those owning agricultural land, particularly where "Balfour" style planning has been implemented
- Trustees holding such assets on trust
- Heirs having to fund additional inheritance tax to avoid a forced sale of a business / farm / land
- AIM shareholders
- Pension fund administrators
- Long term residents of the UK and "excluded property trusts"


# Capital Gains Tax

# CGT Rates pre 30 October 2024

| Source of gains | | | |
|---|---|---|---|
| | Basic rate | Higher rate | Additional rate |
| Carried interest | 18% | 28% | 28% |
| Residential property | 18% | 24% | 24% |
| Business asset disposal relief and investors’ relief | 10% | 10% | 10% |
| Other assets | 10% | 20% | 20% |
| Exempt assets, and all gains unrealised at death | 0% | 0% | 0% |

# Main Rate Changes

- Main rates of CGT rise immediately from 10% & 20% to 18% & 24% effective 30 October 2024.
- Carried interest rate rises from 28% to 32% in 2025 & 34% in 2026.
- Anti-forestalling.

# Capital Gains Tax Reliefs

- Business asset disposal relief (BADR) and investors' relief (IR) rates rise from 10% to 14% in April 2025 and then to 18% in 2026.

- Investors Relief lifetime limit reduced from £10m to £1m from 30 October 2024.

# What didn't change?

- Tax efficient investments
- Venture capital schemes
- CGT uplift on death
- Non residency Position
- Holdover Relief

# Actions & Key Dates

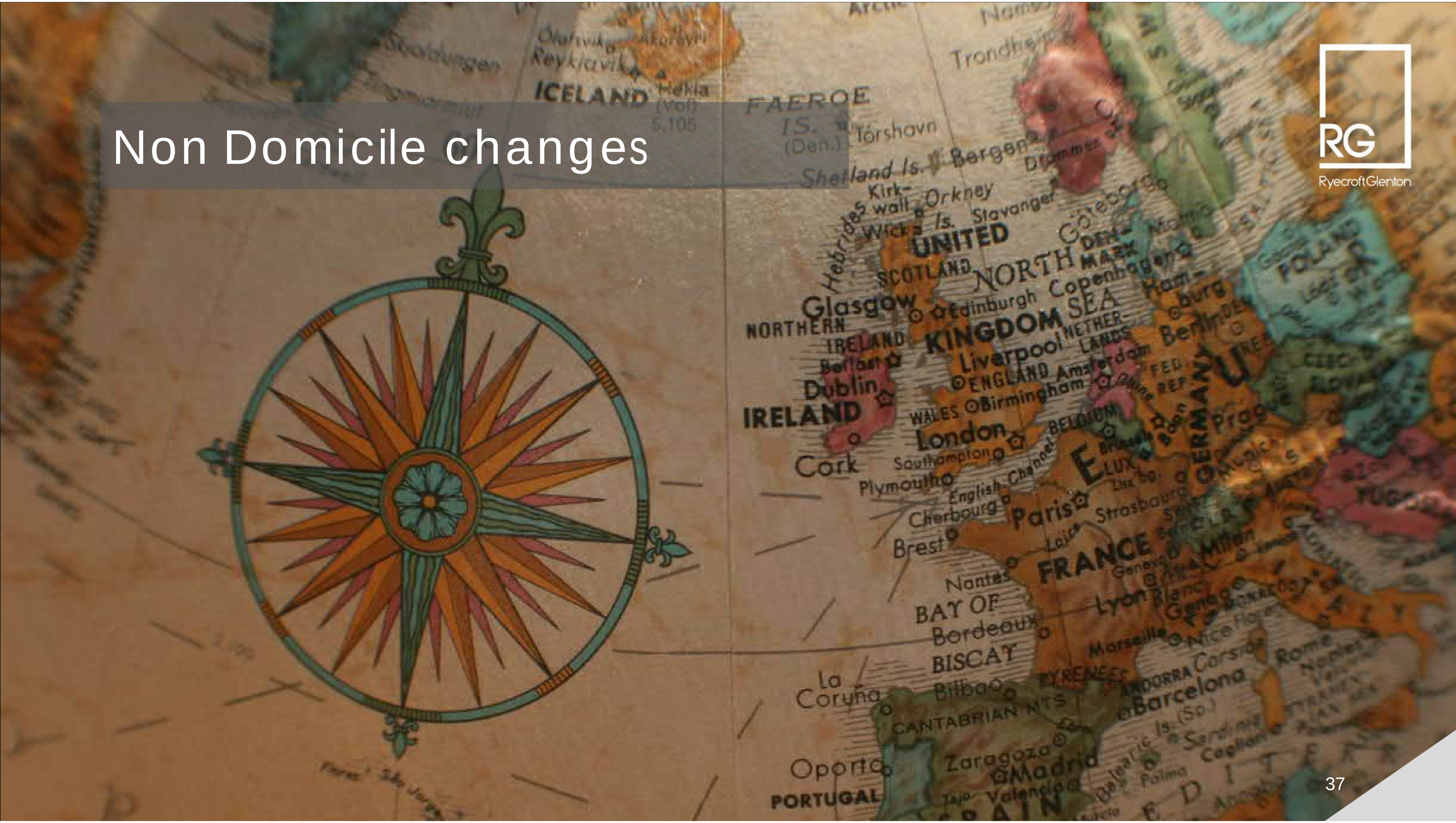
Immediate-Pre 6 April 2025

- Accelerate transactions
- Consider arrangements impacted by anti-forestalling
- Furnished Holiday Lets pre April 2025

Longer Term Planning

- Review capital events and asset base
- Consider business structure
- Consider BADR position
- Is offshore an option?

# Non Domicile changes

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# Income Tax & CGT

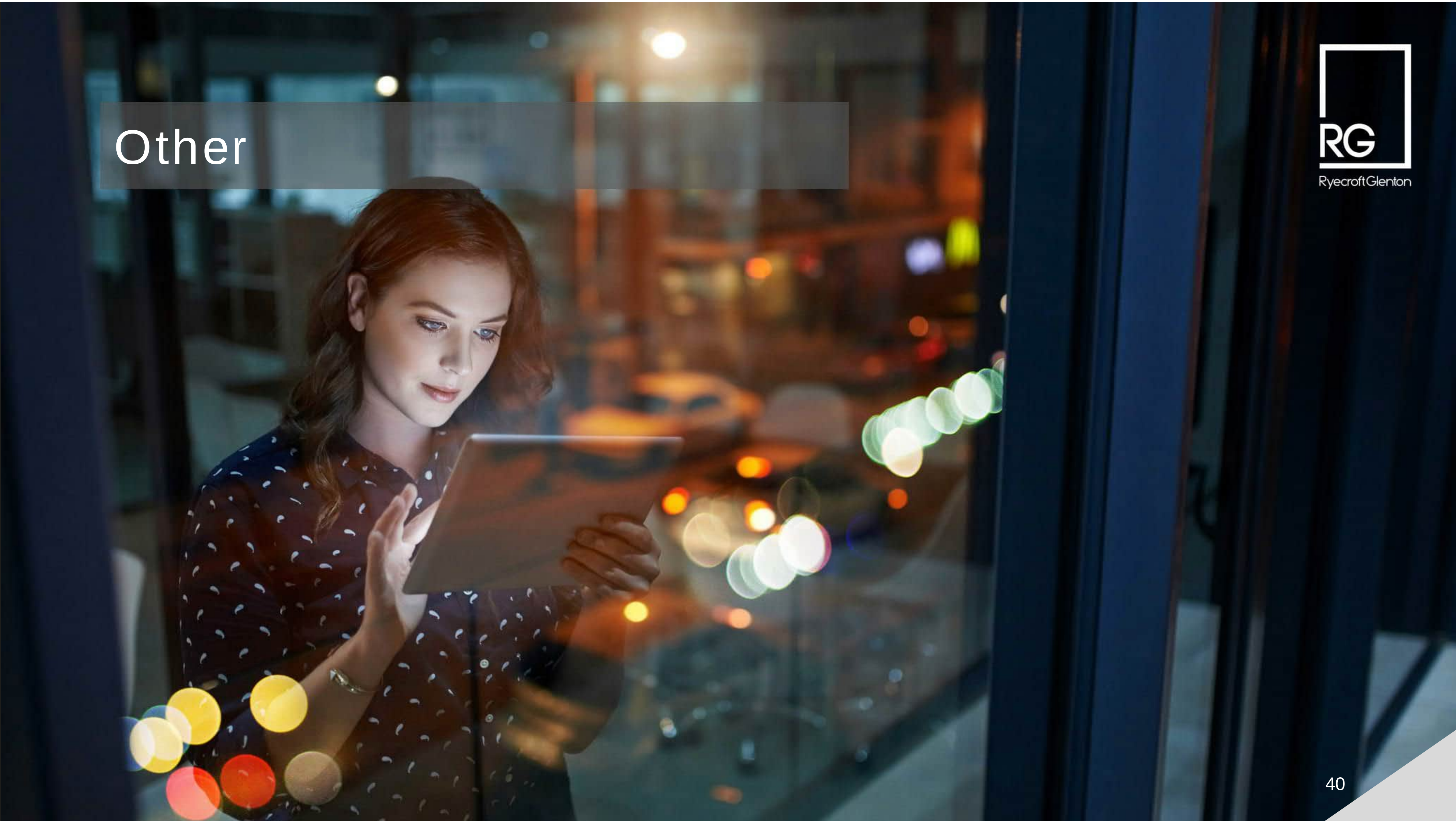
- Introduction of a new Foreign Income and Gains (FIG) regime for first 4 years of UK residence.
- Overseas workdays relief aligned to FIG regime but limited to lower of £300k / 30% of global salary per annum.
- Transitional provisions:
  - Temporary Repatriation Facility (TRF).
  - 2017 Rebasing.
- Income and gains within a trust will now be taxed on the settlor (if settlor interested*).

* The definition of a settlor interested trust for income tax purposes, is a trust of which the settlor, their spouse and / or minor children remain beneficiaries. For CGT purposes the definition is much wider, for example including all children and grandchildren, whatever their age.

# IHT

- IHT will apply based on the concept of ‘long-term residence’.
- UK IHT on worldwide assets after 10 years of UK residence.
- Up to 10 year ‘tail’ when you remain ‘long term resident’ and subject to UK IHT.
- Non UK assets held in trusts with a ‘long term resident’ settlor will be subject to UK IHT

# Other



# Other Changes Impacting Private wealth

- SDLT on second properties increase to 5%
- VAT on private school fees
- Frozen allowances and thresholds until 2028/29
- Increase in interest on late paid tax by 1.5%

# Business Tax

# Business tax Headlines

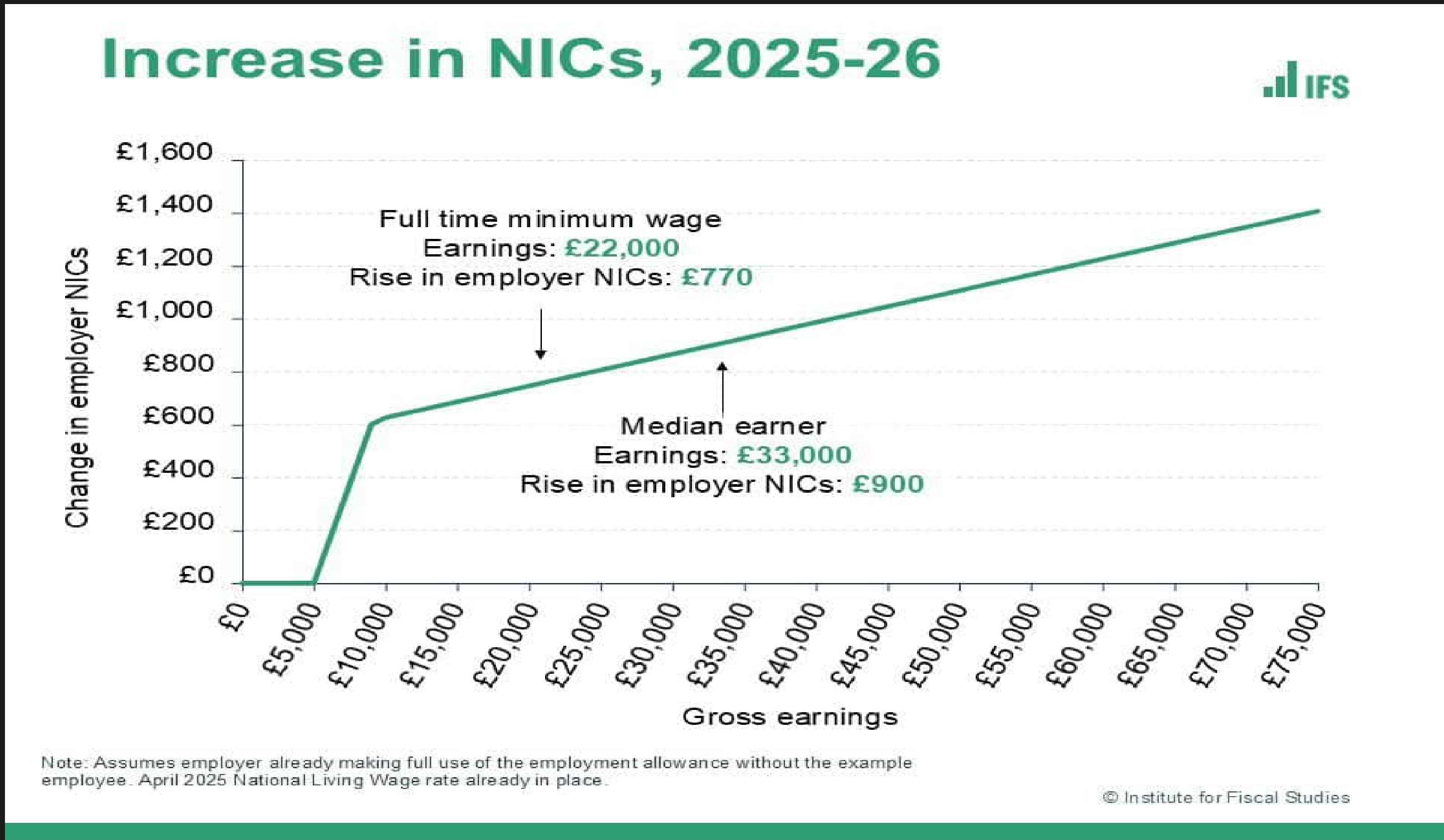
- Corporate Tax Roadmap is aimed at providing certainty over the Parliament
- CT rate to remain at 25%
- Capital allowances full expensing and AIA retained
- R&D merged scheme (from 1 April 2024) and Patent Box unchanged
- EIS and VCT reliefs unaffected
- Business rates relief for Retail, Hospitality and Leisure
- FHL reform as planned from 6 April 2025

# Business tax – Employment Taxes

From 6 April 2025:

- Employer NI contributions increased from 13.8% to 15%
- Secondary threshold reduced to £5k
- Employment allowance £5k to £10.5k
- Electric and low emission company car benefits preserved
- Gap between tax on salaried and self-employed increases with NIC (sole trade/LLP v Limited)

# Business tax – Employment Taxes

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# Business tax – Employee Ownership Trusts

- EOTs retained allowing for 0% CGT disposals
- Incremental benefits with CGT changes and no cap on the relief

Changes from 30 October 2024:

- UK resident Trustees
- New Independent Trustees requirement
- Valuation obligations
- Four-year period to withdraw Vendor relief
- Additional disclosures on tax filings

# Looking Forward

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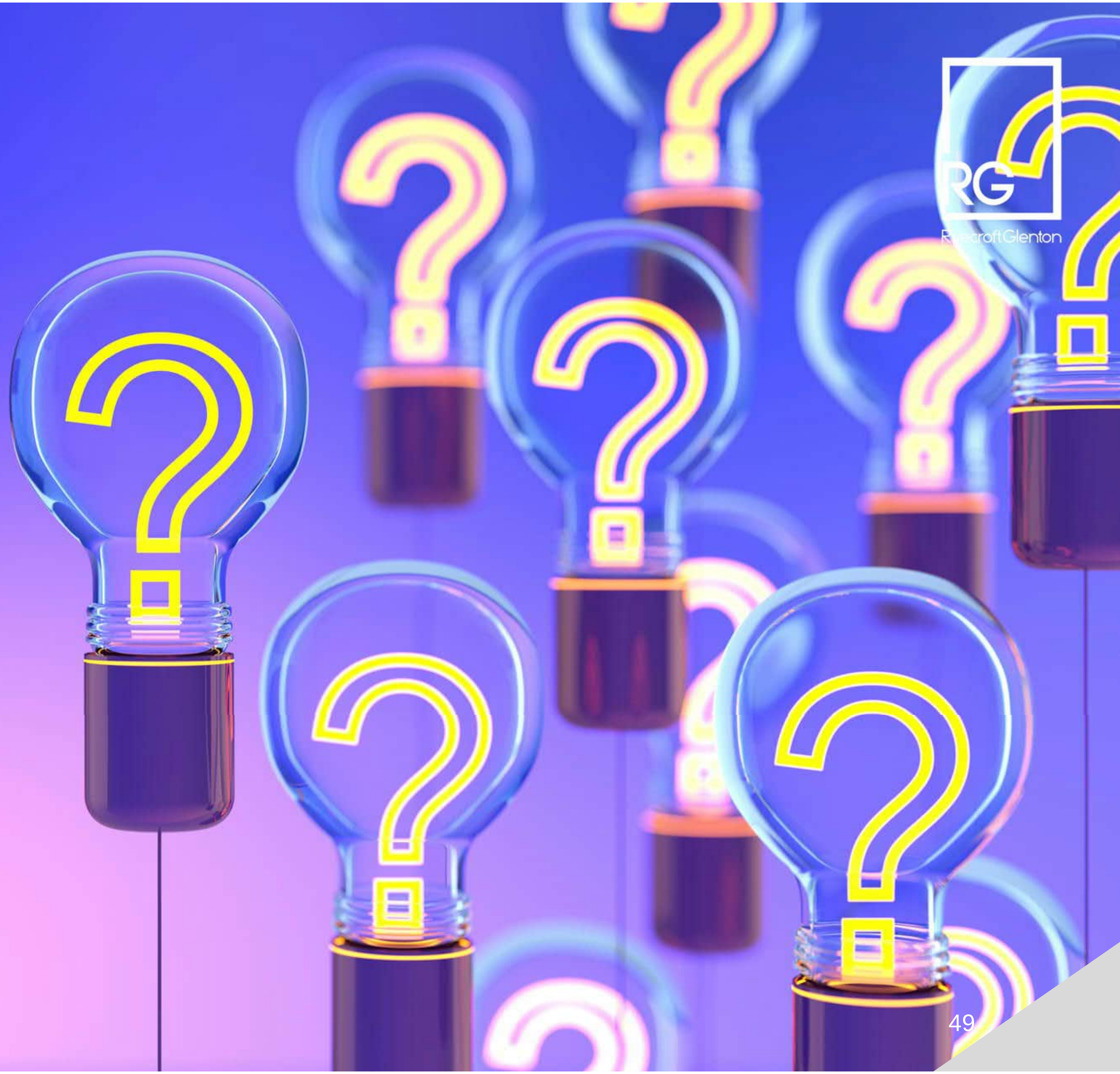
# Looking forward

As noted above:

- Increased business costs (NIC etc) – will these be passed on to employees or customers ?
- IHT planning of increased importance – lifetime gifts, FICs
- Secure lower CGT treatment (BADR) with accelerated disposals or EOT planning
- Interaction of gifts, trusts and planning prior to the upcoming changes
- Offshore residence planning
- Consultations
- Tax reform?

# Questions



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