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AUTUMN BUDGET IN THE UK – Key points for International and HNWIs

Chancellor Rachel Reeves MP delivered the new Labour government's first Budget on 30th October. Chancellor said the Budget will raise taxes by £40 billion to "restore financial stability" and to rebuild Britain.

The policy paper mentions that the government is taking a different approach.it is indicated that the Autumn Budget 2024 is putting the public finances on a sustainable path by strengthening the fiscal framework, including announcing new fiscal rules, and taking difficult decisions on tax, welfare and spending.

Chancellor emphasised measures to tackle financial deficits, investment to drive growth and substantial increases for key public services.

KEY CHANGES FOR INTERNATIONAL AND HIGH NET WORTH INDIVIDUALS:

- The end of the non dom regime as of 5 April 2025 replaced by a new regime based on a residence test available for four years
- Income tax rates frozen until 2028
- Increase of the capital gains tax rates as of 30th October: a slight increase.
- Increase of the PE carried interest rate from 5 April 2025
- Inheritance tax thresholds frozen until 2030. However, Agricultural Property Relief and Business Property Relief (BPR) will be reformed from 6 April 2025

1. **The end of the non dom regime & replaced by a new residence-based test regime from 6.04.2025**
    - The non dom regime abolished from 5 April 2025.
    - Replaced by a 4-year relief from foreign income and gains ("**FIGs**") for new arrivals. This will provide for a 100% relief on FIGs for new UK arrivals in their first four years of tax residence, provided they have not been UK tax resident in any of the 10 consecutive years prior to their arrival (4-year FIG Regime).
    - During these four-years, new arrivals to the UK will not be subject to tax on their foreign income and gains, nor on distributions from non-resident trusts - these can be brought into the UK freely without attracting a tax charge. Once the four-year period is over, individuals will be taxed on their worldwide income and gains in accordance with the normal tax rules for UK residents.

- The 4-year FIG Regime will need to be claimed each year (as under the current remittance basis), with the added requirement that individuals quantify and disclose their FIGs when making the claim in their return.
  - It is necessary to nominate all sources of FIG that you wish the rules to apply to.
  - Separate claims must be made for income and gains, although a claim for either or both means that those opting into the four-year FIG regime will lose their entitlement to income tax personal allowances and annual exempt amounts for capital gains tax.
- Unlike the remittance basis, there will be no charge for bringing into and using FIGs in the UK. The remittance rules will be abolished.

2. Offshore trusts

- The protection from tax on FIGs arising within UK settlor-interested trusts will no longer be available for settlors who do not qualify for the new 4-year FIG Regime.
- Therefore, existing trusts (as well as new ones) will be taxed on an arising basis from 6 April 2025, but FIGs that arose prior to that date will not be taxed unless distributed to a UK resident beneficiary (just like under the current rules).

3. Transitional measure of Rebasing for capital gains tax ("CGT"), confirmation of rebasing date

- Available for current and past remittance basis users who claimed historically the remittance basis for any tax from 2017/18 onwards but cannot benefit from the four-year FIG regime.
- These individuals will be able to rebase their foreign assets to their market value as at 5 April 2017 for a disposal after 6 April 2025, so long as certain conditions are met.
- These rebasing provisions will not be available for individuals who became UK domiciled or deemed domiciled prior to 6 April 2025. Rebasing will also not be available to assets held in trusts or companies.

4. Temporary Repatriation Facility ("TRF")

- The TRF will be available to individuals who have been taxed on the remittance basis and who have untaxed FIGs, this means unremitted FIG arising before 6 April 2025, will be available for a period of 3 years.
- These individuals will be able to remit pre-6 April 2025 FIGs at a rate of 12% from 2025/26 to 2026/27, which will increase to 15% for 2027/28.
- The TRF is also available to UK resident individuals (settlor or beneficiary) who receive a benefit from an offshore trust structure during the same time period, where the benefit is matched to pre-6 April 2025 FIG. This should mean easier access to trust income and gains which previously may have been subject to punitive tax rates on extraction from trusts.
- The TRF can also apply to FIG where a claim for business investment relief (BIR) has been made. From 6 April 2028 when the TRF period ends, it will no longer be possible to claim BIR on any new investments, or reinvestments.

5. Capital gains tax

- The capital gains tax ("**CGT"**) lower rate will increase from 10% to 18%, and the higher rate from 20% to 24%, from 30 October 2024.
- CGT rates on residential property will remain at 18% and 24%.
- PE carried interest rate increased to 32% from 5 April 2025.
- The rates for CGT reliefs, Business Asset Disposal Relief and Investors' Relief, will increase gradually, to 14% from 6 April 2025, and will match the main lower rate of 18% from 6 April 2026.

6. Inheritance tax

- The Inheritance tax ("**IHT**") threshold for each individual provides a tax-free allowance of £325,000 - the Chancellor extended the freeze of the threshold from April 2028 to April 2030.
- Agricultural Property Relief and Business Property Relief will be restricted significantly from 6 April 2026. The 100% rate of relief will continue for the first £1 million of combined agricultural and business assets, and will be 50% thereafter. BPR is heavily relied on by both resident and non-resident individuals and trustees. Thus, a review may be necessary for existing arrangements and structures.

- IHT on pensions with the effective abolition of the IHT exemption from 6 April 2027.
- The domicile-based IHT system will also be replaced with a residence-based system, with individuals who have been resident in the UK for at least 10 out of the last 20 tax years (a 'long-term resident') being in the scope of IHT in respect of their worldwide estate.
- For individuals who then leave the UK, the IHT-tail (being the amount of time they remain in scope) will be shortened as follows:
    - Where they have been resident between 10 and 13 years (out of the last 20 years) = 3-year IHT tail
    - This will then increase by one tax year for each of additional residence, so:
        - 14 years (out of the last 20) = 4-year IHT tail
        - 15 years (out of the last 20) = 5-year IHT tail
        - And so on, until at 20 years a 10-year IHT tail will apply.
- There will be transitional rules for individuals who are non-resident in the 2025/26 year and are both non-UK domiciled and non-UK deemed domiciled. Advice will be needed to navigate through the transitional rules.

7. Inheritance tax regime to offshore trusts

- Excluded property trust status of non-UK settled assets will not be fixed at the time the assets are added to a settlement. Regardless of when the settlement if created, when a settlor is a long-term resident, any assets they have settled (even when they were not a long-term resident) will be subject to IHT.
- This means trusts with non-UK resident settlors (regardless of the status of the beneficiaries) will not automatically fall within the scope of IHT as a result of these new rules. The status of trusts with deceased settlors will continue to look at the domicile position of the settlor at the time the trust was settled.

8. Stamp duty land tax ("SDLT")

- The SDLT surcharge on additional homes will be increased from 3% to 5% from 31 October 2024.

9. Corporation tax

- There will be no change to the main corporation tax rate, which still stay at 25% until the next election.

10. Additional points

- VAT on private school fees confirmed as of 1 January 2025.
- No 'exit tax' announced.
- No 'wealth tax' announced.

CONCLUSION

There is still plenty to digest and a need to work through all the changes and technical points. Additional updates on specific tax measures will be provided after an in-depth analysis within the industry.

Do not hesitate to contact the wealth planner in charge of the market if you have any questions.

Contact

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External sources:

- Autumn Budget 2024 published on 30th October by HM Treasury
- Michelmores Private Wealth Team: Autumn Budget 2024
- BDO: Autumn Budget 2024
- Withersworldwide Alert