COLUMBIA THREADNEEDLE INVESTMENTS®

Adviser Edge

2024 Autumn Budget

CATEGORY: INVESTMENT AND TAX

On 30 October 2024 the UK Chancellor, Rachel Reeves, delivered her Autumn Statement Budget.

We explore the announced taxation changes and what they might mean for a financial planning strategy.

Summary of key changes

- An increase to the rates of Capital Gains Tax (CGT) from 10% and 20% to 18% and 24% respectively
- An increase to the Capital Gains Tax rate payable on gains made from the disposal of assets qualifying for business assets disposal relief (BADR)
- Carried interest for private equity partners taxed at an increased rate of 32%
- A freeze on the subscription limits for all types of ISA up to and including 2029/30
- An extension of the freeze on the nil rate band and the residence nil rate band to April 2030
- 100% Business Relief for unquoted businesses and agricultural relief limited to a combined £1m
- Business Relief for unlisted quoted shares (e.g. AIM listed shares) reduced to 50%
- Removing the exemption to inheritance tax of pension death benefits from 6 April 2027
- Increase to employer's National Insurance contributions by 1.2% to 15%
- No extension to the freeze in the income tax thresholds

Autumn Budget 2024

CAPITAL GAINS TAX (CGT)

Main rates of Capital Gains Tax

The basic rate of capital gains tax (CGT) will increase from 10% to 18% and the higher rate will increase from 20% to 24%.

Residential property CGT rates will remain at 18% and 24% respectively.

The main rate of CGT for trustees and personal representatives will increase from 20% to 24%.

When does this come into effect?

For disposals on or after 30 October 2024.

What should financial planners do next?

Given that the increased rates apply with immediate effect and with a CGT annual exemption of only £3,000, consideration should be given to maximising ISA subscriptions to benefit from tax-free growth and making pension contributions where possible. In addition, for higher and additional rate taxpayers who have additional funds, to invest, investment bonds (UK or international – as appropriate) could be considered for their tax deferment and tax management qualities – especially where the investment has a strong income component.

It should, however, be noted that the revaluation of otherwise chargeable assets that continues to take place on death will be a continued benefit for collective investments that is not available to investment bonds.

Don't forget that capital losses can still be offset against capital gains, and some individuals may have substantial brought-forward losses that could also be used against capital gains to reduce their overall liability going forward. The "value" of these losses will increase with the increase in the rate of CGT otherwise born.

Business Asset Disposal Relief (BADR)

The rate of CGT payable on qualifying gains will increase from 10% to 14% from 6 April 2025 and then further increase from 14% to 18% from 6 April 2026. The cumulative limit for qualification remains at £1m.

When does this come into effect?

For disposals made on or after 6 April 2025 and then further increase for disposals made on or after 6 April 2026.

What should financial planners do next?

For those who are already considering selling their qualifying business or an interest that qualifies for investment relief and for whom relief is relevant may, commercial conditions permitting, wish to act quickly prior to the increased rates on the £1m qualifying amount, coming into effect. For any gains above the amount, the new main rates of CGT will apply, with immediate effect.

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Autumn Budget 2024

CAPITAL GAINS TAX (CGT) (cont'd)

Carried Interest

Change of main rate of Capital Gains Tax

CGT on private equity carried interest will increase from 18% for basic rate taxpayers and 28% for higher rate taxpayers into a single unified rate of 32% from 6 April 2025.

Then from April 2026, carried interest will be subject to a revised regime within the income tax framework.

When does this come into effect?

From 6 April 2025.

What should financial planners do next?

This measure is unlikely to affect many individuals as according to the government, carried interest is only paid by a small population of fund management executives.

Investors' Relief

The lifetime limit for Investors' relief will reduce from £10M to £1M for disposals made on or after 30 October 2024.

When does this come into effect?

For disposals on or after 30 October 2024.

What should financial planners do next?

Given this change is with immediate effect individuals should be made aware of this taking place.

CGT Rate Affecting Trustees

The increases to the top rate of CGT (from 20% to 24%) will affect trustees of both discretionary and interest in possession trusts; while the increase in the Stamp Duty Land Tax (SDLT) surcharge (from 3% to 5%) will impact trustees of discretionary purchasing residential property.

When does this come into effect?

The CGT rate increase will apply for disposals made on or after 30 October 2024 while the SDLT rate increase will apply to transactions with an effective date on or after 31 October 2024.

What should financial planners do next?

Trustees with additional funds to invest who are affected by the CGT rate increase will want to give careful consideration to their investment options especially when the recent reduction to the annual exempt amount is factored in. It may be that non-income/non-capital gains producing assets, such as investment bonds, will become more appropriate given the ability to benefit from tax deferment and tax management, unless there is a need (or a requirement under the terms of the trust) for real income to be produced.

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Autumn Budget 2024

STAMP DUTY LAND TAX (SDLT)

SDLT increase to the higher rates payable on purchases of additional dwellings

The Chancellor announced that the higher rates of Stamp Duty Land Tax (SDLT), payable by purchasers of additional dwellings, trustees of discretionary trusts and companies will increase by 2 percentage points from 3% to 5% above the standard residential rates.

This measure does not apply to Scotland or Wales where devolved land transaction taxes apply.

When does this come into effect?

The changes will apply to transactions with an effective date on or after 31 October 2024 (although those who exchanged contracts prior to this date will not be affected).

What should financial planners do next?

The increase in the surcharge payable by purchasers of additional properties will be a blow to both individual and corporate property investors at the accumulation stage of investment - and there is little that those planning on purchasing additional property can do to avoid the impact of the measure given the immediate effective date.

The increase, which comes hot on the heels of the abolition of multiple dwellings relief, may also act as a further barrier to individuals who have been considering transferring an existing property portfolio into a corporate structure but have not yet made the move. Although no changes have been made to corporation tax rates (meaning that accumulated rental income will typically be taxed at a lower rate within a corporate wrapper), the additional SDLT that will be payable as a result of the changes lessens the attractiveness – and cost-effectiveness - of incorporating a personally owned property portfolio unless the individual investor is a higher or additional rate taxpayer and the portfolio is highly geared and/or there is likely to be a long period over which rental profits are reinvested in further properties before any profit is extracted.

Stamp Duty Land Tax — increase to single rate of tax on purchases by non-natural persons

In addition to increasing the higher rates of SDLT as outlined above, the government will also increase the single rate of SDLT payable by companies and non-natural persons acquiring dwellings for more than £500,000, from 15% to 17%.

When does this come into effect?

The changes will apply to transactions with an effective date on or after 31 October 2024 (although those who exchanged contracts prior to this date will not be affected).

What should financial planners do next?

The increase to the single rate of SDLT payable by companies and non-natural persons acquiring dwellings for more than £500,000 is unlikely to affect property investors due to an exemption from the 15%/17% rate which applies where the acquired property is let commercially to unconnected third parties. A similar exemption applies where property is acquired for development.

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Autumn Budget 2024

PENSIONS

Pension funds subject to inheritance tax

From 6 April 2027 most pension funds will fall into the estate for inheritance tax (IHT) purposes. This will include funds paid out as a lump sum and those paid as beneficiary's drawdown or an annuity. Lump sum payments into a bypass trust will also be in scope.

Scheme pensions and funds paid as charity lump sum death benefits will be exempt.

Currently most pension funds are outside of the estate as they are paid at the discretion of the pension scheme. The new rules will remove the distinction between discretionary and non-discretionary payments and the value of all benefits will fall into the estate.

The Government have issued a consultation paper explaining the changes which state that IHT will be payable on the value of the gross funds in the pension immediately before death, but before being distributed or designated to the beneficiary.

The IHT charge will be paid by the scheme and the usual pre and post age 75 income tax rules on the residual funds will still apply. This means that post 75 death benefits, or funds in excess of the LSDBA pre 75, will be subject to both IHT and income tax on the residual.

The process will require the personal representatives and the pension scheme administrator/trustee having to work together to establish the IHT charge and the proportion of the charge the scheme must pay.

The new rules will apply to all overseas pensions schemes as well as UK pension schemes.

The spousal exemption will still apply in the normal way and so any funds that pass to a spouse or civil partner will remain free of IHT on first death.

When does this come into effect?

6 April 2027.

A technical consultation paper has been published on the implementation with a deadline for responses of 22 January 2025.

What should financial planners do next?

As the new rules do not apply until 6 April 2027 advisers (and providers) have time to fully consider the changes. In addition, the complexity of the implementation and potential harshness of the 'double taxation' for deaths over 75 may lead to changes before the implementation date.

However, some initial points for to consider

- Where clients are funding their pensions purely for estate planning purposes, advisers should now reconsider the appropriateness of this.
- Where clients have deferred taking tax free cash from their pension beyond the age of 75, advisers should review this. Taking the tax-free cash will ensure that this is only subject to IHT on death and not IHT and income tax.
- Where clients have left pension funds undrawn mainly for estate planning purpose this should be reviewed. As above, this is particularly important where clients are over 75.

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Autumn Budget 2024

PENSIONS (cont'd)

Pension funds subject to inheritance tax

What should financial planners do next?

- Where pension funds are not required – taking the tax-free cash and making gifts will now be a much more attractive option than leaving them in the pension.
- Review all death benefit nominations. Passing to a spouse may give more opportunities to remove the funds from the estate before second death.
- Binding nominations may now be far more appropriate. The key disadvantage of using them has been removed. However, note that it may take time for schemes to update their rules to allow them.

SAVINGS AND INVESTMENTS

No change to ISA, Junior ISA, Lifetime ISA and Child Trust Fund Allowances

The annual subscription limits will remain at £20,000 for ISAs, £4,000 for Lifetime ISAs and £9,000 for Junior ISAs and Child Trust Funds.

These allowances are frozen until 5th April 2030.

When does this come into effect?

Limits already in place.

What should financial planners do next?

Identify those who have not yet used these allowances for themselves or for their children and recommend they are maximised as appropriate, as otherwise the allowances will be lost for this tax year.

BRITISH ISA

No longer proceeding

It has been confirmed that the Government will not be proceeding with the previously proposed British ISA due to mixed responses at the consultation stage.

When does this come into effect?

The British ISA will not be coming into effect.

What should financial planners do next?

Recommend clients maximise their standard annual ISA allowances.

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Autumn Budget 2024

INHERITANCE TAX

Nil rate band and residence nil rate band frozen until 2030

The Chancellor announced that the inheritance tax nil rate band and residence nil rate band, which are at present set at £325,000 and £175,000 respectively until 5 April 2028, will stay fixed at these levels for a further two years until 5 April 2030. There is no change to the residence nil-rate band taper threshold which will remain at £2 million.

When does this come into effect?

The inheritance tax nil rate bands will remain at current levels until 5 April 2030.

What should financial planners do next?

Frozen allowances – especially when considered in conjunction with the other IHT changes announced at Autumn Budget 2024 and together with asset price inflation - mean a greater proportion of clients coming within the scope of IHT and needing advice on how to reduce the impact of IHT on their accumulated wealth. Add to this the fact that IHT regularly polls as one of the most disliked taxes and the opportunity to add value through engagement and advice is palpable. Even though only a relatively small proportion of all estates actually bear inheritance tax a much greater proportion of the estates of t

Reform of agricultural property relief and business property relief

It was announced today that the government will introduce a new £1m allowance which will apply to the combined value of property in an estate qualifying for 100% business property relief and 100% agricultural property relief and replace the current regime under which relief is unlimited for both asset types..

There is a special separate new rule for quoted shares that are "unlisted" for IHT purposes (eg AIM listed shares) and this new rule is explained below.

In relation to qualifying property other than unlisted quoted shares, if the total value of the qualifying property to which 100% relief applies is more than £1 million, the allowance will be applied proportionately across the qualifying property, with any excess qualifying for relief at the lower rate of 50%.

Assets automatically receiving 50% relief (such as assets owned personally and used in the business of a trading company) will not use up the allowance. The £1m 100% allowance would seem to apply to each individual transferor (so £2m between spouses/civil partners if they each own £1m of qualifying business and/or agricultural property) but unused allowance will not be transferable between them.

The policy paper published today states that the allowance will cover the following transfers:

- property in the estate at death
- lifetime transfers to individuals in the 7 years before death ("failed potentially exempt transfers")
- chargeable lifetime transfers where there is an immediate lifetime charge, so for example when property is transferred into trust

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Autumn Budget 2024

INHERITANCE TAX (Cont'd)

It is assumed that the allowance is a lifetime allowance that will apply only to the first £1m of business and/or agricultural property transferred by the same transferor – whether during lifetime or on death.

The government will publish a technical consultation in early 2025 which will provide further insight into the proposals and inform the legislation which will be included in a future Finance Bill.

When does this come into effect?

The £1m allowance will take effect for deaths on or after 6 April 2026. However, anti-forestalling measures will provide that the new allowance will also apply to failed lifetime transfers of business or agricultural property made on or after 30 October 2024 if the donor dies on or after 6 April 2026.

What should financial planners do next?

Business owners not planning to sell their businesses during their lifetime may wish to bring forward succession planning by introducing other family members, such as adult children, into the business at an earlier stage in the hope of surviving 7 years and reducing the value of business property in the estate to within the £1m allowance by the point of death. Professional advice could be sought on the potential merits of a reorganisation of share capital into different share classes to facilitate the transfer of wealth in such a way that doesn't impact on control and dividend allocation. As for any lifetime transfer strategy, due consideration will need to be given to the potential CGT consequences of any such transfer. This will be so even when, as for business assets, the gain can be held over – deferred. There remains a tax-free revaluation of chargeable assets on the death of an owner for CGT.

Business owners and farmers in a position to transfer business or agricultural property into trust prior to 6 April 2026, would appear to be able to do so without any immediate IHT charge regardless of the value transferred; however, if death occurs after 6 April 2026 and within 7 years of the transfer, the £1m limit will apply for the purposes of recalculating the IHT – the age and state of health of the client will therefore be key in determining whether this is a viable strategy. Again CGT would need to be considered.

Business and farm owners should, in addition to lifetime transfers when appropriate and subject to commercial considerations , seriously consider the potentially powerful solution that appropriate life insurance in trust can deliver in order to meet any new liability that could arise as a result of this limitation in business and agricultural property relief.

Reduction in the rate of business relief for quoted shares not listed on the markets of recognised stock exchanges

The government will reduce the rate of business property relief available from 100% to 50% in all circumstances for quoted shares designated as "not listed" on the markets of recognised stock exchanges, such as AIM. Those shares will not benefit from the £1m allowance described above.

When does this come into effect?

Business relief will be given at the reduced rate of 50% for transfers made on or after 6 April 2026.

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Autumn Budget 2024

INHERITANCE TAX (Cont'd)

What should financial planners do next?

Although the new measure will make investment in AIM shares less attractive, financial planners and their clients will be relieved that the relief has not been abolished in its entirety and also that business relief investments that invest in unquoted shares of trading companies will continue to qualify for IHT relief at 100% (subject to the £1m allowance which will apply from 6 April 2026).

Where tax effective intergenerational planning with the donor wishing to retain control over and access to the assets to be given, BR qualifying investment will continue to deliver albeit with 50% less IHT effectiveness.

As always, where there is available cash, planners should also give due consideration to other flexible planning strategies such as loan trusts and DGT' and protection in trust. Often it is a combination of solutions that will achieve the optimum outcome.

Extension of the scope of agricultural property relief

The government has confirmed it will extend the existing scope of agricultural property relief to land managed under an environmental agreement with, or on behalf of, the UK government, devolved governments, public bodies, local authorities, or relevant approved responsible bodies.

When does this come into effect?

Extended relief will be available for lifetime transfers and transfers at death occurring on or after 6 April 2025.

Inheritance tax — unused pension funds and death benefits

The Chancellor today announced that the government will bring unused pension funds and death benefits payable from a pension into a person's estate for inheritance tax purposes from 6 April 2027. For more detail on the measure please see the Pensions section of this Bulletin.

When does this come into effect?

The IHT charge on pension death benefits will apply from 6 April 2027.

What should financial planners do next?

Bringing unused pension funds and pension death benefits into the scope of IHT is likely to prompt some rethinking of decumulation strategies and dilute the argument that clients should draw on other means to fund their retirement in preference to their pension pot.

For all their other continuing benefits of registered pensions (e.g. the tax free cash and tax free accrual of capital gains and income in the fund) pension will become a much less attractive estate planning tool.

One option for those with large pots and /or do not need access to the funds and are worried about IHT could be to cash in, take the income tax hit and gift or use other available planning structures (eg BR relief investment – with 100% or 50% relief, Loan trust, DGT or a variation on the theme). An alternative could be to draw down on the pension and use normal expenditure (if that survives) to cover lifetime gifts or to fund a life insurance in trust to meet the IHT. Informed advice will be essential to reach the right solution.

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Autumn Budget 2024

NATIONAL INSURANCE

Increase in employer National Insurance rates

The government will increase the rate of employer NICs from 13.8% to 15% from 6 April 2025.

The Secondary Threshold is the point at which employers become liable to pay NICs on employees' earnings, and is currently set at £9,100 a year. The government will reduce the Secondary Threshold to £5,000 a year from 6 April 2025 until 6 April 2028, and then increase it by the Consumer Price Index (CPI) thereafter.

The Employment Allowance currently allows businesses with employer NICs bills of £100,000 or less in the previous tax year to deduct £5,000 from their employer NICs bill. The government will increase the Employment Allowance from £5,000 to £10,500, and remove the £100,000 threshold for eligibility, expanding this to all eligible employers with employer NICs bills from 6 April 2025.

When do these changes come into effect?

6 April 2025.

What should financial planners do next?

The main concerns for businesses (and SMEs in particular) will be the increased costs associated with

- The increase to employers NIC
- The reduction of the Secondary Threshold to £5,000
- Where relevant, the increase to the National Minimum Wage
- Longer term there is also the changes (limitations) to business relief to consider.

The main corporation tax rate remains capped at 25% and full expensing (tax deductibility) remains for qualifying capital expenditure though.

And there are improvements to the Employment Allowance and no new limitations on the relief available for pension contributions .

Overall SME clients of advisers will continue to benefit from advice on

- How best to extract funds from their business to minimise tax and NIC outflow
- Invest any longer term surplus funds
- Provide for and financially protect against business risk
- Plan for any proposed intergenerational transfer of business given the new limitations on business relief

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Autumn Budget 2024

EIS, VCT, SEIS, INVESTMENT ZONES AND FREEPORTS

Enterprise Investment Scheme (EIS), Venture Capital Trusts (VCT) & Seed Enterprise Investment Schemes (SEIS)

In October 2023, the UK authorities notified the EU of a prolongation of the existing EIS/VCT schemes for another ten years after their originally envisaged 2025 expiry and received confirmation from the European Commission in a letter to the UK Foreign Secretary dated 22 July 2024 that it had decided "not to raise objections to the aid on the grounds that it is compatible with the internal market". The SEIS, being for smaller investment amounts, is a de minimis State aid, rather than a notified State aid and, as such, even if the legislation had remained unchanged, SEIS tax reliefs would have continued to be available after April 2025.

IHT business property relief may reduce the taxable value of a chargeable transfer of qualifying shares and securities in an unquoted trading company (including shares in an EIS company) by 100%. To qualify for relief from IHT, the shares must have been owned (or be deemed to have been owned) for two years before the transfer for which business property relief is claimed. However, it was announced that a new £1 million allowance will apply to the combined value of property in an estate qualifying for 100% business property relief and 100% agricultural property relief, and it will be 50% thereafter. There is a further special provision limiting relief for quoted shares treated as "unlisted" for IHT such as those listed on AIM.

When does this come into effect?

The extension of EIS and VCT reliefs to 2035 has already come into effect.

What should financial planners do next?

While these are considered higher-risk investments, investing in EIS and VCT schemes enables an individual to benefit from income tax relief at 30%, subject to the annual investment amount, against their income tax liability and CGT free gains provided the shares are held for three years (EIS) and five years (VCT) respectively. Given the recent increases to CGT, more individuals may consider investing in these schemes to benefit from tax-free gains as well as the income tax reliefs available. Remember also that, where capital gains are realised, investing in EIS shares also provides the ability to benefit from CGT deferral relief. In addition, as VCT dividends can be free of income tax within certain limits, these investments may be attractive where the tax-free dividend allowance of £500 is, otherwise, likely to be exceeded.

Investment Zones and Freeports

The Budget confirmed funding for the Investment Zones and Freeports programmes UK-wide. This includes approval of the East Midlands investment Zone to support advanced manufacturing and green industries and confirms that five new customs sites will be designated in existing Freeports shortly. The government will also work to ensure the Freeports policy model aligns with the national Industrial Strategy.

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Autumn Budget 2024

IINCOME TAX

For 2025/26 tax year there will be no increases to income tax personal allowances, income tax bands or rates of income tax:

- The income tax personal allowance will remain at £12,570. Remember the personal allowance is reduced by £1 for every £2 where total income exceeds £100,000.
- The higher rate threshold will remain at £50,270 (comprised of the £37,700 basic rate band plus the £12,570 personal allowance) and the additional rate threshold will remain at £125,140.
- For non-savings and non-dividend income, i.e. income from employment, property, or pensions, the income tax rates will remain at 20% within the basic rate band, 40% within the higher rate band and 45% within the additional rate band.
- The 0% starting rate band for savings income will remain at £5,000.
- The personal savings allowance remains unchanged at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers. Additional rate taxpayers are not eligible for a personal savings allowance.
- Savings income will continue to be taxed at 20% within the basic rate band, 40% within the higher rate band and 45% at the additional rate.
- The dividend allowance will remain at £500. Dividend income will continue to be taxed at 8.75% within the basic band, 33.75% within the higher rate band and 39.35% at the additional rate.
- The basic, higher and additional rate tax thresholds apply to taxpayers in England, Wales, and Northern Ireland for non-savings and non-dividend income, and apply UK-wide for savings and dividend income.
- The government will not extend the freeze to income tax thresholds. From 6 April 2028, these personal tax thresholds will be uprated in line with inflation.
- The adjusted net income threshold at which the High Income Child Benefit Tax Charge (HICBC) is triggered remains at £60,000 with the charge being 1% per £200 of income above that level.

What should financial planners do next?

In terms of general planning, people who wish to invest should aim to use their dividend and personal savings allowances in full.

Individuals should continue to maximise contributions to ISAs, particularly where dividends are likely to exceed the dividend tax allowance and/or the higher rate tax threshold. They could also give consideration to investing into Venture Capital Trusts (VCTs), which pay tax-free dividends and investment bonds (UK or international – as appropriate), which allow withdrawals to be taken on a tax-deferred basis.

Spouses/civil partners should also try to arrange their investment holdings in such a way to ensure they fully use both personal allowances, personal savings allowances, dividend allowances and starting/basic rate tax bands.

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Autumn Budget 2024

NON-UK DOMICILIED INVESTORS

The current remittance basis of taxation for non-UK domiciled investors is to be replaced with a simpler, residence-based scheme.

Individuals who opt-in to the scheme will not pay UK tax on foreign income and gains (FIG) for the first four years of tax residence, provided they have not been UK tax resident in the ten tax years immediately prior to their arrival.

Individuals who previously used the remittance basis, who are not eligible for the new four-year FIG regime, will pay tax at the same rate as other UK residents on any newly arising FIG, as per any other UK taxpayer.

For individuals who formerly used the remittance basis, any FIG that arose on or before 5 April 2025 will continue to be taxed if remitted to the UK under the current rules.

When does this come into effect?

The proposed new legislation is still at draft stage, but the changes are due to come into effect from 6 April 2025.

What should financial planners do next?

Identify those who may be impacted by the new legislation as their UK tax liabilities could increase significantly as a result. Investments should be structured to maximise the use of all available allowances, e.g. dividend allowance, savings allowance, personal allowance, etc., and maximise tax efficient investing into ISAs and pensions as appropriate.

RESIDENCE AND DOMICILE

The replacement of Domicile with a new Residence based test for Foreign Income and Gains (FIG) and for Inheritance Tax

Foreign Income and Gains: core provisions

The government will legislate to abolish the remittance basis of taxation for non-UK domiciled individuals and replace it with a simpler and internationally competitive residence-based regime, which will take effect from 6 April 2025. Individuals who opt-in to the regime will not pay UK tax on foreign income and gains (FIG) for the first four years of tax residence. The previously proposed 50% reduction for foreign Income subject to tax for 2025/26 has been scrapped.

For Capital Gains Tax purposes, current and past remittance basis users will be able to rebase personally held foreign assets to 5 April 2017 on a disposal where certain conditions are met.

Overseas Workday Relief will be retained and reformed, with the relief extended to a four-year period and the need to keep the income offshore removed. The amount claimed annually will be limited to the lower of £300,000 or 30% of the employee's net employment income.

Temporary Repatriation Facility

The government is extending the Temporary Repatriation Facility (TRF) to three years, expanding the scope to offshore structures, and simplifying the mixed fund rules to encourage individuals to designate their accrued, as yet untaxed, foreign income and gains, as repatriated so as to qualify for a reduced rate of tax on the amount when it is taken and spent in the UK.

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Autumn Budget 2024

NON-UK DOMICILIED INVESTORS (Cont'd)

IHT is currently a domicile-based system. A new residence-based system for IHT will be introduced from 6 April 2025.

This will affect the scope of property brought into UK IHT for individuals and settlements. The test for whether non-UK assets are in scope for IHT will be whether an individual has been resident in the UK for at least 10 out of the last 20 tax years immediately preceding the tax year in which the chargeable event (including death) arises. The time the individual remains in scope after leaving the UK will be shortened where they have only been resident in the UK for between 10 and 19 years. Subject to transitional points, the excluded property status of non-UK settled assets will not be fixed at the time the assets are added to a settlement. Instead, they will only be excluded property (and so not subject to IHT charges) at times when the settlor is not long-term resident. When a settlor is long-term resident, any assets they have settled (even when not long-term resident) will be subject to IHT.

When does this come into effect?

These changes will come into force on 6 April 2025, although transitional rules will apply for non-domiciled or deemed domiciled individuals who are non-resident in 2025 to 2026.

What should financial planners do next?

The provisions are far from simple and it will take a little time for the full implications to become clear.

The government have a relatively high expectation of how much additional tax these changes will generate and it will be interesting to see what the behavioural impacts are. There have been a number of reports leading up to the Budget of current non-doms seriously considering (or actually leaving) the UK. The impact of the IHT changes for non-doms is thought to be a main driver of these potential emigrations.

Any advisers with non-dom clients should take the opportunity to become familiar with the rules – especially in relation to existing Excluded Property Trusts which are most definitely affected by these new rules.

While chargeable gains under offshore bonds are not eligible for the four year freedom from tax under the new FIG rules the offshore bond does appear to offer the opportunity for longer term tax deferment and tax management. This may appeal to those residents expecting to be non-resident when they encash the investment. Care does need to be taken over the tax provisions in relation to offshore bond gains in the destination country though.

Source Columbia Threadneedle Investments and Technical Connection Limited 31 October 2024.

Contact us

0207 464 5855

clientsupport@columbiathreadneedle.com

columbiathreadneedle.co.uk/adviser-edge

Telephone calls may be recorded.

To find out more visit
columbiathreadneedle.com

Important information: This content is directed only to persons having professional experience in matters relating to personal investment (investment professionals) and should not be distributed to anybody else. It has been prepared for general information purposes only. It does not constitute advice (whether investment, legal, regulatory, tax or otherwise) provided by Columbia Threadneedle Management Limited. Certain content in this document is based on our own reading of legislation, regulation, or guidance issued by a government or regulatory authority, as at the date of publication, which is subject to ongoing change. Tax treatment is based upon individual circumstances. Columbia Threadneedle Management Limited gives no warranty or representation, whether express or implied, that such content is up to date, complete, or accurate.
Investment professionals in receipt of this document should not rely on any of its content. They remain solely responsible for advising their underlying clients in accordance with their own legal and/or regulatory obligations and for taking their own independent advice as they determine is necessary.
To the extent lawful, Columbia Threadneedle Management Limited excludes all responsibility and associated liability for any loss or damage suffered by any recipient of this document who chooses to rely on its content, whether occurring in contract, tort (including negligence), breach of statutory duty, or otherwise, even if foreseeable.

© 2024 Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies.