The UK Budget – Operational Challenges for Swiss Banks

November 2024

On Wednesday 30 October, the UK's first female Chancellor, Rachel Reeves, delivered one of the most significant budgets in recent UK history with substantial tax, borrowing, and spending increases. Impressively, she managed to deliver on all Labour's promises, albeit with some sleight of hand to get there – most notably increasing employer social security contributions whilst claiming to "not raise taxes on workers". Our UK colleagues have covered the changes in detail on the EY Budget page and the EY Budget technical pack.

From the perspective of Swiss banks, a few things stood out:

1. the UK RND regime is, as promised, abolished as of 6 April 2025
2. the current protections for certain trusts for income tax and inheritance tax (IHT) are abolished as of 6 April 2025
3. there will be a transitional regime for remitting historic unremitted income and gains for three years and for unwinding historic trust capital and income entitlements - importantly, this does not require actual remittance
4. there will be a new (or at least reheated) rebasing, with the date left at the 6 April 2017 date that applied for people transitioning into the then-new "deemed domicile" status (a quick glance at the evolution of the S&P500 over the past ten years will highlight why that date was not moved forward)
5. there will be a new "impatriate" regime called the "foreign income and gains" (FIG) regime for people moving to the UK for four years after at least 10 years living outside the UK
6. "carried interest" will be taxed at 32% in 2024-2025 and "fully integrated into the income tax framework" from 6 April 2026, so from that time on will presumably be taxed at 45% and subject to national insurance contributions
7. more money will be invested in HMRC to support auditing taxpayers and enforcement.

Overall, the budget is ambitious, and includes a number of necessary spending measures, not least, compensation for the tragic victims of the infected blood and Horizon debacles and an increase in carer's allowance conditions, but also plenty of infrastructure and research-oriented industry support.

That said, some hefty increases in the total cost of employment, partly offset by greater spending on industry support, and a counterproductive tax increase on "second dwellings" are clear steps towards a more continental tax and spending model. It is left to the reader to consider whether that has worked out for the continent.

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Why do these matter for Swiss banks?
Five things spring to mind:

1. Migration: the IHT and carried interest changes are likely to trigger a significant number of clients moving. Whilst many may go to Milan or Dubai or even the US, some will be interested in coming to Switzerland. These migrations, especially but not only to Switzerland, are an opportunity for Swiss banks to attract new clients and proactively propose profitable services to their clients (portfolio reviews and rebalancing, pre-migration structures, etc).

2. Serving clients with trusts: whether staying or leaving, many of these clients will need wealth planning support to review their existing arrangements and wealth and succession plans. Many will look to amend or unwind existing trusts, or to amend the terms of the trust and probably move some of the assets to their dependents directly or to new structures/wrappers.

3. Serving "remainer" clients: in addition to unwinding or restructuring trusts, these clients are likely to look to review their portfolios and to consider solutions such as premium private life insurance. Sufficiently wealthy clients looking to stay temporarily may look at private funds, and all remaining clients are likely to need a revised account segregation offering.

   Those in discretionary management may also have UK RND-specific portfolio rules that will no longer be relevant in some cases, but still relevant in other cases.

   Evaluating their rebasing opportunities will require sophisticated simulation reporting, and many clients are likely to want to "manually" rebase given the substantial equity market gains since 2017.

4. Increased HRMC funding is specifically intended to generate increased audit activity. Politically, a likely target population for this (albeit perhaps not the most efficient target for raising actual revenue) is certain to be Swiss bank clients. This will increase the pressure, already high, on Swiss banks to have accurate and comprehensive UK tax reporting, and to equip bankers and clients to understand the differences between their CRS reporting and their actual UK tax position.

   In particular, clients claiming under the new FIG regime will need detailed reporting to substantiate their claims.

5. All of the above, but especially supporting "remainer" clients, is going to place significant operational and resourcing stresses on banks, with a very tight deadline to ensure that banks are in a position to support clients in the lead up to 6 April and to offer a fully compliant UK "ex-RND" service from then on.

Overall, the changes are very positive for Swiss banks, but time is of the essence: the prize is significant but the operational and logistical challenges to seizing this opportunity are considerable! If you want to know how EY can support you, please do not hesitate to reach out.

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