Shape the future with confidence

Autumn Budget: 30 October 2024

The UK Autumn Budget delivered by the Chancellor of the Exchequer, Rachel Reeves, on 30 October, focused on the Government's aim to deliver economic stability while at the same time setting the Government's growth programme for the life of this Parliament.

The headline measures were broadly expected (with a few surprises). There are however a significant number of supporting documents containing additional details. We have provided a summary of the key Budget announcements and we will continue to work through the documents and we will share additional thoughts in webcast tomorrow and our newsletters.

It is expected that the Finance Bill will be published soon after 6 November.

Businesses

From a business point of view, employer National Insurance contributions will rise to 15.0% (a rise of 1.2 percentage points) from 6 April 2025 while the secondary threshold will be reduced to £5,000 per year. The Employment Allowance will be increased to £10,500 per year and the £100,000 threshold removed.

As expected, the Chancellor announced the publication of a corporate tax road map and reconfirmed that the corporation tax rate would be capped at 25% for the life of the parliament, while full expensing for plant and machinery expenditure, the £1 million annual investment allowance and the current rates for research and development (R&D) reliefs will be retained. The road map also proposes the development of a new process for increasing the tax certainty available in advance of major investments. Separately, there are some technical changes to be introduced in respect of the transfer pricing and advance pricing agreement legislation relating to financing arrangements where those arrangements are only within the scope of the transfer pricing legislation due to persons acting together in relation to those financing arrangements.

The Government will launch consultations to explore the tax treatment of predevelopment costs and to review the effectiveness of land remediation relief. It will publish a technical consultation on draft legislation to modernise and simplify three elements of UK international tax legislation, being transfer pricing, permanent establishment and the diverted profits tax. It will also consult on a new filing obligation that will require businesses in scope of transfer pricing rules to report information to HMRC on certain cross-border related party transactions and review the transfer pricing treatment of cost contribution arrangements.

For multinational companies, there are various amendments to the UK’s Pillar Two legislation following stakeholder consultation to ensure that UK legislation remains consistent with commentary and administrative guidance to the GloBE rules. These include rules for joint ventures, changes to implement the Administrative Guidance published in June 2024 and minor amendments to the draft arbitrage rules, to be introduced in the transitional CbCR safe harbour, previously published in July 2024. The Government has again reconfirmed that the undertaxed profits rule (UTPR) contained within the Pillar Two rules will be introduced in Finance Bill 2024-25 and noted that the Offshore Receipts in Respect of Intangible Property (ORIP) rules will be repealed in respect of income arising on or after 31 December 2024.

The rate of the energy (oil and gas) profits levy (EPL) will increase to

38% and be extended to March 2030. The 29% investment allowance will be abolished, though the 100% First Year Allowance will be retained along with the decarbonisation allowance which will be set at 66%. The changes will take effect from 1 November 2024. The Government will provide relief for certain payments made by oil and gas companies into decommissioning funds where assets are transferred for use in carbon capture usage and storage (CCUS) activities, to maintain the tax treatment had these assets instead been decommissioned. It will also exempt associated CCUS receipts received by oil and gas companies from the EPL.

The Government will also introduce legislation to allow film and high-end TV companies to claim an enhanced 39% rate of Audio-Visual Expenditure Credit (AVEC) on their UK visual effects (VFX) costs. UK VFX costs will be exempt from the AVEC's 80% cap on qualifying expenditure. The changes will take effect from 1 April 2025, for expenditure incurred on or after 1 January 2025 (companies will not be able to submit claims until 1 April 2025). In addition to the enhanced relief for VFX costs, there will also be a small package of administrative changes affecting the Audio-Visual and Video Games Expenditure Credits (AVEC and VGEC). Specifically, the changes will affect the provisions relating to the British certification condition, unpaid amounts and regulation-making procedure. They are designed to align the AVEC/VGEC legislation with the predecessor tax reliefs and the impact on companies is expected to be minimal.

The Government is proceeding with the introduction of the Reserved Investor Fund (Contractual Scheme) – a new type of UK-based investment fund. Related provisions will also make minor changes to the tax rules in respect of Co-ownership Authorised Contractual Schemes. Secondary legislation will be brought forward before the end of tax year 2024/25. It is also making changes to certain alternative finance tax rules for capital gains tax, corporation tax, income tax and annual tax on enveloped dwellings (ATED), but not capital allowances. These changes, which apply from 30 October 2024, are intended to ensure that the tax consequences are the same for those using alternative and conventional financing arrangements across the UK.

In terms of business rates, going forward there will be two permanent lower rates of business rates for retail, hospitality and leisure business and in the short-term there will be a 40% relief for 2025/26 up to a cap of £110,000 per business.

Finally, the Government will introduce a package of reforms to the taxation of Employee Ownership Trusts and Employee Benefit Trusts. The changes will take effect from 30 October 2024.

Individuals

For individuals, there was a surprise in the news that income tax thresholds (outside Scotland which sets its own thresholds) would not be frozen beyond April 2028 and the personal allowance (which applies throughout the UK) would therefore be uprated by indexation from that date. There are however rises in the rates of capital gains tax – the lower rate of 10% rising to 18% and the upper rate from 20% to 24% for disposals made on or after 30 October 2024. The rate of capital gains tax for Business Asset Disposal Relief and Investors' Relief is increasing to 14% for disposals made on or after 6 April 2025, and from 14% to 18% for disposals made on or after 6 April 2026. The Investors' Relief lifetime limit will be reduced from £10 million to £1 million for qualifying disposals made on or after 30 October 2024.

There are also changes to inheritance tax (IHT) with the nil rate thresholds being frozen until 2030 and inherited pensions being included in scope of IHT with effect from 6 April 2027. There are changes to agricultural property relief (APR) and business property relief (BPR) from 6 April 2026 with amounts qualifying for these reliefs under £1m being free from IHT but amounts over £1m being subject to IHT at 20% (providing 50% relief). There will be a similar 50% relief in all circumstances for shares held on AIM and similar markets. Separately APR will be extended to environmental land management from 6 April 2025.

There are proposals to remove the exclusion from the Overseas Transfer Charge (OTC) of transfers to Qualifying Recognised Overseas Pension Schemes (QROPS) established in the European Economic

Area (EEA) and Gibraltar, where the member is resident in the UK or an EEA state, bringing their treatment in line with transfers to QROPS established in the rest of the world. The measure will take effect from 30 October 2024.

The Government announced that there will also be new anti-avoidance legislation covering the operation of the loans to participators charge in s455 Corporation Tax Act 2010 and legislation to change the taxation of capital gains rules that apply to the liquidation of Limited Liability Partnerships from 30 October 2024.

Finally, a consultation document has been published which looks at the challenges arising from the mismatch of information on offshore interest being provided on a calendar year basis, rather than a UK tax year basis. The Government notes that the removal of the remittance basis means more people will be impacted by these issues.

Changes to the ‘non-dom’ rules

Changes to the treatment of non-UK domiciled taxpayers are to be taken forward from April 2025. Individuals who opt into the new residence-based regime 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 any of the 10 consecutive years prior to their arrival. The protection from tax on foreign income and gains arising within settlor-interested trust structures will no longer be available for non-domiciled and deemed domiciled individuals who do not qualify for this four-year FIG regime.

From 6 April 2025, the Government will introduce a new residence-based system for IHT. Non-UK assets will be subject to IHT if the individual has been UK resident for at least 10 out of the last 20 years.

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, extending to a four year period and removing the need to keep the income offshore. The amount claimed annually will be limited to the lower of £300,000 or 30% of the employee’s net employment income.

The Government will extend the Temporary Repatriation Facility to three years, expanding the scope to offshore structures and simplifying the mixed fund rules. The Government is also publishing a call for evidence on the personal tax offshore anti-avoidance rules, which seeks to identify areas where the rules could be improved.

We will be looking in more detail at these proposals in our non-dom newsletter.

Changes to the treatment of carried interest

For the fund management industry, the capital gains tax rate applicable to carried interest will increase to 32% from April 2025, with further changes to be considered from April 2026 to make the rules better targeted within the income tax framework. A consultation on what that revised regime might contain (in particular a minimum co-investment requirement and a minimum time period between a carried interest award and receipt) runs until 31 January 2025.

Stamp duties

For properties, the rate of stamp duty land tax (SDLT) surcharge payable on the purchase of additional dwellings (second homes) will rise by 2 percentage points to 5% with an effective date on or after 31 October 2024. The single rate of SDLT payable by companies and non-natural persons acquiring dwellings for more than £500,000 will rise from 15% to 17%.

The Government has also proposed a new intermittent securities and capital exchange system (PISCES) for private shares. Private shares traded intermittently within this system will not attract stamp duty or stamp duty reserve tax. This is to boost the pipeline of future initial public offerings in the UK. The power to introduce this system will be included in Finance Bill 2024-25.

Indirect and other taxes

The Government has confirmed that a UK Carbon Border Adjustment Mechanism (CBAM) will be introduced from 1 January 2027. The UK CBAM will place a carbon price on goods that are at risk of carbon leakage imported to the UK from the aluminium, cement, fertiliser, hydrogen and iron & steel sectors. Products from the glass and ceramics sectors will not be in scope of the UK CBAM from 2027 as previously proposed. The registration threshold will be set at £50,000.

HMRC and HMT will continue to engage with key stakeholders that represent the sectors and industries most affected by the UK CBAM through the establishment of a CBAM industry working group. HMRC intends to publish the legislation for a UK CBAM in draft ahead of introducing it to Parliament.

A separate alert on this is available.

Another important development is the confirmation that a consultation will be published in early 2025 to explore the introduction of electronic invoicing (e-invoicing) and how it can establish standards, increase adoption, and support businesses. If the Government intends to create a digital VAT system fit for the future, the introduction of e-invoicing in the UK is a crucial step which could be key in terms of reducing the VAT gap.

In other indirect tax developments, the Chancellor confirmed the introduction of VAT on private school fees from January 2025, while also announcing that legislation will be brought forward for the removal of business rates relief for private schools from April 2025.

The Government will also consult next year on proposals to bring remote gambling (meaning gambling offered over the internet, telephone, TV and radio) into a single tax, rather than taxing it through a three-tax structure. This will aim to simplify, future-proof and close loopholes in the system.

The Chancellor announced rises in air passenger duty, plastic packaging tax and the soft drinks industry levy. There will be a new vaping duty and a one-off increase in tobacco duty from October 2026 (these measures are in addition to other tobacco duty rate increases). There was a reduction in alcohol duties in respect of draught duty and confirmation that fuel duty would not increase in 2025.

Tax administration and other developments

In terms of HMRC's compliance activities, the Chancellor promised modernisation of HMRC's systems and the recruitment of new staff. The Government aims to have recruited 5,000 more compliance staff by 2029-30, with the first 200 joining in November 2024. In addition, 600 additional debt management staff are to be recruited by February 2025.

Investment in HMRC's systems and data announced in the Budget includes modernising HMRC's debt management IT system to ensure tax debt enquiries can be dealt with faster, pre-populating Self-Assessment tax returns with Child Benefit data, updating reporting requirements for ISA providers, modernising voluntary Self-Assessment pre-payment via the HMRC app, replacing the current Inheritance Tax administrative system with an online digital platform, and acquiring further credit reference agency data to enable HMRC to better target their debt collection activities.

There will be an increase in the interest rate on unpaid tax debts and HMRC will target promoters of marketed tax avoidance schemes.

In respect of umbrella companies, legislation will change who has responsibility to account for PAYE where an umbrella company is used in a labour supply chain to engage a worker. The recruitment agency that supplies the worker to the end client will be responsible for operating PAYE. If there is no agency, the responsibility will fall to the end client. This measure will take effect from April 2026.

The Government has published a consultation on reforming HMRC's correction powers, exploring changes to HMRC's existing powers and processes, and a potential new power to require taxpayers to correct mistakes themselves. It will also publish a consultation in early 2025 on options to enhance HMRC’s powers and sanctions to take swifter and stronger action against tax advisers who facilitate non-compliance.

HMRC has renewed its support for international information sharing under the OECD’s Common Reporting Standard (CRS), a mechanism by which HMRC currently receives information from around 9 million bank accounts from over 100 countries, and will be looking to enhance the penalty regime for failure to report CRS data. HMRC has also committed to sign up to the Crypto Asset Reporting Framework (CARF), a regime similar to CRS but for crypto assets, with a view to exchanging information on these by 2027. CARF and the amendments to the CRS will be implemented in the UK from 1 January 2026.

Finally, as expected, the Government announced the approval of the East Midlands Investment Zone, which will use its funding envelope to drive growth in green industries and advanced manufacturing. The Government confirmed that five new customs sites will be designated in existing Freeports shortly.

Autumn Budget webcast

Tomorrow, 31 October, at 3pm – join the webcast for analysis of the Budget’s economic impact, the immediate tax changes and the Government’s plans for the coming years.

Register here

EY ITEM Club Autumn Forecast

Lower than expected increases in consumer spending and cautious cuts to the Bank Rate mean UK growth will be steady rather than rapid over the next two years, according to the EY ITEM Club Autumn Forecast.

Download the full forecast

Contacts

To discuss any of the topics raised by these announcements, please contact us with a brief description of your query. A member of the team will be in touch shortly after.

Chris Sanger	Tax Policy
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