SQUIRE PATTON BOGGS

UK Budget 2024

Tax Changes for Business

UK – March 2024

Introduction

The highlight of a combative election year Budget speech was the much-trailed reduction in employees' and self-employed national insurance contributions by 2% with effect from April 2024. The Chancellor presented what he called a "Budget for long-term growth" but the detail shows few new incentives for growth through the tax system with the focus being more on expenditure on specific projects. The Chancellor's previous fiscal events saw the introduction of the generous full expensing relief for corporate capital investment and launch of a modified R&D tax incentives regime, so the absence of further reliefs was perhaps predictable. However, as always, there were surprises in some of the changes to real estate taxation and the announcement of the abolition of the UK's generous tax regime for non-domiciled individuals.

National Insurance Changes

As was widely expected, the Chancellor announced that with effect from 6 April 2024, the rate of employee's national insurance contributions (NICs) would be reduced by 2% to 8% for earnings above the primary threshold and below the upper earnings threshold. This reduction is in addition to the 2% cut announced in the Chancellor's Autumn Statement last November (which took effect from 6 January 2024). The rate of employer's national insurance contributions, however, remains unchanged at 13.8% on earnings above the relevant threshold.

Meanwhile, for the self-employed, the government will further reduce the main rate of Class 4 national insurance contributions to 6% from 6 April 2024.

While the government claims this tax cut will save the "average worker" £900 a year, given the current rate of inflation, increasing wages and the five-year personal allowance freeze the Prime Minister (then Chancellor of the Exchequer) announced in March 2021, it is unlikely the full benefit of this "saving" will be felt by most employees.

Real Estate Taxation

A surprise announcement was the abolition of the Multiple Dwellings Relief (MDR) for stamp duty land tax (SDLT) with effect from 1 June 2024. MDR currently applies where several dwellings are acquired in the same transaction and allows SDLT to be based on an average consideration per property, which can sometimes result in a lower effective SDLT rate.

MDR will no longer apply to transactions relating to property in England and Northern Ireland completed on or after 1 June, unless the completion is under a contract entered into on or before 6 March 2024. There will be anti-avoidance rules to prevent abuse of the transitional rules. It looks as though the provision allowing a purchase of six or more separate dwellings to be subject to SDLT at the, generally, lower non-residential rate of SDLT will remain, so the impact of MDR abolition on residential portfolio purchases may be minimised.

There has been no announcement on whether changes will be made to the similar reliefs applying in Scotland to Land and Buildings Transaction Tax and in Wales to Land Transaction Tax. These are matters for the devolved administrations.

The government previously consulted on whether to change the "mixed property" SDLT rules which allow a purchase of a property with both residential and non-residential use to be taxed at the usually lower non-residential rate. The government has now decided to leave the rules as they are and not apportion the price between the residential and non-residential parts.

An unexpected change was the reduction in the higher rate of Capital Gains Tax (CGT) for individuals selling residential property from 28% to 24% from 6 April 2024.

In addition, furnished holiday letting businesses (FHLs) have historically enjoyed a plethora of income tax and CGT advantages. This was the case until today when the Chancellor announced his intention to abolish the regime from April 2025. While draft legislation is yet to be published, the withdrawal of all tax benefits would increase the amount of income tax payable on FHL profits (as, among other things, business owners would no longer be allowed to expense the full cost of mortgage interest payments or the costs of furniture, furnishings and equipment purchased for the property from their rental income), as well as increase the amount of CGT payable on gains arising from a disposal of a FHL (although the reduction in CGT on residential property gains will slightly soften the blow). The government has confirmed the draft legislation will include anti-forestalling rules applying from today, preventing FHL business owners from the obtaining the existing CGT advantages using unconditional contracts.

Business Taxation

There were no major changes to the tax treatment or tax rates applying to companies or business activities.

The government announced it would publish draft legislation on extending the full expensing relief to leased assets. Full expensing was introduced as a temporary relief in March 2023 and confirmed on a permanent basis in Autumn 2023. The relief gives companies effective 100% capital allowances on most capital investment in plant and machinery, but currently does not apply to assets which are leased (subject to limited exceptions for certain items in a building). The government points out that it has not made a final decision on whether to extend the relief to leased assets, but the announcement of draft legislation is a positive sign.

The Budget includes some improvements for tax reliefs applying to creative industries, particularly for expenditure on visual effects in film and TV productions and tax reliefs applying to theatres, orchestras and museums and galleries.

The turnover threshold for businesses above which registration for VAT is required will be increased from £85,000 to £90,000 from 1 April 2024.

The period for claiming tax and other reliefs available in areas designated as Freeports will be extended to September 2031 (and 2034 in Scotland and Wales). Businesses located in Freeports can claim enhanced reliefs on capital expenditure, reduced national insurance contributions and exemption from SDLT on certain property purchases.

Abolition of Non-UK Domicile Rules

The Chancellor's speech included the announcement of the end of the current UK tax rules available for UK residents who are non-UK domiciled (often referred to as "non-doms"). In outline, the rules currently allow non-doms to opt for income and gains derived from non-UK assets to be taxed in the UK only, to the extent such amounts are remitted to the UK.

These rules will be replaced by what is billed as a "simpler residence-based regime" from 6 April 2025. Individuals who are subject to the new regime will not pay UK tax on foreign income and gains for the first four years of tax residence. Transitional rules are proposed for those currently within the non-dom regime to encourage them to bring untaxed funds held offshore into the UK.

There is limited information on how the new rules will work and it is not clear when further details will be available.

Reserved Investor Fund

The government announced that it would take forward proposals tabled in 2023 for a new UK investment fund regime labelled a Reserved Investor Fund (RIF).

The RIF will be a contractual scheme for professional and institutional investors which will be unauthorised for UK regulatory purposes. The enabling legislation will be included in the next Finance Bill.

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