



# A PROMISE IS A PROMISE

OCTOBER  
2024

On the day that Rachel Reeves delivered her inaugural Budget as Chancellor, the first Labour Government Budget since Alistair Darling's last in 2010, and the first ever Budget by a female Chancellor, expectations ran high and speculation had been rife. Sir Keir Starmer had declared it a "huge day for Britain". Those with broad shoulders had been advised to brace for pain, while promises to invest in the growth of the economy and to protect working people had been made amidst warnings of difficult decisions that would have to be taken for the good of responsible change.

Much of the pre-Budget narrative surrounded the £22 billion 'black hole' in the national finances that Reeves reputedly discovered on stepping into her new role in July. In addition to adjusting her existing budgets as a means to fill the hole, she brought to the public in her Budget Speech a further spending package aimed at fixing the foundations to rebuild Britain over the next 10 years, a financial commitment that will require in all a tax raise of £40 billion.

Reeves had already signaled some of the funding sources to meet these liabilities, in particular the long-proclaimed intention to abolish the alternative tax basis for UK residents who are non-domiciled in law ('non-doms') and, in the days immediately preceding the Budget Speech, an increase in National Insurance Contributions paid by employers. Reeves' options were limited by the promises in the Labour party's manifesto statement (which had been published before the discovery of the £22 billion void) not to raise Income Tax, VAT, or employees' National Insurance Contributions, the taxes that raise the most revenue, small adjustments to which can generate big products.

Reeves instead unveiled a suite of tax changes which range from stealth measures of freezing future thresholds, immediate tweaks to the rate of various taxes, through

## BUDGET BRIEFING

to sweeping reforms of established tax regimes. While it is often said that there will be winners and losers in every Budget, certain groups of taxpayers will be affected by multiple changes at once, such as the nation's small but important population of non-doms who might validate Sir Keir's comment, quoted by Reeves in her Speech, that "change must be felt".

Among other topics covered in this Briefing, the headline tax changes include:

- An immediate increase in the higher rate of Capital Gains Tax to 24% for transactions occurring on 30 October onwards. An increase to 14% on disposals of business assets (BADR) and 32% on carried interest gains, from 6 April 2025, followed by further increases from 6 April 2026.
- An introduction of a new Foreign Income and Gains (FIG) regime, available to all those coming to the UK for the first time or after an absence of at least 10 years.
- The reform of the taxation of UK resident non-doms including Inheritance Tax changes.
- Inheritance Tax changes relating to Trusts.
- Changes to Inheritance Tax reliefs for business property (BPR) and agricultural property (APR).
- An increase in the rate of Stamp Duty Land Tax on second homes to 5% from 31 October 2024.
- An increase in the rate of employers' National Insurance Contributions to 15%, together with a reduction to the threshold when employers become liable, from 6 April 2025.
- A commitment to maintaining a pro-business and an internationally competitive business tax system via the Corporate Tax roadmap.

## **CHANGES TO CAPITAL GAINS TAX**

Although Capital Gains Tax (CGT) is paid by less 1% of the adult population each year, it is often a hot topic in the press as Budget Day approaches, given the amount of tax which can be at stake for investors and entrepreneurs. This year was no exception, with the rumour of a potential alignment of CGT rates with Income Tax rates starting even before Labour's success in July's General Election. These fears were somewhat allayed earlier this month when Sir Kier commented that speculation about the rate of CGT increasing to 39% was "wide of the mark".

The Government announced in the Budget that it will be increasing the rate of CGT from its current rate of 10% for basic rate taxpayers, and 20% for higher rate taxpayers, to 18% and 24%, respectively. The increase in rates will now match the CGT rates applicable on the disposal of residential property, and will take immediate effect.

Due to the increase in the main rate of CGT, the supplementary charge that applies to gains matched to distributions and benefits from non-UK trusts means that the maximum CGT rate on matched gains will now be 38.4%.

It was also announced that the current CGT rate for Business Asset Disposal Relief (BADR) of 10%, which is available on the disposal of qualifying business assets, will remain at 10% for the rest of this tax year, though it will then increase to 14% with effect from 6 April 2025, and to 18% from 6 April 2026. It could be expected that the gradual increase may promote some activity for small business owners, and minority shareholders, prior to the end of this tax year.

The CGT rate on Investors' Relief, which is available on the disposal of certain qualifying investments in

unlisted trading companies, will also increase from 10%, in line with the changes to BADR noted above. In addition, the current lifetime limit for Investors' Relief of £10 million will be reduced to £1 million for qualifying disposals made from today's date.

HM Treasury expects that the above proposals will bring in an additional £1.44 billion of revenue in 2025/26, rising to £2.49 billion in 2029/30.

## **CHANGES TO THE TAXATION OF NON-DOMS**

### **The new regime for foreign income and capital gains (FIG)**

#### ***Introduction***

From 6 April 2025, all UK residents will be subject to tax on their worldwide income and gains, irrespective of their domicile status under general law.

The Chancellor has, however, confirmed that a new Foreign Income and Gains (FIG) regime will be available to individuals for their first four years of UK tax residence, after a period of at least ten years of consecutive non-residence. Individuals who make a claim to use the new 4-year FIG regime will not pay UK tax on FIG arising in those four years, regardless of whether any of the amounts subject to the claim are remitted to the UK.

This regime was previously announced by Jeremy Hunt at the Spring Budget on 6 March 2024, prior to the UK General Election.

#### ***Claims and eligibility***

Claims to use this new FIG regime will need to be made for each year to which it is to apply, and individuals will choose which sources of foreign income and/or gains are relieved from tax.

There will be no annual charge payable in order to claim this new basis of assessment to tax, but entitlement to the Personal Allowance and the Capital Gains Tax annual exempt amount will be lost as a result of being subject to tax under this regime, and/or making an Overseas Workday Relief (OWR) election, mirroring the current loss of exemptions that apply when remittance basis claims are made. The loss of entitlement to the above referred allowance and exemption will apply regardless of whether a claim is made for only income or only gains, or only an election for OWR is made. Furthermore, if such claim is made for the new FIG regime to apply (and/or an OWR election is made), any foreign losses arising in the year of the claim will not be allowable.

Individuals will need to quantify and disclose to HM Revenue & Customs (HMRC), via the Self Assessment tax return, the amount of foreign income and gains for which relief is being claimed. Amounts of FIG that are not quantified and disclosed will be treated as chargeable and subject to tax at an individual's usual rates.

An individual's ability to qualify for the 4-year FIG regime will be determined by whether they are UK resident under the Statutory Residence Test (SRT). Treaty non-residence claims under a Double Taxation Agreement (DTA) will not be relevant in determining eligibility, but if a tax year within the 4-year period is a 'split year' under the SRT, this will be treated as a full year of UK residence for these purposes. If an individual leaves the UK temporarily during the four-year period, they can claim the 4-year FIG regime for any of the qualifying tax years remaining on their return to the UK.

#### ***Foreign income and gains to which the new regime applies***

The types of foreign income that will be relieved from tax will be similar to those currently taxed on the

remittance basis. Relevant foreign earnings and foreign specific employment income will not be relievably, but relief for this income may be available by way of an election for OWR to apply.

Foreign gains accruing on the disposal of assets situated outside the UK will be relieved from tax under this new regime. Assets that derive at least 75% of their value from UK land, and where the individual has a substantial interest in that land, will be treated as UK situs (and therefore ineligible for this relief).

### ***Distributions and benefits from non-UK settlements and non-UK entities***

If an individual makes a claim for the 4-year FIG regime, relief will be available in respect of the following sources of income and gains (among others):

- Discretionary income distributions from non-UK resident settlements.
- Foreign income attributable to a life interest in a UK or non-UK resident settlement.
- Foreign income treated as arising to a transferor, as a result of the Transfer of Assets Abroad (TOAA) rules.
- Benefits that would ordinarily be matched to foreign income of an overseas entity for which the TOAA rules apply.
- The amount of the benefit will not be treated as reducing the pool of available relevant income within the overseas entity for future matching purposes. Where the benefit is not matched to foreign income of an overseas entity for which the TOAA rules apply, it may be subject to tax in future years (of UK residence), once the relevant 4-year FIG period has come to an end.
- Existing trust protections will cease to apply from 6 April 2025 and foreign income and gains that fall to be taxable on the settlor under existing rules will be taxed on the settlor unless a FIG claim is made.
- Distributions, benefits or income entitlements received by trust beneficiaries, whether received in the UK or overseas. The onward gifting rule will be amended to prevent a beneficiary qualifying for the FIG regime from diverting distributions to a close family member who would be within the charge to tax.
- Benefits that would ordinarily be matched to income or gains that have accrued to the trustees of non-UK settlements. However, the amount of the benefit will not be treated as reducing the pool of 'unmatched' income and gains of the settlement, unless the FIG regime is not claimed.

### ***The end of the remittance basis of taxation for non-doms who are ineligible for the FIG regime***

The remittance basis of taxation will be abolished for UK resident non-domiciled individuals from 6 April 2025. The last tax year for which the remittance basis can be claimed will therefore be 2024/25.

Foreign income and gains that have arisen to a remittance basis user prior to 6 April 2025 will continue to be taxed at the prevailing rates if remitted to the UK on or after 6 April 2025, subject to the TRF rules.

The definition of remittance has been widened to include situations where money is used outside the UK, directly or indirectly, for the benefit in the UK of a relevant person. This is a significant and somewhat unclear extension of the remittance concept and no longer requires a payment to be made to the UK in order to trigger a taxable remittance (similar to the current rule whereby a remittance can be triggered on settling outside the UK a debt which has been used in the UK). The revised definition will be particularly relevant in divorce cases where a non-domiciled spouse makes a financial settlement to the other spouse outside the UK and there are minor children living in the UK.

Where a foreign loss election has been made, any unused allowable pre-6 April 2025 losses may be carried forward for future relief.

As trust protections will be removed (as well as the concept of tainting), settlors who do not qualify for the FIG regime and would be taxed on the income and gains arising to a trust which they settled will be taxed on the income and gains arising to the trust from 6 April 2025.

Similarly, trust protections will no longer apply to income within the TOAA rules. The EU treaty freedom defence will no longer be available.

For beneficiaries who are not settlors, the pre-April 2025 accumulated income and gains will continue to match to distributions and benefits from 6 April 2025 onwards and will be taxable on the beneficiary. A relaxation of current rules, personal losses will be capable of being offset against attributed capital gains.

Legislation will be updated to reflect the end of domicile used as a tax concept and, in this connection, the following changes will take effect:

- *Residence of a trust:* for settlements created on or after 6 April 2025, the domicile of the settlor will no longer be a factor in determining the trust's residence, but the residence of the settlor may still be considered in certain circumstances. There will be no changes to the rules applicable to determining the residence of trusts created on or before 5 April 2025.
- *Residence of personal representative:* currently, domicile can be a factor in determining residence, for income and capital gains purposes. Where the deceased died on or after 6 April 2025, the concept of domicile will be replaced with the same 'long-term residence' test that will be applied for Inheritance Tax.

## **Capital Gains Tax rebasing**

One of the transitional reliefs announced by the Government for non-doms moving into to new regime of worldwide taxation was the possibility to 'rebase' foreign assets for Capital Gains Tax (CGT) purposes.

The rebasing will be available for foreign assets disposed of on or after 6 April 2025 by an individual who has previously claimed the remittance basis of taxation. It has now been confirmed that if the asset meets the qualifying criteria, the base cost of the asset for CGT purposes can be substituted with its value as at 5 April 2017. This effective rebasing date is two years earlier than that proposed by the Conservative government.

To qualify for the rebasing, the individual must not have been UK domiciled or deemed UK domiciled in the UK at any time prior to 6 April 2025, and must have claimed the remittance basis for at least one of the tax years from 2017/18 to 2024/25. The rebasing relief would not apply in situations where an individual automatically qualified for the remittance basis (for example, because their unremitted foreign income and gains were less than £2,000).

With regard to the asset itself, it must have been held by the individual on 5 April 2017 and it must have been situated outside the UK between 6 March 2024 to 5 April 2025 (with exemptions for specific types of moveable assets brought to the UK for exempt purposes, e.g. works of art brought to the UK for repair or public display).

The relief is provided automatically but an individual may elect irrevocably for the rebasing not to apply; for example, should the asset's actual base cost be greater than its value as at 5 April 2017.

A similar rebasing provision was introduced for individuals who became deemed domiciled in the UK for Income Tax and CGT on 6 April 2017. Under this rebasing provision, qualifying individuals were able to rebase their foreign assets to the value as at 5 April 2017, provided they remained non-UK domiciled

under general law at the time of disposal. With the removal of domicile as a concept under UK tax law, the Government has confirmed that this rebasing provision will continue to be available, provided that the individual remained non-UK domiciled under general law up to and including 5 April 2025 (and provided that the other qualifying conditions are met).

Finally, the rebasing introduced in 2008 for capital gains arising in non-UK tax resident trusts with UK resident but non-UK domiciled beneficiaries will remain in place from 6 April 2025, provided that a valid election was made. Draft legislation has also been written to preserve the effects of the 2008 rebasing for settlors who will now be assessable on the trust's underlying capital gains on an arising basis.

## **Carried Interest Reforms**

Carried interest is a form of performance-related reward received by fund managers. Currently, carried interest can be subject to Capital Gains Tax (CGT) provided that certain conditions are met. Otherwise, carried interest is taxed at income tax rates (e.g. where the carried interest comprises interest/dividend income or where the average holding period for a fund's investments is less than 36 months).

This means there are currently four different tax rates applicable to carried interest (two CGT rates of 18%/28%, income tax rates of up to 45% and dividend income tax rate of up to 39.35%).

The Government intends to reform the prevailing tax rules so that the new tax regime for carried interest appropriately reflects the economic characteristics of the reward and a single tax rate is used for carried interest, compared with the multiple rates applicable under the current regime.

Notwithstanding the comments above, the Government recognises that there is strong competition from other jurisdictions to attract the asset management sector, therefore there is a need for a tax system for carried interest which is fair and just but at the same time the UK remains an attractive jurisdiction for private equate industry under the new regime. The Government also recognises that carried interest has unique characteristics which distinguishes it from other types of reward.

Following the consultation with various stakeholders, the Government announced in the Budget that:

- From 6 April 2025 onwards, carried interest gains will be taxed at a single 32% CGT rate. This will be an interim rate for carried interest capital gains which will apply until 5 April 2026. Carried interest income will continue to be taxed at normal income tax rates.
- From 6 April 2026 onwards, the revised tax regime will transfer all carried interest returns solely to the income tax framework. Under this new regime, carried interest will be treated as trading profits (from a deemed trade) and subject to Income Tax and Class 4 National Insurance Contributions (NICs). The tax charge under the new regime will be a single tax charge. No other charges would apply with the intention to simplify the taxation of carried interest.
- Recognising the unique characteristics of carried interest rewards, only 72.5% of 'qualifying' carried interest will be subject to income tax. The 72.5% multiplier has currently been determined based on the assumption that qualifying carried interest will be received by additional rate taxpayers. The Government will consider how the multiplier would apply to taxpayers in other tax bands.
- Carried interest will be qualifying where it is not Income Based Carried Interest (IBCI). Broadly, under the IBCI rules, carried interest is 'income-based' where either the average holding period test is not met or because it arises from a direct lending fund (with certain exceptions). IBCI is subject to income tax as disguised investment management fees (DIMF).
- The government will also amend the current IBCI rules to remove the exclusion for employment related securities. The current application of the IBCI rules is limited to fund managers who are self-employed

members of a firm structured as a Limited Liability Partnership (LLP). Under the new regime, taxpayers will not be able to avoid the IBCI rules simply by becoming employees.

### ***Deemed trade deemed to be carried on in the UK***

The deemed trade under the new regime will be treated as carried on in the UK, to the extent that the investment management services by virtue of which the carried interest arose were performed in the UK, and treated as carried on outside the UK to the extent that the investment management services were performed outside the UK.

As a result, non-UK residents will be subject to Income Tax on carried interest to the extent that it relates to services performed in the UK (subject to the terms of any applicable Double Taxation Agreement).

From 6 April 2025, the remittance basis of taxation will be replaced by a new 4-year foreign income and gains (FIG) regime. Any qualifying carried interest which relates to non-UK services would benefit from relief under the FIG regime.

Non-qualifying carried interest subject to the IBCI rules will continue to be subject to the same provisions as currently, with only IBCI relating to 'pre-arrival services' would be able to benefit from relief under the FIG regime.

Additionally, the Government is considering attaching further conditions to the definition of qualifying carried interest under the new regime. This could entail:

- A minimum co-investment requirement which a fund manager could be required to contribute. Although, the Government acknowledges that carried interest and returns on co-investment are separate concepts (and there are no plans to change the tax treatment of co-investment returns).
- A minimum period between the right to carried interest being awarded to a fund manager and that carried interest being paid out as a means of ensuring qualifying carried interest is limited to carried interest which is a genuine long-term reward.

The Government intends to establish a working group with stakeholders to discuss the new regime which would be applicable from April 2026, ahead of publication of draft legislation in 2025.

### **Overseas Workday Relief (OWR)**

A claim for OWR provides an opportunity for UK residents who are non-domiciled (and meeting other qualifying conditions) to apportion their annual employment remuneration between UK duties and duties performed outside the UK. The apportionment is determined on a just and reasonable basis.

As domicile status will cease to be a part of the UK tax system, from 6 April 2025 an individual's eligibility to claim OWR will be based instead on their residence position.

Under the residence-based rules, where an individual qualifies for the 4-year FIG regime, they can also make an election for OWR, which will now be available for up to four years.

The reforms announced in the Budget have implemented a financial limit for each qualifying tax year which could restrict the total relief claimed under OWR. The financial limit for which OWR on the foreign element of earnings may be claimed for each qualifying tax year will be the lower of;

- 30% of the qualifying employment income in the relevant tax year, or
- £300,000

With the abolition of the remittance basis, the current requirement to segregate income relating to UK duties and overseas duties into separate bank accounts for each tax year will no longer be applicable. A relaxation of current rules, the total earnings can be received or brought to the UK without incurring an additional tax charge.

If a claim under OWR is made, the individual will continue to lose their personal allowance for Income Tax purposes, annual exemption annual for Capital Gains Tax and also their ability to claim foreign income or foreign capital losses in the relevant tax year.

### ***Transitional arrangements***

Where an individual arrived in the UK and claimed OWR prior to 6 April 2025 but does not meet the requirement to benefit from the 4-year FIG regime, they can continue to be eligible for OWR for their first three years of UK tax residence.

Individuals who are part-way through their current three-year claim for OWR and are eligible for the 4-year FIG regime can claim OWR for a total of four years. The claim for these individuals will not be restricted under the financial limit mentioned above.

### ***PAYE***

In an aid to simplify the operation of PAYE for individuals claiming OWR, employers can now only operate PAYE on earnings relating to UK duties for qualifying employees once they have notified HMRC and received an auto-acknowledgement of their notification from HMRC.

### **Temporary Repatriation Facility**

The previously announced relief referred to as the Temporary Repatriation Facility (TRF) has been extended to three years from 6 April 2025, to include the 2027/28 tax year. From 6 April 2025, former remittance basis users will be able to make a designation for any amount including foreign income and gains that arose before 6 April 2025. These amounts will be charged to tax in the year of the designation at a reduced rate which is 12% in the 2025/26 and 2026/27 tax years and 15% in the 2027/28 tax year. However, no relief will be given for foreign tax paid as the designated amounts will be treated as being net of tax.

There is no requirement for the amounts to be remitted during the tax year in which the designation is made (or any later year) and an individual will not be required to declare remittances in subsequent years of the amounts designated (unless required under a compliance check by HMRC). The designation will be made in the individual's tax return for the relevant year.

The TRF will provide an opportunity to designate amounts where the origin of the funds is uncertain or the individual is no longer able to confirm the source of the funds. It will also be possible to designate amounts that are not held as cash, e.g. income or proceeds that are were used to purchase assets (art, shares, etc.) whilst remittance basis was claimed and are incorporated in the asset's base cost (including situations where 5 April 2017 rebasing applies). Joint accounts or jointly held property will also be in scope.

In the case of mixed funds, the mixed fund ordering rules have been simplified where a TRF designation is made: the designated amounts will be treated as remitted to the UK in priority to any other amounts, regardless as to which year the amounts relate. Also, it will be possible to use a simpler annualised approach (similar to the qualifying account rules for Overseas Workday Relief) to analyse accounts containing designated amounts for the TRF period. Moreover, nominated income rules will be 'switched' off during the TRF period where a designation is made.

Unremitted income which qualified for OWR prior to 6 April 2025 can be designated and brought to the UK under the TRF. In the absence of a TRF designation, the remittance of such income will be taxable.



Individuals will also be able to designate unremitted foreign income and gains that they have received, benefitted from or attributed to them from an overseas trust or offshore entity prior to 6 April 2025. This includes any unattributed foreign income and gains held within non-resident companies and trusts as long as they are matched with benefits or capital payments that they receive during the TRF period.

An individual cannot designate any foreign income or gains that become taxable on their return to the UK under the Temporary Non-Residence rules. They can, however, designate unremitted amounts which arose prior to their departure from the UK.

If an individual qualifies for both the TRF and the 4-year FIG regime, because they were previously resident in the UK more than 10 years before qualifying for the FIG regime, it will not be possible to claim relief under the 4-year FIG regime on any amounts of untaxed foreign income or gains that arose prior to 6 April 2025 that are remitted on their return. The remitted foreign income or gains will need to be designated under TRF or be taxed at the standard UK tax rates.

### **Business Investment Relief**

Qualifying investments made into unlisted UK trading companies using foreign income and gains that arose pre 5 April 2025, will remain eligible for Business Investment Relief (BIR) claims up to 5 April 2028. BIR will not be available on new investments or reinvestments from 6 April 2028.

An individual could make a designation of the amount previously used to make a BIR investment without the need to make a withdrawal from the company. If a potentially chargeable event, such as a disposal or breach of the BIR conditions occurred, no further charges would arise on the designated amount.

### **INHERITANCE TAX**

The announcement that the current non-domiciled status will be abolished, and replaced by a new regime based on residence, from 6 April 2025, presents particular difficulties for Inheritance Tax (IHT), where the IHT regime has long been based on the concept of domicile in law and the location of assets.

Under the current rules, individuals who are UK domiciled, or 'deemed UK domiciled', or a 'formerly domiciled resident', are subject to IHT on their worldwide assets.

An individual is deemed to be UK domiciled if they have been UK resident for more than 15 out of the last 20 years. Where an individual leaves the UK and ceases to be resident, the deemed domicile will remain for three years following the cessation of UK residence.

Subject these rules, if an individual is non-UK domiciled, they are subject to IHT only on UK assets (including UK residential property however it is held). It has been confirmed in the Budget that there will be no changes to the scope of IHT on UK situs assets, which are within the charge to IHT for all individuals irrespective of residence or domicile status.

### ***Residence-based system for IHT***

From 6 April 2025, the new residence-based system will determine whether non-UK assets are within the scope of UK IHT based on whether the individual meets the conditions to be considered a 'long-term UK resident'. IHT will be charged on an individual's non-UK assets if a chargeable event arises when they are a long-term resident.

An individual is a long-term UK resident where they have been resident in the UK, under the Statutory Residence Test, for at least 10 out of the previous 20 tax years preceding the tax year in which the chargeable event arises. The long-term residence test will apply regardless of the individual's common law domicile

status. For an individual 20 years old or younger, the test will be whether they have been UK resident for at least 50% of the tax years since their birth.

Additionally, where a long-term UK resident leaves the UK, they will continue to be within the scope of UK IHT for up to the following 10 years ('10 year tail').

There are provisions in place to shorten the 'tail' and these provisions will apply where an individual has only been UK resident for between 10 and 19 years out of the previous 20:

Individuals resident for between 10 and 13 years will remain within the scope of UK IHT for 3 tax years after leaving the UK.

The length of the 'tail' is increased by one tax year for each additional tax year of residence. For example, an individual resident in the UK for 15 out of the previous 20 tax years will remain within the scope of UK IHT for 5 years (3 years + 2 years) after leaving the UK.

After a period of 10 consecutive years of non-UK residence the individual will no longer be considered a long-term resident and will no longer be within the scope of UK IHT even if they return to the UK thereafter; the test will effectively reset.

There will be transitional rules for existing deemed domiciled individuals who are not domiciled under common law on 30 October 2024 and who are non-UK resident in the tax year 2025/26. They will be treated as long-term resident in respect of chargeable events from 6 April 2025 only if they have been resident in at least one of the four tax years ending with the year of charge. This equates to the current 3 year tail.

In the event of a death where two spouses do not share the same IHT status, the spouse of a long-term resident will be able to elect to be treated also as a long-term resident, in the same way as a domicile election can be made under current rules.

### ***IHT nil rate band***

The Chancellor announced that the inheritance tax nil rate band (currently £325,000) will continue to be frozen until 2030, an extension of 2 years. This will mean the nil rate band has been at its current level since 6 April 2009.

It was announced that the main residence nil rate band of £175,000 will also be frozen and the total estate value up to which the residence nil rate band is available will be frozen at the current level of £2 million.

### ***Agricultural Property Relief (APR) and Business Property Relief (BPR)***

The Chancellor announced reforms to APR and BPR that will apply from 6 April 2026. Currently, relief is available at up to 100% on qualifying assets and is uncapped.

The proposal is that the 100% rate relief will only apply to the first £1 million of qualifying property combined, both agricultural and business property, with the allowance apportioned pro rata across the value of each type of property. The allowance will apply to transfers on death or during lifetime. It has further been confirmed that any unused allowance will not be transferable between spouses.

Where the value of qualifying property exceeds £1 million, the relief will be applied at only 50% of the value, giving an effective Inheritance Tax rate of 20% on qualifying assets above this threshold. This will be a major change for entrepreneurs owning valuable shares in private companies.

There has also been a change in respect of shares listed on a Stock Exchange such as AIM but not a recognised Stock Exchange such as the LSE. Under current rules, shares listed on the AIM market may

qualify for 100% Business Property Relief once they have been owned for at least 2 years. Under the proposals announced at the Budget, the relief available will be reduced from 100% of the value to 50%.

Where any assets within the scope of IHT currently qualify for a 50% rate of IHT relief, there will be no change.

These restrictions will also apply to trusts in respect of exit charges and ten year charges. It is proposed that there will be a combined £1 million allowance for trustees on the value of qualifying property to which 100% relief applies, on each ten-year anniversary charge and exit charge, consistent with the treatment of qualifying property chargeable to IHT on death. Where more than one trust has been set up prior to 30 October 2024 each trust would have its own £1 million allowance. However, there will be a technical consultation in early 2025 on the detailed application of the policy to charges within trusts.

In addition, anti-forestalling measures have been introduced to stop the effective ‘banking’ of the relief between 30 October 2024 and 6 April 2026. Where a lifetime transfer of qualifying business property or agricultural property is made on or after 30 October 2024 and the donor dies on or after 6 April 2026, instead of the current IHT exemption applying to the transfer, the new rules will apply, in that 100% relief will only be due on the first £1 million of the gift and 50% relief will apply thereafter. It should be noted that after a full seven years any Potentially Exempt Transfer would fall outside the scope of IHT under normal principles.

## **TRUSTS AND INHERITANCE TAX**

The Chancellor had previously announced in her July 2024 statement that the Government had planned to close the ‘loophole’ which had been left open by the Conservative’s final Budget prior to the General Election, in respect of the IHT protections offered by non-UK trusts created by non-UK domiciled individuals living in the UK. It was hoped that the Chancellor might introduce a ‘grandfathering’ of existing trusts, but the rules described below for relevant property trusts will apply to all settlements regardless of when the property became comprised in the trust.

### ***Relevant property trusts***

The relevant property IHT regime covers most discretionary trusts, as well as interest in possession (IIP) trusts which were neither created on death, nor created prior to 22 March 2006.

Under current IHT legislation, the exposure of a relevant property trust’s assets is linked to the domicile of the settlor at the time the trust was settled. Therefore, if a trust was settled by an individual at a time when they were not UK domiciled, and not deemed UK domiciled, the non-UK assets within the trust would be considered ‘excluded property’, which is outside the scope of IHT. UK situs assets, on the other hand, cannot be excluded property (regardless of the tax status of the trust or settlor) and would always remain within the scope of IHT.

With effect from 6 April 2025, the settlor’s long-term UK residence status will determine the extent to which the trust assets are considered excluded property, regardless of the settlor’s domicile.

This means that the excluded property status of the trust’s assets, and therefore the trust’s exposure to IHT on each ten year anniversary, and on appointment of capital out of the trust (‘exit charges’), will change as the settlor’s long-term UK residence status changes. The periodic trust IHT charges will be apportioned only for the period during which the property was relevant property (i.e. not excluded property). It may be that a trust’s ten year charge can be completely avoided if the settlor is not long-term UK resident on the ten year anniversary.

However, it is important to note that whenever trust relevant property becomes excluded property, there will be an IHT exit charge. This may occur, for example, on 6 April 2025 when the non-UK situs property

of a trust with a UK domiciled settlor who is not a long-term resident, becomes excluded property; or on occasion after 6 April 2025, when a UK resident settlor ceases to satisfy the long-term UK resident test.

### ***Gift with reservation of benefit***

Currently, if a settlor can benefit from a trust which they settled, they are considered to make a 'gift with reservation of benefit' (GWROB). This means that the trust property remains within the settlor's estate for IHT purposes, unless the property is considered excluded property. This means that currently, settlors who have established excluded property trusts with non-UK situs assets may continue to retain a benefit in such trusts without any IHT exposure. This is the main 'loophole' that the Labour Party had perceived in their prior announcements.

From 6 April 2025, as noted above, the extent to which trust property is considered excluded property is dependent on the long-term residence position of the settlor (and the situs of the asset). As such, whilst the settlor is not a long-term resident, the trust retains its excluded property status.

For trusts established after 30 October 2024, when the settlor becomes long-term resident the trust property will no longer be excluded property and therefore will fall within the settlor's estate with effect from 6 April 2025. If the settlor dies whilst retaining a benefit in the trust and at a point when the trust property is not excluded property, the settlor will be subject to IHT on the value of the trust property. If a settlor ceases to retain a benefit in the trust, then they will be considered to make a 'Potentially Exempt Transfer' (PET), which will become chargeable, should the settlor not survive seven years from the date of exclusion.

Unexpectedly, in the context of the Budget announcement, the Government has announced a 'grandfathering' provision for excluded property trusts which were in existence prior to 30 October 2024. These relieving provisions state that the trust's non-UK assets will not be subject to the GWROB rules, although the trust itself may come within the new regime for relevant property (triggering ten year charges and exit charges as noted above). In certain circumstances this will mean that non-UK assets of existing trusts will not be within the estate of the settlor even under the new rules. (Albeit any UK situs assets held by the trust prior to 30 October 2024 cannot benefit from the transitional GWROB provision, even if the UK assets later become non-UK situs.)

### ***Other scenarios***

Where a settlor dies prior to the new rules being introduced on 6 April 2025, the excluded property status of the trust will be fixed, based under current rules on the domicile of the settlor at the time the trust was settled.

If the settlor dies after 6 April 2025, the ongoing excluded property status of the trust will depend on whether or not the settlor was long-term UK resident at the date of death.

For a trust which is a Qualifying Interest in Possession (QIIP), broadly being an IIP settled prior to 22 March 2006, or created on death, then the trust's assets will only be excluded property if both the settlor and life tenant of the QIIP are not long-term UK resident. There is some grandfathering for excluded property held within a QIIP immediately prior to 30 October 2024 which may retain its excluded property status.

## **PERSONAL TAXES**

The Government has announced that it will not extend the freeze to Income Tax and NIC thresholds further than already announced. From 6 April 2028, these thresholds will be updated in line with inflation. The starting rate for savings income will remain at £5,000 for 2025/26.

Under tax information exchange agreements HMRC receives information concerning offshore bank accounts, much of this information relates to the calendar year ended 31 December. Reconciling these amounts with what has been reported on a tax return for a year end of 5 April has proven difficult for HMRC.

The Government has recognised that if HMRC is having difficulty then taxpayers may also have difficulty. Therefore, the Government has launched a consultation to examine if it is possible to tax offshore interest on a calendar year basis and how this would work in practice, possibly using technology to pre-populate offshore interest on tax returns from information exchange sources.

## **Pension tax reform**

The Government has proposed a tax change whereby pension funds will be included within the value of a person's estate subject to IHT from 6 April 2027, subject to a public consultation which has been launched.

The proposals are that the pension fund administrators will become liable for reporting and paying the IHT but only after being told of the estate by the personal representatives. This will lead to considerable communication between the Pension Fund Administrators and the personal representatives.

The spousal exemption would still be available when the pension is left to the surviving spouse, and in other cases the nil rate band will be split between the pension fund and the estate.

The taxation in respect to Income Tax remains unchanged; if the death occurs after age 75, withdrawals will be taxable on the beneficiaries of the fund. This could lead to a situation where inheritance tax is payable at 40% on the value of the fund and then income tax payable at 45% on distributions.

The Chancellor also announced that transfers made to Qualifying Recognised Overseas Pension Scheme (QROPS) from 30 October 2024 will no longer be excluded from the 25% transfer charge where the QROPS is established in the EEA or Gibraltar.

## **Reform of Air Passenger Duty for private jets**

The Government announced that to ensure in its view that revenue from Air Passenger Duty (APD) remains sustainable, APD rates will be adjusted in 2026/27, adding £2 for those flying economy to short-haul destinations and £12 for long-haul destinations and relatively more for premium economy and business class passengers.

Existing higher rates for private jets will increase by 50% and the Government is consulting on extending the higher rate to include all private jets above 5.7 tonnes. Currently, the higher rate only applies to jets of 20 tonnes or more that are equipped to seat fewer than 19 passengers.

## **VAT on Private School Fees**

Further to recently issued guidance by HMRC, the Government has confirmed that with effect from 1 January 2025 education, vocational training and boarding services provided by private schools in the UK will no longer be exempt from VAT and will be subject to VAT at the standard rate of 20%. This VAT charge will secure additional funding to help deliver the Government's commitments relating to education and young people.

There had been concerns that such a VAT charge would inadvertently affect pupils with special educational needs whose places are funded by local authorities and devolved governments. Similar concerns were raised about school places funded for children of diplomatic staff and military personnel who are posted overseas.

However, it has been confirmed that local authorities and devolved governments that fund these places will be compensated for the VAT they are charged on those pupils' fees. Similarly, the Ministry of Defence (MOD) and the Foreign Commonwealth & Development Office (FCDO) will increase funding to account for the VAT charge on the proportion of such fees normally covered by the Continuity of Education Allowance (CEA) granted to diplomatic staff and military personnel.

Private schools will have to consider their position with regards to registering for VAT for those who are not already registered or to re-visit their VAT partial exemption methods for those who are already registered. There may also be opportunities for some schools to recover VAT on building projects as a result of this change in VAT treatment.

Further details of the VAT compliance obligations for private schools and also potential opportunities for additional VAT recovery can be found in our [recently issued publication](#).

## **PROPERTY TAXES**

### **Increase in Stamp Duty Land Tax (SDLT)**

Since 2015, there has been a series of tax changes affecting residential property, to erode the tax benefits of offshore property holding structures and, more broadly, seeking to disincentivise second home ownership and buy-to-let properties.

In a continuation of this trend, the Chancellor announced that in a bid to support first time and main home buyers, the SDLT surcharge applicable to the purchase of additional residential property, or the purchase of residential property by companies is to increase from 3% to 5% on or after 31 October 2024.

In addition, the 15% flat rate of SDLT potentially applicable to the purchase of residential property for more than £500,000 by companies and non-natural persons will also be increased to 17%.

Purchases of residential property by non-UK residents, non-UK resident companies or UK companies controlled by non-UK residents also attract a separate 2% SDLT surcharge. Combined with the announced increase, this means that combined SDLT rates could reach up to 19% in some circumstances.

Whilst this may increase the entry costs associated with acquiring UK residential property and discourage property investors, it remains to be seen whether this converts into an advantage for first time buyers and main home buyers, given the wider barriers to property ownership.

### **Furnished Holiday Lets**

As previously announced, the Government has confirmed the abolition of the differential and favourable tax status from 6 April 2025 of rental properties that qualify as Furnished Holiday Lets (FHLs).

This will remove four key tax advantages:

- Full relief for interest paid on loan interest; relief will now be given by basic rate tax credit in the way as for ordinary residential property lettings.
- No more capital allowances may be claimed.
- Capital gains tax reliefs for trading business assets (such as roll-over relief and Business Asset Disposal Relief) will cease to apply
- The profits from the rental activity are no longer eligible as earnings for pension contribution purposes.

There will, however, be transitional rules:

- There will be no new claims allowed for capital allowances but where there is an ongoing capital allowance pool, it will continue to attract tax relief.
- Rental losses can be offset against any other property rental income for the same rental business, and this will also apply to carried forward losses.
- Tax reliefs which included a condition of qualifying for the FHL regime in a future year, this condition will no longer be required and the reliefs will continue to apply provided that all other conditions are met.

## **BUSINESS TAXES**

### **Increase to Employer National Insurance Contributions**

The Chancellor has increased the employers' Class 1 National Insurance Contributions (NIC) rate by 1.2%, from 13.8% to 15% from 6 April 2025. The secondary threshold, at which employers start to pay NICs on employee remuneration, will be reduced from £9,100 to £5,000 per employee, which will increase the overall NIC payments for employers. For an employee whose gross pay is £40,000, the employer will see an increase of £985 in their NIC costs for that employee.

However, the Employment Allowance has been increased from £5,000 to £10,500 from 6 April 2025. It will now also be available to any business that has an NIC liability, rather than applying only to businesses with a liability of up to £100,000, as currently.

### **Payroll**

From April 2025 the National Living Wage will increase to £12.21 per hour and the National Minimum Wage for 18-20 year olds will increase to £10.00 per hour. For under 18s and apprentices the minimum wage is increased to £7.55 per hour.

From April 2026 it will become mandatory for employers to process their payroll benefits through their payroll system rather than on a P11D. This means employees will pay tax on their benefits in real time and it will be shown on their payslips. Although it is not yet mandatory for employment related loans and accommodation to be payrolled, employers can voluntarily payroll these benefits from April 2026. If you have not already considered payrolling your benefits you can apply early and commence from April 2025.

### **Corporate Tax Roadmap**

The Government has published its corporate roadmap providing its commitment to businesses on Corporation Tax, capital allowances, research & development and creative sector reliefs (among other aspects) over the current Parliament.

The aim of the roadmap is to create a more stable and predictable tax environment for businesses to enable them to make long-term decisions with more tax certainty, whilst caveating that unforeseen developments may arise that necessitate action to be taken but promising a consultative approach to changes.

#### ***Main provisions***

The Government commits to maintaining the current main rate of Corporation Tax at 25% and no major reforms of Corporation Tax principles for the duration of this Parliament.

No changes are expected to the UK's substantial shareholding regime (the UK's participation exemption

for gains arising on the disposal by a corporate of shares in trading companies or trading groups), or to the current corporate dividend exemptions and zero withholding tax on dividends. Which along with the UK's wide network of international tax treaties continues to make the UK an attractive jurisdiction for holding companies of international groups.

The roadmap also commits to maintaining the current losses regime which enables loss relief across UK groups but restricts the use of losses brought forward from prior accounting periods by 50% where current year profits exceed £5 million.

### ***Capital allowances***

There are no expected major changes in the current Parliament to the capital allowances regime. The current full expensing regime for qualifying plant & machinery (100% first year allowance for main rate expenditure and 50% first year allowances for special rate expenditure), the £1 million Annual Investment Allowance, the existing writing down allowance rates and structural buildings allowance will all be maintained.

The Government intends to provide greater clarity on what assets qualify for capital allowances but does not intend to consider including assets bought for leasing within the full expensing regime until "fiscal conditions allow".

### ***Research and development***

With the numerous recent changes made to the research and development (R&D) tax regimes, including the advance notification requirement, the current RDEC and incentives for R&D intensive companies are not expected to be materially altered.

Whilst noting industry concerns regarding HMRC's sometimes overzealous and inconsistent approach to enquiries into R&D claims, the Government believes this scrutiny is driving down error and fraud. There is an intention to establish an R&D expert advisory panel and launch an R&D disclosure facility to, in its view, further eliminate abuse. A consultation will be launched in the Spring of 2025 on an advance clearance to enable companies to have more certainty before embarking on making time consuming R&D claims.

### ***Creative and cultural sector tax reliefs***

Confirmation of the continued commitment to these targeted reliefs was provided by maintaining the already planned changes as follows from April 2025:

- Audio-Visual Expenditure Credit (AVEC), the credit rate for visual effects in film and high-end television will increase to 39% and the 80% cap on qualifying expenditure for visual effects costs will be removed so that claims can be made on 100% of qualifying expenditure.
- A UK independent film tax credit will be introduced within the AVEC framework, in respect of expenditure incurred after 1 April 2024 (where principal photography also commenced after this date). The rate will be 53% on qualifying film production expenditure and will be available for films with budgets under £15 million.
- Theatre Tax Relief, Orchestra Tax Relief and Museums & Galleries Exhibitions Tax Relief (MGETR) From 1 April 2025, the rates for these reliefs will be permanently set at 40% for non-touring productions, and 45% for touring productions and orchestras.

### ***International tax matters***

No immediate changes are proposed, but the roadmap contained a commitment from the Government



to consult in Spring 2025 on reforms to transfer pricing, diverted profits tax and the taxation of permanent establishments.

Potential future transfer pricing reforms could see an abolition of UK-to-UK transfer pricing but a lowering of the medium sized company exemption and increased transparency by requesting increased reporting on cross-border related party payments. So, on the one hand, there could be simplification, but it appears that the in the long term the scope of transfer pricing will expand.

The roadmap also contained the now- standard Government commitments to align UK legislation with OECD Pillar 1 and Pillar 2, which is only of impact to multinational groups with annual revenues in excess of €750 million. Legislation will be introduced in Finance Bill 2024-25 to bring in the Undertaxed Profits Rule which will allow the UK to bring into charge any amounts that are not covered by top-up taxes in other states (where the global minimum tax rate of 15% is not met).

## **Employee Ownership Trusts (EOT) and Employee Benefit Trusts (EBT)**

EOTs are a form of EBT, where a controlling shareholding of a company is held by the trustees of a trust that has been established for the benefit of all the employees of that company, as a form of employee ownership.

A key reason behind the popularity of EOTs, is that the disposal of shares in a trading company or holding company of a trading group to an EBT is free of Capital Gains Tax for the seller.

Following a consultation process run over the summer and concluding in September 2024, aimed at ensuring that these regimes delivered on the objective of encouraging employee ownership without allowing tax advantages to arise outside of this objective, the Government has announced a package of reforms to the taxation of EOTs and EBTs.

In order for the disposal of controlling shareholding to an EOT from 30 October 2024 to qualify for Capital Gains Tax relief:

- the majority of trustees of the EOT must consist of persons other than the former owners or persons/companies connected with them;
- the trustees of the EOT must be UK resident as a single body of persons, and
- reasonable steps must be taken to ensure that the shares are not acquired by the EOT for more than market value.

Sellers will be required to provide more information when Capital Gains Tax relief is being claimed.

The period of time during which tax relief can be withdrawn is also to be extended to the end of the fourth tax year following the date of disposal.

The tax exempt treatment of distributions paid to an EOT to fund payments to former owners for their shares and associated costs, including a reasonable rate of interest, will be provided for in legislation, to reflect the position adopted by HMRC in practice at present, and prevent the need for clearances to be routinely sought on this point. This will only apply to distributions to EOTs, rather than EBTs more generally.

For bonuses paid after 30 October 2024, it will also be permissible for bonus awards to obtain Income Tax relief where directors are excluded from the award. However, industry calls to increase the value of the tax-free bonus from £3,600 to account for inflation were not heeded.

These changes were primarily focussed on ensuring that EOTs are incentivising the desired outcomes of employee ownership, employee reward and staying true to the 'all employee' nature of EOTs. There is a desire for more operational simplicity and greater checks and balances, to ensure that former owners do not act with a short term mindset or continue to exercise undue influence and control.

Whilst there are a number of changes which need to be taken account of, an EOT could remain an attractive exit option for certain businesses, particularly in light of the increase to Capital Gains Tax and reduction in value of Business Asset Disposal Relief also announced in the Autumn Budget.

Some changes were also introduced to the conditions to be met in order for transfers into an EBT to be exempt from Inheritance tax. These are that restrictions on connected persons benefiting from an EBT must apply for the lifetime of the trust, the two year holding period for shares being settled into an EBT will take account of previous holdings where there is a reorganisation and no more than 25% of employees who can benefit from an EBT should be connected to the participator, in order for the EBT to benefit from favourable tax treatment.

## **CHARITIES**

### **Charity compliance measures**

The Government announced it would legislate to prevent, in its view, "abuse of the charity tax rules". This follows a consultation by the previous Government on proposals intended to prevent donors obtaining a financial benefit from their contributions, preventing "misuse" of charitable investment rules, to address gaps in non-charitable expenditure rules and to introduce sanctions for charities and Community Amateur Sports Clubs that did not meet their filing and payment obligations.

The Government has decided to make "incremental and modest" changes to the current rules rather than overhauling them. For example, in the case of seeking to prevent donors obtaining a financial benefit from their donation (the current rules being the Tainted Charity Donation rules), the Government announced its intention to lower the bar for HMRC being able to challenge a transaction and to replace the current motive test (based on intention) with an outcome test. The Government's stated intention is to provide a more objective assessment of the interactions between donors and charities to determine if a donor has unduly benefited from their donation(s).

The Government's stated objective is "to preserve these important tax reliefs". The proposed changes will take effect from 6 April 2026 which is intended to give charities sufficient time to adjust to the new rules. It remains to be seen if the Government's proposed changes will result in more complexity for donors and the charitable sector.

## **CRYPTOASSETS**

### **Implementing the Cryptoasset Reporting Framework**

The Government also published a summary of responses to the previous Government's consultation on implementing the Cryptoasset Reporting Framework (CARF) and amendments to the Common Reporting Standard (CRS). The implementation of the CARF requires Reporting Cryptoasset Service Providers to report details of their users and transactions so that tax authorities in multiple jurisdictions can use the information to detect and tackle tax non-compliance in this area. Significantly, in response to the consultation, the Government confirmed its decision to extend the CARF's reporting requirements to UK users of crypto assets. The first exchange of information between jurisdictions under the CARF is due to take place in 2027.

## TAX ADMINISTRATION

### Mind the ‘tax gap’

The tax gap is the perceived difference between the taxes collected by HMRC and the theoretical tax liability if individuals and businesses paid the tax that is legally due.

Named as one of the “three strategic priorities for HMRC”, the Government has announced this as “the most ambitious ever package to close the tax gap” and estimate that the raft of measures they are introducing will raise £6.5 billion in additional taxes collected per year by 2029/30. In 2022/23, HMRC estimated the gap to be £39.8 billion, which was 4.8% of total theoretical tax liabilities.

The projected additional budget allocated to HMRC over the next five years includes £1.4 billion to recruit 5,000 extra compliance staff and £262 million for 1,800 additional debt management staff. It is clear that the Government is aiming to bolster its revenue collection over the next five years, and interestingly, the forecasts for 2025/26 show that the Government expects the additional investment in compliance staff to generate an extra £165 million, whereas the extra investment in management staff will generate an extra £815 million. In 2026/27, the respective figures are £540 million and £1,230 million.

Below is a summary of some of the measures designed to close the gap.

### ***Tackling offshore tax non-compliance***

Global tax transparency amongst all co-operative jurisdictions who have signed up to the Common Reporting Standard (CRS), a standardised method of reporting financial information developed by the Organisation for Economic Co-operation and Development (OECD), means that HMRC receives more information than ever before from financial institutions; 9 million accounts from over 100 jurisdictions with which the UK has an Automatic Exchange of Information (AEOI) agreement, according to the policy papers.

The Government, rightly or wrongly, views offshore tax non-compliance as a major contributor to the tax gap arising from errors or non-compliance by UK residents failing to properly declare their offshore income and gains. The announcements in the Budget include allocating significant additional resources, scaling up compliance activity to tackle serious offshore non-compliance, including fraud by wealthy customers, corporates that they control and other connected entities.

Documents published also detail HMRC’s intention to:

- Disrupt offshore intermediaries (agents and accountants) by bringing in more expertise to target the implementation of complicated offshore structures;
- Use data from the Register of Overseas Entities (ROE) to target corporate entities and trusts that facilitate evasion and avoidance by artificial suppression of UK tax liabilities. The ROE came into force on 1 August 2022 and requires overseas entities who want to buy, sell or transfer property or land in the UK to register with Companies House and to disclose who the beneficial owner is;
- Invest in improving intelligence, data and analytical capacities, including detecting patterns of tax evasion and improving identification of individuals or entities who are not registered with HMRC.

### ***Non-compliance in the umbrella company market***

Umbrella companies are a feature of the UK’s temporary labour market. They act as employment intermediaries that employ workers on behalf of end clients and recruitment agencies, with the aim of providing support to

the employees and administrative ease / convenience to others in the labour supply chain.

However, HMRC's analysis indicates that in recent years, 39% of umbrella company workers have been engaged by umbrella companies which have failed to comply with their tax obligations. Collectively, this fraud and/or non-compliance has led to lost tax revenues totalling hundreds of millions of pounds.

In response to this, the Government has announced its intention to accelerate the introduction of legislation which changes which party has the obligation to operate Pay As You Earn (PAYE) where an umbrella company is in the supply chain.

From April 2026, it is intended that the obligation to operate PAYE will move from the umbrella company to the recruitment agency which supplies the worker to an end client. If there is no recruitment agency, the responsibility will fall directly on the end client.

So, whilst the operation of payroll may still be outsourced to umbrella companies, the responsibility for PAYE deductions will become that of the recruitment agency/ end user. No change is intended to the applicable PAYE rules or rates of deduction.

### ***Raising standards in the tax advice market***

Following on from the public consultation in March this year, the Government announced that it will require all tax advisers who interact with HMRC on behalf of their clients to have registered with HMRC from April 2026, presumably with the intention that this will provide metrics on the tax advisers who consistently submit tax returns that have errors. This, the Government says, is in recognition of the fact that, whilst there are many competent tax practitioners, there are a minority of practitioners who are perceived as lacking competence or due care.

There are also plans to target tax practitioners with "malicious intent" with the following measures designed to counteract this minority:

- tax practitioners wishing to submit Income Tax repayment claims on behalf of clients will need to obtain Advanced Electronic Signatures from clients to prove their authority to make the claim;
- a consultation paper is planned at the start of 2025 to review options for sanctions against tax practitioners who facilitate non-compliance and enable their clients to pay the wrong amount of tax.

### ***The Tax Administration Framework Review***

The Government has set out its aims to modernise and reform the tax administration framework and has already published a consultation on enquiry and assessment powers, penalties, safeguards (see below).

#### *Enquiry an assessment powers, penalties, safeguards*

The previous consultation published in February this year asked for feedback on reforming the following areas:

- HMRC's powers to check the accuracy of information it received and to address non-compliance by taxpayers;
- financial penalties that HMRC can apply; and
- safeguards to ensure taxpayers and intermediaries are treated fairly and in accordance with law.

This was with the aim of simplifying and modernising the tax administration framework. The Government notes that as a result of the feedback from this consultation, it has identified a range of areas that may benefit from reforms to provide a simpler and more efficient tax administration framework, with further consultations on the following areas:

- reforms to make it quicker and easier for taxpayers to correct mistakes;
- opportunities to reform HMRC penalties; and
- ways to improve taxpayer access to alternative dispute resolution and statutory review to help resolve disputes before they reach tax tribunals.

#### *New ways to tackle non-compliance*

Announcements in today's Autumn Budget launched the first of these additional consultations on reforming HMRC powers and ways to tackle non-compliance, to explore whether their approach to correcting inaccuracies can be improved. It considers two areas for potential improvements;

- changes to HMRC's existing powers and processes; and
- introducing a new power to require taxpayers to correct mistakes themselves.

The consultation paper suggestions for improvement include:

- requiring taxpayers to provide additional information to support claims for tax reliefs and allowances, with the argument being that HMRC may be more effective at identifying errors and inaccuracies if furnished with more information. This is likely to create an additional burden for taxpayers and tax advisers alike;
- harmonising HMRC's power to issue Revenue Correction Notices across all taxes and aligning taxpayer's rejections of such notices, whether they are individuals or companies, so that there is one uniform method of doing so and with the requirement that proof is provided as evidence to support the rejection;
- introducing the concept of partial enquiries, allowing HMRC to open smaller enquiries into specific issues or a section of a tax return.

The current legislative framework for HMRC enquiries provides that HMRC can only enquire into a tax return once, within a statutory timeframe (within one year of the submission date if the tax return is filed on time) and, if that enquiry is closed, HMRC may not open another enquiry into that same tax return.

Allowing such partial enquiries could allow HMRC 'several bites of the cherry' over one tax return. It is difficult to see how this would be equitable; and

- introducing a statutory obligation requiring taxpayers to respond and act on a notice from HMRC informing them that they have reason to believe that the tax return is incorrect.

This can be seen as an extension of HMRC's 'One to Many' campaign, commonly referred to as 'nudge' letters, which have been used by HMRC for the past few years to send a standard letter on a specific topic to multiple taxpayers. This is widely seen as a way to enquire without launching a formal enquiry. These letters have no legislative basis and taxpayers are not legally required to respond to these letters. Introducing a statutory obligation for taxpayers to respond to will formalise this process and require taxpayers to take action.

These suggestions represent a large increase in HMRC's powers to request information and, despite the proposed additional investment into HMRC, seems to pass the burden back onto the taxpayer and their advisers to furnish HMRC with more information.

## Other measures

There are many other proposals in the announcements made in the Budget in order to encourage compliance, including:

- Late payment interest charged by HMRC on late paid tax will increase by 1.5% from 6 April 2025, a move which is expected to raise over £255 million in 2025/26, £260 million in 2026/27, before stabilising to £215 million for each year from 2027/28 onwards.
- Increased collaboration between HMRC, Companies House and the Insolvency Service to tackle so-called 'phoenixism'; the use of contrived corporate insolvencies and dissolutions to extract profits as a capital payment, rather than by way of dividend (taxed at higher rates), by liquidating companies.
- Expanding HMRC's counter-fraud capability to address "high value and high harm tax fraud". Interestingly, the Budget documents do not provide any further information on how much they are investing in this area, though perhaps this department will be part of the 5,000 additional compliance staff they envisage recruiting.
- Strengthening HMRC's scheme of providing rewards for informants to encourage reporting of high-value tax fraud and avoidance. HMRC have had a facility for reporting tax fraud or avoidance for many years now, though they do not generally publish figures on how much is paid out annually in rewards.
- Publishing a consultation in 2025 on measures to tackle promoters of tax avoidance schemes.

All of the above demonstrates a concerted effort to bolster finances to fill the "black hole" that the Government claims to have inherited from its predecessors.

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## BUDGET BRIEFING

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