STEP JOURNAL

Downloaded on 7th October 2024 - 05:45

SPONSORED CONTENT

The road ahead

Marc Acheson deep dives into the UK's possible new taxation policies

Authors

Marc Acheson

Global Wealth Specialist and Sales Director, Private Life Company at Utmost Wealth Solutions

utmost™

WEALTH SOLUTIONS

As the UK adjusts to the aftermath of the 2024 General Election, the focus will now shift to the new government's taxation policies. These policies, which I have categorised in this article using a traffic light system, highlight the areas of immediate implementation, ongoing discussions and future terminations.

What seems clear is that institutions like the Institute for Fiscal Studies are predicting that fundamental questions about tax, the size of the state and borrowing are sharply coming into focus and with manifesto pledges not to raise income tax, national insurance and value added tax (VAT), the levers any government can pull to raise revenue are restricted.

This article aims to provide a deeper understanding of these changes and their potential impacts on various stakeholders, particularly high-net-worth (HNW) individuals and their advisors.

Green light: immediate implementation

OBRforecasts

One of the first steps the new government is likely to undertake is instructing the Office for Budget Responsibility (OBR) to prepare forecasts ahead of the 2024 Autumn Budget. They had already made it clear that they do not intend to hold an emergency Budget without these forecasts. The OBR's forecasts will provide a detailed outlook on the economic landscape, helping to shape fiscal policies that align with the government's objectives, and typically take approximately 10 weeks to finalise. Closely following the OBR forecasts would be the first Budget of the new government and this is therefore expected in Q4.

Abolition of the remittance basis for non-domiciled residents

The abolition of the remittance basis for non-domiciled (RND) residents marks a significant shift in the tax landscape. Starting from 6 April 2025, the current regime introduced by the Conservative party in the Spring Budget announced a new four-year residency-based regime. This change, assuming it is not amended further in the Autumn Budget, will generally require people who have been resident in the UK for four or more years to pay taxes on their worldwide income and gains, rather than just the

income and gains remitted to the UK. The full details of this change, including the finer details of certain aspects, such as the temporary repatriation facility, remain unclear until we see the first Budget of this government. This policy, introduced by the previous government, aimed to create a more equitable tax system but, if it remains broadly unchanged at the next Budget, it could also lead to a re-evaluation of residency status for affected individuals.

Introduction of VAT on private school fees

The introduction of VAT on private school fees is another Labour manifesto commitment. This policy is expected to generate significant revenue (an additional GBP1.51 billion was quoted in their manifesto) but will also increase the financial burden on families who opt for private education. The impact of this change will likely be felt across various socio-economic groups, potentially leading to a shift in the demand for private schooling and additional strain on the state education system.

Changes in capital gains tax on carried interest

The rate of capital gains tax (CGT) payable on carried interest may be about to change and is another Labour manifesto pledge, which could affect investment strategies. Carried interest, being a share of the profits that investment managers receive, has traditionally been taxed at a lower CGT rate than income. Increasing this rate aligns with the government’s goal of ensuring that high earners contribute a fair share of taxes. However, this change could also influence the attractiveness of the UK as a hub for investment management.

Amber light: ongoing discussions and potential future changes

Consultation on IHT

The previous government announced a consultation on inheritance tax (IHT), which could lead to significant changes. This consultation was then shelved, following the election announcement. Assuming this consultation is re-opened, potential reforms include shifting the focus from domicile to residency, introducing a 10-year tail and affecting double-taxation agreements. These changes aim to modernise the IHT system and ensure it reflects the current economic environment. However, they could also complicate estate planning and increase the tax burden on certain individuals.

We may also see restrictions on reliefs for agricultural property relief and business property relief, and maybe even on holdover relief on death and lifetime gifting.

Alignment of CGT rates to income tax

Another potential change that has been rumoured is aligning CGT rates to income tax or introducing a median rate without indexation. This shift would significantly impact taxpayers, particularly those with substantial capital gains. Aligning CGT rates with income tax could lead to higher tax liabilities for investors, potentially affecting investment decisions and market dynamics.

Red light: termination of specific policies

Ending of protected settlement status

The previous government planned to end the 'protected settlement' status and we can assume this will be ratified by this new Labour government, which will have far-reaching implications for estate planning. Trusts could be taxed where the settlor and/or spouse are UK residents and can benefit. This change aims to close loopholes that allow for tax avoidance but could also disrupt existing estate-planning strategies.

Ignoring the proposed 50 per cent reduction in income tax on overseas assets

The proposed 50 per cent reduction in income tax due on overseas assets in the 2025/26 tax year is set to be removed. This decision will affect the financial planning of individuals with overseas assets, potentially leading to higher tax liabilities and a re-evaluation of asset allocation strategies.

Subjecting excluded property trusts to IHT

Excluded property trusts are expected to be subject to IHT, which we expect will be the subject of a reinstated consultation. This change will impact the use of these trusts in estate planning, making it potentially more challenging to shield assets from IHT. Any consultation process will likely determine the specifics of this policy, but it is clear that this new government also aims to tighten regulations around these trusts and they had previously raised objections about the previous government's decision to extend the deadline to settle such trusts until the end of the 2024/25 tax year.

Implications for HNW clients

The changes outlined above are significant and will profoundly impact HNW clients, particularly those who will have been in the UK for more than four years by 6 April 2025. It is crucial for these individuals to seek advice as the planning window to avoid taxation on an arising/worldwide basis is closing fast.

HNW clients will need to reassess their financial and estate-planning strategies in light of these changes. The abolition of the remittance basis, potential changes to CGT and IHT, and the introduction of VAT on private school fees are just a few of the policies that will require careful consideration. Working with financial advisors and tax professionals will be essential to navigate this complex

landscape and minimise tax liabilities.

As we move towards the autumn Budget, we will continue to monitor the situation and provide updates on these and other potential changes. The road ahead may be challenging, but with careful planning and expert advice, HNW clients can navigate these changes successfully.

© 2024 STEP (Society of Trust and Estate Practitioners). All rights in and relating to the STEP Journal and Trust Quarterly Review and to content online at journal.step.org are expressly reserved.

https://journal.step.org/sponsored-content/step-journal-issue-4-2024/road-ahead