UK GOVERNMENT
PRE-BUDGET CONSIDERATIONS

STONEHAGE FLEMING

NOW AND FOR FUTURE GENERATIONS

Having bound themselves to the last government's fiscal rules, whilst also ruling out increases to income tax, national insurance and VAT for the "working people", the new UK Labour government needs to raise additional tax revenue. A budget has been announced for the 30 October 2024. Below are some thoughts for consideration.

CAPITAL GAINS TAX (CGT)

The only change announced thus far is a consultation into the taxation of private equity carried interest. There are further rumours that CGT rates will be aligned with income tax rates. This is, however, by no means certain.

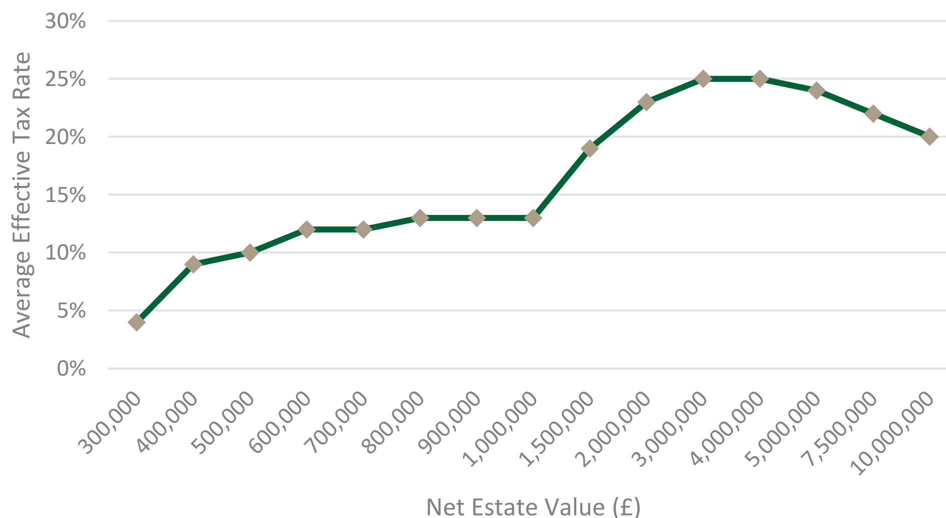
Another possibility would be that the government align all CGT rates at 28% (or 18% for basic rate taxpayers) - thus also reversing the recent reduction in rates on gains arising from the sale of residential property. For Laffer Curve fans, some experts believe this is broadly the sweet spot where the tax is palatable but does not change behaviour.

Action

- If you know you will need to realise assets that would currently be subject to capital gains tax to meet expenditure in the next few years, there may be some merit in doing so before the budget, whilst rates remain at current levels.
- Make use of your available allowances, large or small, such as ISAs.
- There is more advanced structuring that you could consider, which shelters larger investment portfolios from capital gains tax, and defers all tax liabilities until funds are required.

INHERITANCE TAX (IHT)

Inheritance tax is likely to come into the spotlight. One particular area of focus will be the availability of reliefs and exemptions, particularly how they are used by larger estates. As the chart below shows, in 2021/22 (and consistent in previous years), the average effective rate of inheritance tax starts to fall where estates have a value of more than £4m. A less complex system with fewer reliefs and exemptions would see the effective rate increase.



Source: HMRC, Inheritance Tax liabilities statistics 2021/22, published 31 July 2024. Net estate is defined as the combined value of assets and lifetime gifts made in the seven years before death less the value of outstanding debts in the estate of the deceased person. Tax due is calculated after deducting reliefs, exemptions, the nil rate band, any transferable nil rate band, the residence nil rate band and any transferrable residence nil rate band.

There are numerous IHT changes the government could make. These might include restricting business and agricultural reliefs, removing little used or more generous gift allowances, extending the taper period for gifts from seven to ten years or even imposing a lifetime tax charge on gifts.

Action

- If you plan to make gifts, there is no time like the present! The earlier gifts are made, the greater the chance they will be exempt from IHT. Before making gifts, a number of our clients find it useful to revisit their cash flow model to understand the long-term impact of this on their own financial security.
- Whilst gifting assets, and doing so early, is an optimum inheritance tax mitigation strategy, where the timing or structures means this isn't appropriate, then establishing life assurance can be an effective solution. It requires no aggressive planning and is uncontentious. It can be a cost-effective solution providing breathing space before longer term planning is implemented.

PENSIONS

There has been some talk of a tax raid on pensions. Whilst speculation suggests the government could seek to apply IHT to pensions, a simpler solution would be to remove the anomaly for inherited pensions, whereby the benefits are paid tax-free if the member dies before the age of 75. Indeed, between 2006 and 2015 pension death benefits were taxed at rates ranging from 35% to 82%, and a reintroduction of a flat rate cannot be ruled out.

Changes to tax relief has also been suggested. Annual statistics published by HMRC show that the cost to the UK of the personal income tax and national insurance reliefs on pensions came to £16.1bn between April 2022 and April 2023 (Source: HMRC *Private pension statistics July 2024*).

As has been the case for the past 30 or more years, some commentators would have us believe the tax-free lump sum is at risk. We think this unlikely, without at least protection for existing scheme members.

Action

- Whilst we think any changes will be deferred until a future time, we would always recommend making pension contributions as soon as practically possible, to benefit from the tax relief and tax-free growth.

Unless there is a need for cash, we would usually not suggest drawing tax-free cash in anticipation of potential legislative changes, given the estate planning advantages of pensions. However, we appreciate this is an area of common concern. By taking your lump sum, you remove some of the political risk, and it could prove to be sensible planning, particularly if there is a change in the taxation of death benefits

OTHER TAX ALLOWANCES

We have no reasons to believe that the government will change ISA allowances. That said, anything is possible for a government seeking to maximise tax revenue.

Action

- Use your ISA allowances, and if affordable and relevant to you, consider funding ISA and pension contributions for your children and grandchildren.

VAT ON PRIVATE SCHOOL FEES

Further to our previous Insight, the government has now confirmed that VAT at the standard rate will apply to private school fees from 1 January 2025 (including boarding services). Any advance fees paid from 29 July 2024 pertaining to the term starting in January 2025 will still be subject to VAT.

VAT will apply from year one through to sixth form, and will also apply to additional supplies of education, such as after school clubs. There are also provisions in the draft legislation covering “connected persons”, to ensure private schools are unable to contract out certain services that would otherwise be VAT exempt.

HMRC have indicated they will be reviewing the terms of pre-payment schemes entered into before 29 July 2024.

NON-DOMS

On 29 July 2024, Rachel Reeves, the Chancellor of the Exchequer, made a statement to the House of Commons confirming the new Labour government intends to press ahead with changes to the taxation treatment of non-UK domiciled individuals from 6 April 2025. In light of this announcement, Stonehage Fleming Law have updated their technical note on the changes and is available on request.

NEXT STEPS

If you were contemplating certain planning then it would seem prudent to consider implementing this prior to the October budget. As the saying goes “the tax tail should not wag the dog” so please contact your usual Stonehage Fleming relationship manager if you would like to discuss matters.

CONTACT US

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