Autumn Budget 2024 & the impact on Family Taxes

Labour's first budget in 14 years pledged to "protect working people, fix the NHS and rebuild Britain". This is to be achieved through a wide range of tax increases aimed at raising £40 billion of revenue. It was never going to be an easy task and whilst some of the announcements were not a surprise, or as far reaching as feared, there were some jolts to tax rules that were not expected.

In this article we will look specifically at the main changes that are likely to affect the family and although there is still much unpacking of the technical proposals to go, we suggest some initial thoughts on what might be done to take the sting out of some of these new measures.

Changes to Personal Taxes

- Income tax and employee contribution thresholds will be frozen at current levels until April 2028.
- Capital Gains Tax rates will rise immediately from 30 October from 10% & 20% to 18% & 24%, matching those that apply for residential property.
- Maximum annual subscription limits for ISAs, Lifetime ISAs and Junior ISAs will be frozen at current levels until April 2030.

Considerations:

- The frozen thresholds mean fiscal drag will bring more individuals into the tax net, or push more into higher rate bands each year, potentially meaning a little less take home pay.

- Consider Gift Aid payments to registered charities, which effectively extend the rate bands further by the grossed-up donation. This is particularly useful where taxable earnings are on the border between thresholds and enables the lower rate of tax to be applicable for longer.

- Pension contributions (whether to an employee pension plan or a private pension plan) provide tax relief which reduce the amount of your income that is subject to tax.

- Although the rise in CGT was not as severe as expected, investing up to £20,000 a year via a Stocks & Shares ISA should be considered since all gains and income within these are exempt from tax.

Changes to Family Businesses

Wages

- Rise in Employers NIC on earnings and benefits to 15%.

- The Class 1 NIC secondary threshold will reduce from £9,100 to £5,000 per annum from 5 April 2025 and will be frozen until 5 April 2028, thereafter it will increase in line with OPR.

- Employment Allowance will increase from £5,000 to £10,500 without any limitation on total secondary Class 1 NIC paid by the employer.

- Increase in National Living Wage (**NLW**) and National Minimum Wage (**NMW**) with the over 21s rate increasing from £11.44 to £12.21 per hour from April 2025 and the 18–20-year-old rate increasing from £8.60 to £10 per hour.

Company cars

- Favourable rates remain for zero emission and electric vehicles compared with other vehicles within company car schemes.

Payrolling Benefits in Kind (BiKs)

- Mandatory payrolling of BiKs from April 2026 (excluding accommodation and loans which may be payrolled on a voluntary basis, with mandatory payrolling to follow).

- Additional administration will therefore be required by family business owners and a new end of year process will be introduced to assist with the adjustments required to this reporting.

Selling interests in the family business

- The rate applicable to Business Asset Disposal Relief (**BADR**) which provides relief on the sale of certain business assets including the sale of a business or the sale of a qualifying shareholding in a trading company/holding company of a trading group, will rise from 10% to 14% from 6 April 2025 and then to 18% from 6 April 2026.

- Reform of Employee Ownership Trusts (**EOTs**) and Employment Benefit Trusts (**EBTs**) which clamps down on some of the prior abuses of these structures. The tax benefits will remain the same (i.e. no CGT or Inheritance Tax (**IHT**) on the transfer of shares into an EOT; EOTs are not subject to IHT and employees can receive tax free bonuses of up to £3,600 per year).

Considerations:

- The "big hitter" of the Budget was undoubtedly the rise in Employers' NIC. Together with the rise in NLW and NMW and the lowering of the secondary threshold, this will unquestionably cause a significant rise in employment costs for businesses. Based on the average worker's total pay of approximately £37,500, as published by the ONS on 1 October 2024, it is estimated that the measure will cost almost £900 Class 1 NIC per employee. The increase in Employment Allowance will however provide some relief, particularly to the smallest businesses with few employees.

- This increase in employer NIC means salary sacrifice arrangements offered to employees, such as those for pension contributions and car schemes will become more attractive as these schemes result in NIC savings.

- Promoting the use of electric vehicles within company car schemes could be a relevant saving to counter the effects of the increased wage costs.

- Anyone considering selling their business should consider doing so prior to the increase in CGT rates.

- Selling a business to an EOT should still be a cost-efficient option for most.

Changes to Succession Planning

- IHT nil rate band of £325,000 per person to remain frozen until April 2030

- From 6 April 2026, 100% Agricultural Property Relief (APR) and Business Property Relief to be capped at a combined asset value of £1,000,000 with 50% relief thereafter. This will be a lifetime allowance so will include not only the estate on death, but also failed potential exempt transfers (i.e. gifts within seven years of death) and lifetime transfers into trust. Unused allowances cannot be transferred between spouses. Trusts will receive a combined £1million allowance where trusts are settled after 30 October 2024. Multiple trusts settled by the same settlor before this date will each have its own £1million allowance.

- Relief for shares not listed on a recognised stock exchange (including AIM) is halved to 50% from 6 April 2026. (Note the £1million allowance does not apply to such shares).

- From 6 April 2027, unspent pension pots (including death benefits) will be included within a person's estate on death. Any arising tax payable will be paid by the pension fund.

Considerations:

- The loss of APR and BPR means that family farms and businesses are no longer able to be passed onto the next generation free of inheritance tax and could result in parts of the land or business having to be sold to pay the taxes due. As such, passing on such assets sooner to the next generation or insuring against the IHT liability should be considered.

- However, it is worth noting that if these assets are passed between spouses in the first instance so that the spouse exemption applies, this means the unused nil rate band will transfer and on the second death, the total value (net of debts and other liabilities) that is exempt from IHT will be £1,650,000.

- Furthermore, in relation to family farming businesses, which often include the family home, the residential nil rate band may also apply taking the total tax-exempt net value to £2,000,000 on the second death (although the residential nil rate band is proportionately reduced where the net value of the estate exceeds this amount).

- The inclusion of unspent pension pots within the estate on death is an anti-avoidance measure to prevent pensions being used as a mechanism to pass on funds to family members without paying IHT. However, as well as an IHT liability to the estate where the deceased dies after their 75th birthday, the beneficiary of their pension will pay income tax on any withdrawals that they make from the fund meaning an effective tax rate across the two taxes of up to 67%.

- A consideration may be for the original pension holder to draw down their pension during their lifetime, but if the income is genuinely surplus to their general standard of living, they could make regular gifts of this income to family members (e.g. to grandchildren to pay school fees) which would leave the pensioner's estate immediately under the **gifts out of normal expenditure rules** and only be taxable in the hands of the pensioner bringing the effective rate down to 20%/40%/45% depending on the pensioner's marginal rate of tax.

Changes to Stamp Duty Land Taxes

- From 31 October 2024, the Higher Rates for Additional Dwellings (HRAD) surcharge on SDLT will increase from 3% to 5%.

- The single rate of SDLT charges on the purchase of dwellings by corporate bodies will increase from 15% to 17%.

Considerations:

- Second home buyers, landlords, property investors and businesses purchasing residential property will be affected by this rise. However, record should be kept of the tax paid as it can be added to the acquisition value as an allowable acquisition expense when computing the gain on eventual disposal, thereby reducing future capital gains taxes.

Changes to School Fees

- As previously announced, private school and boarding fees will be subject to VAT at the standard rate of 20% from 1 January 2025.
- Any fees "paid in advance" from 29 July 2024 relating to the term starting January 2025 onwards will also be subject to VAT.
- Private Schools will also be brought within the scope of business rates for the first time.

Considerations:

- Although private schools will now be required to charge VAT on school fees, they will conversely be able to reclaim VAT on purchases and services so it is expected that fee increases should be less than the full 20%.
- However, for those already stretched to meet the termly fees which (according to MoneyWeek averages at just over £6,000 per child), the additional charge may still be costly.
- Financing school fees could be considered via lifetime gifts from grandparents as part of their own succession planning. Provided the grandparents survive seven years, the gift is tax-free.
- Such gifts can be structured either directly as cash payments to the school, or via a trust for the benefit of the grandchildren. Any income distributed to pay the fees will be taxed on the grandchildren, using their tax allowances with credit given for any taxes paid by the trustees. Further advice should be sought if this is a consideration.
- Grandparents can also provide for school fees via a family investment company. This is a mechanism for moving assets into a company of which the grandchildren are among the shareholders. School fees can then be paid via dividends to the grandchildren, again using up their tax allowances. Again, further advice should be sought if this is a consideration.
- Investment advice can also be taken as to how best to save for school fees.

Changes to Carried Interest

- Carried interest will increase from 28% to 32% from 6 April 2025

- From April 2026 more widespread tax reform will be implemented which will treat all carried interest as trading profits and subject to income tax and Class 4 NIC.

- The amount of 'qualifying' carried interest subject to income tax and Class 4 NIC will be adjusted by applying a multiplier of 72.5%, giving an effective rate of tax of 34.075%

- Non-qualifying carried interest will be taxed under the income based carried interest (IBCI) regime for which consultation is being undertaken to consider additional qualifying conditions beyond the existing average holding period requirement.

***Considerations*:**

- The tax rules around carried interest / "carry" (a form of performance-related "award" that individuals managing an investment fund can receive once a prescribed return is achieved for investors) is complex at the best of times and generally requires specialist advice.

- The implications of the changes to the carried interest regime are yet to be fully determined, but the move from carry falling within the capital gains tax regime to the income tax regime will need wider consideration once the new regime is finalised. For instance:

    - non-residents are currently not taxed on UK carry as a capital gain that is linked to UK performance of duties, but will they be taxable in this instance under the income tax regime as would be the case under normal income tax rules?

    - Taxed as a capital gain, carried interest transferred to another person or entity as part of considered tax planning is subject to "connected persons" rules which are more encompassing than those under income tax rules. Could this therefore enable greater transfer opportunities to other family members without the transferor being taxed on the carry arising to that other person?

- The next key date to consider is therefore 31 January 2025 which is the deadline to submit representations for a consultation on the new regime. Hopefully, greater clarity will be provided once that it completed.

For more information on any of the above, please contact enquiries@hockneygrey.co.uk

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