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Budget 2024: UK Government Sets Tax Agenda

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On October 30, 2024, the Labour government delivered its first Budget since assuming power in July 2024. The Budget is the main annual fiscal event in the UK, and yesterday's announcements were an important opportunity for the new government to lay out its economic and tax policies for its five-year parliamentary term.

The Budget's tax measures had two stated aims: first, to raise revenue to fund public services, and second, to promote economic stability and growth.

On raising revenue: Long-trailed increases in the rates of employers' National Insurance (social security) contributions (payable by businesses) and UK capital gains tax (payable by individuals) were indeed announced as expected (the rate of employers' National Insurance contributions rising from 13.8% to 15%, and the main rate of capital gains tax rising from 20% to 24%). It also was confirmed that longer-term initiatives – including those proposed by the previous administration, such as amendments to the tax rules for individuals whose place of residence is the UK but whose place of domicile is not the UK (non-doms) – would be implemented, as planned. Further, there was a strong focus on building the resources of the UK tax authority (HMRC) to drive compliance and reduce avoidance.

On growth: The government framed its business tax announcements around a "Corporate Tax Roadmap" which (rightly) recognises the importance of "predictability, stability and certainty" in maintaining a business-friendly tax environment.

In this client alert, we set out some of the key announcements affecting businesses and individuals.

Businesses

- **Corporate Tax Roadmap** – The roadmap makes a number of commitments to ensure that the UK remains competitive on the global stage, and to help businesses plan their UK tax affairs without surprises. It includes a commitment that key attractive features of the UK corporate tax regime will be maintained, including a corporation tax rate of no more than 25%, amortisation relief for intangible fixed assets and the exemptions which make the UK an attractive holding company jurisdiction. There also is a proposal to simplify rules on transfer pricing, permanent establishments and the diverted profits tax, as well as a suggestion of a new advance clearance procedure in respect of the tax treatment for investors in major projects.
- **R&D tax reliefs** – Recognising the critical role of research and development (R&D) in driving economic growth, the government has committed to preserving the existing rates of relief under the merged R&D Expenditure Credit scheme, with enhanced support for R&D-intensive small and medium-sized enterprises (SMEs), along with maintaining the "patent box" regime. This is welcome news for UK life sciences and other innovative businesses, delivering the needed reassurance and stability to a sector beleaguered by a series of legislative reforms over the last few years. As part of these efforts, the government also plans to enhance the overall administration of the R&D regime, including by establishing an R&D expert advisory committee and widening the use of advance clearances for R&D reliefs, whilst at the same time continuing to tackle fraudulent and erroneous R&D claims. (Tax incentives for the creative sectors also will be maintained, including the Audio-Visual Expenditure Credit for film producers and a Video Game Expenditure Credit for video game developers.)
- **Transfer pricing** – Along with proposing some potential simplifications, the government will consult further on additional transfer pricing reforms – including potentially narrowing down the scope of the existing SME exemption by limiting it to just small (and not medium-sized) businesses, introducing a requirement for in-scope multinationals to report cross-border related party transactions to HMRC, and reviewing the transfer pricing treatment of arrangements where the costs and benefits of developing intellectual property are shared by group companies.
- **Capital markets and share trading** – The government confirmed that it will not proceed with the idea of introducing a tax

incentive to invest in companies listed in the UK through a “British ISA” (individual savings account). Shares traded on AIM can currently qualify for complete exemption from inheritance tax, but the benefit of this relief (“business property relief”) will be halved from April 2026. The government has confirmed its commitment to delivering PISCES (the Private Intermittent Securities and Capital Exchange System), intended as a new market for trading private company shares, and is supporting this with a new exemption from stamp taxes for transactions on PISCES.

- **Organisation for Economic Co-operation and Development (OECD) Pillars 1 and 2 –** The roadmap reaffirms the UK’s commitment to leadership on international tax reform, and in particular, to bringing the OECD’s Pillar 1 proposal into effect (notwithstanding the various hurdles that the proposal faces). The UK’s Pillar 2 legislation will continue to align with internationally agreed updates to the rules (including the Undertaxed Profits Rule, legislation for which will be published in a forthcoming Finance Bill), and consideration will be given to ways in which the UK tax code for cross-border activities can be simplified or rationalised now that Pillar 2 has been implemented.

Individuals

- **Capital gains tax reliefs –** Behind the increases in the main rates of capital gains tax were more detailed changes to the value of certain reliefs available to certain shareholders in private companies. Investors’ relief (which is available to individuals who invest in unquoted trading companies without being involved in the management or operation of the business) is now subject to a much-reduced lifetime limit (1 million pounds, reduced from 10 million pounds). The current 10% tax rate for gains falling within the scope of Investors’ Relief and Business Asset Disposal Relief (formerly known as Entrepreneurs’ Relief) also will be increased over time, rising to 14% from April 2025, and 18% from April 2026. The government, however, restated its commitment to the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) schemes.
- **Carried interest –** As expected, the treatment of carried interest for fund managers is being reformed. As an interim change, the current 28% capital gains tax rate applying to carried interest will be increased to 32% from April 2025. All carried interest will be brought fully within the scope of income tax from April 2026. However, with the aim of “safeguarding the strength of the UK as a fund management hub”, the rate of income tax applicable to “qualifying” carried interest will be adjusted by a “72.5% multiplier” – the effect of which will reduce the top rate of income tax applicable to “qualifying” carried interest from 45% to a little more than 32%. There will be a consultation on what counts as “qualifying” carried interest for these purposes.
- **Non-dom regime replaced by four-year rule –** The existing “remittance” basis of taxation (under which non-doms are taxed on non-UK income and gains only to the extent that they are brought to the UK) will be replaced by a new regime based on residence. The new rules will allow foreign income and gains (FIGS) to be brought into the UK within the first four years of UK residence on a tax-free basis, but the threshold for being brought within the UK inheritance tax net will be lowered. The new rules will come into effect from April 2025.

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