Tax Faculty: Spring Budget Update 2024

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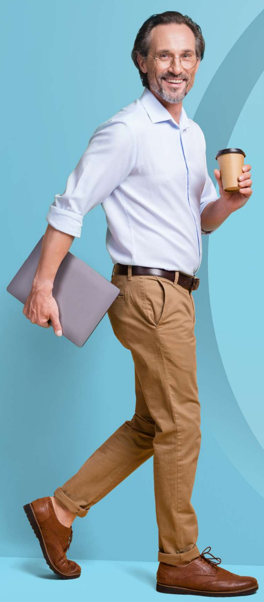
Did you know?

ICAEW's Continuing Professional Development (CPD) Regulations have changed. Members are now required to do a minimum number of CPD hours per year.

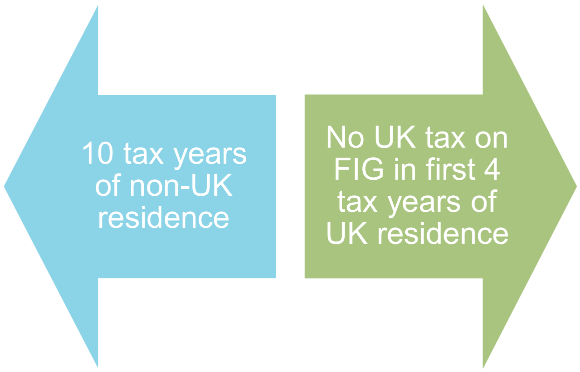
This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.



What we will cover

- Changes to the taxation of non-UK domiciled individuals.
- Reduction in NIC rates.
- Raising standards in the tax advice market.
- Changes to the high income child benefit charge (HICBC).
- Abolition of the furnished holiday lettings regime.
- The best of the rest.
- Your questions.

Changes to the taxation of non-UK domiciled individuals



Key points

- Ability to remit foreign income and gains (FIG) free from any charge in first 4 tax years.
- Also applies to non-resident trust distributions.
- Statutory residence test used to determine residence.
- Will lose entitlement to personal allowances and CGT annual exempt amount.
- Annual choice – do not have to claim for whole 4-year period.

What about existing non-doms?

- Newly resident can use FIG regime for remainder of 4 years after 6 April 2025.
- Individuals moving from remittance basis who are not eligible for FIG regime will pay tax on 50% of foreign income in 2025/26.
- Rebasing election to 5 April 2019 value.
- Two-year temporary repatriation facility for remittance of pre- 6 April 2025 FIG at a 12% tax rate.
- Many emerging questions on trusts.

Other points

- New overseas workday relief.
- Business investment relief will continue.
- Consultation on moving to a residence-based IHT system that applies from 6 April 2025.
  - IHT charged on worldwide assets when a person has been UK resident for 10 years
  - Person remains in scope for 10 years after leaving UK (tail provision)
  - Current IHT treatment would continue for non-UK property settled by a non-UK domiciled settlor that becomes comprised in a settlement prior to 6 April 2025
  - New residence-based rules apply to new trusts and additions to existing trusts made by a non-UK domiciled settlor on or after 6 April 2025

NIC rate reduction

- Class 1 primary rate falls from 10% to 8% from 6 April 2024.
- Class 4 rate falls from 9% to 6% from 6 April 2024.
- Most self-employed people will not need to pay class 2 NIC for 2024/25 and subsequent tax years.
- Class 1 secondary NIC remains at 13.8%.

Raising standards in the tax advice market

- Background
  - The UK tax profession has a partial regulatory framework
  - Through professional bodies and the PCRT, AML, the tax code and the Standard for Agents
- HMRC stats
  - 85,000 tax advice firms assisting 12m taxpayers
  - About 35% of agents do not appear to affiliated
- Timeline
  - December 2019 – the Morse report
  - March 2020 Call for evidence
  - March 2021 Compulsory PII and definition of tax advice
  - November 2021 Summary of responses published
- 6 March 2024 Consultation document – Raising standards in the tax advice market – strengthening the regulatory framework and improving registration

Key proposals in the consultation document

- Step 1 Improving agent registration
  - Mandation of agent registration for all agents who interact with HMRC
  - Automation and streamlining of agent registration process
- Step 2 Raising standards
- Three potential approaches
  - 1 Mandatory professional body membership
  - 2 Joint HMRC/industry enforcement
  - 3 Regulation by a Government body
- Government's preferred approach is Option 1

Mandatory Professional Body membership

- Mandatory requirement that tax practitioners are members of a recognised professional body
- Recognition of professional bodies to act as supervisor
  - Set minimum standards incl entry requirements, PII, CPD, ethical codes
  - Processes to monitor and enforce standards
  - Could be achieved through annual declarations and risk-assessed practice inspections.
- Who would set and assess the minimum standards?
  - Various options suggested in the consultation document
- Taxpayer redress when things go wrong
- Transitional period would be needed – 3 to 5 years

Joint HMRC/Industry enforcement

- Tax practitioners would either
  - Belong to a recognised professional body; or
  - Supervised by HMRC
- Professional bodies not expected to oversee the unaffiliated market
- Enhanced role for HMRC
  - Expansion of existing AML role
  - Conflict of interest – judge and jury
  - Would HMRC have the resources and capabilities to undertake it?
- Omission of other oversight options for the unaffiliated

Regulation by a Government body

- Gov see this as a fallback option
  - New independent regulator, or
  - Expansion of an existing regulator
- Regulator would
  - Set standards
  - Carry out checks
- Taxpayer support routes
  - Complaints process and redress
- Possible automatic registration for prof bodies

Scope of mandatory prof body membership

- Firm or individual?
- Who would be in scope?
  - Proposal is to exclude those already regulated
  - Legal professionals
  - Professionals regulated by the Pensions Regulator, PRA, FCA, IS, Actuaries,
  - Where would this leave ICAEW?
- Tax software
- Customs intermediaries
- Employment intermediaries
- Non-UK tax agents

Timeline

- Any changes will be for the medium to longer term
- No legislation likely this side of an election
- Further consultations will be required on the detail, eg definition of tax practitioner, set of minimum standards
- A future Government might have different priorities
- Mandatory registration requirement – may be possible by 2028
- A 3 to 5 year transition/grandfathering would take us beyond 2030

HMRC data on agent performance

Annex C to the Consultation document

Data from three random enquiry programmes

- R & D tax credit
- Small business CT
- Self-employed in SA

- Two measures
  - Strike rate
  - Monetary value of non-compliance

HMRC data – R & D claims

R&D claims	Number of cases	% of cases with non-compliance	% of cost of relief that is non-compliant
Affiliated	303	49	20
Non-affiliated	118	53	53
Unknown affiliation	41	56	42
No agent	38	66	12
All	500	52	24

- Overall, around half of claims are non-compliant and around one quarter of spend on R&D tax credits is non-compliant.
- Those taxpayers using affiliated tax practitioners have a similar percentage of non-compliance cases when compared to other categories but have lower overall levels of non-compliance in terms of the percentage of expenditure and cost of relief
- The ‘no agent’ non-compliance percentage of spend is much lower, but HMRC would caution about reading too much into this.

HMRC data – small business CT

	Number of cases	% of cases with non-compliance	% of cost of relief that is non-compliant
Affiliated	286	22	14
Non-affiliated	52	37	41
Unknown affiliation	48	27	77
No agent	290	29	28
All	676	26	23

- The position of taxpayers with affiliated tax practitioners is better than the other groups both in terms of the percentage of cases and non-compliance as a percentage of liabilities. The overall level of non-compliance for those taxpayers represented by affiliated tax practitioners in the sample is 14% compared with 41% for those taxpayers represented by non-affiliated tax practitioners.

We want your views

- Consultation closes on 29 May 2024
- Consultation document lists 30 questions
  - Summarised in section 11
- ICAEW will be responding and we welcome members' comments
  - Send them to taxfac@icaew.com
- Raisingstandrdsconsultation@hmrc.gov.uk

What is the HICBC?

- Income tax charge intended to recover child benefit from high earners
- Introduced in 2013
- Full withdrawal of child benefit where income is £60,000 or more
- Tapered withdrawal where income is between £50,000 and £60,000
  - 1% for every £100 of income above £50,000.

What's wrong with the HICBC?

- It's unfair
  - Eg household where two parents earn £49,999 each
- It applies to more taxpayers than expected when it was announced
  - Limits not increased to reflect wage growth
- It continues to catch people out
  - Unexpected tax bill plus interest and penalties
- It's a barrier to growth
  - Eg work less hours to avoid it

Budget changes to the HICBC

- From 6 April 2024
  - Lower threshold increased from £50,000 to £60,000
    - 170,000 families removed from HICBC
  - Higher threshold increased from £60,000 to £80,000
    - Slows taper rate to 1% for every £200 above £60,000
    - Marginal tax rate for two-child family falls to 53% from 64%
- By April 2026
  - HICBC administered on a household basis
    - Challenges for HMRC
    - Consultation document expected

What is a FHL?

- Property business that meet following conditions:
  - Furnished property in UK or EEA
  - Let on a commercial basis with a view to a profit
  - Is available for letting at least 210 days in the year
  - Is actually let at least 105 days in the year (ignoring longer-term lets)
- Available to individuals and companies
  - Main tax benefits are for individuals
- Introduced in 1982/83 and is quite well used and understood
  - Estimated 127,000 holiday let business owned by individuals in 2019/20

FHL advantages for an individual

- Income tax
  - Deduction given for interest paid
    - Not 20% credit as for other property businesses
  - Capital allowances on plant and machinery
    - General rules is no CAs for residential property
- CGT
  - Business asset disposal relief
    - 10% CGT rate
  - Rollover relief
    - Defer gain on sale

FHL Budget changes

- FHL abolished from April 2025
    - Additional tax receipts of £355m from 2027-28
- Anti-forestalling rule to prevent abuse of CGT relief
- Little detail at present – draft legislation expected soon
- Possible issues
    - Capital allowances adjustments
    - Boundary between letting and trade
    - Prepare for higher tax liabilities

Other property tax changes

- Higher rate of CGT for residential property disposals cut from 28% to 24% from 6 April 2024
- SDLT changes (E & NI)
  - MDR abolished from 1 June 2024
  - Protecting registered providers of social housing from a charge when purchasing property with a public subsidy
  - Exempting public bodies from the 15% SDLT rate; and
  - Changes to first-time buyers' relief rules involving the grant of a new lease via a nominee or bare trust.

The best of the rest

- Businesses
  - VAT registration threshold increased from £85,000 to £90,000.
    - First increase since April 2017
  - R&D expert advisory panel to review and update HMRC guidance.
  - Full expensing for leased assets.
  - Creative industries.
- Easing the payment of IHT before probate or confirmation.
- Changes to transfers of assets abroad rules from 6 April 2024.
- Investment in HMRC's debt management capacity.
- Tax simplification metrics.

Next steps

- National Insurance Contributions (Reductions in rates) (No 2) Bill
  - Had its first reading on 7 March 2024
- Another Finance Bill expected to be introduced shortly.
- Tax Admin and Maintenance Day - 18 April 2024
  - Expect announcement on outcome of umbrella co consultation
- The general election may see a further Budget and possibly another Finance Bill.

Question time

Upcoming Tax Faculty webinars

- 13 March: EU Carbon Border Adjustment Mechanism – what does it mean for UK businesses?
- 10 April: Payroll & Rewards update 2024
- 18 April: Expanding the cash basis
- 24 April: MTDtalk

For further details on the above visit icaew.com/taxwebinars

Thank you for attending

- Please take the time to fill out our short survey

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