

Summary

Since Labour have entered office, their consistent message has been one of broken UK public finances and a need to fill a £22bn black hole in the budget. The government has been at pains to stress that taxes will have to increase and the burden of these will be on the wealthy.

The first Labour Budget was a blockbuster. It certainly delivered on this promise and the fiscal approach was, as expected, firmly centred on wealth redistribution alongside a big increase in funding for public services.

While not as extreme as parts of the press led us to believe, the Budget still sees a very significant increase in the amount of taxes raised, as much as £40bn per year. Tax as a percentage of Gross Domestic Product will be the highest on record, rising to 38.3% in 2027-2028.

The large increases in government spending and the slower projected decline in public sector borrowing had little impact on financial markets, with UK government bonds relatively stable, although yields have drifted higher. The Office for Budget Responsibility's (OBR) growth and inflation forecasts were higher than most predictions with inflation forecast at 2.5% rising to 2.6% in 2025 and although the economy is predicted to expand by 1.1% in 2024, up from the 0.8% forecast in March, long-term growth rates for 2026 to 2028 were revised down. An acknowledgement that real disposable income will fall as tax bills rise and wages are suppressed.

They were true to the letter of their manifesto pledge; Income Tax, National Insurance for individuals, VAT and Corporation Tax were left untouched. The principal focus was on National Insurance for employers but there were significant changes to Capital Gains Tax (CGT), Inheritance Tax (IHT), the non-UK domiciled legislation, and Stamp Duty Land Tax.

However, many feared targets were left untouched. There was no mention of caps on pension contributions or the removal or reduction of pension tax-free lump sums. The IHT lifetime gifting rules remain unchanged. However, a £25bn raid on companies and £5bn on IHT and CGT is a significant move for the Chancellor.

We have detailed below a summary of the announced changes that we believe may be most relevant to your clients as we see them today.

Capital Gains Tax (CGT)

With immediate effect, CGT is rising from 10% to 18% for a basic rate taxpayer and 20% to 24% for a higher rate taxpayer. No changes will be made to the 18% and 24% rates of CGT that apply to residential property gains.

The speculation that CGT could align to income tax rates, proved ill founded. The rate has been set at a level to not inhibit investors from crystallising gains thereby reducing the overall tax take. The move is expected to raise approximately an additional £1.7bn per year.

For investors, the changes will reduce after tax returns on investments. The most immediate decision is for those clients who may have sold investments in anticipation of a significantly higher rate. Under the 30-day

matching rule, investors are able to buy back any investments that under normal circumstances they would not have sold and avoid the dry tax charge notionally crystallised.

Inheritance Tax (IHT)

From April 2026 several previously exempted assets will now be considered as part of individual's taxable estates. AIM listed shares will now attract a 20p rate on IHT. Business owners and owners of agricultural land will also be impacted. These will now be considered within taxable estates and be effectively taxed at 20% on values above a £1m assets threshold. Having previously been exempt, the impact is significant for those looking to pass on land and businesses within their estate to future generations.

There was also a change to the treatment of pensions. Since 2015, with the advent of pension freedoms, pensions became a highly efficient way of transferring wealth between generations. From April 2027, this will cease to be the case as the money each individual retains within their pension contract will be aggregated with non-pension assets and will attract IHT on death. The spousal exemption will still apply but this will lead to some pension contracts being subject to IHT and then Income Tax in the hands of the beneficiary when the funds are accessed. The government has opened a consultation on the processes required to implement the changes which will close on 22nd January 2025.

Non-domicile status

The status of non-UK domiciled individuals has long been controversial. Balancing the spending power and positive economic influence of non-UK domiciled individuals living in the UK against the optically low levels of taxation paid in the UK has been a polarising political issue for years. The government has published 103 pages of draft legislation which lays out a change in the non-dom regime to one based on residency. This is intended to provide a far clearer picture of the tax landscape from April 2025. It will be vital for all non-UK domiciled individuals to review their position prior to this date.

SDLT (Stamp Duty Land Tax) for second and rental properties

The move to increase the additional SDLT on second and rental properties from 3% to 5% could have a significant impact on this element of the property market further increasing the high frictional cost of transactions. Even with such a significant change, this should not in itself put people off buying properties intended for residential use, though this may well shift the balance of thinking around UK residential property as an investable asset class. As mentioned earlier, second properties will also continue to attract CGT on sale.

Employers' National Insurance

While the Chancellor made much of not increasing the taxes that workers pay, the change to employers' National Insurance will have ramifications for those who own or invest in businesses. More significant than the increase from 13.8% to 15% is the fact that many more individuals will come under this charge with the tax-free rate being lowered from £9,100 per year to £5,000 per year.

Looking to the future

Our approach in the aftermath of the Budget remains the same as it was before – not to be overly influenced by speculation but to base investment decisions on a clear understanding of the legislation, some of which will only be clarified in the coming weeks and months.

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The value of investments, and the income from them, may go down as well as up, so you could get back less than you invested.

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