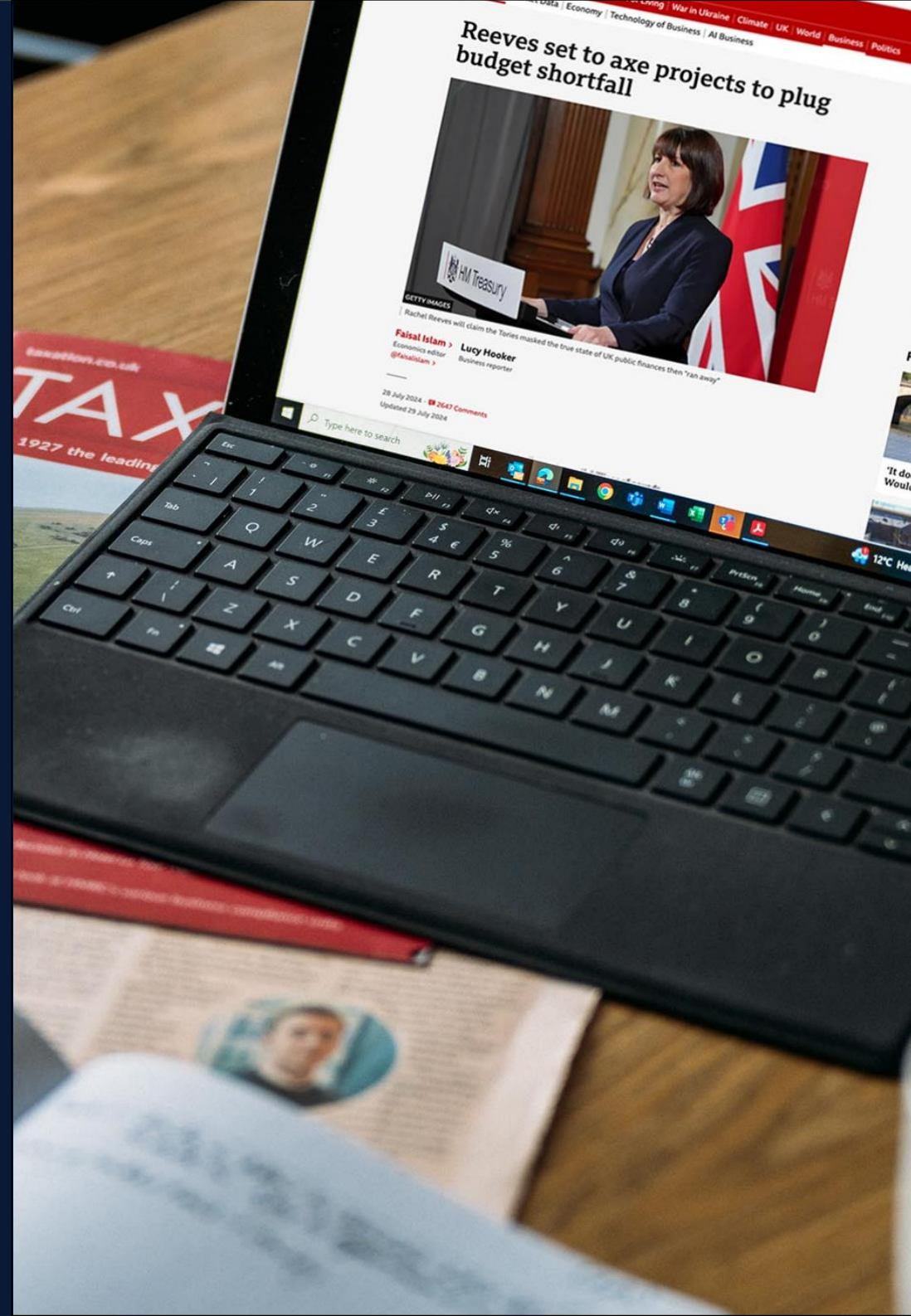


TAX RUMOURS & THE AUTUMN BUDGET: OUR REACTION

As Budget speculation mounts further in the wake of Rachel Reeves' admission that taxes will need to increase to help balance the nation's finances, SRLV's partners Gavin Lenthall and Steve Wren and tax director Kieron Clement-Smith share their thoughts on the potential tax changes that the new Chancellor may be considering.

Published 31 July 2024



Speculation that the new government will introduce extra "wealth taxes" to help finance public spending and fill the fiscal "black hole" it's inherited has been rife over recent weeks. Although Rachel Reeves had maintained that raising additional taxes wasn't necessary, after confirming the scale of the £22bn deficit, she conceded in an interview with News Agency Podcast this week: "I think that we will have to increase taxes in the Budget" (source: The Times).

The Budget has been set for 30 October but what do we think is coming?

WHICH TAX RULES ARE MORE LIKELY TO CHANGE?

Reeves repeated this week that she would stick to Labour's manifesto pledge not to increase income tax, VAT and national insurance. When asked about other taxes, she said: "We still stick by everything in our manifesto." However, given the scale of the budget deficit, Reeves may be forced to backtrack on some of these pledges, along with her party's policy of not borrowing to fund day-to-day spending.

Whilst experts have been divided on whether Reeves will use the deficit as a 'doctor's mandate' to justify a package of more ambitious tax reforms, or instead, pursue smaller, more piecemeal changes, there is consensus on the key tax areas that could see some level of reform, including:

- Capital Gains Tax on business shares and secondary homes
- Business Asset Disposal Relief (BADR - previously known as Entrepreneurs' Relief)
- Inheritance Tax (IHT) relief on agricultural land and business assets
- Pension scheme alterations, be it maximum contribution levels or the reinstatement of lifetime allowances

1 CAPITAL GAINS TAX ON BUSINESS SHARES AND SECONDARY HOMES

Currently, profits from the sale of second homes or shares in businesses are taxed through CGT at a much lower rate than earned income.

As Shadow Chancellor, Reeves was lobbied heavily to reduce or scrap certain CGT reliefs. Speculation that Labour may reduce Business Asset Disposal Relief (BADR) has also been mounting. Under the existing system, people who own more than five per cent of a company (amongst other conditions) can sell their stake and pay a lower CGT rate on profits from qualifying disposals (up to the lifetime limit of £1,000,000).

Rumours that Labour could increase the CGT business owners pay on their share profits after selling their companies, has seen a 71 per cent increase in the number of mergers and acquisitions across the private and public sector in Q1 2024 (source: The Times).

If CGT rates were aligned with income tax, government sources have said it would generate £8bn for the Treasury over the long-term (source: The Guardian). However, any reform of CGT rates would need to be balanced carefully with the need to incentivise Entrepreneurs and ensure that the UK remains an attractive base for UK businesses. Therefore, if changes are made, a more limited reform of CGT on the profits from business shares is considered the most likely outcome.

Whilst second homes currently suffer a top rate of 24% on any profits from sale this is still well below the top rate of income tax. The proliferation of second home ownership in the UK may be touted as a barrier to home ownership generally and a catalyst for higher prices despite a number of Conservative attempts to "cool" the market. As such, we would be surprised if this is not an area for the Chancellor to focus attention and a reversal to the previous rate cut, taking the rate back to 28%, seems the minimum we would expect.

2 POTENTIAL INHERITANCE TAX REFORM

Industry commentators have long argued that Inheritance Tax (IHT) reform is overdue; however, given the scale of the deficit, some level of change to IHT now seems increasingly likely.

According to a recent Guardian article, based on information from government sources, Labour could be planning to announce a consultation on Inheritance Tax reform in the autumn. If true, this consultation could potentially propose some major changes, such as:

- Limiting IHT relief on agricultural and business assets
- Bringing pension pots within inheritance tax
- Removing the CGT uplift on inherited assets

AGRICULTURAL LAND RELIEF (ALR)

Currently, a person can claim up to 100% relief on the inheritance of agricultural land if it is being actively farmed. That has led to concerns that farmland is being bought for the purpose of avoiding IHT which is driving values up and pricing farmers and small businesses out of the market. Arguably, scrapping Agricultural Property Relief (APR) completely would unfairly penalise those it was put in place to help, so, if on the agenda, we suspect Labour is more likely to consider a sliding scale tax relief, including capping the amount of APR available (which many predict would be £500,000 per person).

IHT ON BUSINESS ASSETS

Many Labour MPs have been calling for Reeves to scrap Business Relief (BR), which allows a person to pass on unquoted shares in a trading company (or interest in a trading business) with 100% reduction on IHT.

This move has prompted widespread outcry from business owners and lobby groups, including Family Business UK (FBUK), which summarised the fears that businesses have expressed: "any policy decision that restricts the reliefs would likely result in family businesses being broken up, offshoring, or - in the worst-case scenario - closing" (source: The Times).

As with APR, if BR reform is on Reeves' agenda, it's likely that a sliding scale of options will be considered, which would include capping the benefit for business relief. Furthermore, if for example, a £500,000 cap was introduced for APR and BR, it could be the case that in some instances, both forms of IHT relief could be claimed, allowing for an effective cap of £1m per person.

IHT ON GIFTING

There has been speculation that wider changes to IHT on gifting could be considered. Under the existing system, no inheritance tax is due on gifts if they are made by a person who lives for more than seven years after the gifts are made.

IHT PENSION RELIEF

Currently, pension pots are exempt from IHT, although beneficiaries are taxed on the income drawn from a pension that has vested. If a consultation happens, Reeves will undoubtedly be under pressure to reform this area. Extending the scope of IHT to include pension pots was a key recommendation made by the Institute of Fiscal Studies in its recent paper, Reforming Inheritance Tax, which it said would help close tax loopholes and raise an additional £2bn in taxes.

Reeves could also look to reduce the higher rate tax relief available on pension contributions.

MODERNISING INHERITANCE TAX

Any change to existing IHT rules is likely to prove contentious so if a consultation was announced, Reeves may view an overhaul of the existing system as an easier path to reform. Options here could include aligning the UK more closely with our European counterparts by taxing the receipts of inheritance instead of the estate and moving from the current flat rate system to a progressive one, where beneficiaries are taxed on a sliding scale. Another approach, highlighted by think tank DEMOS in its Future of IHT report, would be to abolish IHT and introduce a CGT tax on death, similar to Norway.

3 KNOWN TAX CHANGES

A Treasury [Technical Note](#) was published on Monday regarding the removal of tax exemptions from private schools. This states that VAT will apply to private school fees from 1 January 2025 onwards and that any fees paid from 29 July 2024 for the term starting in January 2025 onwards, will be subject to VAT. It also confirms that VAT rules will apply to any pre-payment of school fees (regardless of the time they were made) where it pertains to a term starting January 2025 onwards.

Reeves is expected to announce further details of Labour's manifesto tax plans at the Autumn Budget, which include tightening the taxation of non-doms (for more details, see our post-election article [here](#)).

As part of these measures, Labour is seeking to close the tax gap (the difference between the amount of tax owed and collected) and says it's in the process of setting up an expert panel to advise the party on tackling tax avoidance and modernising HMRC (source: BBC). Other pre-announced tax changes include scrapping the 50% discount that certain non-doms could be liable for in the first year of the new non-domicile rules (announced by the Conservative government in the Spring Budget). Labour has also stated that foreign assets held in offshore trusts by non-doms would be subject to Inheritance Tax (IHT). The previous Chancellor, Jeremy Hunt, had ringfenced all assets set up in a trust before April 2025 from IHT permanently.

WHEN WILL WE KNOW MORE?

Before announcing any extra taxes, Labour will need to present a range of options to the Office for Budget Responsibility (OBR) for analysis, after confirming the cost of individual measures from HM Revenue and Customs (HMRC). All the party's manifesto tax plans will be subject to the same OBR analysis.

If HMRC was instructed by Reeves to prepare figures over the summer, experts say the OBR would need ten weeks to review the numbers and share its findings with the Treasury. This timing suggests that the extra tax reforms will be announced as part of the Autumn Budget on 30 October (as Reeves has stated).

SUMMARY

Understandably, there's huge interest in any extra taxes the government is considering, and further clarification of its manifesto tax plans is also needed. The full details of Reeves' tax plans won't be confirmed until she announces further policy details and legislation as part of the Budget. Only then will we be able to assess the full impact of any future tax changes.

If reforms to CGT are announced, these changes are likely to be implemented on the day of the announcement. Typically, other tax changes are scheduled at the start of the tax year and could be subject to government consultation, and/or anti-forestalling legislation.

There is action you can take now to protect yourself from future tax increases, so please talk through your situation with your usual contact.

We will publish additional client updates if further tax announcements are made and following the Chancellor's Autumn Budget on 30 October. If you have queries on any of the issues raised in this article or tax changes more generally, then please contact [Gavin Lenthall](#), [Steven Wren](#) or [Kieron Clement-Smith](#).

This material is published for the information of clients and contacts. It provides only an overview of the regulations in force at the date of publication (31 July 2024), and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore, no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or SRLV LLP.



SRLV

4th Floor Elsley Court
20-22 Great Titchfield Street
London, W1W 8BE

T +44 (0) 207 079 8888

E hello@srlv.co.uk

For information of users: All rights reserved. If you want to reproduce any of the material in this publication, you should first get SRLV LLP's permission in writing. Laws and regulations referred to in this 'Tax Rumours & The Autumn Budget: Our Reaction' article are stated as at 31 July 2024. Every effort has been made to make sure the information it contains is accurate at the time of creation. SRLV LLP cannot guarantee the completeness or accuracy of the information in this 'and shall not be responsible for errors or inaccuracies. Under no circumstances shall SRLV LLP be liable for any reliance by you on any information in 'Tax Rumours & The Autumn Budget: Our Reaction'. This material is published for the information of clients and contacts. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore, no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or SRLV LLP. SRLV LLP and SRLV Audit Limited are each registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England & Wales.

