Budget Breakfast

2024

Housekeeping

No planned fire drills

Please switch your phone on silent

Please note we are live-streaming this event

Welcome

Jason Fayers

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Budget Breakfast 2024

Economic Update

Luke Morris

3.40 The net fiscal impact of the personal tax threshold freezes and NICs rate cuts announced since March 2021 has been to increase tax receipts by £19.7 billion by 2028-29. As shown in Table 3.8, this comprises:

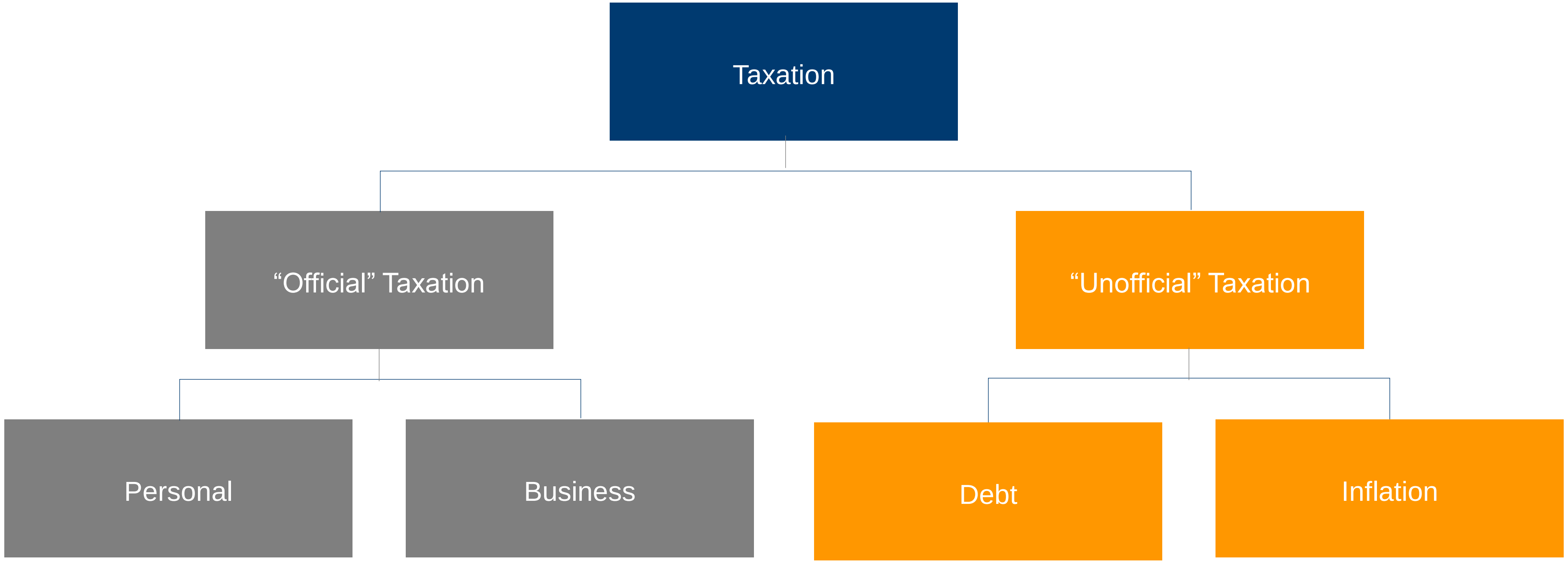
- **Changes to thresholds that raise receipts by £41.1 billion by 2028-29.** This is primarily driven by £33.6 billion of revenue from freezing the income tax personal allowance and higher rate threshold since March 2021, relative to raising them by CPI. This is £8.2 billion more than we forecast in our March 2023 *EFO*, as higher and more persistent inflation has increased the difference between the frozen thresholds and the rates to which they would have risen absent the measures.

- **A £21.4 billion cost from the successive cuts in the rate of NICs** announced in November and in this Budget, each costing £10.7 billion in 2028-29.

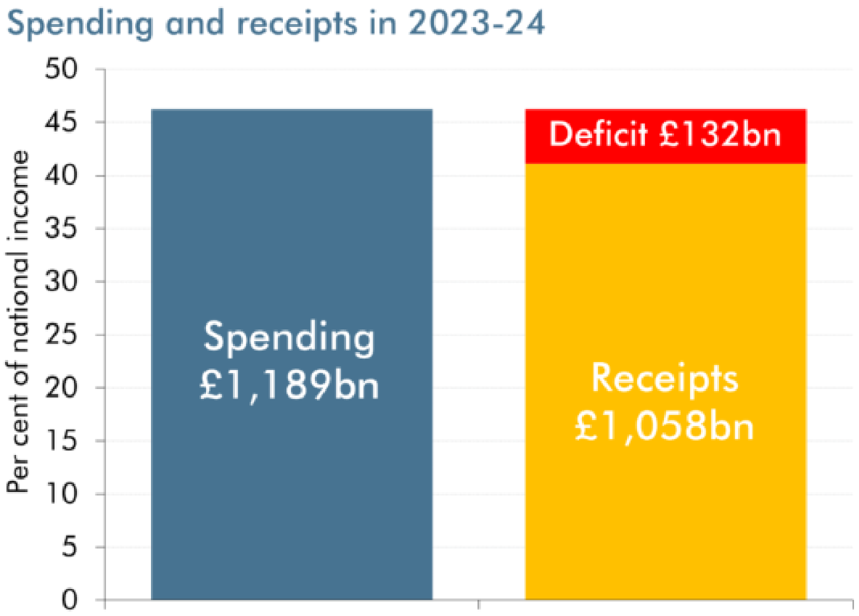
The Recent Past

Sources: HMRC, ONS, OBR, The Treasury

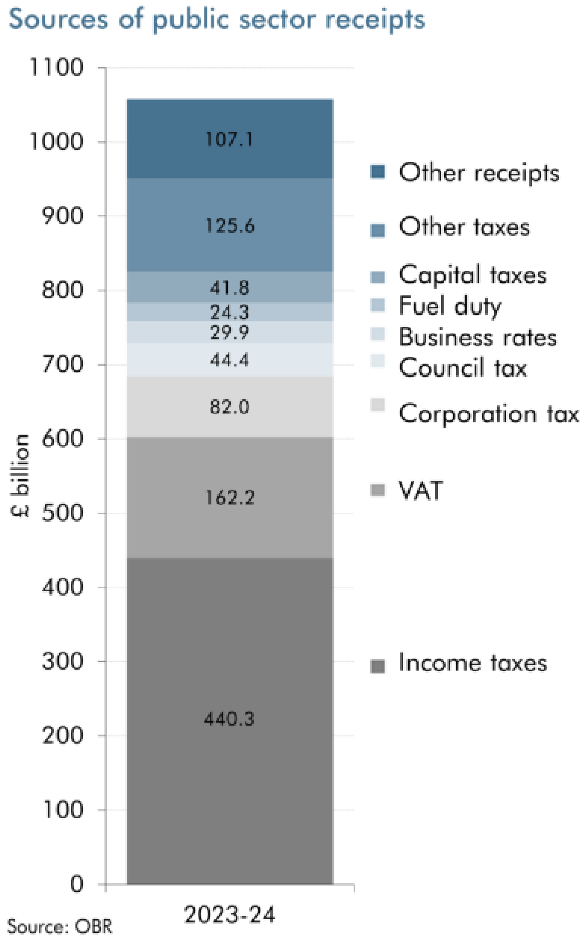
All Roads Lead To Tax

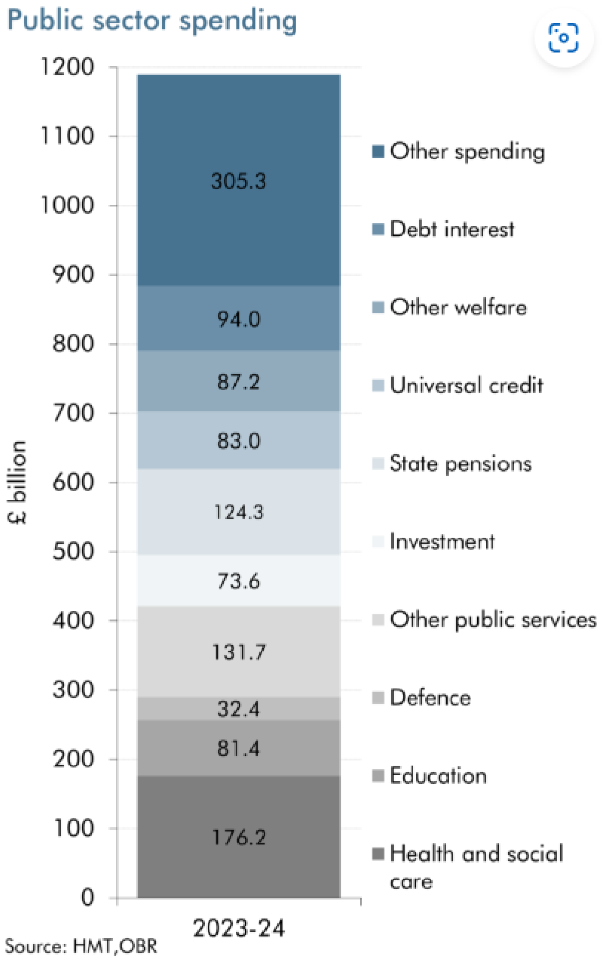


Official Taxation

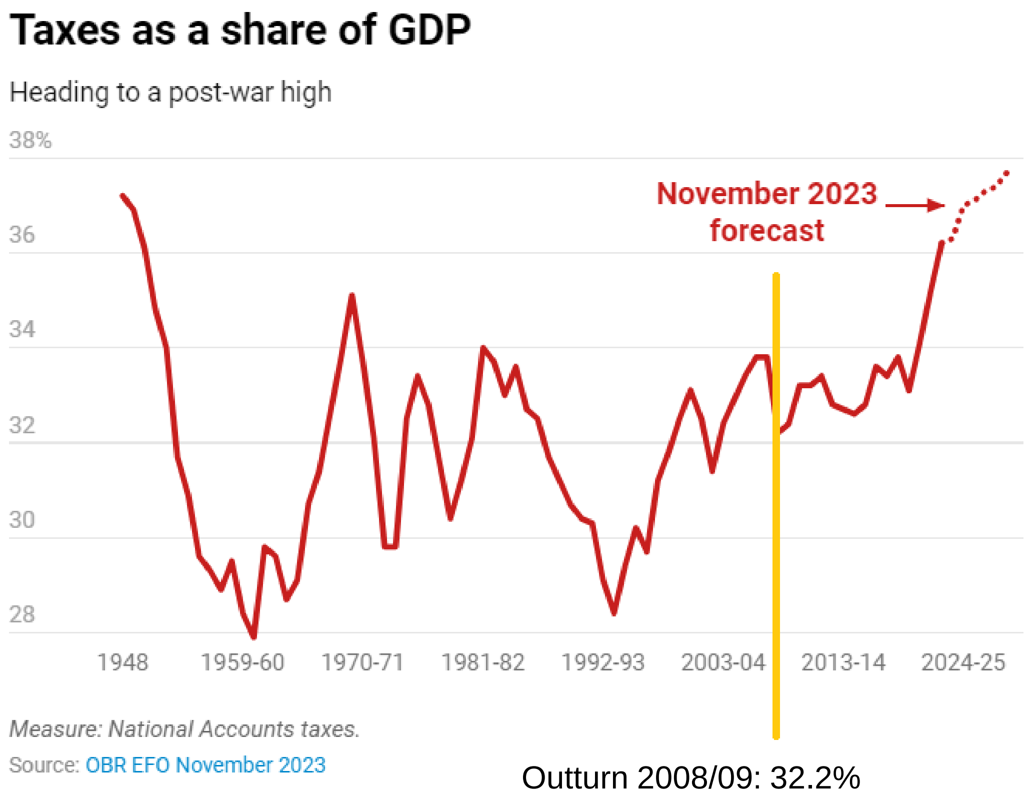


Source: OBR, outturn forecast as at November 2023

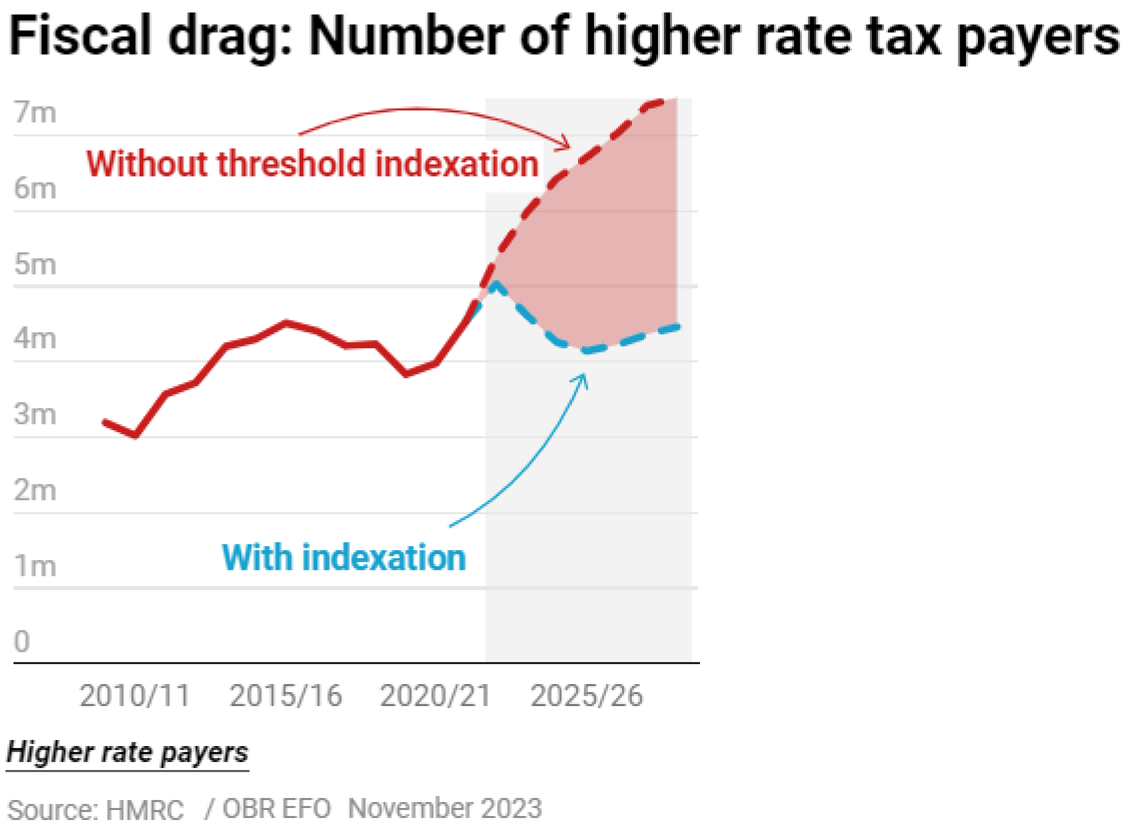




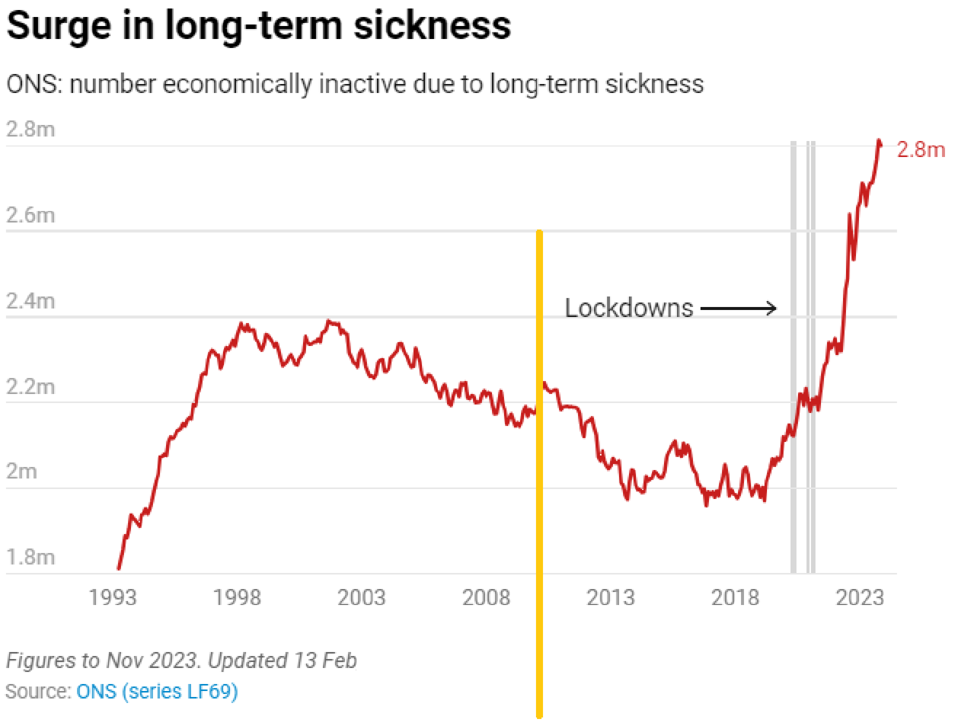
Official Taxation



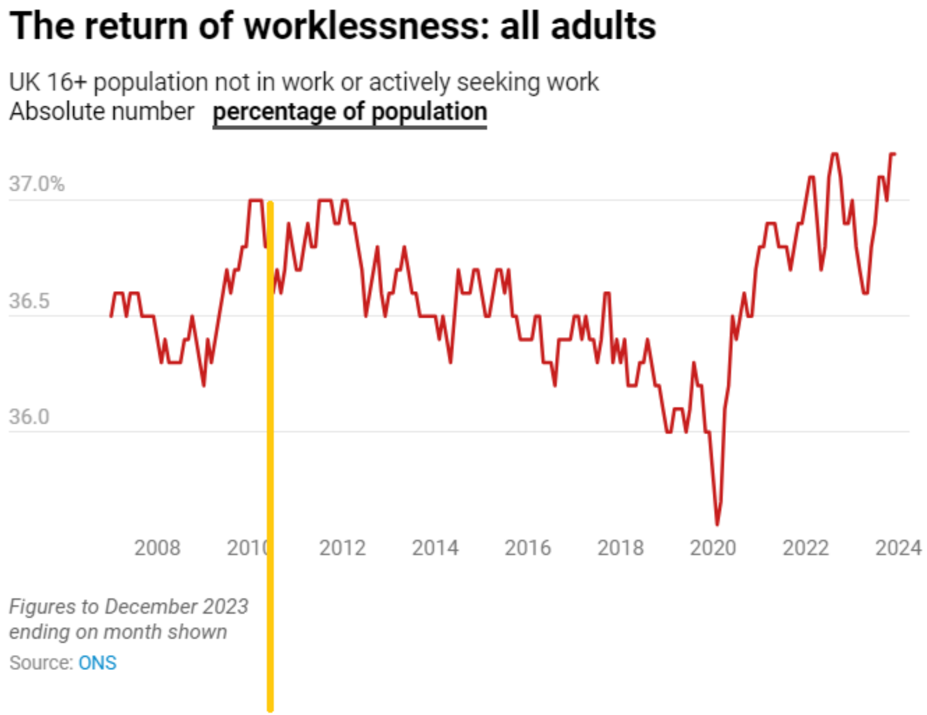
Outturn 2008/09: 32.2%



Official Taxation



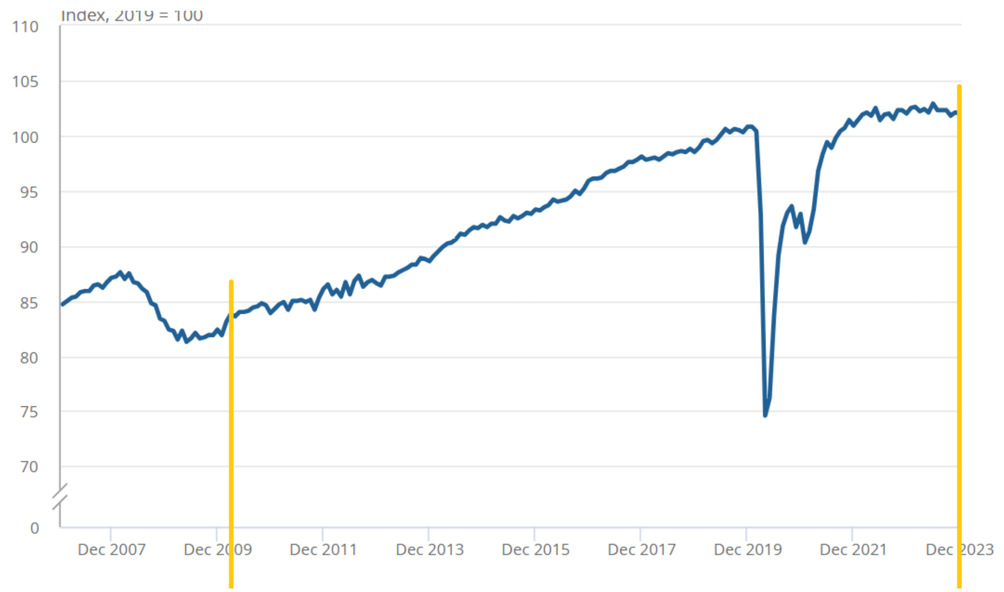
May 2010: 2.25m



May 2010: 36.8%

Official Taxation: A Digression on GDP

Monthly GDP (index 2019 = 100)

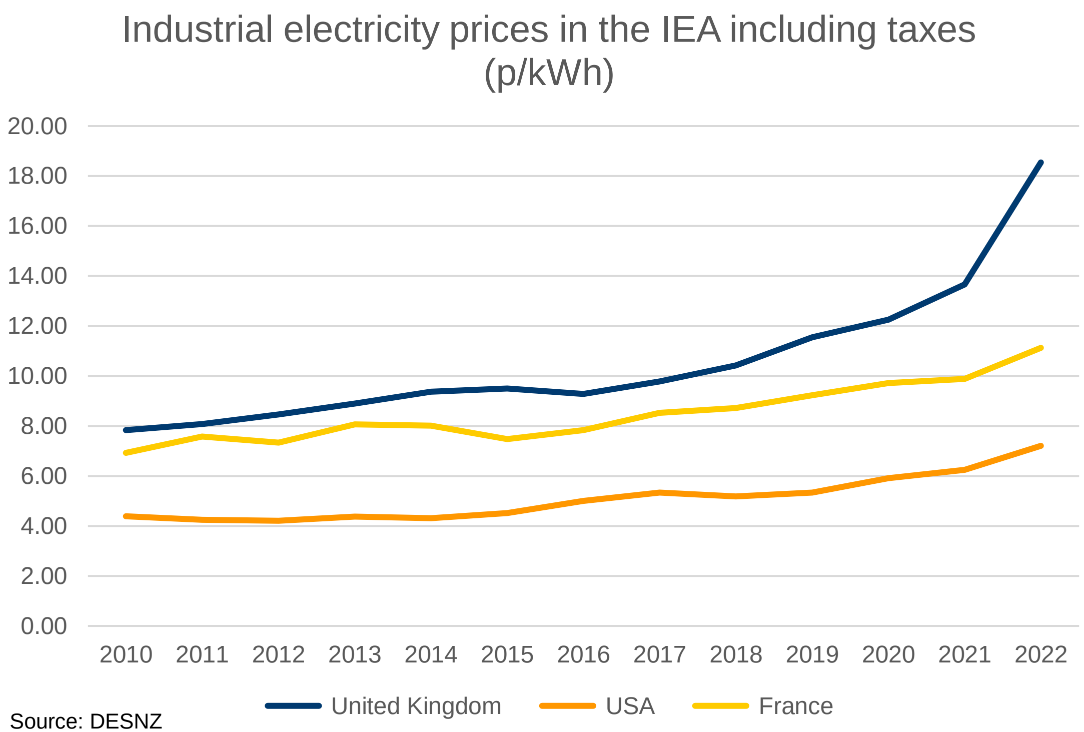


Source: ONS

May 2010: 84.0

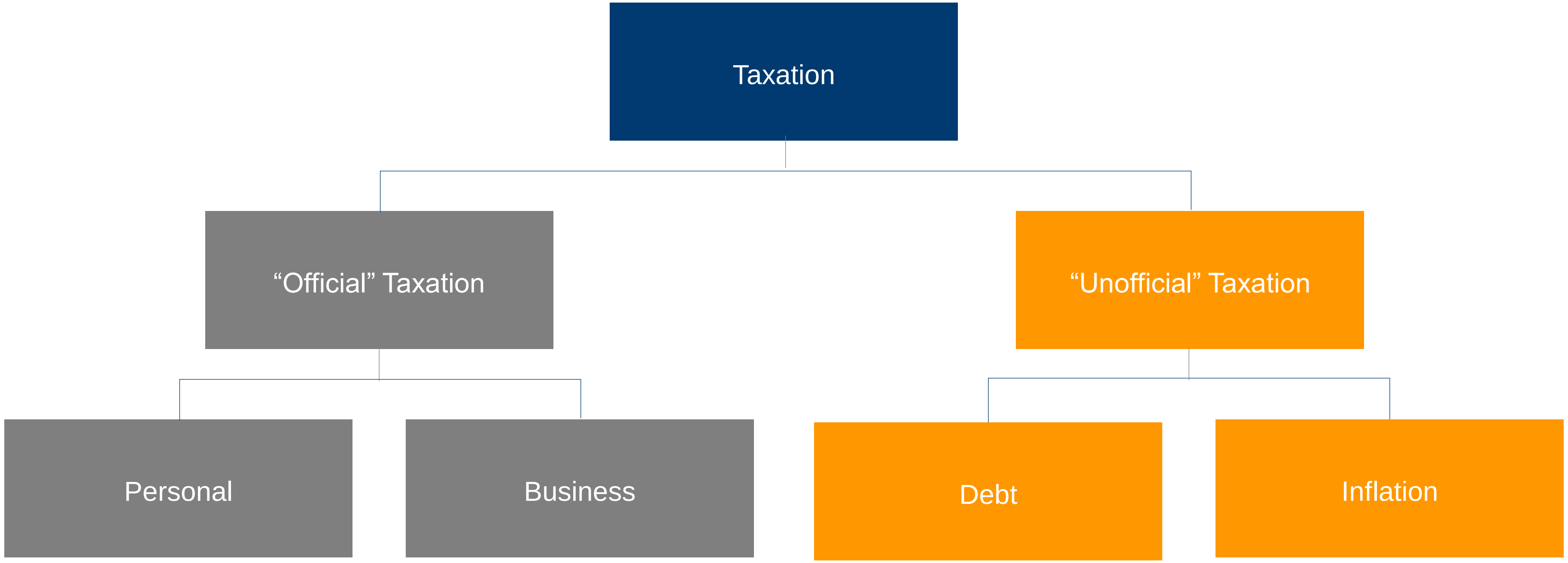
December 2023: 102.0

= Average annualised Growth: 1.44%
- The comparable figure for the USA is 4.80%
- The comparable figure for France is 0.44%



Source: DESNZ

All Roads Lead To Tax



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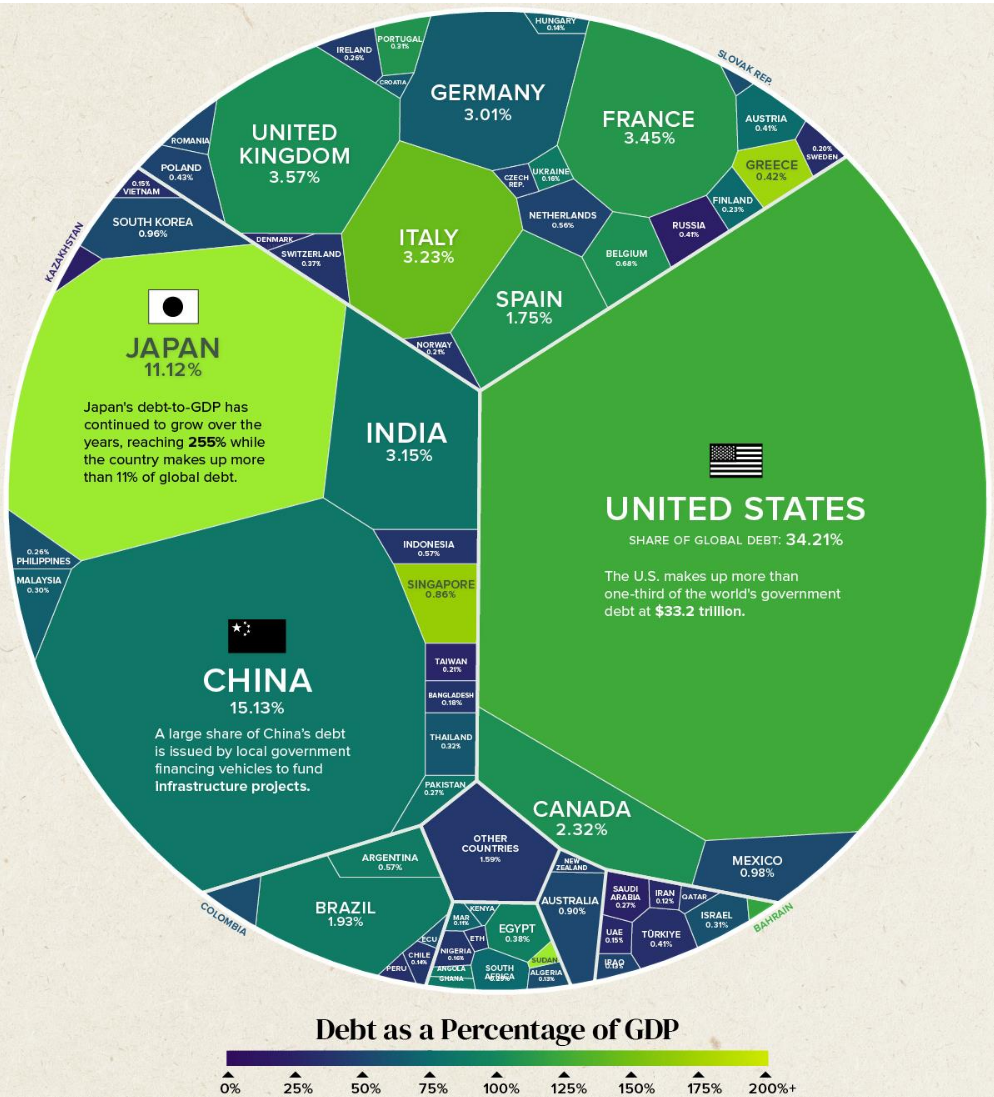
Unofficial Taxation: Debt

"Blessed are the young for they shall inherit the national debt"

Herbert Hoover (1936)

Debt

- Government spending outweighs tax revenue. Debt plugs the gap
- Who is the money owed to?
- Those who will face the consequences have not yet been born (= **taxation without representation**



Source: IMF

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Unofficial Taxation: Inflation

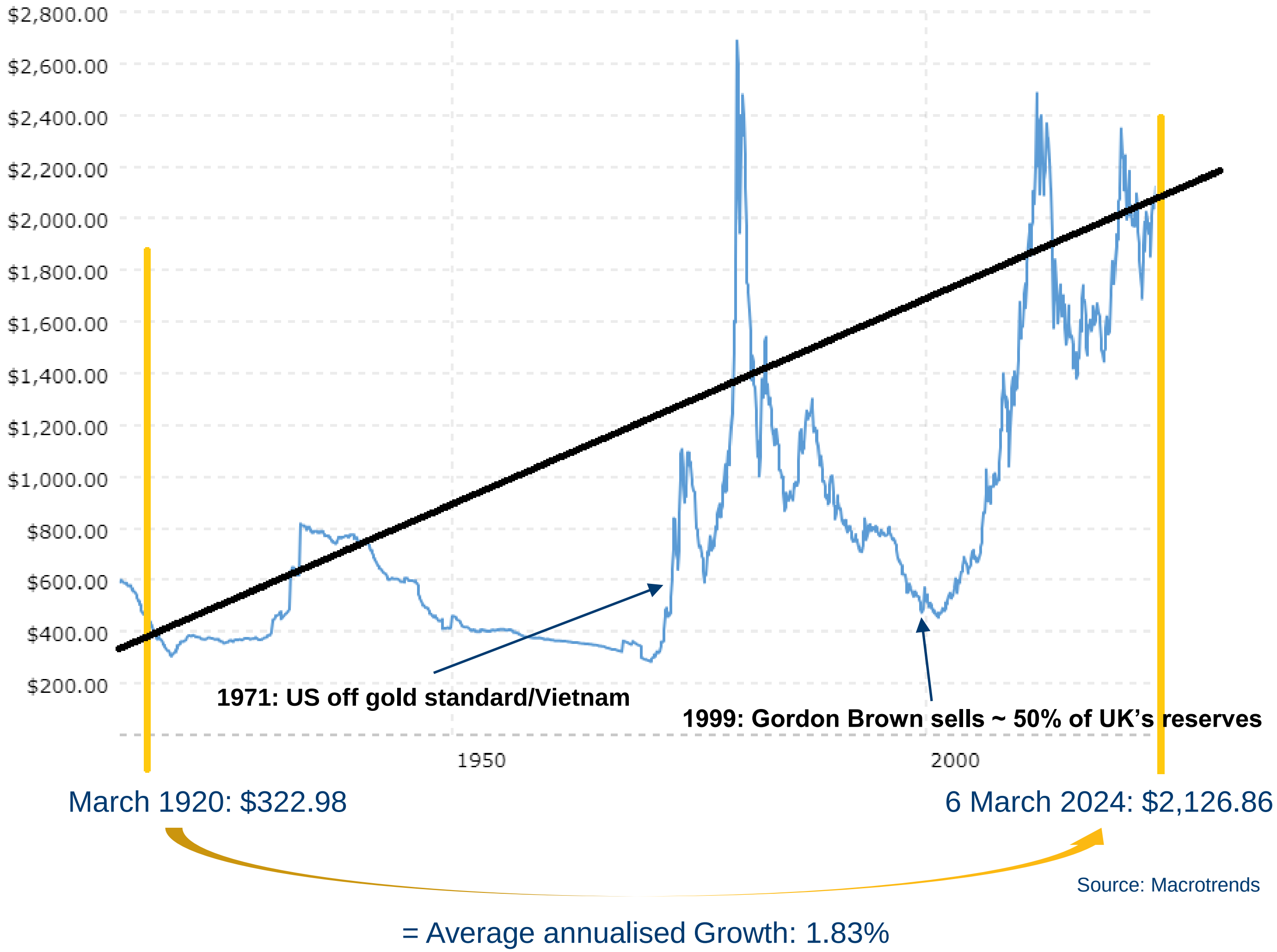
"By a continuing process of inflation, Governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily; and, while the process impoverishes many, it actually enriches some"

John Maynard Keynes

Inflation

- Please treat official measures with *caution* (because they ignore house prices and financial assets)
- Inflation is not the CPI price of a basket of goods. It is the expansion in the supply of money and credit, with the consequence of higher prices
- Suppression of interest rates and quantitative easing is inflationary, and devalues money
- This confiscates value from anyone who holds this money (**= taxation without representation**)
- This also devalues debt, and thus lightens your obligations…
- …but, if the tide turns, the lender will collect its collateral

Inflation Adjusted (so underlying) price of gold over time



Source: Macrotrends

Promises of the Present

Source: Yesterday!

Highlights From Yesterday

- The "EFO" sets out the OBR’s central forecast and the uncertainties that surround it for the five years to 2028-29. It uses recent data and government policies announced up to and including the Budget
- It is the collective view of the three independent members of the OBR’s Budget Responsibility Committee (“BRC”)
- Headlines:
  - Inflation receded quicker than the OBR expected back in November, thus markets expect a sharper decline in interest rates
  - This strengthens near-term growth prospects, but medium-term economic outlook remains challenging
  - One of the biggest changes is an increase in the size and growth of the UK population. Higher and rising levels of inactivity offset its impact on the overall size of the workforce, leaving the forecast for the level of GDP in five years virtually unchanged from the autumn, and the level of **GDP per person slightly lower**


Office for
Budget
Responsibility

Economic and fiscal outlook

March 2024

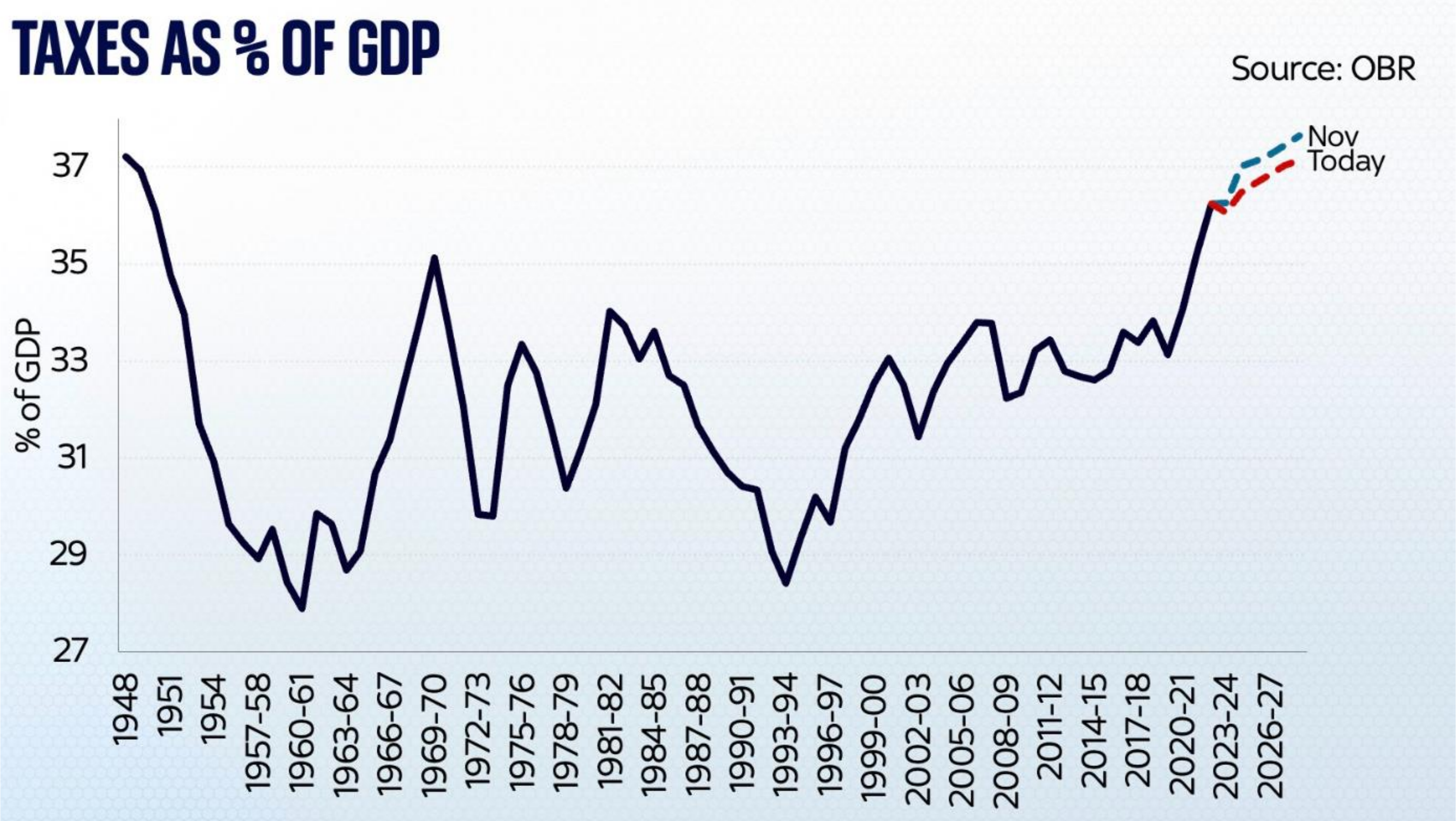
CP 1027

Tax

- Buried on page 150
- Overall tax take still set for a post-War high
- Not a “tax cutting” budget, by the OBR’s own measures!
- Improved from November, but “increasing less rather than decreasing”

Overall tax take:							
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
£bn							
Spring Budget (6 March 2024):							
Nominal GDP (£ billion) (1,2)	2,553	2,731	2,786	2,875	2,985	3,094	3,207
National Accounts taxes	925.8	985.2	1,016	1,055	1,100	1,146	1,191
Tax/GDP (%)	36.3%	36.1%	36.5%	36.7%	36.9%	37.0%	37.1%
Autumn Statement (22 November 2023):							
Tax/GDP (%)	36.2%	36.3%	37.0%	37.1%	37.3%	37.4%	37.7%
Tax/GDP (%) decrease/(increase)	-0.1%	0.2%	0.5%	0.4%	0.4%	0.4%	0.6%
1948/49 tax year	36.9%						
1949/50 tax year	36.1%						

Source: OBR


TAXES AS % OF GDP
Source: OBR
% of GDP
37
35
33
31
29
27
Nov
Today
1948
1951
1954
1957-58
1960-61
1963-64
1966-67
1969-70
1972-73
1975-76
1978-79
1981-82
1984-85
1987-88
1990-91
1993-94
1996-97
1999-00
2002-03
2005-06
2008-09
2011-12
2014-15
2017-18
2020-21
2023-24
2026-27

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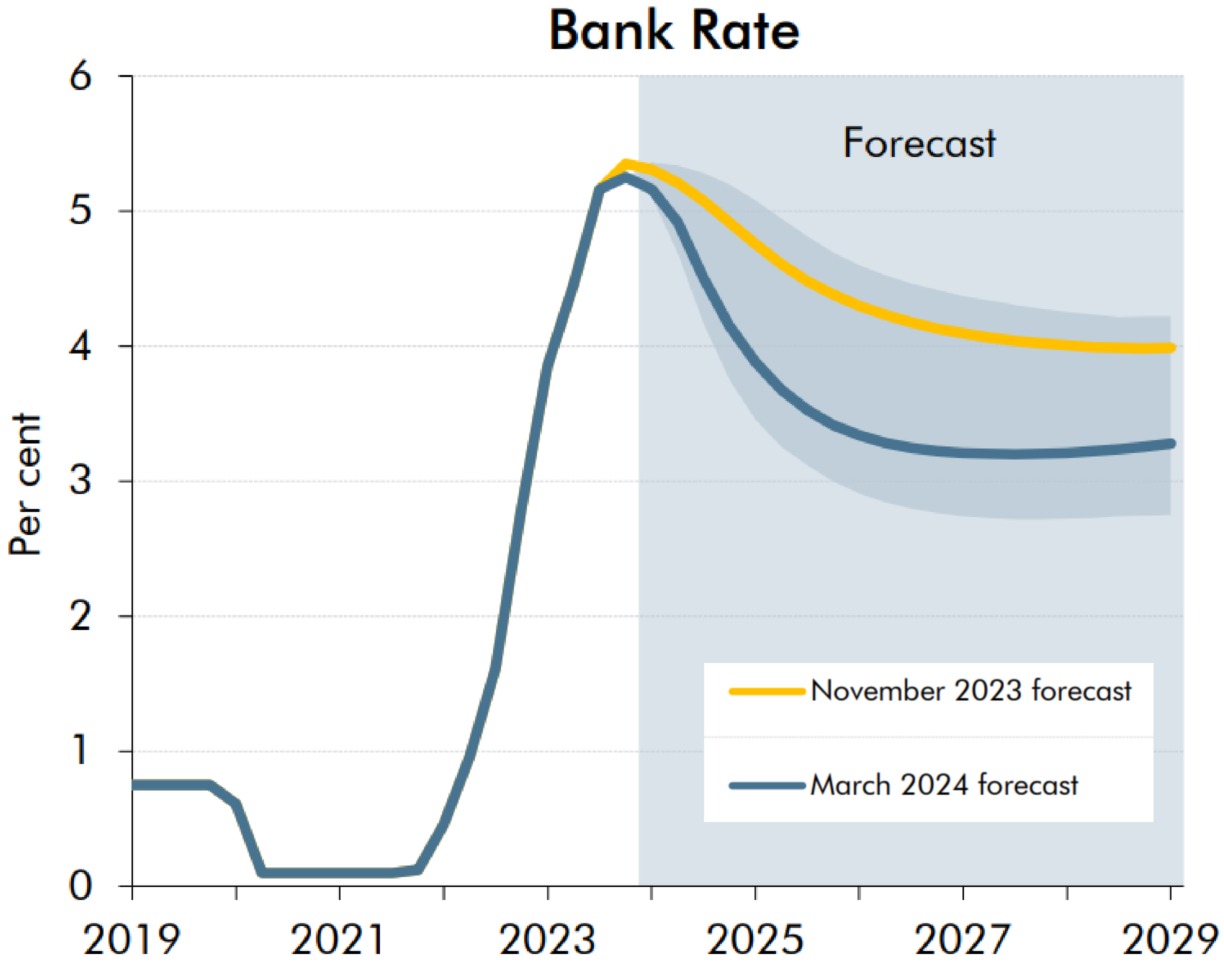
Interest Rates

- CPI inflation (*caution*) 4.2% in the final quarter of last year, 0.6% lower than forecast in November
- Expected to fall further to an average of 2.2% this year and 1.5% in 2025 before gradually returning to target at the end of the forecast period
- Lower central forecast driven by:
  - Larger anticipated falls in global energy prices
  - Expectation that domestically generated inflation will be weaker, as falling energy prices pass through into lower economy-wide costs
  - The labour market continues to loosen



Source: OBR / Bank of England

Hot Takes From Yesterday…

- Modest improvement in economic forecast underpinned by the hope of public sector productivity increases

- Widely-leaked 2% reduction in National Insurance confirmed, basically using the £10bn of fiscal headroom together with other tweaks, but overall tax burden continues to rise

- Not an “Election Budget”: Autumn election still best bet as country still in technical recession and “feel good” factor is probably needed before the Tories go to the country (31 October is rumoured)

Predictions for the Future

Source: Morris (disclaimer!)

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The Velocity of Money (VOM)

“Supreme excellence consists of breaking the enemy’s resistance without fighting”

Sun Tzu

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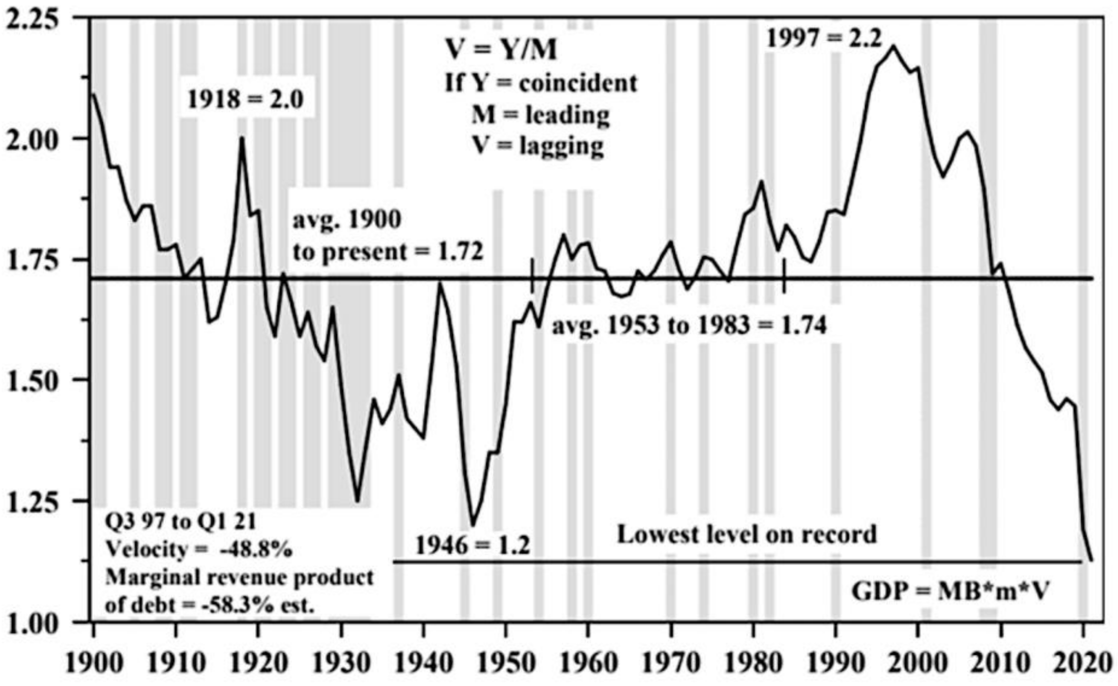
THE Velocity Of Money

- $Velocity = \dfrac{GDP}{Money\ Supply}$

- Collapse in VOM occurs when the economy is not growing despite high rates of money creation
- A collapse proceeded the creation of the FED, and the Great Depression
- Once the ability to produce growth by printing money is exhausted, creating more money will not help
- The implications for collateral held extend far beyond economics…

Annual velocity of money, from 1900 to 2021



Sources: Federal Reserve Board; Bureau of Economic Analysis; Bureau of the Census; The Amercian Business Cycle, Gordon, Balke and Romer. Through Q1 2021. Q1 2021; V = GDP/M, GDP = 22.1 tril, M2 = 19.6 tril, V = 1.1226

Source: Hoisington Management

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Focus. Focus. Focus.

"How did you go bankrupt?

Two ways. Gradually, then suddenly"

Ernest Hemingway

Interest Rates

- ~0% to 5.25% (in UK) in just over a year. 0% to 5.5% (in US) in just over a year And similar everywhere (that bit matters…)
- Interest rate changes have a 12-to-18-month lag to take effect
- This creates havoc to economies and financial markets
- Major economies currently in (or heading to) recession
- Inflation has not fallen because of the politicians. Inflation has fallen because the economy has rapidly slowed, and slowed globally
- (Global trade falls, sellers need to reduce prices, inflation falls)
- Hours worked down, job vacancies falling, corporate bankruptcies increasing, interest rates up, house sales down…
- **Forewarned is forearmed**: how does this impact your business planning?

Finish with some Optimism

"Our problems are man-made — therefore, they can be solved by man."

JFK

The Big Challenges

- A society is designed by the way that it is taxed. Tax is the way we shape the world in which our children live

- Taxes are created by politicians and represent a choice. Do we want to penalise labour and productivity? The answer should be no

- Money is issued by government fiat. As a result, it has lost 90% of its underlying purchasing power since the turn of the previous century. Whilst government and banks have the power to create money at no cost to themselves, they become too powerful and too large. Should money be decentralised? The answer should be yes

- As we head into uncertain times, and a possible reckoning, we should have these ideas lying around

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Change: we can shape it or be shaped by it

"Only a crisis - actual or perceived - produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable."

Milton Friedman

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Private Client Tax

Simon Hurren

National Insurance Cut

- Employee NIC cut by a further 2% from 10% to 8% from 6 April 2024
  - An employee earning £50,284 will save £754
  - When combined with the 2% cut announced in the Autumn Statement a total saving of £1,508

- Self-employed NIC cut by a further 2% to 6% from 6 April 2024
  - A self-employed individual earning £50,284 will save £754
  - When combined with the 1% cut announced in the Autumn Statement a total saving of £1,131

- Continuing with the plan to abolish of Class 2 NIC (£3.45 per week), currently paid by self-employed, as announced in the Autumn Statement

- Business owners should review their remuneration planning

Personal Tax Rates and Bands

	2024/25	2023/24
Personal Allowances	£12,570	£12,570
Income limit for Personal Allowance	£100,000	£100,000
Personal Savings Allowances		
Basic Rate Taxpayer	£1,000	£1,000
Higher Rate Taxpayer	£500	£500
Additional Rate Taxpayer	N/A	N/A
Dividend Allowance	£500	£1,000

Band	Income	Non Savings Tax Rate	Dividend Tax Rate (after £500 allowance)
Personal Allowance	Up to £12,570	0%	0%
Basic rate	£12,571 to £50,270	20%	8.75%
Higher rate	£50,271 to £125,140	40%	33.75%
Additional rate	£125,141+	45%	39.35%

Has There Actually Been A Tax Cut?

Employee earning £100k

	Budget Thresholds and Rates	Inflation Rises (1 Year)	Inflation Rises (2 Years)	Inflation Rises (3 Years)
Salary	£100,000	£100,000	£100,000	£100,000
Income Tax	£27,432	£26,929	£26,040	£24,938
National Insurance Contributions	£4,010	£4,875	£5,071	£5,313
Net Cash Position	£68,558	£68,196	£68,889	£69,749

Has There Actually Been A Tax Cut?

Self-employed earning £100k

	Budget Thresholds and Rates	Inflation Rises (1 Year)	Inflation Rises (2 Years)	Inflation Rises (3 Years)
Trading Profits	£100,000	£100,000	£100,000	£100,000
Income Tax	£27,432	£26,929	£26,040	£24,938
National Insurance Contributions	£3,257	£4,091	£4,233	£4,410
Net Cash Position	£69,311	£68,980	£69,727	£70,652

ISAs - Now More Important Than Ever

- Bank Interest rates mean tax could arise on Bank Interest if not held within an ISA
- Currently £20,000 annual allowance, so £40,000 between a couple - use it or lose it!
- Additional UK ISA Allowance of £5,000 - Consultation
    - Collective Investment Vehicles
    - Corporate Bonds
    - Shares in UK Companies - listing location or trading location
    - UK Government Gilts
- Transfers - Options under consideration but likely to be restrictive
- Costs - need to monitor investments to ensure they remain qualifying

High Income Child Benefit Charge - Current Rules

- Unchanged since first introduced in 2013
- Looks at income of the highest earner in a household
- £50,000 income threshold - tax charge of 1% for every £100 of income over threshold
- For example: 2 Children - £2,074.80 per annum - effective tax rate of 20.75%
- Repaid in full where income exceeds £60,000

High Income Child Benefit Charge - change for 2024/25

Changes from 6 April 2024:

- Looks at income of the highest earner in a household
- £60,000 income threshold - tax charge of 1% for every £200 of income over threshold
- Repaid in full where income exceeds £80,000
- For example: 2 Children - £2,212.60 per annum - reduced effective tax rate of 11.06%
- From April 2026 combined household income will be considered in calculating any charge

Pension Tax Relief

- Annual Allowance - was increased to £60,000 from 6 April 2023
- Tapered Annual Allowance - adjusted income threshold was increased from 6 April 2023 to £260,000
- Minimum Tapered Annual Allowance - was increased from 6 April 2023 to £10,000
- Lifetime Allowance - Lifetime Allowance charge abolished
- Pensions still remains a useful tax tool

Summary

- A headline cut in National Insurance only goes part way to unwinding the impact of historical fiscal drag
- Business owners should review their remuneration planning.
- Child Benefit - if you have opted out because income exceeds £60,000 should you opt back in?
- Pensions - with the tax burden high the recent changes make pension more attractive than ever

Non-Dom Reform & Inheritance Tax

Chris George

What is Non-Dom?

- Residence - Your current home
- Domicile - Your permanent home
- Individuals who live or work in the UK but don't class the UK as their permanent home are 'Non-Dom'
- Can be for up to 15 years

Tax Payable by Non-Doms

	UK Tax	No UK Tax
Income Tax **&** **Capital Gains Tax**	UK source income	Overseas income and gains where the proceeds remain overseas
	Gains on UK situated assets	
	Overseas income and gains where the proceeds are remitted to the UK	
Inheritance Tax	UK situated assets	Overseas assets

U-Turn?

"Scrapping the [non-dom] status would simply serve to drive non-doms, many of whom are wealthy job-creating entrepreneurs, away from the UK"

Jeremy Hunt – 2022

"Scrapping the non-dom status would be a terrible thing to do, we would wave goodbye to £8billion of capital investment in the UK. We will never do that"

Jeremy Hunt – 2023

Jeremy Hunt - 2024

~~Domicile~~

~~Remittance Basis~~

New Non-Doms

- From 6 April 2025, providing non-resident for the previous 10 years:

- First four tax years of UK residence No Income Tax or CGT on any overseas income or gains

- From year 5 - Worldwide income and gains fully chargeable to UK tax

Existing Non-Doms

Transitional arrangement for anyone using the Remittance Basis up to 5 April 2025:

- Rebase capital assets at 5 April 2019 values
- 50% tax exemption for foreign income in 25/26
- Two-year facility to bring onshore previously unremitted income and gains at a 12% tax rate

Inheritance Tax

Inheritance Tax for Non-Doms

- No immediate change to domicile basis for IHT
- But a consultation has been announced to look at moving to a residency based IHT regime from 6 April 2025
- Non-Doms being subject to IHT on worldwide assets rather than just UK situated ones
- Offshore trusts created up to 5 April 2025 will not be impacted

Inheritance Tax Changes

- From 6 April 2024 - only UK situated land will qualify for APR

- Land in EEA, the Channel Islands and Isle of Man will no longer qualify

Inheritance Tax Changes

- From 6 April 2025:
  Land used for Environmental Land Management will qualify for APR

- ELM Agreement has to be with
  - UK Government
  - Public Body
  - Local Authority

- Working group with HMRC, Treasury and Industry bodies to clarify tax treatment of ecosystem service market - BNG, WCU, etc

Property Tax

Samantha Stent

Furnished Holiday Lettings (FHLs)

- Available 210 days
- Let out at least 105 days
- Long-term lets total less than 155 days

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Furnished Holiday Lettings (FHLs)

	FHL	Non FHL
Initial capital expenditure on furniture and fittings	Capital Allowances	No relief
Replacement of furniture and fittings	Capital Allowances	Replacement domestic items relief
Interest on loan to purchase property	Fully deductible	BR tax reducer only

Furnished Holiday Lettings (FHLs)

	FHL	Non FHL
Pension contributions	Relevant earnings for pension purposes	Not relevant earnings for pension purposes
Capital Gains reliefs (BADR, Rollover Relief, Gift Relief)	Eligible	Not eligible
Losses	Losses only offset against FHL	More flexibility

FHL Savings - Example

	Non-FHL £	FHL £
Income	50,000	50,000
Mortgage Interest	-	20,000
Capital Allowances	-	6,000
Maintenance	8,000	8,000
Total Costs	8,000	34,000
Net Profit	42,000	16,000
Tax at 40%	16,800	6,400
MI Relief	20,000 x 20% = 4,000	-
Tax Due	12,800	6,400

VAT

?

Potential Problems

- Trade?
- Switching FHL to serviced accommodation?
- Impact on tourism?

Capital Gains Tax Rates

Residential Property	Basic Rate Taxpayer	Higher or Additional Rate Taxpayer
2023/24	18%	28%
2024/25	18%	24%

Other Assets	Basic Rate Taxpayer	Higher or Additional Rate Taxpayer
2023/24	10%	20%
2024/25	10%	20%

What are your next steps?

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Stamp Duty Land Tax

My Budget Prediction

"Sam Stent, Associate Tax Pa[illegible] predi[illegible]t the government will respond to a sluggish housing market in [illegible] Ma[illegible]udget by making changes to the SDLT rates and thresholds. Sam [illegible]s they may bring in similar measures to those introduced du[illegible]id when the 0% SDLT band for residential properties (currently [illegible],0[illegible]as increased to £500,000."

Stamp Duty Land Tax Rates

Residential Rates	
£0 - £250,000	0%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 +	12%

Non-Residential Rates	
£0 - £150,000	0%
£150,001 - £250,000	2%
£250,000 +	5%

First Time Buyers Relief

- From 23 September 2022 - 31 March 2025, SDLT rates for first-time buyers are:

Purchase Price	Tax Rate
£0 - £425,000	0%
£425,001 - £625,000	5%

- From 1 April 2025, first-time buyers relief will revert back to the following rates:

Purchase Price	Tax Rate
£0 - £300,000	0%
£300,001 - £500,000	5%

Multiple Dwellings Relief (MDR)

Multiple Dwellings Relief (MDR) - Example

£1,000,000 Purchase

£800,000

£200,000

- SDLT Liability with MDR Claim - £25,000
- SDLT Liability without MDR Claim - £41,250

Additional Tax - £16,250

Why has MDR been abolished?

Subsidiary Dwellings

£1,000,000 Purchase

£650,000

£350,000

3% Surcharge applies

Business Tax

Jason Fayers

scruttonbland

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VAT

Value Added Tax (VAT) Changes

- VAT registration threshold up from £85k to £90k in first increase since April 2017
- DIY housebuilder's scheme - HMRC can seek evidence and copy invoices retrospectively after a claim has been submitted online
- HMRC consultation on the High Court’s ruling in ‘Uber Britannia vs Sefton MBC’ in April 2024

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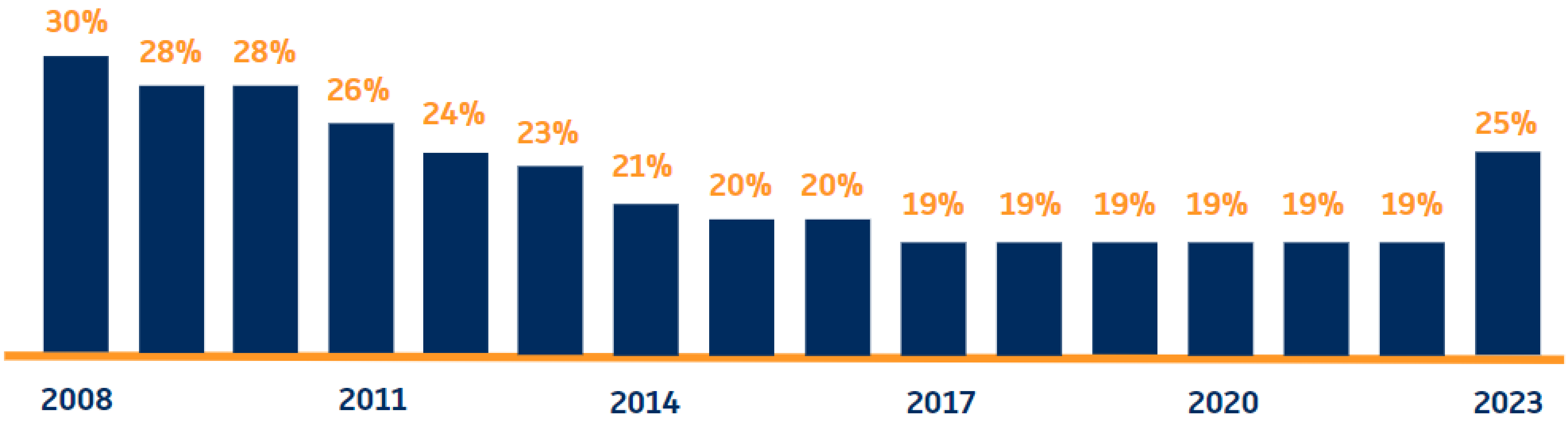
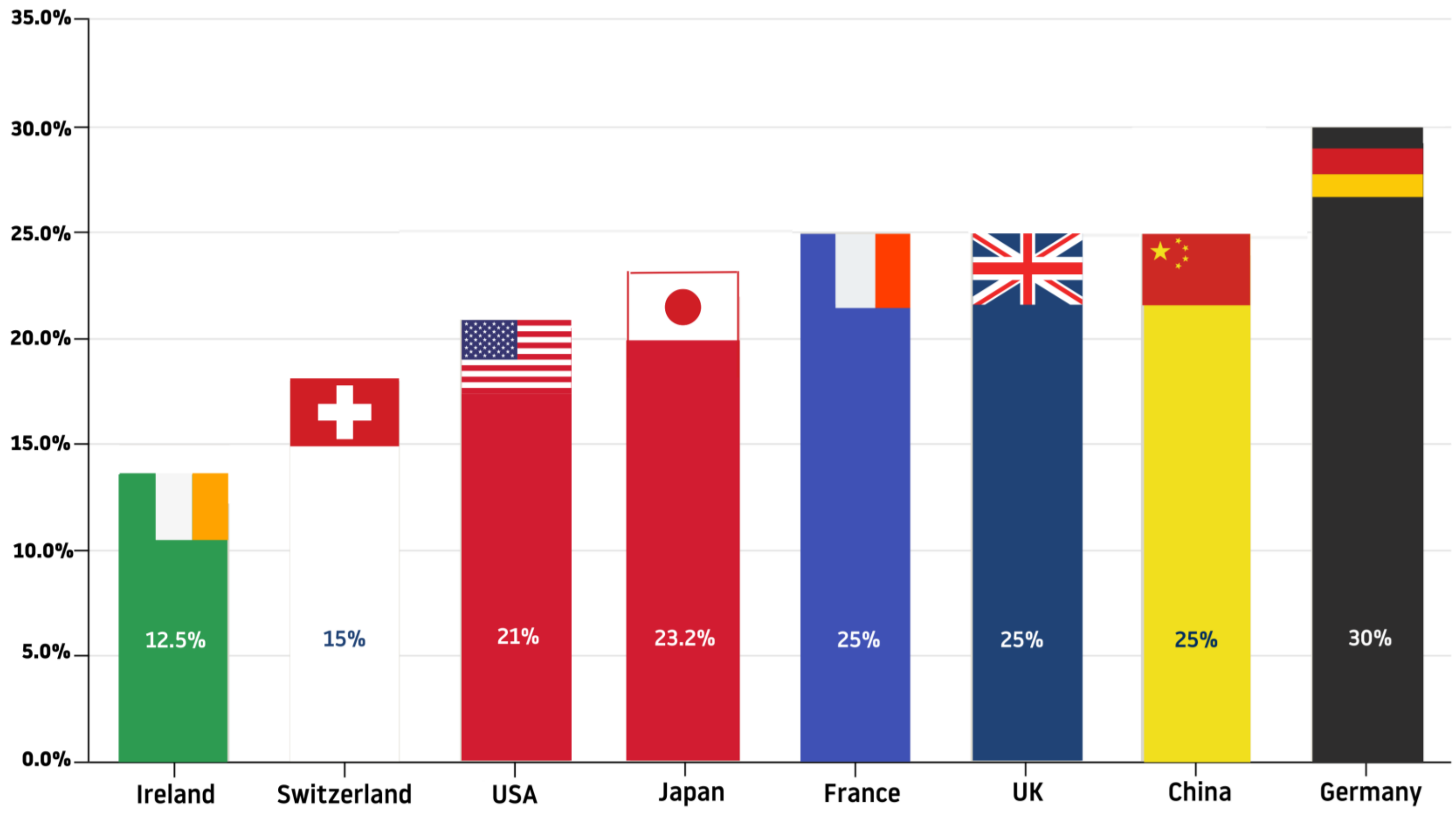
Corporation Tax

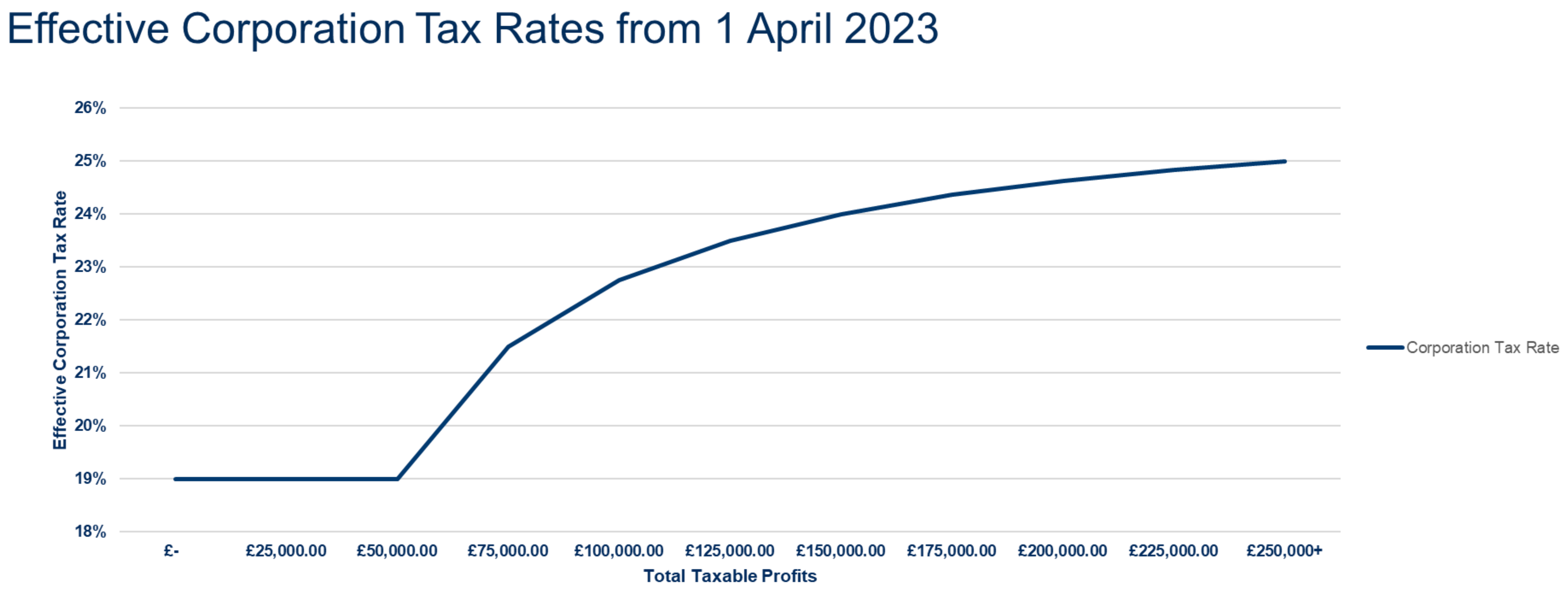
Historical UK Corporation Tax Rates



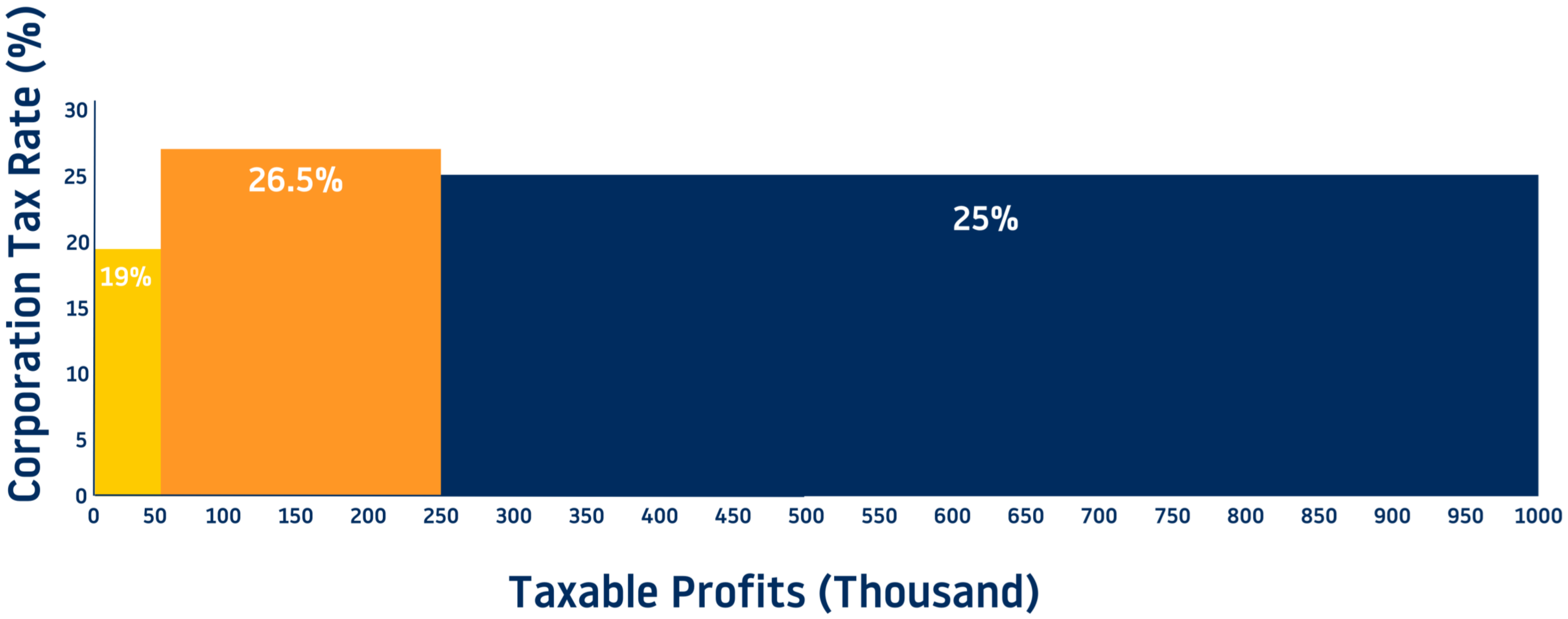
Corporation Tax Rates Across the Globe - From April 2024



Corporation Tax Rates



Marginal Rate of Corporation Tax



Associated Companies

A change in associated companies can affect the following:

- The new Corporation Tax marginal rate threshold
- Annual Investment Allowances
- Corporation Tax payment dates (i.e. Quarterly instalment payments for Large and Very Large companies)
- R&D tax relief schemes
- Employment Allowance
- Country-by-Country reporting
- Transfer Pricing coverage
- Corporation Interest Restrictions
- Senior Accounting Officer reporting
- VAT Registration Threshold

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Capital Allowances

Capital Allowances

- Plant Pool Capital Allowance - 18% (plant and machinery)
- Special Rate Capital Allowance - 6% (integral assets)
- Structural Buildings Allowance (SBA) - 3% over 33 1/3 years
- 100% Allowance on the installation of electric vehicle charge points up to 31 March 2025
- Super Deductions Allowance - 130% - Ceased 1 April 2023

Capital Allowances: Full Expensing

Prior to 1 April 2023

	New Assets	Second-Hand Assets
Plant Pool	130% Super Deduction Allowance	100% AIA *or* 18% per annum
Special Rate	100% AIA *or* 6% per annum	100% AIA *or* 6% per annum

From 1 April 2023 (and now permanently legislated)

	New Assets	Second-Hand Assets
Plant Pool	100% Fully Expensed	100% AIA *or* 18% per annum
Special Rate	50% First Year Allowance *and* 50% at 6% per annum thereafter	6% per annum only

2024 Budget: Consultation to now include Plant & Machinery for leasing

Consultations

More changes to follow

Consultation

- Organisation for Economic Co-operation and Development (OECD) adoptions of:
  - International Common Reporting Standards (CRS)
  - Crypto-Assets Reporting Framework (CARF)

Both consultations close on 29 May 2024

Changes underway

- Umbrella Companies - crack down on non-compliance
- Freeports - extending time limit from 5 to 10 years (ending 30 September 2031)

Research & Development Tax Reliefs

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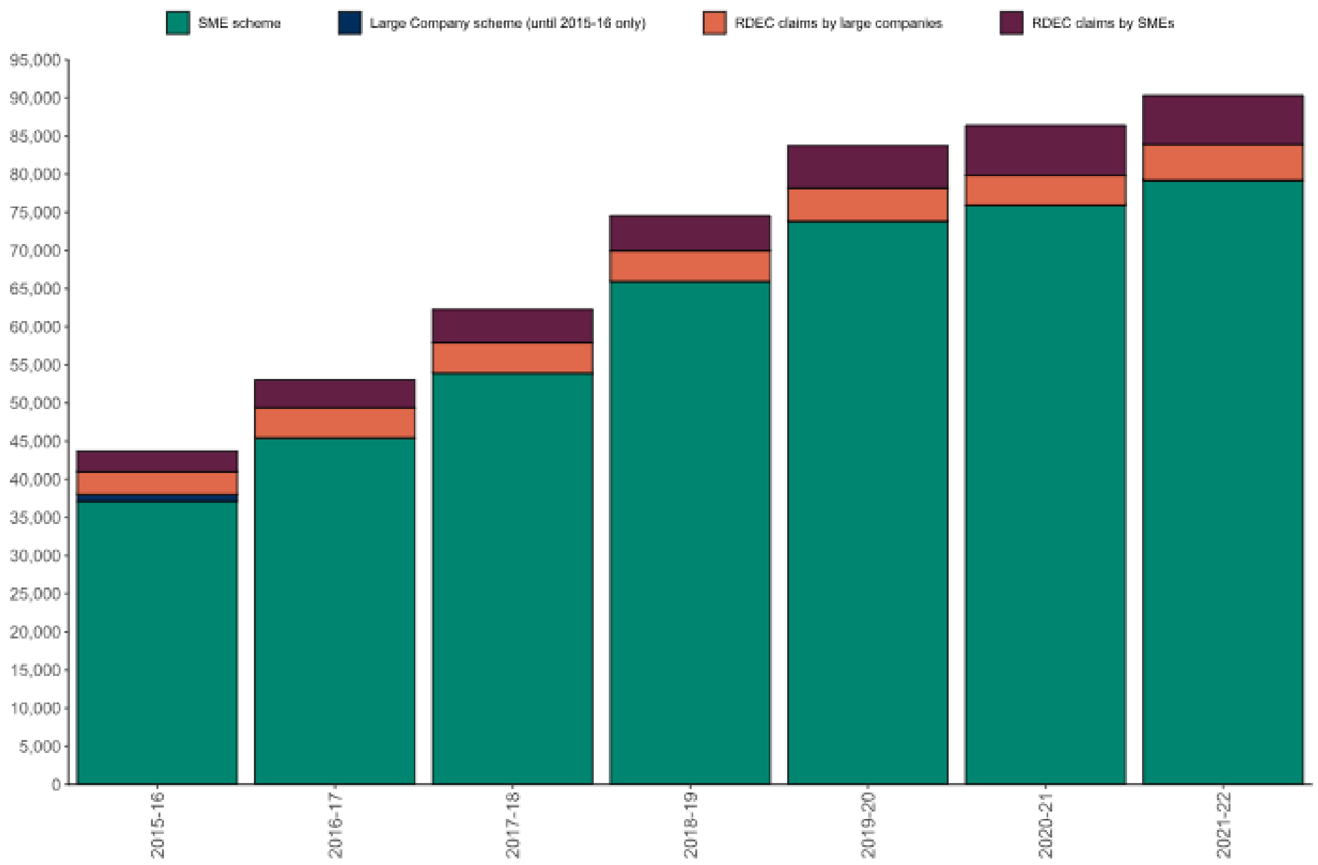
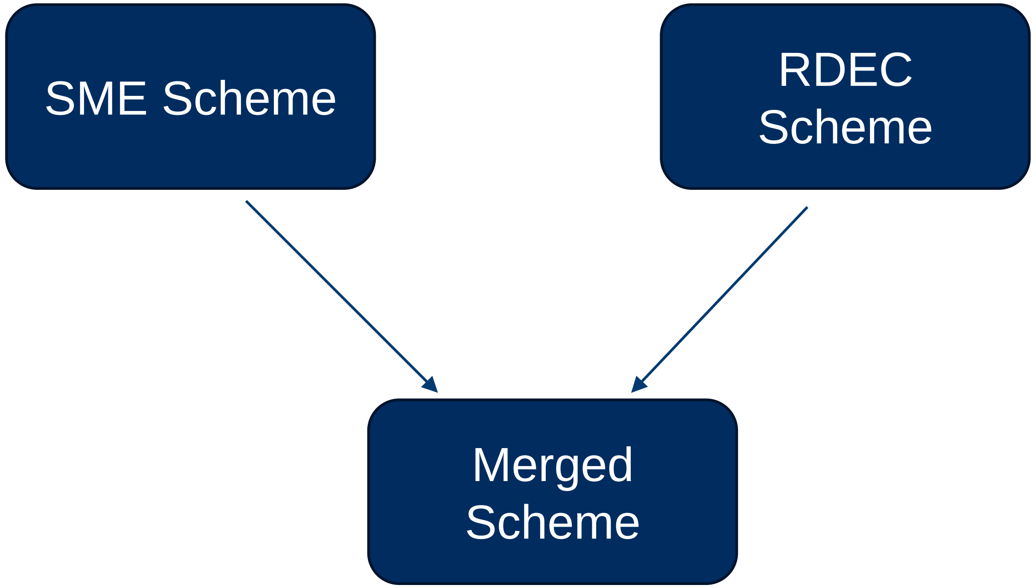
Research & Development: Claim Numbers



- Over 90,000 total claims in 21/22
- 87% of claims were under SME scheme
- 46% of claims included a repayable credit
- Cost £7.6billion – 11% increase
- Impact of April 2023 changes not yet reflected

Source: HMRC

Research & Development: Merging of Schemes



For accounting periods beginning on or after 1 April 2024

Research & Development: Merging of R&D Schemes

- HMRC's Aims:
  - Make the claiming of the tax relief simple
  - One set of rules for all companies
  - To tackle the abuse of the R&D tax relief regime.
- So……the new merged scheme will follow the existing large company RDEC scheme.
- Unless the company is 'R&D intensive', in which case the old SME scheme still applies!

Research & Development: How the SME Scheme Worked

Year Ended 31 March 2023	£
Profit	500,000
R&D expenditure	(100,000)
R&D uplift	(86,000)
Taxable profit	314,000
Corporation Tax	78,500
R&D Extra Tax Saving – Total 46.5%	**21,500**

Research & Development: How the RDEC Scheme Will Work

Year Ended 31 March 2024	£
Profit	500,000
R&D expenditure	(100,000)
RDEC credit	20,000
Taxable profit	420,000
Corporation Tax	105,000
Deduct RDEC	(20,000)
Net Corporation Tax payable	85,000
R&D Extra Tax Saving – Total 35%	**15,000**

Research & Development: Rate Changes - Example

	Relief Pre-April 2023	Tax Relief from April 2023 to April 2024	Tax Relief from April 2024
Total Profits	£1,000,000	£1,000,000	£1,000,000
Qualifying R&D Expenditure	£100,000	£100,000	£100,000
Corporation Tax Liability Before R&D Claim	£171,000	£225,000	£225,000
Corporation Tax Liability After R&D Claim	£146,300	£203,500	£210,000
R&D Relief	£24,700	£21,500	£15,000

Research & Development: R&D Intensive Companies

- Prior to April 2024: spend at least 40% of costs on qualifying R&D
- From April 2024: spend at least 30% of costs on qualifying R&D
- This test is applied to the expenditure of all connected companies
- Repayable tax credit is higher at 14.5% for loss-making R&D intensive companies

Research & Development: Further Changes

- Subsidised / grant funded project restrictions removed

- The PAYE/NIC cap rules of the merged scheme reflect those of the existing SME scheme
  - Cap is equal to £20k plus 300% of all PAYE and NIC liabilities
  - Previously under RDEC repayable tax credit was capped at the PAYE and NIC liability relating to the R&D staff

- Relief for expenditure on externally provided workers and contracted out work is limited to focus on UK activity

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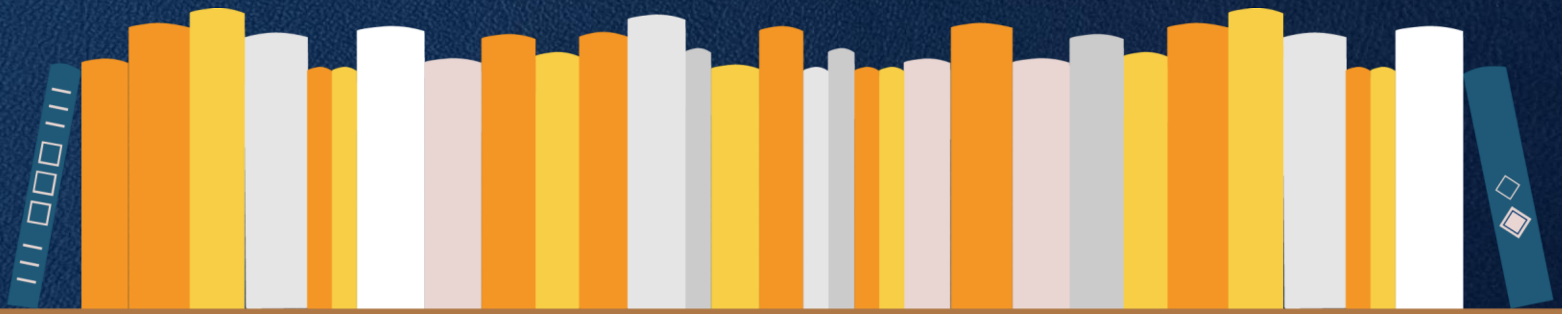
Thank you for joining us this morning



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Please share your feedback

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