Wealth
Management

A historic budget

Policy highlights and economic implications

Forward-looking
for generations

Introduction

With the 30th October budget being the first by the Labour Party in 14 years and the first ever to be delivered by a female Chancellor, it always promised to be historic. However, with the biggest tax increases since 1993 and the greatest tax impact on UK taxpayers since records began, history was also made for other reasons. This budget not only marked a significant political moment but also brought sweeping economic changes. In this article, we will highlight these key changes and explore the implications on individuals, businesses and the broader economy.

An era-defining budget

The Office of Budget Responsibility (OBR), the independent watchdog of the public finances, stated that the Chancellor's proposals will increase government spending by around 2% of GDP for every year over the next five years. One-third of the increased spending is planned on investment into infrastructure, with the remaining two-thirds set to go on government day-to-day expenditures.

Rachel Reeves' budget is set to raise a whopping £40 billion in taxes, but this will only cover around 50% of the planned increase to government spending with the remainder funded via additional borrowing.

Although this budget was themed as one for growth, it is notable that businesses are set to absorb much of the tax increases, with changes to employer NI alone expected to generate £25 billion.

There are also significant changes to agricultural property and business relief, which are likely to have a material impact on family run businesses being transferred from one generation to another.

The key changes affecting entrepreneurs and private clients are outlined below.

Personal taxes

The personal allowance remains at £12,570 (including for Scottish taxpayers) and this is frozen until April 2028. After that, it is set to increase in line with the rate of inflation.

The rates for the UK (excluding Scotland) are as follows:

- Basic rate tax applies at 20% on the first £37,700 over the personal allowance.
- Higher rate at 40% on earnings over £50,270 (inclusive of the personal allowance).
- Additional rate of 45% applies on earning above £125,140.

The rates of income tax for Scottish taxpayers will be announced in the Scottish Government's budget in December.

The personal allowance is reduced for individuals with an income exceeding £100,000. For every £2 of income above this threshold, the allowance is reduced by £1. Consequently, individuals with an income over £125,140 receive no personal allowance.

The savings allowance applies to savings income such as interest and is dependent on the individual's marginal rate of tax. Basic rate taxpayers have an allowance of £1,000. For higher rate taxpayers, the allowance is £500 and there is no allowance available for additional rate taxpayers.

Dividends tax rates

Currently the first £500 of dividends tax is chargeable at £0, this £500 allowance will remain for 2025/26 tax year. This applies to the whole of the UK.

Dividends tax rates are as follows:

- 8.75% for basic rate taxpayers.
- 33.75% for higher rate taxpayers.
- 39.35% for additional rate taxpayers.

The corporation tax on directors' loans remains at 33.75%.

National Insurance

As the Labour manifesto pledged not to raise the rates of the three main taxes – Income Tax, VAT and NI – for 'working people', businesses have been left to shoulder the majority of tax increases.

The Government announced an increase to the employer rate of NI from 13.8% to 15% from 6 April 2025. In addition, the secondary threshold, the point at which employer NI contributions begin, is being reduced from £9,100 to £5,000 from 6 April 2025 until 6 April 2028. After this period, it will rise in line with consumer price index.

This increase to the employer NI rate is projected to raise £25 billion, contributing significantly to the total £40 billion in planned tax hikes. Despite the Labour Government's manifesto pledge, increasing one of the main taxes was deemed necessary to achieve impactful revenue growth.

Currently, the Employment Allowance permits businesses with employer NICs bills of £100,000 or less in the prior tax year to reduce their NICs bill by £5,000. From 6 April 2025, this allowance will be raised to £10,500, with the eligibility threshold removed, extending it to all qualifying employers.

Pensions

Pension tax relief and death benefits

Concerns surrounding the removal of the tax-free cash lump sum were unfounded in the budget. This remains set at £268,275 as the standard tax-free withdrawal limit.

Pension annual allowance remains unchanged at £60,000 for those with earnings below the threshold income of £200,000. For those with threshold income above £200,000 and adjusted income exceeding £260,000, they would still see a tapering of their annual allowance subject to a minimum allowance of £10,000 gross. In addition, tax relief on pension contributions, which cost the Government c. £25 billion a year, has remained untouched.

The most significant change to pensions will now see unused pension funds become subject to inheritance tax from April 2027 onwards.

Historically, pension funds have been excluded from the deceased's estate for inheritance tax if the scheme administrator maintained discretion over the beneficiary selection. Whether death occurred pre or post age 75 had been the determining factor regarding the tax efficiency of pension death benefits.

Under current legislation, in the event of death prior to age 75, beneficiaries can inherit a lump sum death benefit allowance of up to £1,073,100 tax free from the deceased pension fund. If they retain the funds within a pension wrapper and withdraw as beneficiary drawdown pension, then no income tax liability applies. Moreover, in the event of death after age 75, any pension income withdrawn is subject to income tax at the beneficiaries' marginal rate of tax.

From 6 April 2027, inherited pension death benefits will be subject to inheritance tax albeit a spousal exemption will apply where the funds are left to the surviving spouse. The Government will consult on the process needed to implement these changes.

Pension transfers

The Overseas Transfer Charge (OTC) is a 25% tax charge on transfers to Qualifying Recognised Overseas Pension Schemes (QROPS), unless an exclusion from the charge applies. Transfers to QROPS established in the EEA and Gibraltar were included within the exclusion but this exclusion will no longer apply for such transfers made on or after 30 October 2024.

In other words, UK resident individuals looking to transfer their pension arrangements to a Recognised Overseas Pension Scheme would be subject to the 25% overseas transfer charge. The exclusion would only apply where the transfer is to be made to a country where the individual is also resident. The Government projects this would save £1 billion in tax relievable pension funds being transferred out of the UK.

Savings and investments

The have been no changes to the ISA allowance (£20,000) and the Junior ISA allowance (£9,000).

Inheritance tax

- The nil rate band (£325,000) and the residential nil rate band (£175,000) will remain frozen until April 2030.
- From 6 April 2026, an individual will be able to leave combined business and agricultural assets to their loved ones of £1 million without an inheritance tax liability, with any excess being taxed at 20%.
- Business relief on AIM shares and on shares in businesses which are not listed on a main market will also be maintained but at the reduced IHT rate of 20%.
- From 6 April 2025, the domicile-based system for inheritance tax will be replaced by a residency-based system.

Taxation of non-UK domiciled individuals

From 6 April 2025, the government will:

- Replace the domicile-based system for inheritance tax with a residence-based system. The test for whether non-UK assets are in scope for IHT will be whether an individual has been resident in the UK for at least 10 out of the last 20 tax years immediately preceding the tax year in which the chargeable event arises.
- Implement a four-year foreign income and gains (FIG) regime. New arrivals to the UK will be eligible for 100% relief on FIG in the first four years of UK residency provided they have not been UK tax resident in the 10 years immediately prior to their arrival in the UK.
- Introduce a new temporary repatriation facility (TRF). This will allow individuals previously taxed on the remittance basis to designate amounts derived from pre-April 2025 FIG and pay a reduced tax rate for a period of three tax years, starting from April 2025 onwards. The tax rate applicable will be 12% in 2025/26, 12% in 2026/27 increasing to 15% in 2027/28.
- This TRF will be extended to apply to distributions from overseas trust arrangements. UK resident settlors or individuals who receive a benefit from an offshore structure during the three years from April 2025 can qualify. The benefit must be received during the TRF period and must be capable of being matched to FIG that arose within the settlement before 6 April 2025.
- For capital gains tax purposes, current and past remittance basis users can rebase their personally held foreign assets to 5 April 2017 valuations on a disposal where certain conditions are met.
- Reform of overseas workday relief by removing the need to keep the income offshore, extend the period that employees can benefit from the relief from three to four years and introduce an annual financial limit on the amount claimed. The amount claimed annually will be capped at the lower of £300,000 or 30% of the employee's net employment income.

Capital Gains Tax

- Individuals – from 30 October 2024, the lower rate will be increased from 10% to 18%, with the higher rate being increased from 20% to 24%. This brings the rates in line with the rates for residential property.
- Trustees – the rate of Capital Gains Tax that applies to trustees and personal representatives from 20% to 24% for disposals made on or after 30 October 2024.
- Residential property – the rates of Capital Gains Tax that apply to residential property disposals (18% and 24%) will remain unchanged.
- Private equity – carried interest tax reform to be introduced which will see carried interest taxed within the income tax framework. This is set to be introduced from April 2026. In the meantime, the rate at which carried interest is taxed will go up from the current 28% to 32% from April 2025

Business Asset disposal relief and investors relief

- The lifetime allowance for BADR will remain unchanged at £1 million. From April 2025, the CGT rate increases to 14% going up to 18% in April 2026.
- The lifetime allowance for investors relief has been reduced from £10 million to £1 million. Likewise, the rate applicable will be increased to 14% in April 2025 and 18% in April 2026.

Employee ownership trust

The government is introducing a package of reforms to the taxation of Employee Ownership Trusts and Employee Benefit Trusts. These reforms will prevent opportunities for abuse, ensuring that the regimes remain focused on encouraging employee ownership and rewarding employees. The changes will take effect from 30 October 2024.

Stamp Duty Land Tax

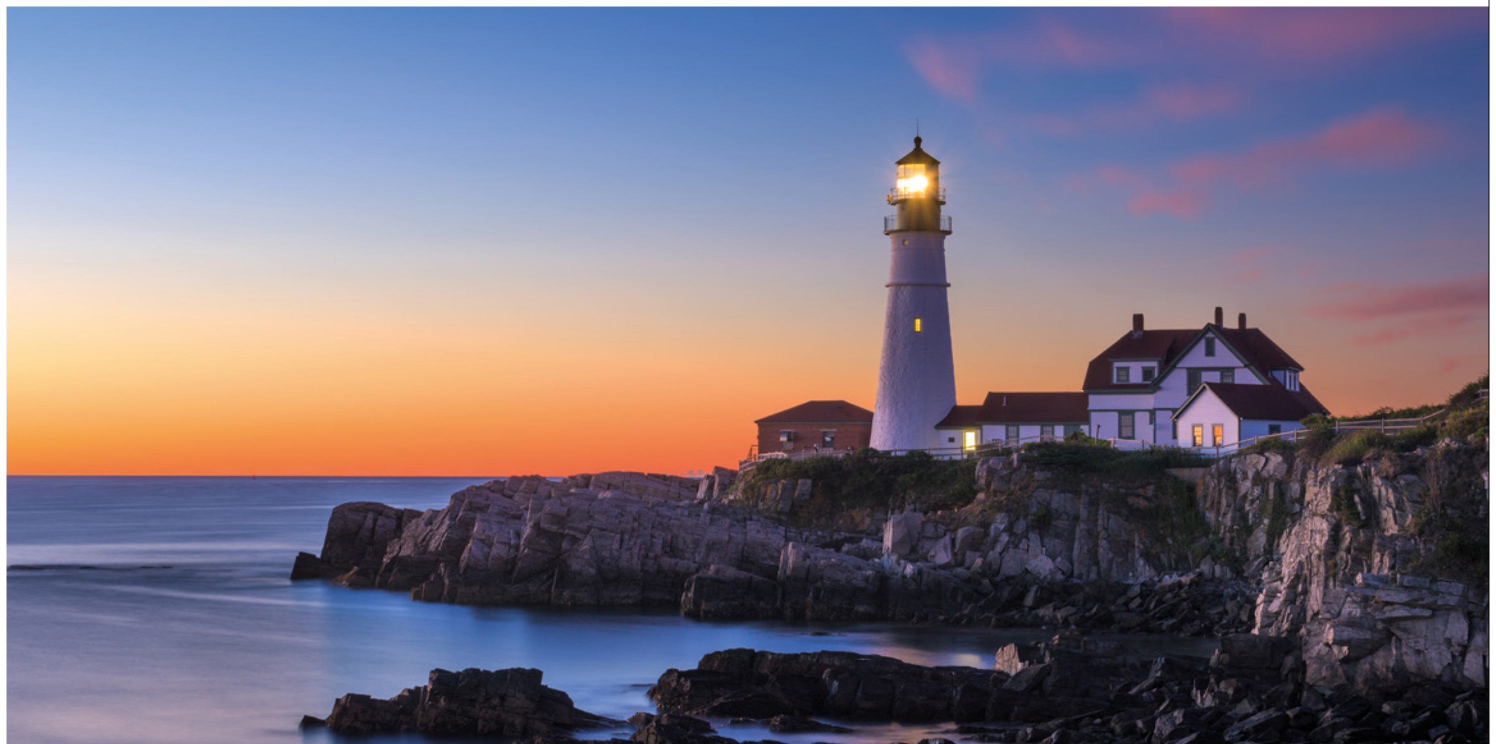
Higher rates for additional dwellings in Stamp Duty Land Tax, buy-to-let properties and companies purchasing residential properties will increase from 3% to 5% from 31 October 2024 i.e. with immediate effect.

Corporation Tax

The Government has committed to capping the main rate of corporation tax at 25% for the duration of this parliament. This represents the lowest rate in the G7.

Conclusion

These changes are intended to bring greater stability to the tax system, allowing businesses and individuals to plan with more confidence and less disruption from government intervention. Framed as part of a 'decade of national renewal,' this budget aims to restore public finances and rebuild essential services. Whether this vision translates into lasting economic stability and growth remains to be seen, and only time will reveal its full impact.



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Media relations

Esther Clark
Phone +44 (0)203 207 8007, esther.clark@lgt.com

LGT Wealth Management
14 Cornhill, London EC3V 3NR
Phone +44(0)20 3207 8000, info-uk@lgt.com

www.lgtwm.com

00283en 0225