Spring Budget 2024: underwhelming or tactical, with room to do more?

7th March 2024

For many, this budget has not gone far enough or been aggressive enough with the tax cuts. But, could this be tactical on the part of the chancellor, giving himself some room for further cuts before the next election?

We will have to wait and see, but below is our brief summary of the key announcements:

British ISA

On the face of it, this is a good idea to get people to invest more into British companies and provide further tax efficient savings at the same time. It will be interesting to see if this proves to be a good thing in the long-term, what stipulations there will be in the allowable investments, and how providers will facilitate it.

More investment into the FTSE 100 doesn’t seem to make as much sense as encouraging investment in the smaller and mid-sized companies in the UK that are more likely to drive economic growth. Risk appetite could become a factor and the devil, no doubt, will be in the detail as the government consults on the idea before releasing more information later in June this year.

It is good news that the government didn’t interfere with the standard £20,000 p.a. investment allowance, although it is a further ISA allowance to add to an already growing list of ISA’s which are beginning to be confusing. ISA simplification has to be the next thing the government looks at.

Pensions

Thankfully, there were no new announcements with respect to pension rules but people need to be ready for the new regime which has introduced two new allowances; the Lump Sum Allowance (LSA) and the Lump Sum and Death Benefit Allowance (LS&DBA).

We have been in touch with people where there have been some very specific planning opportunities presenting themselves before tax year end. We’ve also been working through any other clients who can take steps to try and protect against any further changes to the Lifetime Allowance rules that a change of government might introduce.

Capital Gains Tax (CGT) on residential property

In an attempt to encourage B2L landlords and second home owners to sell properties and give a boost to the property market, a cut to the higher rate of CGT from 28% to 24% will apply from 6th April 2024; gains falling in the basic rate band will still be taxed at 18%.

Importantly, an individual’s main residence will continue to be exempt from CGT as principal private residence relief will continue to apply.

If you have a second property and are thinking of selling it, this is a timely boost.

Furnished holiday lets

Staying on the property theme, there has also been a change to tax relief on furnished holiday lets, bringing them into line with the tax treatment of buy-to-let properties. It will also mean that income from furnished holiday lets will cease to be relevant UK earnings for pension purposes. This is something to look out for if you have furnished holiday lets and are using the income to justify pension contributions.

Reforming child benefit

There was a welcome reduction to the impact of the child benefit trap, with an increase in the level of income to £60,000 before tapering and a widening of the tapering to £1 for every £200 of income. Child benefit will therefore only be fully extinguished when the highest earning individual has income of more than £80,000. For people that are caught by this, pension contributions can still be effective in reducing income and reclaiming the child benefit.

Additionally, the chancellor announced plans for a bigger overhaul to this system to correct the unfairness where currently, two family members earning £49,000 each get to keep the full benefit, whereas a couple where only one person works and earns £60,000 or more, will lose the entire child benefit. This will involve a significant change to the system and is not likely to be in place until 2026. This has to be welcomed as this system has been unfair for many years.

National Insurance

As was previously leaked, the chancellor cut National Insurance for employees by a further 2% down to 8%. This will give a maximum saving of £754 p.a. where earnings are above £37,700.

There were changes to National Insurance for the self employed too with respect to both class 2 and class 4 National Insurance contributions. Class 2 will be abolished for those with annual profits exceeding £6,725. Class 4 contributions will be cut by a further 2%, meaning the main rate will now reduce to 6% from 9%, representing an annual saving of up to £1,131.

It is hoped that by putting more money in people's pockets, there will be a positive knock-on effect for the economy, which is undoubtedly needed.

Changes to the taxation of non- UK domiciles

From 6th April 2025, the remittance basis of taxation for non-UK domiciled individuals will be abolished and will be replaced with a new Foreign Income and Gains (FIG) regime which is determined by residency not domicile.

Effectively, from 6th April 2025, individuals moving to the UK will be exempt from all UK tax on all non-UK profits for four years of UK residency. From year five, they will be taxed on all profits in exactly the same way as all other UK individuals.

It remains to be seen whether this will prove attractive and whether it will encourage wealthy individuals to move to the UK and provide further economic boosts.

CGT exemptions, Dividend Allowances and other income thresholds

The previously announced changes to CGT exemptions and dividend allowances will kick in, meaning it is even more important to be tax efficient in your savings and investments as less is given away by the government. Income thresholds are also remaining static meaning that more and more people will be "dragged" into higher rates of tax.

With the changes to pension rules giving more opportunity for people to make contributions without consequence, pension contributions remain a very useful method to offset some of these reductions to tax allowances and general fiscal drag.

If you think that any of these changes will affect you and you want to discuss the impact, please get in touch today.