

# October 30th 2024 Budget Summary



## **To All our Clients and Friends,**

*Over the last couple of months, I have, like you I suspect, been reading the potential new budget measures being discussed in the media. Finally, the moment has arrived - we have just had the first Labour budget since 2010. Back then the biggest tax rise (approx. £2bn) was on Bankers' Bonuses to help pay for the financial crash – not many people objected to the measure.*

*Today's Budget is truly historic in that it is the first Budget ever by a female Chancellor, but is seeking to raise more tax at the stroke of a pen (£40b) than has probably ever been contemplated before (either in pure £ terms or as a percentage of government revenues), even by the most socialist of Labour governments in the 1970's, and significantly more than in 2010 when the entire banking system was insolvent. Unsurprisingly, the new government is blaming its predecessor for the need to increase taxes significantly, but it is also rightly budgeting £11.8b for victims of the infected blood scandal and £1.8b for Post Office victims.*

*It is true that public services need to be fixed, but the government has placed the vast majority of the cost of fixing public services on the business sector – they have boxed themselves into a corner in their manifesto promise of no increases in income tax, VAT or NI, although on the latter they are now saying they really meant employees NI not employers NI. They introduced the concept of not increasing taxes on working people – but recently the definition of working people seems to be very narrowly defined as people getting a payslip each month and having no other income. Business people, and small business people in particular, seem to be defined as not working people – it's a bit bizarre!*

*Fuel duty will be frozen next year and the existing 5p cut will be maintained for another year too. They have also imposed their long pre-announced VAT on private school fees, and it remains to be seen how many people will be forced out of the private system due to this "straw that breaks the camel's back" approach. They will also introduce rates relief for retail and hospitality with a 40% discount, subject to caps.*

*Having excluded employees from their tax raid, they have been left with three main avenues to raise*

taxes - Capital Gains Tax, Inheritance Tax and Businesses. By far the biggest tax raid is on businesses – which seems at odds with their quest for growth. However Reeves said that the key objectives of this budget are restoring economic stability and increasing investment and that the OBR has published an assessment that forecasts real GDP growth of 1.1% in 2024, 2.0% in 2025 and growth in the following 4 years also.



### Capital Gains Tax (CGT)

On CGT they have not increased it to the rumoured 40-45% rate in line with income tax rates – instead opting for a lower rate of 18% and a higher rate of 24% so that it does not put too many people off selling assets, which would reduce revenue because of taxes being too high. So on this measure at least they are showing some sense and will likely gain more revenue.

On Business Asset Disposal Relief, the CGT rate on the sale of a business currently at 10% for the first £1m will increase in tranches to 18% over the next few years.

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### Inheritance Tax (IHT)

On IHT they have not increased the headline rate of 40% but have substantially reduced the reliefs available to people – especially business people and owners of farmland. It was true that many people avoided inheritance tax on death by sheltering assets in structured products which provided relief from IHT artificially, as well as wealthy people buying up farmland simply to shelter assets from IHT. But by capping the relief at £1m (with a 50% discount above £1m) they are gaining revenues from many modest business people.

Pensions will also now be subject to Inheritance Tax.

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### Corporation Tax

As the Conservatives had already increased Corporation Tax by up to 31.5%, from a rate of 19% to 25%, depending on the level of profits, they have no need to increase Corporation Tax further – the job was done for them just before they got into power. But it is only very recently that businesses have started to pay this rate of tax and it is causing some pain.

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### Employers NI (ERNI)

By far the worst hit to businesses (big and small) is the combined reduction in the ERNI threshold from £9,100 to £5,000 and the increase in the NI rate from 13.8% to 15%. However, Reeves has increased the Employment Allowance to help smaller businesses, increasing it from £5,000 to £10,500 which she says means 865,000 employers won't pay any NI at all next year.

Lowering the threshold to £5,000 will cost larger small businesses £615 for each and every employee they have (there are few businesses who employ part time staff on much less than £9,000 per year – about 12 hours a week). It will also mean that many employers will focus on having full time employees, particularly given the proposed changes to employment law – the saving previously available by having part timers being not worth the administrative burden. This will impact heavily on working mothers, students and older workers (who have semi retired) more than any other sections of the population.

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### Pensions

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On pension contributions they have made no changes whatsoever and have not reduced the 25% tax free lump sum.

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### Other measures announced

- Government borrowing – they are changing how debt is calculated so that they can borrow more for infrastructure projects, but say that they will not borrow to fund day-to-day spending.
- Minimum wage (National Living Wage) increases by 6.7% to £12.21 from April for over-21s, and by 16% for 18 to 20-year-olds from £8.60 to £10. Apprentices will go from £6.40 to £7.55 an hour - good for young people and low earners.
- The Carers' Allowance will increase from £81.90 per week to the equivalent of 16 hours per week at the National Living Wage per week.
- Reeves has set out a 2% productivity savings target for government departments and also announced the appointment of a Covid corruption commissioner.
- The Non-Dom tax regime will be abolished.
- Stamp duty surcharge on second homes increases to 5%.
- Reeves announced a "crackdown on fraud" and tax avoidance and a "Get Britain Working" White Paper to get those unemployed back to work and reduce the strain on the benefits system. However, the level of debt repayments that can be taken from Universal Credit will fall from 25% to 15% of their allowance.
- The government has scrapped a controversial scheme that saw it receive millions from a pension scheme for former miners - this will mean £1.5b will be transferred back into the pension pots of 112,000 former miners.
- The tobacco duty escalator will remain.
- Existing EV incentives will remain from 2028.
- (To loud cheers from the backbenches) draft alcohol duty will be cut.

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