2024 Autumn Budget

BRIEFING NOTE

Allsop Research

A Halloween Budget with more tricks than treats…

The 2024 Autumn Budget delivers a significant increase in public spending, taxation, and borrowing.

Key points include:

- Public spending to increase by about 5% of GDP
- Tax take to reach a historic high of 38% of GDP by 2029-30
- Borrowing to increase by an average of £32.3 billion over the next five years

> *"Against a broadly unchanged economic and fiscal backdrop since March, this Budget delivers a large, sustained increase in spending, taxation, and borrowing.*
>
> *Budget policies increase spending by almost £70 billion (a little over 2 per cent of GDP) a year over the next five years, of which two-thirds goes on current and one-third on capital spending. As a result, the size of the state is forecast to settle at 44 per cent of GDP by the end of the decade, almost 5 percentage points higher than before the pandemic"*

OBR Economic & Fiscal Outlook – October 2024 Economic and fiscal outlook – CP 1169

Impact on Inflation and Interest Rates

The Budget is also expected to have an inflationary effect:

- OBR forecasts the Budget's policies will push up CPI inflation by around 0.5 percentage points at their peak
- The Higher National Minimum Wage expected to add 0.1-0.2 percentage points alone
- OBR expectations of an average CPI rate of 2.6% in 2025 may now be optimistic, given their historically conservative modelling.

While a 0.25% cut is still expected in November, the pre-Budget assumption of a cut every quarter until Q1 2026 is no longer as certain as it was. Markets immediately priced fewer than four quarter-point cuts from the BoE between now and the end of 2025, down from nearly five before the budget.

The content of the Bank of England's deliberations next week will make for a very interesting read, as will the accompanying November Monetary Policy Report and forecast.

Bond markets are still reacting, but the news that Government debt issuance is expected to rise to almost £300bn this year, the second-highest level on record, will make a lasting mark on yields. Short-dated British government bonds reacted to the signs that fewer rate cuts are now likely, with Two-year gilt yields 10 basis points higher on the day at 4.42% and Ten-year yields touching their highest in nearly a year at 4.44%, up 9 bps in response.

> *""Demand and inflation will be higher than expected over the BoE's two-year forecast horizon, and this will now make it harder for the Bank to deviate from its gradualist mantra on rates"*

J.P. Morgan economist Allan Monks.

Macro-economic Performance

The OBR has reduced its medium-term growth forecast compared to the March Budget. However, annual growth of around 1.5% in five years is still anticipated.

The OBR states:

> *"Real household disposable income (RHDI) per pers on, a measure of living standards, is now forecast to grow by an average of just over ½ a per cent a year over the forecast. But the profile is uneven, with strong real wage increases resulting in growth of 1¼ per cent this fiscal year and next before RHDI per person stalls for two years in the middle of the forecast as real wage growth slows and taxes increase"*

OBR Economic & Fiscal Outlook – October 2024 Economic and fiscal outlook – CP 1169

Real Estate Taxation Changes

There was plenty to analyse in the headline measures, but with over 100 pages of new legislation & HMRC guidance accompanying the Budget, unpicking the full details and implications may take weeks and months.

The following represent the most obvious areas of focus for real estate:

Stamp Duty Land Tax (SDLT)

Key changes effective from 31 October 2024:

- Higher rates on additional residential property purchases increase from 3% to 5%
- Single rate of SDLT on residential property purchases over £500,000 by companies increases from 15% to 17%

These changes are intended to discourage the purchase of second homes and buy-to-let properties while encouraging the purchase of family homes.

Transitional rules may apply if contracts are exchanged before 31 October 2024 but completed on or after that date.

Business Rates

The Chancellor has announced several changes to the business rates regime as part of a broader reform aimed at creating a fairer system that supports the 'High Street', encourages investment, and is fit for the 21st century.

Key measures include:

- The small business rates multiplier has been frozen for 2025/2026 at 49.9p, applicable to properties with a rateable value below £51,000.
- Retail, hospitality and leisure sector relief will be reduced from 75% to 40% for 2025/2026, with a cap of £110,000 per business.
- A commitment to implement permanent lower multipliers for retail, hospitality and leisure properties with a rateable value under £500,000 from April 2026.

However, these reductions may be funded by higher multipliers for properties with rateable values above £499,999, including distribution warehouses. This could incentivise the splitting of larger assessments and increase efforts to keep rateable values below the £500,000 threshold in the 2026 List.

The government has hinted at further reforms, including:

- Potential extensions to policies that encourage investment, such as ignoring improvements for the first 12 months.
- A review of empty property relief and its impact on investment, suggesting potential changes to this relief.
- A focus on creating a fairer system by tackling avoidance and evasion.

Some proposed changes to the appeal system have been delayed. The 'Check' stage of correcting an assessment will not be abolished until 2029, potentially easing concerns about the start of the 2026 List. The new obligation for ratepayers to volunteer information or face penalties will begin rollout in 2026, but access to Valuation Office Agency (VOA) valuation evidence data has been delayed until 2029.

The government is inviting stakeholders to participate in discussions about these reforms. Interested parties have until 15 November 2024 to contribute their views.

Key takeaways from the Budget include:

- Small retailers may face increased rent as landlords seek to capitalise on the more favourable rates environment.
- Owners of empty properties should prepare for potential increases in void costs.
- Occupiers negotiating new rents around £500,000 should strive to keep the rateable value below this threshold to avoid potentially higher rates.

These changes represent significant, ongoing shifts in UK business rates policy, with potential far-reaching implications for businesses across various sectors both now, and in months & years to come.

✉ **To discuss these issues in more detail, contact our Business Rates specialists:** John Banbury
Robert Sherwill

‘Wealth’ Taxation Changes

Analysis of the Budget by tax advisors, BDO, highlighted several key changes regarding CGT & IHT liability:

https://www.bdo.co.uk/en-gb/microsites/budget-autumn-budget-2024

Capital Gains Tax (CGT)

Changes effective from 30 October 2024:

- Main rates increase to 18% for standard rate taxpayers and 24% for higher rate taxpayers, matching the Residential rates.
- Business Asset Disposal Relief and Investors' Relief rates to increase to 14% from 6 April 2025 and 18% from 6 April 2026

- The lifetime limit for Business Asset Disposal Relief remains at £1,000,000, while the Investors' Relief lifetime limit has been reduced from £10,000,000 to £1,000,000.

Inheritance Tax (IHT)

Key changes as from April 2026:

- IHT threshold freeze extended to April 2030
- Agricultural and business relief capped at £1 million at 100%, with 50% relief on amounts over £1 million
- IHT exemption on pensions effectively abolished from 6 April 2027
- The £1 million cap on agricultural and business relief will effectively be a 'lifetime allowance', covering the estate on death, failed gifts in the 7 years before death, and lifetime transfers into trust.

BDO noted that the IHT changes for pensions could result in an overall tax of up to 85% on inherited pension funds in some cases.

Taxing ‘carried interest’

Something of niche area, carried interest (often known simply as “carry’) is the main way that fund managers get paid. Carried interest is a share of the profits from an investment made in a fund or SPV paid to the fund manager when portfolio investments are sold at a profit.

The Budget announcements contained a number of changes to the taxation of carried interest:

- In the short term, the tax rate on carried interest will increase from 18% &//or 28% to 32% from 6 April 2025.

However, this is just the first step in a wider series of reforms which will be implemented in April 2026.

- The Government plans to introduce a revised tax regime for carried interest which sits wholly within the income tax framework, with all carried interest treated as trading profits and subject to income tax and Class 4 NICs.
- The amount of ‘qualifying’ carried interest subject to income tax and Class 4 NIC will be adjusted by applying a 72.5% multiplier, giving an effective tax rate of more than 34%.

Non-Domiciled Taxation

From 6 April 2025:

- Current non-dom regime replaced with a four-year foreign income and gains (FIG) regime
- IHT to be charged on worldwide assets for individuals’ resident in the UK for 10 out of the last 20 tax years

BDO provides more detail on the new FIG regime, including:

- Available to individuals who have been non-UK resident for at least the previous ten tax years
- Allows tax-free remittance of foreign income and gains during the four-year period
- Introduces a Temporary Repatriation Facility (TRF) for existing non-doms with unremitted foreign income and gains

BDO also note that individuals will remain within the scope of IHT for up to ten years after leaving the UK, depending on their length of UK residence.

Stephenson Harwood Private Wealth specialist Jeremy Quarmby went further, with the small print of the Budget dashing his initial optimism. Despite earlier assurances of a pro-business stance and evidence-based policymaking, what followed has raised a series of concerns among fellow Wealth Advisors:

1) *Non-Dom Status Changes:*

- The Office for Budget Responsibility (OBR) has increased its estimate of non-doms expected to leave the UK from 20% to 25%.
- This revision is partly due to the absence of anticipated IHT trust protections.

2) *Potential Economic Impact:*

- Non-doms and deemed doms currently contribute ~£12.4bn in direct taxes annually.
- Losing 25% of them could result in a loss of at least £3.1 billion in tax revenue.
- If the wealthiest 25% leave, the impact could exceed 50% of the current direct tax revenue from this group.

3) *IHT Changes to Pensions:*

- Pension pots will now be subject to IHT, regardless of the age at death.
- Pension trustees must calculate and pay IHT within 6 months of death.
- For deaths after age 75, beneficiaries will also face income tax on inherited pensions.

The decision to implement these changes, despite the OBR's impact projections, perhaps suggests a potential shift towards policymaking driven more by ideology than pragmatism.

The risk of losing a substantial portion of the £12.4 billion in direct taxes from non-doms for a comparatively small gain in IHT revenue (estimated at £100-200 million) raises questions about the long-term efficacy of this fiscal strategy and its direct impact on the upper end of the residential real estate market, as well as knock-on effects to the economy through wealth-dependant businesses & services.

Coupled with the new carried interest rules hitting high-earning fund managers, a worrying sense that '*wealth is not wanted'* could gather momentum.

What the impact of that reputation would be on the economy, and real estate investment markets, will only become clear in the years to come. But it might be scarier than we would like.

Bringing property & people together

- Asset Management
- Auctions
- Build to Rent
- Business Rates
- Development Agency & Advisory
- Investment Sales & Acquisition
- Lease Advisory
- Letting & Management
- Office Leasing (Central London)
- Receivership
- Student Housing
- Valuation

allsop