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Insights

SPRING BUDGET 2024 – WILL WE SEE MATERIAL REFORM?

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SUMMARY

Budgets are normally stories of two halves. The first half contains the headline-grabbing tax policy reforms that can be encapsulated in a snappy soundbite in the Budget speech, such as “Chancellor scraps the non-dom regime”. The second half typically contains more detailed reform packages, which may involve a significant overhaul of a regime past its sell by date, a complex new initiative or a tightening of a measure that doesn’t work as well as it could. The latter could be viewed as the “business as usual” reform of the tax system, including to make it simpler and to make the UK more competitive.

If the Autumn Statement is anything to go by, and particularly bearing in mind the timing of the next General Election, we can expect the Budget on 6 March to be disproportionately focused towards the first half in the hope that carefully considered announcements will shift the dial on voting sentiment. We expect the Budget to get very political and wonder whether 6 March may see further missed opportunities to reform the tax system.

POSSIBLE POLITICAL ANNOUNCEMENTS

REFORM TO THE RULES FOR NON-DOMICILED RESIDENTS (THE “NON-DOM” RULES)

Speculation is emerging that the Chancellor may take a leaf out of Labour’s book and ‘put its towel down’ on the reform of the non-dom rules before Labour has the chance to share its more detailed proposals on this. Hunt may be tempted as he may see this measure as having the twin benefit of appealing to some voters and raising much needed revenue that could fund tax cuts that may be even more popular with voters; potentially a win-win for the Chancellor. However, reform of the non-dom rules is complex. How do you cut back on the existing non-dom rules, but still have a regime fit for purpose to incentivise rich people from overseas to want to come to the UK and contribute to the UK economy? It will be interesting to see, if this measure is announced, how detailed the Chancellor’s thinking is.

INCOME TAX CUTS OR NATIONAL INSURANCE CUTS

There has been considerable speculation over recent weeks that there could be a cut of up to 2% in either income tax or national insurance. However, it looks more likely that if either of them is cut it will be national insurance (as at the Autumn Statement) and with a 1% cut as this would be the most affordable option. It also fits better into the Government's narrative of encouraging work. However, whether this cut would have the impact sought at the ballot box is another matter. There is growing evidence that that some voters (let alone the IMF) would prefer to prioritise public sector spending rather than benefit from a tax cut, so there are some difficult calls to make here if funds are tight.

STAMP DUTY CUTS

Furthermore, the Institute for Fiscal Studies has called for stamp duty cuts ahead of a further cut to national insurance (or a reduction in income tax) as stamp duty cuts are seen to be more pro-growth.

Putting aside rate cuts (which seem less likely), the Chancellor could raise the lowest threshold at which stamp duty is paid on properties or simply make permanent the current lowest threshold which was due to fall again after 31 March 2025 (including the threshold of £425,000 that applies to first-time buyers).

In addition, there is a slew of focused reforms that could be considered to incentivise behaviour. The Chancellor could respond to calls for a relief for downsizers to encourage them to release larger properties into the market and help housing liquidity. Alternatively, there could be a rebate for buyers who improve the energy efficiency of a property in the first two years after purchase. This would be welcomed by buyers who look to renovate soon after moving in and could encourage much needed retrofitting.

Other voices are calling for abolition of stamp duty on share transfers to support the UK's equity markets, which have had some negative press recently. Such a cut is unlikely to be as popular with voters as alternative reforms being discussed but could materially assist the competitiveness of UK business.

FOREIGN OWNERSHIP LEVY

It will be interesting to see if Michael Gove's reported idea of imposing a foreign ownership levy on foreign owners of second homes in the UK is adopted. This sounds like an annual levy and would, no doubt, be in addition to the additional 2% stamp duty cost that non-UK residents incur on buying UK residential property. He is concerned about the distortive affect that such investment bears on the UK residential property market, including on first time buyers.

FIRST TIME BUYERS

This well deserving group may receive a lifeline in the Budget, particularly after Michael Gove's additional reported comments that democracy is at stake if they cannot buy homes. Clearly tax incentives alone are not enough, so it will be interesting to see what (if at all) is mentioned in addition to a potential stamp duty saving for them and a possible increase in the maximum property price of £450,000 for the Lifetime ISA.

OTHER ISA REFORM

We may hear more about ISA reform next week. Another possible change could be in response to calls from Industry for a 'British ISA', which were made ahead of the Autumn Statement. The lobbying was for a change in the rules to encourage investment in UK-listed companies over non-UK listed companies. This could be another area where those in equity capital markets keenly follow the Budget.

INHERITANCE TAX REFORM

Although this is reported to be an unpopular tax, it is unlikely there will be significant reform to inheritance tax at the Budget. Too few people are impacted by the tax in practice, a reported 4% of estates. Accordingly, this close to an election the Chancellor may find it hard to justify earmarking much sought after fiscal headroom to this cause, when it could service more popular tax cuts.

VAT

It is hoped that this is the year that the Government finally responds to calls to increase the VAT registration threshold. It has been languishing at £85,000 since 2017.

TAX COMPLIANCE

No Budget is complete without a mention of tax compliance. As the Chancellor looks to increase tax revenue, one likely source will be yield from increased tax compliance activity. We can expect to hear the usual rhetoric of past Budgets i.e. that the government will take a zero-tolerance approach to tax evasion and tax avoidance, coupled with additional investment in HMRC to investigate and tackle all forms of tax non-compliance. Increased funding and resource for HMRC will be vital to accelerate its investigation work, which has often been hampered or prolonged by a lack of resource impacting on its ability to use its new powers to the full extent. However, it will be important that HMRC does not use any such investment inappropriately to target large businesses and other taxpayers which, although their tax affairs may be very complex, have not done anything wrong.

BUSINESS AS USUAL REFORM

As mentioned above, we are not expecting this Budget to be the time for the Chancellor to make significant inroads on the Treasury's in tray of reform proposals.

However, it is hoped that the Chancellor responds to its recent consultation into the reserved investor fund. This fund featured as part of the Government's initiative to review the UK funds industry and make it more competitive. The new fund vehicle would be a tax transparent unauthorised vehicle and would provide an alternative option to a foreign equivalent for certain use cases. It would be a shame if the opportunity is not taken to take this initiative forward after months of consulting with industry on the vehicle.

Responses to some consultations in that in tray are long overdue, including on measures that could assist in the competitiveness of the UK. It is hoped that notwithstanding the election, the Chancellor bites the bullet and makes progress on:

- assuming the duty remains (see comment above), modernisation of stamp duty on shares. This reform was intended to bring stamp duty on shares into the twenty first century and close down inefficiencies. Just to achieve same day stamping would be a bonus.
- corporate re-domiciliation, which would make it easier for foreign-incorporated companies to relocate to the UK.

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