Disputes Outlook 2025
Tax disputes

For what comes next
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Disputes are inevitable. Spotting future risks can help you prepare for a more effective resolution. Once you are aware, you can prepare - our team is here for what comes next.

LIVE ISSUES

EMERGING TRENDS

KEY CONTACT

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Pre-Budget activity

Following Rachel Reeves' July 2024 announcement that the first Labour Government Budget would be on 30 October, and following speculation of an increase to capital gains tax (CGT) rates, business owners and individuals with assets standing at a gain sought to sell or make disposals to take advantage of the pre-Budget rates, with many entering into an unconditional contract splitting exchange and completion.

The Government continued with changes announced under the Conservatives: (1) the introduction of the BEPS (Base Erosion and Profit Shifting) 2.0 Pillar Two rules (Pillar Two); and (2) the change to the basis of taxation for non-domiciled individuals from the remittance basis to a residence basis.

BEPs - Pillar Two aims to ensure that multi-national enterprises with global revenues above €750m pay a minimum effective rate of tax of 15% within each jurisdiction in which they operate imposing top-up tax charges on the ultimate parent or sibling entity. Countries can choose to implement a Qualified Domestic Minimum Top-up Tax preserving taxing rights rather than the relevant profits being taxed in the parent's or sibling's jurisdiction. The UK introduced measures within Finance (No.2) Act 2023 which came into effect for accounting periods beginning on or after 31 December 2023, with draft legislation published to implement all of Pillar Two but with a commencement date to be announced.

→ Companies with cross border groups should prepare now for these major changes.

Resident basis tax changes – Legislation to abolish the remittance basis for those who have up until now been within the "non-dom" regime will be introduced, effective from 6 April 2025.

EMERGING TRENDS

Changes to Capital Gains Tax

HMRC will likely look closely at contracts with a split exchange and completion that straddles 30 October 2024. These contracts may be taxed at the increased rates if anti-forestalling measures (Measures) apply.

- Individuals who have made disposals will need to carefully consider their reporting including if any claim can be made to take them outside of the Measures.
- Business sales and asset disposals are expected to steadily continue despite the increase in the lower and higher main rates of CGT and the phased increase in rates for Business Asset Disposal Relief.

BEPS

Companies with cross border groups should be preparing now for compliance with Pillar Two.

- Groups with the requisite global revenue will need to be compliant, action may be required if data points for the complex calculations are not currently tracked within group.
- Organisations close to the threshold will need to actively monitor their position.
- Increased transparency requires simultaneous and robust record keeping.

Resident basis tax changes

Former “non-doms” will likely reconsider if the UK is the most tax appropriate jurisdiction. Unless they are in their first four years in the UK, they will pay UK tax on their worldwide income and gains. The use of offshore trusts used to shelter assets will end. Overseas Work Day Relief is being reformed. Whether there will be a mass exodus of talent remains to be seen.

→ Individuals and their employers should now be considering what the changes will mean for them, especially those with tax equalisation agreements. There is a limited window in which to plan.

Increasing resources at HMRC

The Chancellor confirmed in the Budget that HMRC has investment to recruit an additional 5,000 compliance staff and an additional 1,800 debt management staff. These changes will mean an increase in compliance checks and an increased focus on offshore tax compliance.

Disputes with HMRC will be more commonplace and with HMRC choosing to litigate only appeals that in their view they can win, tax case law may become more skewed in HMRC’s favour.

→ It is crucial for taxpayers to have their tax affairs in order and properly documented so that any dispute with HMRC can be carefully managed from the outset.

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