

Autumn Budget: Headline and ‘small print’ changes for the private sector and its investors

After four months of growing concerns, waning confidence and no shortage of pre-emptive tax planning (some ultimately unnecessary), Labour finally delivered its first Budget since in over 14 years last Wednesday. While there may have been no genuine ‘shocks’, the



package of fiscal changes to deliver on a £40bn tax rise and £140bn of extra borrowing over the next five years certainly added fresh demands on an already burdened private sector, investors and savers. Some tax changes are immediate, others will be phased in over the next few years or remain subject to more detailed consultation on implementation.

Some areas were left untouched by Rachel Reeves (including the EIS / VCT schemes), although may yet indirectly be affected by changes elsewhere in the system and adjusted business and individual behaviour. We’ve considered some of the key changes most relevant to our clients and some potential implications and outcomes which may arise.

Increase in employer’s national insurance contributions

The big-ticket change in the Budget was undoubtedly the hike in employer’s national insurance contributions (“**NIC**”) from 13.8% to 15%, starting from next April, together with a reduction in the threshold at which employers begin paying NIC, from £9,100 to £5,000 (bringing more employees within the NIC regime).

The two measures combined intend to raise over half of the overall tax take targeted by Rachel Reeves, and the Government was at pains to present this move as a tax on business, rather than on ‘working people’, a new stratum of the population who Labour promised to protect in its pre-election manifesto.

To mitigate the impact on small businesses, the Employment Allowance (a benefit that allows eligible businesses to reduce their annual national insurance liability) will however be increased from £5,000 to £10,500 per year and the £100,000 eligibility cap removed, meaning

that eligibility for the allowance will no longer be restricted only to employers with a NIC liability of £100,000 or less.

The consequential increase in the cost of employing workers will likely be passed on to workers and consumers through lower wages and higher prices respectively. There may also be a consequential increase in the use of self-employed contractors in certain industries (although concerns have been raised on behalf of those freelance workers who use (and are effectively employed by) umbrella companies to oversee their payroll administration since these companies will generally not be exempted from the rise in NIC and thus may also seek to pass on the new costs).

Changes to inheritance tax regime (Pensions and BPR/APR)

Alongside the uplift in employer's NIC, the other headline policy changes centred on the inheritance tax regime ("IHT").

Unused defined contribution pensions (and most death benefits) which have previously not been considered part of taxable estates on death, and therefore not subject to IHT, will now be brought within HMRC's net from April 2027, a significant blow for those who have aggressively saved into their SIPP to reduce their estate's ultimate IHT bill. The mechanics for how this will work in practice will be subject to consultation.

Separately, the Government stated its intention to significantly reduce the amount of business property relief ("**BPR**") and agricultural property relief ("**APR**") on qualifying property from April 2026, which will impact IHT planning for business and agricultural assets. The 100% rate of relief for unlisted shares in a trading company will be restricted so that it will apply only to the first £1mn of value. The value of qualifying business property in excess of the £1mn cap will then attract only 50% BPR, resulting in an effective IHT rate of 20% (i.e., half the standard rate).

Qualifying AIM shareholdings (AIM shares being treated as 'unlisted' shares and so eligible for BPR) will also see attached BPR cut to 50%, but without the benefit of the £1mn allowance mentioned above.

In the context of family businesses, the reduction in BPR relief may encourage more lifetime succession planning and some increased M&A activity. The uplift to market value in the CGT base cost of chargeable assets owned by the deceased can make families reluctant to implement succession planning, but this may change if IHT may be payable at 20% on shares in the family company worth more than £1mn (particularly if a taxable dividend is required to pay the IHT charge!).

There will also be more estates where formal share valuations will be required, noting here the tension between the IHT and the CGT regimes. HMRC [has a specialist team](#) which deals with share and asset valuations, although will it be adequately and properly resourced to deal with the increased and sophisticated nature of the workload?

Ultimately, this is a less drastic change to BPR than had been feared (although the corresponding change to APR was not anticipated and has been fiercely and rightly criticised by the farming community in the past few days). BPR/IHT funds will continue to retain a role in IHT planning and providing access to unlisted securities for investors' managed portfolios (alongside EIS funds), so long as last week's changes are not a stepping stone to a full removal of IHT relief by the Government in the future.

Increase in capital gains tax rates

The increase in capital gains tax ("**CGT**") rates was considerably lower than had been widely predicted, from 10% to 18% for basic-rate taxpayers and from 20% to 24% for higher-rate taxpayers.

With the exceptions of the rate applicable with business asset disposal relief ("**BADR**") and the rate applicable to carried interest (see further below), the increase took effect immediately – making all the (pre-) midnight oil burned on Tuesday 29 October worth expending!

The annual capital gains exemption remains at £3,000 (having already been reduced from £6,000 with effect from 6 April 2024).

Reduction of Business Asset Disposal Relief ("BADR**")**

BADR was retained, although the rate applicable for a disposal to which BADR applies will become less generous, increasing to 14% for disposals made from 6 April 2025 and then to 18% for disposals made from 6 April 2026. BADR was once worth £1mn in potential CGT savings. From April 2026, it will be worth a maximum of £60,000.

We may therefore see increased M&A activity in the SME sector with SME owners seeking to realise value before the rate soon increases. Individual sellers may also be more reluctant to roll over sale consideration into shares or loan notes since, even if they were to continue to qualify for BADR (which would not generally be the case), they could be subject to the higher rates. While an election to disapply rollover can be made where BADR would otherwise be available, anti-forestalling provisions and/or the personal financial circumstances of the seller may impact on whether this is a feasible option.

Investor's relief – lifetime allowance reduced

The lifetime allowance limit for Investors' Relief (a reduced CGT rate of 10% on qualifying disposals) will be reduced from £10mn to £1mn for all qualifying disposals made after the date of the Budget, matching the lifetime limit for Business Asset Disposal Relief. The reduced CGT rate will also increase in line with the BADR rate.

Increase in carried interest tax rate

Until April 2026, the current carried interest regime applicable to certain private equity and venture capital executives will continue (i.e. subject to CGT), but with the headline rate switching from the current rate of 28% to 32% for the tax year 2025/2026 (which corresponds with the increase in the higher rate of standard capital gains tax mentioned above).

From April 2026 however, carried interest is to be brought within the income tax regime with all carried interest being treated as the profits of a trade (subject to income tax and class 4 NICs).

'Qualifying' carried interest will then be taxed at a special income tax rate which is expected to be effectively 34.075%. So, what will be "*qualifying*" carried interest? It will need to fall outside the current "income based carried interest regime" ("ICBI") under which carried interest returns are already taxed as income and at full income tax rates, if specific minimum investment holding periods are not satisfied. However, a final decision on the additional conditions to be satisfied has not yet been made and the Government is seeking views on the options via a consultation period – specifically a minimum co-invest requirement of the fund manager (there is no indication as to what an appropriate minimum level of co-investment would be) and/or a minimum holding period between the initial award of carried interest and payment(s) received by executives.

The Government has indicated a preference for a minimum carry holding period as being the more straightforward to implement. In this respect, it has observed that, in the responses to an [initial consultation](#), the average period before a manager receives carried interest payment is seven years, but whether this indicates the direction of travel is still unclear.

Any such new holding or co-invest requirement will also be incorporated into the IBCI regime and the IBCI rules will be further amended to remove the exclusion for employment-related securities: specifically, to remove "*arbitrary distinctions between different asset managers based solely on their corporate structure, as well as providing a route for fund managers to effectively 'opt out' of the rules by becoming employees*".

Given that the conditions or requirements for the new regime remain unknown and are still subject to consultation, a great deal of uncertainty remains. It is not possible for any fund or fund manager looking to establish a new carry arrangement for their managers to have any

confidence that it will qualify for the new regime. Moreover, it is clear that the Government intends for the new regime to apply to all existing carried interest arrangements, without any transitional or saving provisions. So, existing carry holders still do not know how they will be taxed on their returns post April 2026 and/or whether there may be steps that can be taken to ensure that their carry does qualify for the new regime.

[The new consultation](#) will run until 31 January 2025. The British Private Equity & Venture Capital Association has confirmed that it will continue to “*work with the Government as it consults on implementing these changes to ensure that any risks of reducing investment are mitigated*”.

Importance of EIS / VCT schemes restated

Both Rachel Reeves (at the despatch box) and Keir Starmer ([writing in the Financial Times over the weekend](#)) specifically praised the EIS scheme and its “*crucial start-up reliefs*” and confirmed that “*the Government is committed to creating a positive environment for entrepreneurship and will work with leading entrepreneurs and venture capital firms on how policy supports that, including the role of the existing tax schemes*”.

The EIS / VCT schemes were already known to have been extended in their entirety until at least 2035 since August (following the European Commission’s approval under still prevailing EU State Aid rules) and the Budget made no changes to existing reliefs available.

Corporate tax unchanged

The Government has published a “[Corporate Tax Roadmap](#)” with the stated aim of providing “*stability and predictability*”. It essentially confirms that nothing much is changing, in particular: the headline rate of corporation tax is capped at 25%, core elements of the capital allowances regime are maintained, specifically full expensing and the £1m Annual Investment Allowance and tax reliefs such as R&D Reliefs and the Patent Box remain at the same rates. The substantial shareholding exemption and dividend exemption also remain in place, supporting the attraction of the UK as a location for a holding company.

Several consultations are to be launched, including a second-round consultation on reforms to the UK’s rules on transfer pricing (including the potential removal of the UK-to -UK transfer pricing rules and bringing medium sized businesses into transfer pricing), permanent establishments, and Diverted Profits Tax.

So, in terms of corporation tax, this Budget was relatively uneventful. However, other tax changes relevant to businesses already mentioned, in particular the increase in employer NICs will have a significant impact on the cost of doing business in the UK.

ISAs intact

Individual savings accounts (and JISAs, LISA) contribution limits have all been frozen at their current levels of £20,000, £9,000 and £4,000 respectively until April 2030.

The plans for a British ISA briefly introduced by the Conservatives have been shelved.

Pensions – Lump sum allowance and higher rate reliefs unchanged

Pension allowances and the tax-free lump sum, both widely suggested in the lead up to the Budget as potential victims to change, have been left untouched for now.

Indications in the media however were that due to the extended uncertainty created in the lead-up to the Budget, many individuals chose to draw down on some or all their tax-free lump sum early as a protective measure, only to discover that reaction was unwarranted. Should Labour have perhaps sensibly forestalled such activity by announcing sooner it had no intention to make changes in this area?

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