



ROSEWOOD
WEALTH MANAGEMENT

Budget Breakdown

October 2024



The October Budget has been highly anticipated since Labour's general election victory in July, marking the first Labour Budget since 2010 after over a decade of Conservative leadership.

Whilst Keir Starmer's premiership had a turbulent start, the first real challenge his government faced was delivering this initial Budget. Rachel Reeves previously hinted at how "painful" it might be, given the claimed large gap in public finances left by the previous Conservative administration. The most straightforward approach to addressing this shortfall involves widespread tax changes. Traditionally, the beginning of a new parliament is often the time for a party to introduce substantial changes to tax policies.

Labour has inherited challenging fiscal conditions: high public debt, pressure on public services, and existing tax demands on citizens. Given these factors, it was evident early in Labour's tenure that both spending cuts and tax increases would be necessary to address some of the deeper-rooted issues the new administration faces.

Prior to the Budget, both Reeves and Starmer ruled out potential hikes to headline rates of income tax, employee NICs, and VAT, set out as protecting working people.

Whilst this Budget may seem rather aggressive, it is far from unusual; in every election since 1992 (except for 2017), a tax rise has followed shortly after.* However, earlier this week, Starmer raised some concerns by stating that he could not guarantee there wouldn't be further tax increases after the Budget, emphasising that "fixing the foundations" of the country remains his priority. So, while the Budget has held back on headline taxes, rises in these areas may not be too far off.

To support conversations with clients following such an impactful Budget, we have prepared an outline of the main changes, designed to raise £40 billion in additional for additional spending.



*BBC, 2024.

Personal Taxes and the Budget

Tax Thresholds

- Personal tax thresholds, initially frozen under Conservative leadership until 2028, have been maintained by Labour, meaning fiscal drag will continue as planned.
- From 2028/2029, thresholds are expected to increase in line with inflation.

Minimum Wage

- National Living Wage will increase by 6.7% to £12.21 per hour starting next April.
- Minimum wage for 18-20-year-olds will rise by 16.3% to £10 per hour.

Non-Domiciled Status

- Labour will abolish the non-domiciled tax system from April 2025.
- Conservatives previously scrapped the non-domiciled special status in their Budget, but Labour has now further amended the rules, removing the option for non-domiciles to move funds offshore ahead of the full change in April 2025.

Capital Gains Tax (CGT)

- Capital Gains Tax (CGT) rates have increased to 18% for basic rate taxpayers and 24% for higher rate taxpayers.
- CGT rates on residential property will remain at 18% and 24%.
- Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) schemes have been extended to 2035.
- Primary residences will continue to be exempt from CGT.
- CGT on carried interest will rise to 32% from 2025, specifically targeting the fund management industry.

Inheritance Tax (IHT)

- The Inheritance Tax (IHT) nil rate band remains frozen at £325,000 for individuals, while the residence nil rate band remains at £175,000 for estates up to £2 million. Both thresholds are frozen until 2030.
- From April 2026, the first £1 million of combined business and agricultural assets will continue to attract no inheritance tax, but for assets over £1 million, inheritance tax will apply with 50% relief, at an effective rate of 20%.
- A 50% relief now applies in all circumstances on inheritance tax for shares on the alternative investment market, and other similar markets, setting the effective rate of tax at 20%.

Tax on Pensions

- Labour has not reintroduced the lifetime allowance on pension pots.
- Labour has retained the 25% tax-free lump sum for individuals drawing from their pensions.
- Starting in 2027, Labour will introduce Inheritance Tax (IHT) on inherited pensions, meaning they will form part of the deceased's estate.
- Labour has maintained the triple lock system on the state pension.

Stamp Duty Land Tax (SDLT)

- Stamp Duty Land Tax (SDLT) relief threshold for first-time buyers will be lowered to £300,000. First-time buyers purchasing a property will now pay SDLT from April 2025 at a rate of 5% on properties priced above £300,000 and below £500,000.
- For first-time buyers purchasing a property priced above £500,000, the standard SDLT rates for 2025 will apply.
- Labour has increased the SDLT surcharge for second and additional properties from 3% to 5%, effective from 31st October 2024.

Business Taxes and the Budget

Business Rates

- The current 75% discount on business rates, set to expire in April 2025, will be replaced by a 40% discount, capped at a maximum of £110,000.
- Headline rates of corporation tax will be capped at 25% for the duration of this Parliament.

Employer NICs

- Employers' NICs will increase from the previous rate of 13.8% to 15% starting in April 2025.
- The secondary threshold at which employers must pay NICs will be reduced to £5,000 from £9,100.
- The Employment Allowance has been increased to £10,500.

Duties and the Budget

Alcohol

- Alcohol duty rates on non-draught products will increase in line with RPI starting in February next year.
- Duties on draught alcohol will be reduced by 1.7%.

Tobacco

- Tobacco duties will increase in line with RPI plus an additional 2%.
- This increase will also apply to vaping products starting in 2026.

Fuel

- Labour has frozen fuel duties for this Budget and has extended the current 5p cut for another year.

Air Passenger Duty

- Economy Flights: This duty will increase by £2.
- Private Jets: The duty for private jets will rise by 50%, reaching £450 per passenger.

VAT on Private School Fees

- Labour has followed through on its pledge to remove VAT and business rates exemptions from private schools, effective January 2025.

What Happens Next?

There are typically two main phases in any Budget process before it becomes law. First, Parliament conducts a series of votes and debates on the proposed changes to taxation. Following this, the Budget must be formalised through a finance bill, which solidifies the changes to the tax regime.

While a government could theoretically be defeated on a specific Budget proposal, this is highly unlikely now given Labour's considerable majority. Some of the main initiatives will likely take effect at the beginning of the next tax year, while others may be implemented immediately.