



BUSINESS NEWSLETTER

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July 2024

What businesses and individuals can expect from the Labour Government

After an intensive six-week campaign, the Labour party has been elected to Government with a significant majority. This article explores what businesses & individuals can expect to see on tax policy from the new Chancellor of the Exchequer, Rachel Reeves.

Until Reeves delivers her first Budget (the date of which we expect to be announced before summer recess), the Labour manifesto is currently the most reliable indicator of policy under the new Government. Reeves reiterated in her maiden speech as Chancellor on 8 July 2024 that she would be sticking to her manifesto commitments.

This was followed up with a Ministerial statement on Labour's 'spending inheritance' on 29 July 2024, as a precursor to an Autumn budget. In the statement, the Chancellor set out an inherited projected overspend of £22million from the Conservative party. This was strongly disputed by the Conservative party but, regardless, lays the foundation for spending cuts and probable tax rises.

The manifesto, however, was light on detail on tax and so in this article we consider previous statements from Labour that may provide insight into the future direction of travel beyond manifesto statements.

Continuity in key areas of business tax

Overall, the key message from Labour's manifesto was that there were going to be few radical changes for business tax. The manifesto committed to maintaining existing key components of the business tax system. It committed to cap the corporation tax rate at the current level of 25 percent for the course of the next Parliament, although it indicated that the rate might reduce if tax changes in other countries posed a risk to UK competitiveness.

The manifesto states that Labour will retain permanent full expensing for capital investment. The document was silent on extending full expensing to leased assets, however Labour has previously said that it would consider the outcome of the Conservative Government's technical consultation in this area. The manifesto stated that Labour will retain the Annual Investment Allowance (AIA) for small business.

Although it did not feature in the final manifesto, it is worth noting that in early 2024 Labour said it would maintain the research and development (R&D) tax credit regime. It has also previously said that it would maintain capital allowances at least at their current level of generosity.

National Insurance Contributions

National Insurance became a focal point in the General Election campaign, with the Conservatives pledging to build on their recent cuts in the rates of Employee and Self-Employed National Insurance Contributions (NIC).

Labour rejected cutting or abolishing NIC; instead, it included a simple manifesto statement saying it would not increase National Insurance. Given Labour's consistent messaging that it thinks taxes on working people are too high and it wants to lower them when fiscal conditions allow, we expect this pledge to apply to Self-Employed and Employee NIC. There is some debate around whether the commitment includes Employer NIC. In the absence of further statements from Labour to the contrary – and given the party's focus on growing the economy and productivity - it remains the working assumption that the pledge covers all NIC. However, employers will be keenly watching for announcements in this area.

Fiscal events, Tax Administration and HMRC

Large businesses should take note of the manifesto pledge to tackle the tax gap by modernising HMRC, investing in more HMRC staff focused on compliance, and changing the law to tackle tax avoidance. Although HMRC's official tax gap

reports regularly show that large businesses are not a major contributor to the tax gap, the manifesto states that there will be particular focus on tax avoidance by large businesses so that taxpayer group may need to prepare themselves for heightened scrutiny from HMRC in the coming years.

National Insurance, VAT and income tax

The key offer to individuals during the General Election campaign was the pledge not to increase National Insurance, VAT and the basic, higher or additional rates of income tax. The manifesto reiterates these pledges and states that Labour will ensure taxes on working people are kept as low as possible. Note that income tax is devolved in Wales and Scotland. It should be noted that Labour has committed to not raising the *rates* of income tax; this could indicate potential changes to banding thresholds or even the personal allowance.

Even if the personal allowance and banding thresholds remain the same, the effect of inflation means that their value is worth less. This is known as 'fiscal drag'; in other words, keeping allowances at the same level is effectively increasing an individual's tax burden.

Given the news of 29 July which outlined the spending inheritance, it seems highly likely that there will not be cuts to any tax.

Taxation of non-doms

One of Labour's flagship manifesto policies is its pledge to abolish the non-dom status, replacing it with a system for people in the country for a short period of time. Given this is one of Labour's flagship policies, forms part of its manifesto costings, and the previous Government's proposals were due to come into effect in April 2025, we expect to see non-dom reform to feature heavily in Labour's first Budget in Autumn 2024. Although the manifesto provided no further details on Labour's plans for non-dom reform, it has previously indicated it would go further than the changes announced in Spring Budget 2024.

Ending tax breaks for private schools

One of the key Labour manifesto pledges was to make private school fees subject to VAT. A Technical Note was published on 29 July, detailing the proposal. The note confirms that any fees paid from 29 July 2024 pertaining to the term starting in January 2025 onwards will be subject to VAT.

The manifesto reiterated Labour's pledge to end the VAT exemption and business rates relief for private schools. Although this is not personal tax policy per se, the impact will be felt by individuals paying private school fees. Labour has indicated that it will consult on the VAT exemption but will introduce anti-forestalling measures to prevent taxpayers taking measures to side-step the changes.

Pensions

The Labour manifesto pledges to retain the triple lock for the state pension (i.e. where the State Pension is uprated in line with the highest of prices, earnings or 2.5 percent). Note that Labour refused to commit to match the Conservatives 'Triple lock plus' pledge to introduce an age-related personal allowance to increase in-line with state pension increases.

Following the election, statements indicate the Labour government is planning pensions reform and there is scope for Rachel Reeves to change the pensions tax framework. This could involve changing the annual allowance rules, reintroducing the lifetime allowance rules, reviewing the tax-free lump sum or even reforming the tax relief available in respect of pension contributions. This area is certainly one to watch!

Will capital gains tax or inheritance tax be used to raise taxes?

Labour has not ruled out tax rises to capital gains tax and inheritance tax. Such increases may be announced in the 2024 Autumn Budget or at a later date.

The 'carried-interest' loophole, which is a capital gains tax relief for private equity fund managers, is set to be removed.

Inheritance Tax

Prior to the General Election there were rumours that inheritance tax (IHT) would be one of the main tax battlegrounds. In the end it barely featured in any manifesto.

As part of a wider Labour Party response to the Spring 2024 Budget, Labour indicated that it supports most aspects of the Conservatives' proposals on the Reform of Domicile, including the move to a 10-year residence based test for IHT from April 2025, but that the party wanted to address what it considers to be 'loopholes' in these plans.

Following this, Labour's manifesto stated that it would end the use offshore trusts to avoid IHT.

Stamp duty Land Tax

The manifesto pledges to increase the rate of stamp duty surcharge paid by non-UK residents by 1 percent.

Will the Furnished Holiday Lettings regime still be abolished?

The Conservatives announced the abolition of the furnished holiday lettings (FHL) regime in their March 2024 Spring Budget. Labour have announced that they will abolish FHL status from April 2025 so that FHLs become subject to the same tax rules as non-FHL properties. Draft legislation was published alongside the 29 July 2024 statement.

Making Tax Digital – will it still go ahead?

It is likely that Making Tax Digital (MTD) for Income Tax will still go ahead. Labour have previously published their 'Plan to Close the Tax Gap', in which their stated aims align with those of the MTD for Income Tax project. It may be, however, that timescales may change - Labour state that their plan for modernising HMRC is ambitious and will involve greater use of artificial intelligence (AI), which will require delivery timescales that are new and achievable.

Conclusion

Labour has, overall sought to reassure individuals, particularly working people, that it will impose no new tax rises on them. However, there are certain groups, notably non-doms and Private Equity executives, who face significant uncertainty over the impact of Labour's policy on their tax affairs.

Other than stating that it would end the use offshore trusts to avoid IHT, despite press speculation there was no other mention of IHT reliefs or rates in the final manifesto. Similarly, other than reference to Private Equity, there was no mention of capital gains tax (CGT) in the final manifesto. Though statements from government since the election seem to make these taxes likely candidates for changes. But as we have seen from past Governments, will the Labour Party copy ideas and proposals from someone else? With Labour's first Budget taking place in the Autumn (Wednesday 30th October 2024) we anticipate at least a few months to wait until more is known for sure.
