

Taxation

Wealth Management

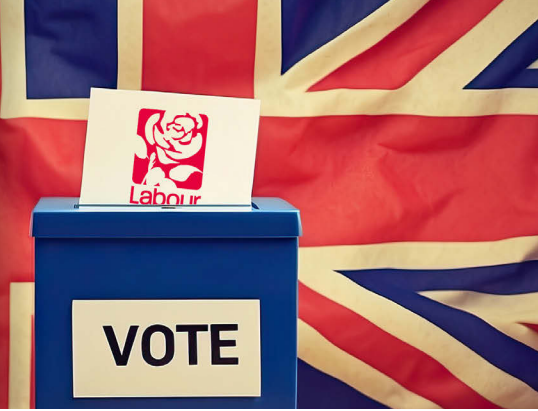
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**Election results:
what's next?**

Labour won a landslide victory in the general election on 4 July 2024 and Rachel Reeves made her first speech as the incoming Chancellor of the Exchequer on 8 July 2024, promising a 'new approach to growth'.



But how do Labour expect to achieve this growth and what are the priorities of the incoming government? Here, we look at some of the main pledges from the manifesto and the Chancellor's speech which impact tax and business.

Britain is a place to do business

Kickstarting economic growth was the first of Labour's five key manifesto missions and a central tenet of the Chancellor's speech.

A new National Wealth Fund will be launched to invest (and attract) private sector investment in new and growing industries. The Chancellor stated that the next steps to establish the National Wealth Fund would be announced in short order. An Industrial Strategy Council will also be established to provide expert advice with a view to end short-term economic policy making.

The manifesto states that, for investors, 'it is not just the rates of tax that matter, but also certainty'. Labour aims to provide this certainty in a number of ways. As well as committing to only one major fiscal event per year, the manifesto pledges to introduce a roadmap for business taxation for the next parliament. Labour have also pledged that the main rate of corporation tax will be capped at 25% for the next parliament. This is expected to keep the UK main rate the lowest in the G7 countries and Labour commits to 'act if tax changes in other countries pose a risk to UK competitiveness'.

Labour have committed in their manifesto to retain the full expensing regime for companies

and annual investment allowance, which also applies to self-employed individuals. Both full expensing and the annual investment allowance give an accelerated rate of deduction for capital investment. Firms will also be given greater clarity on what qualifies to aid investment decisions.

The current business rates system will be replaced in England in order to 'level the playing field between the high street and online giants, better incentivise investment, tackle empty properties and support entrepreneurship', though we will have to wait for further details as to how this will be achieved.

Small business will also be supported by Labour taking action on late payments and a reform of the British Business Bank to make it easier for small and medium enterprises to access capital.

Labour will not increase taxes on working people

The manifesto ruled out increases in National Insurance Contributions and the rates of income tax or VAT, and this was confirmed in the Chancellor's speech. However, not mentioned in the manifesto were any changes to the thresholds for income tax, so we may still see the impacts of fiscal drag in continuing to freeze the thresholds and personal allowance until

2028/29. In March 2024 the Office for Budget Responsibility calculated that the personal allowance and higher rate threshold freezes would raise £33.6 billion per annum by 2028/29.

There was also no mention made on the rates or thresholds of employers' NIC, nor was there specific mention of Capital Gains Tax and Inheritance Tax rate rises despite rumours in advance of the manifesto. It is possible that the Labour government may look to increase the rates of or reduce the availability of reliefs, particularly if the tax gap measures below don't generate the required income.

Non-domiciles

Abolishing the non-domicile regime has been part of Labour's promises for some time and it is likely that they will continue with some of the measures announced by the Conservatives at the Spring Budget 2024. Although not covered specifically in the manifesto, Labour published a paper in April 2024 which included its response to the Conservative announcements. The paper included broad agreement to the four-year time period before an individual becomes subject to UK taxation of overseas income and a ten-year period of residence before worldwide assets become subject to Inheritance Tax.

However, the paper suggested that Labour would remove the 50% reduction in foreign income subject to UK tax in 2025/26 under the transitional rules as well as targeting the Inheritance Tax protection for offshore trusts. On the flipside, Labour will consider incentives to encourage investment in the UK during the first few years of UK residence, although it is noted that this was not strictly covered in the manifesto.

The manifesto additionally pledged an increase in the stamp duty land tax surcharge paid by non-UK residents purchasing residential property of 1%. This would result in a surcharge of 3%.

Tackling the tax gap

One of the key revenue generators of the manifesto was from closing the tax gap through closing non-dom tax loopholes and investment in reducing tax avoidance, contributing £5.23

billion of the £8.54 billion to be raised per annum by 2028/29. The tax gap is the difference between the tax which is thought to be due and that which is collected; latest figures for the tax gap in 2022/23 published by HMRC estimate the total tax gap to be £39.8 billion or 4.8% of total theoretical tax liabilities. This is expected to be achieved partly by a £855 million annual investment in HMRC. Labour states:

'We will increase registration and reporting requirements, strengthen HMRC's powers, invest in new technology and build capacity within HMRC. This, combined with a renewed focus on tax avoidance by large businesses and the wealthy, will begin to close the tax gap...'

The manifesto also pledged to close the loophole in the private equity industry where 'performance related pay is treated as capital gains'. Although there was little additional information in the manifesto we expect to see more detail in the coming months; Labour calculate that this change will raise £565 million per annum by 2028/29.

On a global scale, Labour also state they support the implementation of the OECD global minimum rate of corporate taxation.

Reforming the planning system



Much of the Chancellor's speech concerned actions to 'fix' the planning system and kickstart economic growth through infrastructure development and housebuilding. Before the end of July, the Chancellor pledged to consult on reforming the National Planning Policy Framework, including the restoration of mandatory housing targets. Further measures will accelerate stalled housing sites, support local authorities with 300 additional planning

officers and use governmental intervention in planning applications where ‘the potential gain for the regional and national economies warrant it’. Brownfield and grey belt land will be prioritised for development to meet housing targets where needed.

The ban on new onshore wind in England will be ended and decisions on large developments will be taken nationally and not locally.

Employment and skills

Some legislation which we may see in advance of a budget is around employment rights; the manifesto commits to introducing legislation for consultation within 100 days, including banning zero hours contracts, ending fire and rehire and introducing basic rights such as parental leave and sick pay from day one.



Labour has also committed to ensuring the minimum wage is a ‘genuine living wage’ and removing the age bands so all adults are entitled to the same minimum wage.

Labour plans to replace the Apprenticeship Levy with a more flexible Growth and Skills Levy and ensure qualifications offer value for money. Labour also pledges to establish a youth guarantee of access to training, and an apprenticeship or support to find work for all 18- to 21-year olds.

VAT on private school fees

Although Labour pledged to not increase VAT, the manifesto did promise to end the VAT exemption on private school fees and business

rates relief for private schools. These measures are expected to raise £1.51 billion in 2028/29. We will have to await legislation for full details, but key considerations include how the measures will be implemented to ensure only private school fees are targeted. Any schools required to register for VAT as a result of these changes are expected to also have to comply with the Making Tax Digital rules.

Energy Profits Levy

The manifesto pledged changes will be made to the Energy Profits Levy, which is the windfall tax on oil and gas companies. These include:

- Extending the sunset clause (when the levy will end) until the end of the Parliament.
- Increasing the rate of the levy by 3%.
- Removing ‘unjustifiably generous investment allowances’.

These measures are expected to raise £1.2 billion per annum by 2028/29.

When can we expect a Budget?

Previously an incoming government would often hold an Emergency Budget in order to quickly implement their manifesto pledges. This is not expected with this government; Labour have committed to accompanying any fiscal statement with a full forecast from the OBR, which typically requires ten weeks’ notice, and the Chancellor’s speech stated that a date would be confirmed ‘in due course’.

As a result, we are likely looking at mid-September at the earliest for the Budget but it is possible we will see certain measures introduced sooner such as the roadmap for business taxation or National Wealth Fund and legislation released for consultation on employment rights and the non-domicile regime.