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Having waited 19 weeks from the election to deliver the first Budget, Chancellor Rachel Reeves seemed eager to prolong her moment in the spotlight with a speech that would seemingly never end. However, there was very little that had not already been leaked/pre-announced (for which the deputy speaker admonished the government).

In this briefing, we provide an overview of the headline issues for all private clients with a UK tax nexus. We then turn to the reforms that are specific to those with carried interest and finally to the detailed measures for non-UK domiciliaries and "long term UK tax residents" (where we now have draft legislation). As ever, the "devil is in the detail".

General private client tax measures

1. *Capital gains tax (CGT) rates*

- With effect for disposals on/after 30 October 2024, the main CGT rates are increased from 10% and 20% to 18% and 24% respectively. The new 24% CGT rate also applies to trustees and personal representatives.
- The existing (18% and 24%) rates that apply to residential property disposals are unchanged.
- Future changes will be made to the CGT rate that applies to Business Asset Disposal Relief and Investors' Relief, increasing from 10% to 14% for disposals made on/after 6 April 2025 and to 18% for disposals made on/after 6 April 2026. The lifetime limit for Investors' Relief (which can apply for certain disposals of unlisted trading company shares) is reduced from £10 million to £1 million for disposals on/after 30 October 2024.

2. *Stamp duty land tax (SDLT)*

For transactions with an effective date (usually the date of completion) on/after 31 October 2024:

- The additional surcharge payable if the purchaser owns other residential property anywhere in the world is increased from 3% to 5% above the standard rates.
- The flat rate of SDLT payable by companies and non-natural persons purchasing residential properties worth more than £500,000 is increased from 15% to 17%.

3. *Inheritance tax (IHT)*

- Broadly, and subject to available reliefs and exemptions, inheritance tax is payable to the extent the net value of an individual's estate exceeds the nil-rate bands. The nil-rate band is to remain frozen at £325,000 and the residence nil-rate band (broadly, available to those passing on a qualifying residence on death to their direct descendants) is frozen at £175,000. This freeze will remain in place until 2030, when the nil-rate bands will increase in line with CPI (unless further amended).
- From 6 April 2025, Agricultural Property Relief (APR) will be available for land managed under an environmental agreement with, or on behalf of, the UK government and certain other local authorities or responsible bodies.
- However, from 6 April 2026 APR and Business Property Relief (BPR) will be restricted as follows:

    - Only the first £1 million of combined BPR and APR qualifying assets will be eligible for 100% rate relief from IHT. Above that threshold, only 50% rate relief is available (so an effective IHT death rate of 20%). Any unused allowance will not be transferable between spouses and civil partners.
    - The rate of BPR will be reduced from 100% to 50% in all circumstances for shares designated as "not listed" on the markets of recognised stock exchanges e.g. AIM shares.
    - The new rules will apply for lifetime transfers on/after 30 October 2024 if the donor dies on or after 6 April 2026.
- The government will publish a technical consultation in early 2025 on the application of BPR and APR to trusts. On each ten-year anniversary charge and exit charge, there is intended to be a £1 million allowance for trustees on the combined value of BPR and APR qualifying assets to which 100% relief applies.
- From 6 April 2027, unused pension funds and death benefits payable from a pension will be within a person's estate for inheritance tax purposes.

4. *Corporation tax*

- The main rate of corporation tax is capped at 25% (the lowest in the G7) for the duration of the Parliament.
- The government's corporate tax roadmap includes a commitment to maintain the small profits rate and marginal relief at current rates and thresholds, and to maintain key features as such as R&D relief rates.

Carried interest reforms

- From 6 April 2026, carried interest will be taxed fully under the income tax regime. A 72.5% multiplier will be applied to qualifying carried interest that is brought within charge as trading profits and taxed at the individual's applicable marginal rate of income tax (plus NICs). The new highest effective tax rate of income tax will therefore be 32.625% (plus NICs). The deemed trade will be treated as carried on in the UK to the extent that the investment management services by virtue of which the carried interest arose were performed in the UK. Amendments will also be made to the income-based carried interest (IBCI) rules.
- The government has recognised the complexity of the legislation in this area and has set out areas for further consultation.
- In the interim period, from April 2025, the two CGT rates that currently apply to carried interest will be increased to 32%.

Non-UK domiciliaries and "long term UK tax residents"

Having said very little in the Budget speech itself, the government has now published a long-awaited technical note "Reforming the taxation of non-UK domiciled individuals", together with draft legislation (103 pages of it – an indication of just how complicated these reforms are going to be). It is going to take us time to work through this and the implications must be assessed on a case-by-case basis. Broadly speaking, the reforms remain consistent with Labour's announcements to date.

Personally held assets	
Income tax and capital gains tax	The remittance basis will be abolished from 6 April 2025 and replaced with a new residence-based regime: Individuals who have not been UK tax resident for the preceding 10 consecutive tax years, regardless of domicile, can elect not to pay income tax and capital gains tax on most of their foreign income and capital gains (**FIGs**) for four years, (irrespective of whether the FIGs are remitted). This is referred to as the "**FIG Regime**". Certain FIGs will not be protected, and this must be considered on a case-by-case basis. UK income and gains on UK situs assets will be fully taxable. A claim will be required, but there will be no charge for the FIG Regime. Unlike the remittance basis, it will be necessary to report all FIGs that are relieved under this regime. After four years of UK tax residence, individuals will be liable to income tax and capital gains tax on their worldwide income and gains (in the same way as UK resident and domiciled individuals, in the sense that term is currently understood).
Temporary Repatriation Facility	Existing FIGs taxed on the remittance basis before 6 April 2025 will remain taxable if remitted. However, this is subject to a window of opportunity in 2025/2026 and 2026/2027 to make a designation of such FIGs as being taxable at a 12% rate of tax. This window has been extended to 2027/2028 when a 15% rate will apply. Once the designation has been made, the designated FIGs can be remitted (or not) at any time. It appears that this facility will also extend to capital distributions/benefits from trusts, which may offer a valuable opportunity to extract historic income/gains from trusts at a much lower rate than would normally apply. This is subject to further careful analysis because the rules are hideously complicated. N.B. There will not be any special income tax measures for 2025/2026 (as previously proposed by the Conservative government.)
Capital gains tax rebasing	Non-domiciled individuals who have claimed the remittance basis in the past and have not become deemed domiciled prior to 2025/2026 will have an option to rebase the value of personally held capital assets to the value on 5 April 2017 (subject to further conditions). This is two years earlier than the original proposal of 2019.

<table>
<tr><td>Inheritance tax</td><td>Domicile will be abolished as the connecting factor for inheritance tax.

Instead, exposure to inheritance tax will depend on whether an individual is a “long term resident”. Such status will be acquired after an individual has been resident for at least 10 out of the immediately preceding 20 tax years.

It was originally anticipated that this status could only be lost with 10 years of non-residence. This will be the case for an individual who has been UK tax resident for 20 years; but for periods of residence between 10 and 19 years, there will be a sliding scale: e.g, 13 years of residence will require 3 years of non-residence, 14 will require 4 etc.

There is a special transitional rule for non-domiciliaries who are/will be non-UK tax resident in 2025/26 – they will remain subject to the old 15/20 year rule (meaning that they will not be considered a “long term resident” after 3 years of non-residence).</td></tr>
<tr><td colspan="2">Non-UK tax resident trusts</td></tr>
<tr><td>Income tax and capital gains tax for settlors</td><td>The existing rules for “protected settlements” will be abolished from 6 April 2025.

As a result, existing anti-avoidance legislation will apply to FIGs arising in a trust (whenever established) and may attribute such FIGs to a UK resident settlor.

For the first four years of residence, it will be possible to make a claim for the FIG regime to apply to any income or gains attributed to the settlor under these rules. Thereafter, the anti-avoidance rules will apply in full (often resulting in full attribution of trust FIGs to the settlor).

There are some changes to the anti-avoidance rules that will take effect from 6 April 2025 and there will be a consultation on further changes that will run until February 2025, with a view to any amendments coming into effect not before April 2027. This is extremely unsatisfactory as the existing rules are not fit for purpose.</td></tr>
<tr><td>Income tax and capital gains tax for beneficiaries in receipt of distributions or benefits</td><td>Existing anti-avoidance legislation will apply to benefits received by beneficiaries of trusts (again, with some amendments from April 2025 and with a view to reforms April 2026).

The FIG regime will be available in relation to distributions or benefits for the first four years. Thereafter, the anti-avoidance legislation may result in the taxable attribution of trust FIGs to beneficiaries in receipt of distributions or benefits.</td></tr>
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Inheritance tax – From April 2025	Under the current rules, non-UK assets in a settlement are “excluded property”, and outside the scope of IHT, if the settlor was non-UK domiciled (and not deemed domiciled in the UK) at the time assets become comprised in the settlement. From 6 April 2025, the excluded property status of trusts will depend upon whether the settlor is a long-term resident or not at the date of charge. This means that settled assets will come in and out of charge based on the settlor’s long term residence status at the date of the charge. Where the settlor has died before 6 April 2025, the existing tests will continue to apply (the settlor’s domicile at the time the property became comprised in the settlement). Where the settlor dies on or after 6 April 2025, the excluded property status of the trust will be fixed by the settlor’s long term residence status at the date of death. This is relevant both to the system of 10 year anniversary/exit charges and also the “gift with reservation of benefit rules” (GROB) for settlor interested trusts. Where the settled assets come out of charge based on a settlor losing his long term residence status, there will be an exit charge. Contrary to speculation, the government has not reintroduced the Conservative government’s original proposal that non-UK assets held in trusts settled by non-UK domiciliaries/deemed domiciliaries before 6 April 2025 should be excluded from inheritance tax on a permanent basis. However, trusts settled before 30 October 2024 will remain outside the scope of GROB on non-UK assets (held in the trust at that date).

These notes do not contain or constitute legal advice, and no reliance should be placed on them. If you have any questions, please do not hesitate to speak to your usual contact at Maurice Turnor Gardner LLP.