United Kingdom – Autumn Budget 2024: a Budget of Change?

The Chancellor of the Exchequer, Rachel Reeves, delivered the Autumn Budget to the U.K. Parliament on 30 October 2024.[1] As the first Budget of the recently-elected Labour government – following 14 years of a Conservative government – this was an eagerly-awaited Budget, as it sets out the government's fiscal priorities for the next five years of this Parliament.

From a global-mobility perspective, the most important announcements were in respect of the removal of the U.K.'s current remittance basis regime and the concept of domicile, to be replaced with a new Foreign Income and Gains regime.[2]

The Chancellor also announced that the rate of employers' National Insurance Contributions (NIC) will increase and the threshold at which employer NIC becomes due on employee's earnings will be reduced.

There were also changes announced to the capital gains tax rates and the taxation of carried interest.

WHY THIS MATTERS

For employers of globally-mobile employees there is always a great deal of interest in the U.K.'s fiscal events as they can have a direct impact on the cost of assignments.

The changes announced in this Budget will significantly impact how some globally-mobile employees will be taxed in the U.K., and employers had been eagerly awaiting confirmation of the final measures following the initial announcements earlier this year.

- The changes to the "non-dom" regime and its replacement with the Foreign Income and Gains regime plus the clarifications around how Overseas Workday Relief will work mean that individuals who are nonresident in the U.K. for 10 consecutive years before coming to the U.K. will be able to claim full tax relief on their non-U.K. income and gains for the first four years they are tax resident in the United Kingdom.

- The two-pronged approach with the changes to NIC is intended to raise NIC revenues of circa £25 billion per annum. The budget measures on NIC will particularly impact sectors such as Hospitality, Retail and Care, which typically employ large volumes of low-paid workers whose pay has hitherto not been subject to employer NIC.

- The surprising move by the Chancellor not to continue a freeze on income tax thresholds beyond the 2027/2028 tax year will save taxpayers who might have experienced fiscal drag – they would have been caught up in the tax 'net' or obliged to pay higher rates of tax – which would have raised their tax burdens.

It is essential to get in front of the changes described in this newsletter and to communicate quickly and clearly with key stakeholders, so that they can properly plan, budget, and make any necessary adjustments.

Overview of Main Measures

Foreign Income and Gains Regime

The intention to remove domicile and the remittance basis was originally announced by the previous government at the Spring Budget in March of this year. This was followed by a policy paper published by the new Labour government on 31 July 2024. KPMG LLP (U.K.) considered the impact of these announcements in *GMS Flash Alert* 2024-049 (7 March 2024) and *GMS Flash Alert* 2024-161 (1 August 2024). [3, 4]

Following a period of consultation with stakeholders over the summer, this Budget confirmed how the new rules will work. Of particular interest to employers of globally-mobile individuals, detailed guidance was published on how the Overseas Workday Relief rules will work under the new regime. These changes are considered later in this *Flash Alert*.

The Chancellor confirmed that the previously-announced changes in respect of the removal of domicile and the remittance basis, and its replacement with a new Foreign Income and Gains (FIG) regime, will be going ahead with effect from 6 April 2025.

This means that individuals who are nonresident in the U.K. for 10 consecutive years before coming to the U.K. will be able to claim full tax relief on their non-U.K. income and gains for the first four years they are tax resident in the United Kingdom. Unlike the current remittance basis rules, non-U.K. income and gains arising in this period and covered by the relief can be brought to the U.K. without any additional U.K. tax charges.

Additionally, the Chancellor provided further information on the transitional rules. These were originally announced at the Spring Budget 2024, but the following changes will be made to these:

- The previous government had announced that only 50 percent of an individual's non-U.K. income and gains would be subject to U.K. tax in 2025/26, if they could not benefit from the FIG regime. The Labour government has announced that this will not be introduced.

- Individuals who have previously elected to be taxed on the remittance basis regime can take advantage of the Temporary Repatriation Facility, which will last for three years, rather than the previously-announced two years. This means that individuals will be able to nominate and subsequently remit their non-U.K. income and gains from years where they elected to be taxed on the remittance basis to the U.K., and take advantage of a lower tax rate, as follows:

    - 2025/26 and 2026/27: 12%

    - 2027/28: 15%

In addition, the new guidance confirmed that individuals making a claim to be taxed under the FIG regime will need to quantify the amount of their non-U.K. income and gains and report this on their tax returns, even where this is subsequently fully relieved. (This will likely lead to an increased amount of record-keeping and administration.)

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This provides welcome clarification on some of the outstanding questions following the original announcement of the Foreign Income and Gains regime at the Spring Budget earlier this year and brings more certainty around how individuals will be taxed.

Individuals may be disappointed that they will not be able to take advantage of the initially-announced 50 percent Foreign Income Reduction; however, they are likely to welcome the extension of the Temporary Repatriation Facility from two years to three years.

Overseas Workday Relief

Overseas Workday Relief (OWR), which allows an individual to claim relief on their non-U.K. workdays, can be a very beneficial relief for individuals taxed under the current remittance basis regime. Therefore, the publication of more guidance and the final details of how this will work under the new Foreign Income and Gains regime has been very eagerly awaited.

The guidance published with the Budget confirms the following points:

- Under the current rules, OWR is available for the first three tax years of an individual's residence in the United Kingdom. Under the new rules, this will be extended to four years, to mirror the FIG eligibility period.
- As originally announced at the Spring Budget earlier this year, there will no longer be a requirement to keep income relating to non-U.K. workdays outside the United Kingdom.
- A new restriction will be introduced, with the relief each year restricted to the lower of £300,000 or 30 percent of qualifying employment income.

The new guidance also answers some of the questions raised regarding the treatment of individuals who are eligible for OWR under the old rules but not the new rules, and the treatment of trailing income:

- Individuals who have been claiming OWR under the old rules, but will not qualify for the FIG regime (for example, where they do not meet the 10-year non-residence requirement) will be able to claim OWR for a total of three years.
- Individuals who have been claiming OWR under the old rules, and will also qualify for the FIG regime, will be able to make a claim for OWR for a total of four years.
- The restriction to the relief set out in the paragraph above will not apply to individuals who have claimed OWR under the pre-April-2025 rules.
- If an individual receives earnings that related to a period prior to April 2025 that are paid after this date (for example, a trailing bonus), this would continue to be taxable on remittance. This means any income relating to the pre-6 April period will still need to be paid into a qualifying overseas bank account and be kept offshore to benefit from OWR.

The government has also announced a change to the associated payroll processes. Under the current rules, an employer can make a 's690 application,' which allows them to withhold tax on the individual's estimated percentage of U.K. workdays only before the actual taxable amount is reconciled via the tax return. Currently, this can only be done once His Majesty's Revenue & Customs (HMRC), the tax authority in the U.K., formally approves the application, which can lead to a period of double withholding. Under the new rules, HMRC is moving to a 'process now, check later' approach, and the employer will be able to withhold tax on an estimated percentage of individuals' earnings as soon as they receive an auto-acknowledgement after submitting an application, without waiting for formal approval.

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Employees that qualify for this relief are likely to welcome the ability to claim OWR for one more year than what they are permitted to do under the current rules. Additionally, the removal of the requirement to have the income paid into an offshore account will be welcomed by many individuals, as it reduces the administration regarding bank account structure and means that they can bring this money into the U.K. with no additional tax charges.

The new restriction on the relief that can be claimed each year will be less welcomed by some individuals, namely, very senior individuals with high employment income and/or those who have a significant amount of overseas workdays.

From an employer perspective, the payroll changes will be very welcome, as the current need to wait for HMRC approval can lead to a significant period of double withholding in both the U.K. and the other jurisdiction, and has been a recurrent issue for many years.

Personal Income Tax Rates and Thresholds

The previous government had announced that the income tax thresholds would be frozen until April 2028. The Chancellor confirmed that she will not be extending this freeze, and that from 2028/29, the thresholds will rise in line with inflation.

The income tax rates and thresholds are below:

	Threshold	Tax Rate
Personal Allowance	Up to £12,570	0%
Basic Rate	£0 - £37,700	20%
Higher Rate	£37,701 - £125,140	40%
Additional Rate	Over £125,140	45%

Source: KPMG LLP (U.K.)

Scotland

The 2024/25 tax rates for Scottish taxpayers will be presented to the Scottish Parliament on 4 December 2024.[5]

Wales

The Welsh Senedd sets income tax rates for Welsh taxpayers. The draft budget will be published on 10 December 2024.[6]

National Insurance Contributions (NIC)

As previously announced, the NIC thresholds for employees remain frozen at current levels until April 2028. The Chancellor confirmed that from April 2028, these will be increased in line with inflation.

However, the employer National Insurance rate will be raised by 1.2 percentage points, from 13.8 percent to 15 percent. Additionally, the Annual Threshold at which employer NIC becomes due on employees' earnings will be reduced from £9,100 to £5,000.

	2024/25	2025/26
Annual Threshold for Employee NIC	£12,570	£12,570
Annual Threshold for Employer NIC	£9,100	£5,000
Upper Earnings Limit	£50,270	£50,270

Source: KPMG LLP (U.K.)

	2024/25	2025/26
Class 1, 1A and 1B NIC Rate for Employers on Earnings Above the Annual Threshold	13.8%	15%
Class 1 NIC Rate for Employees Between the Annual Threshold and Upper Earnings Limit	8%	8%
Class 1 NIC Rate for Employees Above the Upper Earnings Limit	2%	2%

Source: KPMG LLP (U.K.)

Capital Gains Tax/Carried Interest

The Chancellor announced that there would be an increase to the capital gains tax rates for gains other than those deriving from residential property, as set out in the table below. These rate changes will come into effect immediately, from 30 October 2024. The rates for residential property remain unchanged.

The government has announced that from 6 April 2026, carried interest will be taxed fully within the income tax regime, however, in anticipation of this, carried interest will be taxed at a rate of 32 percent from 6 April 2025.

	6 April 2024 to 29 October 2024	30 October 2024 to 5 April 2025	6 April 2025 to 5 April 2026
Annual Exempt amount	£3,000	£3,000	£3,000
Residential property	Basic rate - 18% Higher rate - 24%	Basic rate - 18% Higher rate - 24%	Basic rate - 18% Higher rate - 24%
Carried interest	Basic rate - 18% Higher rate - 28%	Basic rate - 18% Higher rate - 28%	32%
Other chargeable assets	Basic rate - 10% Higher rate - 20%	Basic rate - 18% Higher rate - 24%	Basic rate - 18% Higher rate - 24%

Source: KPMG LLP (U.K.)

Other Measures

- As part of the removal of the concept of domicile, the government announced changes to the **Inheritance Tax regime**, moving to a residence-based system. Notably, from 6 April 2025, the test for whether non-U.K. assets are in scope for IHT will be whether an individual has been resident in the U.K. for at least 10 out of the last 20 tax years immediately preceding the tax year in which the chargeable event (including death) arises. If an individual has been U.K. resident for at least 10 out of 20 years and then becomes nonresident and does not return to the U.K. before the chargeable event, there will be provision to shorten the length of time he/she remains liable to IHT on non-U.K. assets if he/she had been U.K. resident for between 10 and 19 years out of the last 20.

  For those who are resident between 10 and 13 years, they will remain in scope for three tax years post-departure. This will then increase by one tax year for each additional year of residence.

  So, if a person was resident for 15 out of 20 tax years on leaving, he/she would remain in scope for five years; if resident for 17 out of 20 tax years on leaving, he/she would remain in scope for seven tax years.

- The government has confirmed that **mandatory payrolling of Benefits-in-Kind** will come into effect from 6 April 2026.

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Impact of Key Measures: 'High Level' Look

Globally-mobile employees and their employers will appreciate having more certainty about how they will be taxed from 6 April 2025.

These changes are likely to be welcomed by individuals moving to the U.K. after 6 April 2025, as the removal of the requirement to keep non-U.K. income and gains offshore is a significant simplification. Additionally, they are likely to welcome being able to claim OWR for four years, rather than the three years under the current rules.

However, these changes are less likely to be welcomed by individuals who have already been in the U.K. for a number of years and are currently taxed under the remittance basis regime but will not qualify for the new FIG regime, as their U.K. tax liability will increase. However, some individuals who intend to remain in the U.K. long-term may like to take advantage of the Temporary Repatriation Facility, to bring money into the U.K. and take advantage of a lower tax rate, and/or the CGT rebasing measures.

Next Steps

Further guidance will be published by the government "in due course."

KPMG LLP (U.K.) will continue to keep readers informed of any further developments that concern individuals, including those on international assignments, and their multinational employers.

FOOTNOTES:

1 For the U.K. government's Autumn Budget 2024, click here. For coverage and analysis of the Autumn Budget 2024 by KPMG LLP in the U.K., click here .

2 Full details of the changes to the taxation of non-U.K. domiciled individuals can be found on the U.K. government's website: "Changes to the taxation of non-UK domiciled individuals: Documents related to changes to the taxation of non-UK domiciled individuals."

3 For coverage by KPMG LLP in the U.K. of the Spring Budget 2024, see *GMS Flash Alert* 2024-049 (7 March 2024).

4 For coverage by KPMG LLP in the U.K. of the new government's update on the Foreign Income and Gains regime, see *GMS Flash Alert* 2024-161 (1 August 2024).

5 For the announcement of the date of the 2025-26 Scottish Budget, click here .

6 For the Welsh government Draft Budget timetable for 2025-26, click here .

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