Budget 2024

Novia Global Webinar

QB | Partners

WHO ARE QB PARTNERS?

QB Partners was founded in January 2009

Cross border independent specialist providing support to regulated IFAs and professional advisers

Practical accessible support using a solutions driven approach

Our areas of expertise include international pensions, cross border trust and estate planning, wealth insurance and business protection

We are continuing to develop and evolve our services

AUTUMN BUDGET 2024

QB Partners

- On 4th July 2024, Labour won 411 of 650 seats in parliament... "a landslide"
- Delayed first Budget since 2010, until Wednesday 30th October 2024
- Chancellor of Exchequer, **Rachel Reeves**, sat down at 13:51 GMT
- Not all measures in this presentation were mentioned in the speech (e.g. transfers to EEA/Gib QROPS)

UK Autumn Budget 2024 – CONFIRMED and NEW changes

End of remittance basis for income and gains for UK RNDs from 6 April 2025: CONFIRMED

Move to a 4-year Foreign Income and Gains (FIG) regime from April 2025: CONFIRMED

Move to residence-based IHT system from April 2025 >10 residence with 3 to 10-year tail- CONFIRMED

Excluded Property trusts (holding non-UK assets), from 06/04/25, subject to periodic/exit IHT charges: CONFIRMED

NEW:
UK/EEA/GIB exemption removed against the QROPS 25% Overseas Transfer Charge

NEW:
Unused pension funds, from 06/04/27, will to be subject IHT on death of the pension member

UK AUTUMN BUDGET 2024
PENSIONS

QB | Partners

OVERSEAS TRANSFERS of UK tax relieved pensions

QB Partners

Overseas Transfer Charge (from 30/10/24)

- UK, EEA and Gibraltar exemptions removed
- TRANSITIONAL period: transfer requests made pre-30 October 2024 AND transfer completed before 30 April 2025
- Other exemptions remain (e.g. res in same country as receiving QROPS)
- **KEY UPDATE: Relocation within 5-years of transfer?** For pre-30/10/24 transfers, if within EEA, exemption applies (maybe <u>not</u> if return to UK?)

Regulatory changes for OPS and ROPS (from 06/04/25)

- EEA OPS required to be regulated in their country
- EEA ROPS must be in a country with has an exchange of tax information agreement with the UK (e.g. in a DTA)
- *...not easy for Malta providers to re-create QROPS all over EU*

[NB: to prevent UK residents from taking higher TFC via QROPS, only the UK exemption needed to be removed]

QROPS – Key outcomes

QB Partners

- The benefits of an EEA resident, transferring to QROPS have been removed (except same country)
- Which leaves the International SIPP (UK Situs)
- For non-LTRs a transfer from an existing QROPS to a SIPP is generally not to be recommended because:
  - after being non-UK tax res for >10-years, plus 5-years since transfer, UK pension rules are no longer applicable and,
  - For any non-LTR from April 2025, the underlying assets should not be subject to UK IHT.
- Other QROPS to SIPP cases, each on its own merit

AUTUMN BUDGET 2024
INHERITANCE TAX

INHERITANCE TAX – from April 2026

QB Partners

- UK Nil-rate thresholds unchanged until April 2030 (325k + 175k x2 = 1m). 40% tax above NRB.
- 100% Business Property Relief (BPR) and Agricultural Property Relief (APR), will now have a combined cap of GBP1m
- Where exceed GBP 1m, BPR and APR limited to 50% relief (so a 20% effective tax rate)
- Except unlisted shares (e.g. AIM), where eligible for BPR – now [only] get 50% relief on total asset.

INHERITANCE TAX – from April 2027

- Unused pension funds to be subject IHT on death
- 12-week consultation until 22nd Jan 2025– *admin only??*
- Unused funds and death benefits will be treated as part of the deceased's estate, *"includes both uncrystallised funds and funds left in a draw-down fund."**
- Will apply to UK registered schemes and QNUPS (incl. QROPS), also DC and DB(?) schemes
- Small number of exemptions: e.g. funds which can only be used to provide a dependents' scheme pension, gifts to charity and, the *spousal exemption*!

QB Partners

* SOURCE: https://www.gov.uk/government/consultations/inheritance-tax-on-pensions-liability-reporting-and-payment/technical-consultation-inheritance-tax-on-pensions-liability-reporting-and-payment

AUTUMN BUDGET 2024

“NON-DOMS”

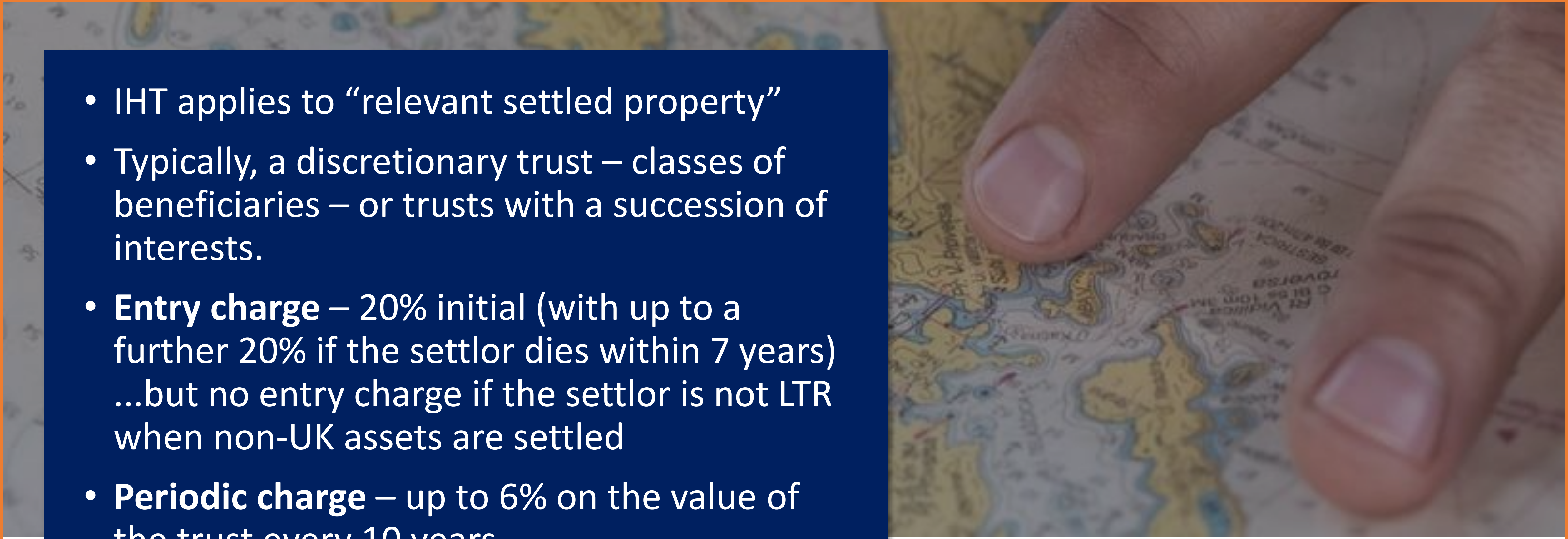
QB | Partners

What is a long-term resident?

- Domicile and Non-domicile, replaced by **Long Term Resident (LTR) status** => resident in the UK for at least 10 out of the last 20 tax years
- From 6 April 2025, UK LTR’s will be subject to UK IHT on worldwide assets
- If a LTR becomes non-resident, liability to UK IHT (on w/wide assets) will remain in scope for
  - 3-years if resident between 10 and 13 years,
  - then add 1 year for each year of residence, up to a maximum of 10 years for 20 years of residence.
- Test is fully reset if individual returns to UK, in the year following 10 consecutive years of non-residence

Long term residents (IHT)

- Based on **UK Statutory Residence Test** (and ‘split year’ treatment counts as a full year of residence for IHT)
- If under 21 years old, the test is whether they have been UK resident for at least 50% of the tax years since their birth
- Formerly domiciled resident rules will be irrelevant, incl. ‘spouse election’ rule; but can now elect to be treated as LTR
- Remember, long standing UK expats will become ex-LTRs...on 6th April 2025



Relevant Settled Property (IHT)

- IHT applies to “relevant settled property”
- Typically, a discretionary trust – classes of beneficiaries – or trusts with a succession of interests.
- **Entry charge** – 20% initial (with up to a further 20% if the settlor dies within 7 years) ...but no entry charge if the settlor is not LTR when non-UK assets are settled
- **Periodic charge** – up to 6% on the value of the trust every 10 years
- **Exit charge** – a proportion of 6% based on the length of time since the entry charge/ last periodic charge

AUTUMN BUDGET 2024

PLANNING

QB Partners

KEY INITIAL **OUTCOMES**

QB Partners

- A need for *more* UK IHT planning/reviews/advice
- Focus on client residence (UK statutory residence test)
- UK expats who live overseas long-term…without acquiring a new domicile of choice…can now be free of UK IHT on non-UK situs assets
- BUT…existing Relevant Settlement Property (discretionary) Trusts – an exit charge can be triggered by a LTR leaving the UK or…crucially…all who are ex-LTR (>10 years outside the UK) on 6th April 2025 [*applicable not just to EPTs*]
- Removal of EEA/Gib QROPS exemption, restricts future use

KEY INITIAL PLANNING POINTS (i)

- Fully review funding of UK pensions (Income v IHT)
- These changes remove the "IHT incentive" to retain wealth in UK (and Overseas Qualifying) Pension Schemes
- Retention of UK pension freedoms can therefore open up other avenues of planning (beware tax residency of client)
- Full UK IHT spousal exemption can apply (except if UK LTR with non-LTR spouse!)
- Review pension beneficiary nominations (to use spouse exemption?) – consider pre and post April 2027
- IORPS remain unlikely alternatives to QROPS

QB Partners

KEY INITIAL PLANNING POINTS (ii)

- Consider the impact on couples with different domiciles...will they have the same LTR status?
- Review all UK expats with any connection to a Trust (should be doing this in France anyway)
- Consider how UK IHT on pension interacts with Lump Sum Death Benefit income tax charge, for each beneficiary?
- Existing EPT's...could consider distributions pre-6th April 2025
- EPTs will lose "Trust Protections" – Int'l Insurance Policies (IIPs) can deliver tax deferral and tax efficient 5% 'income'

QB Partners

KEY INITIAL PLANNING POINTS (iii)

- **UK Gilts** – a *single year UK non-residency plan*: Invest in UK Gilts, transfer the asset to children (they can still be UK res). Kids can sell following tax year with zero IHT and zero CGT (possibly some Inc Tax if income has been received)

Some Knowns?

- (1) From April 2025, any UK LTR spouse, making a transfer to a non-LTR spouse, limits the *spouse exemption* to the NRB
- (2) Gordon Brown introduced legislation that declared UK OEICs and Unit Trusts, as 'excluded property'...if held by a non-dom
- Draft legislation confirms those items constituting *excluded property* shall remain the same but, in terms of ownership, non-dom is replaced by LTR
- So, from April 2025, non-LTR's will have no UK IHT liability on non-UK situs assets...
- ...nor any UK-situs assets which are classified as *excluded property* (UTs/OEICs)

Some ‘pretty much’ knowns?

- What about **ISA’s holding** underlying assets which, for non-doms (soon LTR’s) are deemed **excluded property** (from IHT)
- i.e a non-LTR with an ISA, which only holds UK OEICS and UT’s...will it fall out of UK IHT?
- We don’t believe so; with the ISA, UK Gov’t offers clear beneficial tax incentives, thus making the structure UK situs.

Some Unknowns?

- The key problem: much of the finer detail remains unpublished (and perhaps not yet even written)...e.g. there is no draft legislation or technical note from the government or HMRC re IHT on Pensions
- That which is written, is still in "draft"
- One published HMRC Tech Note: "*The UK has 10 IHT Double Tax Conventions (estate duty) and there are no changes to the treaties or how they operate.*" All domicile based, yet UK domestic law will apply LTR?
- How will HMRC claim IHT on a QROPS – depending upon a 3rd country provider whose incentive to be UK Qualified, might be linked to continued new business??

PLANNING POINTS – Case Study 1

Malta, the new Portugal?

- Jeff prefers "Mediterranean Europe" anyway, has other assets he wants to burn through in retirement, and has long viewed his pension as something to leave to his kids.
- Moving there under the *Permanent Residence Scheme* avoids tax on all CGT (even if remitted), with just 15% on remitted income (min €4,230pa)
- Can transfer to a Malta QROPS (no OTC) and avoid up to 35% progressive taxes if takes no pension income. Then, after 10-yrs ex-LTR, no UK IHT even on his QROPS.

QB | Partners

PLANNING POINTS – Case Study 2

Ireland the new UK (for RNDs)?

- As a wealthy UK domicile of origin, Mike discovers he can claim RND status in Ireland (taxed on remittances only) and his RND status will also help him avoid CAT on non-Irish assets.
- Once >10yrs ex-LTR, UK IHT will no longer apply to his non-UK situs assets.
- He can also remove his pension from UK IHT after 10-yrs, because Ireland offers generally available local QROPS, therefore avoiding the 25% OTC.

PLANNING POINTS – Case Study 3

QB | Partners

Isle of Man: *Manx-LTR?*

- Jane is ex-UK resident, has lived on IOM >10-years.
- From 04/25, she will be automatically non-UK LTR and ‘domicile’ will be irrelevant.
- Therefore, all her non-UK situs assets will be outside of her UK estate for IHT assessment.
- IOM offers local QROPS – *therefore avoiding the 25% OTC* – and is a non-UK situs assets, so outside UK IHT.
- Careful re 5-year member payment provision rule...keeps pension within UK IHT net during this period.

PLANNING POINTS – Case Study 4 & 5

- **Moving to France**, Steve considers accessing his full pension under the 7.5% flat tax regime (social taxes can increase full tax charge to around 20%) then reinvests in Assurance Vie for tax deferral and lower succession taxes.
- Further afield... **UAE (+ other low tax regimes)** ...secure 'Residence Status', reside one full UK tax year, and if over age 55, can surrender pension(s) at zero tax. Re-invest in best vehicle for future country of residence,
- This might be an Int'l Insurance Policy (IIP)...even for a future return to UK (>5-years clearly)

QB Partners

ANY QUESTIONS?

QB | Partners

enquiries@qbpartners.co.uk

+44 (0) 1624 661232

qbpartners.co.uk