SLAUGHTER AND MAY/

CLIENT BRIEFING

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2024 HR BUDGET BRIEFING

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In what is anticipated to be the last major fiscal event before the UK's general election, the Chancellor of the Exchequer today delivered the Government's 2024 Budget to Parliament. A further reduction in employees' National Insurance contributions was the flagship measure, along with the introduction of a new HMRC-approved arrangement for individuals to hold UK-listed shares on a tax-favoured basis. In this briefing, we discuss the key issues for UK employees and their employers.

TAX RATES

As was widely trailed in the press before the Chancellor's speech, the main rate of employees' National Insurance contributions (**NICs**) will be reduced from 10% to 8% with effect from next month (April 2024). This change does not affect the rate at which higher earners pay NICs on earnings above £4,189 a month, which remains at 2%, nor the rate of employers' NICs (which remains at 13.8%). For an employee paying higher rate (40%) tax, the value of this reduction equates to a saving of approximately £750 a year. The change is therefore unlikely to have any material impact on the operation of major companies' annual bonus or long-term incentive plans.

The Chancellor also announced a reduction of the rate of capital gains tax (**CGT**) payable on gains deriving from residential property. However, the "main" rate of CGT payable by employees on the sale of shares remains at 20%.

THE "UK ISA" AND "NON-DOMS"

The other two key tax announcements affecting employees are scheduled to take effect after the latest date possible for a general election, so companies should keep a close eye on how these proposals develop over the next 12 months.

As expected, the Chancellor outlined changes to the regime affecting individuals who are resident, but not domiciled, in the UK for tax purposes (commonly known as "non-doms"). Under the new proposals, the default position will be that all UK-resident taxpayers will be subject to UK tax on their worldwide income, with individuals exempt from tax on non-UK source income in their first four years of tax residence in the UK, provided that they have been non-UK tax resident for the last ten years. These amendments are most likely to have an impact on employers whose workforces are particularly internationally mobile, as employees may ask for their employer's support in working through the implications of the new regime for their own personal circumstances.

The "surprise" announcement in this year's Budget involved the creation of a new "tax-favoured" Individual Savings Account (**ISA**) intended to promote investments in UK companies. ISAs have, in their various forms, been a common HMRC-approved savings arrangement for a number of years, which exempt the funds held within them from income tax and CGT. The Government intends to consult over the next three months on implementing a new "UK ISA", which will deliver tax breaks for investments in UK companies. It is intended that up to £5,000 worth of assets may be placed per year in a UK ISA (beyond the £20,000 which can currently be put into other ISAs). The proposals issued by the Government today indicate that shares

listed either on the Main List of the London Stock Exchange or on AIM will qualify as eligible assets for these purposes.

Under the current regime, HMRC exempts shares transferred into an ISA from CGT, where those shares have been acquired by an employee under an all-employee Sharesave or Save As You Earn (**SAYE**) option plan, provided that the transfer is made within 90 days of the SAYE option being exercised. For a broad section of the workforce, the use of a UK ISA in conjunction with an HMRC-approved SAYE option plan could therefore represent a highly tax-efficient investment in their employer, as the growth on this investment would be exempt from both income tax and CGT. We await the detail of these proposals with interest following the conclusion of the consultation period on 6 June.

PENSIONS

The focus of the Budget from a pensions perspective was on promoting investments in UK businesses and ensuring that defined contribution (**DC**) schemes provide value for money. The Government intends to:

- Introduce requirements for DC schemes to publicly disclose asset allocations, including UK equities. Once this data is available, the Government will consider what action should be taken if there is no evidence that UK equity allocations are increasing beyond the current level of around 6%.
- Continue to work with the Pensions Regulator and the FCA on a "Value for Money" framework aimed at highlighting where schemes are focusing on short-term costs at the expense of long-term investment outcomes and where scale may prevent value being provided to members. The FCA is due to issue a consultation in the spring which will require contract-based schemes to compare their performance, costs and other metrics against at least two other schemes managing over £10 billion in assets. Legislation will follow in due course to apply this to occupational DC schemes.
- Continue to explore a lifetime provider model for DC schemes and whether this could improve outcomes for members. However, this kind of innovation currently seems a very long way off.

For collective money purchase schemes – an innovative new type of pension scheme where mortality and investment risks are shared collectively by members - there is the promise of tax changes so that benefits can be transferred out in a permitted form on a winding-up of the scheme, which should be the final piece in the legislative jigsaw puzzle.

EMPLOYMENT

Aside from the tax rate changes outlined above, there was little in the Budget of significance from an employment perspective. The Chancellor has ignored calls from organisations such as the CBI (which had proposed that employee assistance programmes be made a fully tax-free benefit) and the Institute of Directors (which had requested tax credits for organisations that train staff in areas where there are national shortages).

There were, however, some additional developments on childcare. Last year's Budget included substantive proposals to expand childcare support for working parents. The 2024 Budget focuses on High Income Child Benefit Charge (**HICBC**) reform. Under the current regime, the HICBC threshold is set at £50,000 and is based on the income of one parent. This means that if two parents earn £50,000 each they will still get full Child Benefit, but if one earns £60,000 and the other is not in work (or they are a single parent), they do not receive any Child Benefit.

Under the measures announced today:

- The HICBC threshold will increase to £60,000 from April 2024.
- The rate at which HICBC is charged will also be halved, so that Child Benefit is not fully withdrawn until individuals earn £80,000 or more.
- The Government plans to administer the HICBC on a household rather than an individual basis by April 2026, and will consult on this change in due course.

The Government hopes that these measures will improve people's incentives to continue working, and/or increase their working hours.

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