UK TAXATION RULES 2024/25

APRIL 2024

Income Tax, Capital Gains Tax, Inheritance Tax, Stamp Duty, National Insurance. All of these can significantly affect your wealth, and it is vital that anybody managing their personal finances gets to grips with the basic operation of the UK tax system. Sometimes easier said than done, of course, given that **the UK has one of the longest tax codes in the world**.

The phrase '**the tax tail shouldn't wag the investment dog**' is much overused but nevertheless true, and your **principal** concern should be to make sure you are taking the right level of investment risk for you. Our note on Risk and Asset Allocation goes into more details.

Here we outline the **basics** of the major taxes affecting the individual in the UK. For a fuller discussion of how to ensure that your affairs are arranged tax efficiently please do contact us.

INCOME TAX

Income tax rates are set separately in England & Northern Ireland, Scotland, and Wales. Welsh tax rates remain in line with England & NI at present. Income tax is levied at tiered rates, with the personal allowance meaning that the first tier is tax-free. Income tax is charged first on non-savings income, then on savings income, and lastly on dividend income.

INCOME TAX RATES (EXCEPT SCOTTISH TAX ON NON-SAVINGS INCOME)

Band	Income Tier (£)	Band Width [2] (£)	Non-Savings and Savings Income Rate [3] (%)	Dividend Income Rate [4] (%)
Personal Allowance [1]	£0 - £12,570	£12,570	0	0
Basic	£12,571 - £50,270	£37,700	20	8.75
Higher	£50,271 - £125,140	£74,870	40	33.75
Additional	Over 125,140	-	45	39.35

Notes:

1 Personal Allowance lost by £1 for every £2 income over £100,000; fully lost over £125,140; giving an effective tax rate in this band of 60%.

2 Bands frozen until 5.4.28.

3 For savings in excess of the Personal Savings Allowance, and the Starting Rate for Savings, where applicable

4 For dividends in excess of the Dividend Allowance.

INCOME TAX

Scottish tax rates and bands for savings and dividend income remain the same as for England & NI, but differ for non-savings income (e.g. earned income).

SCOTTISH INCOME TAX RATES (NON-SAVINGS INCOME ONLY)

Band	Income Tier (£)	Band Width (£)	Non-Savings and Savings Income Rate (%)
Personal Allowance[1]	£0 - £12,570	£12,570	0
Starter	£12,571 - £14,876	£2,306	19
Scottish Basic	£14,877 - £26,561	£11,685	20
Intermediate	£26,562 - £43,662	£17,101	21
Scottish Higher	£43,663 - £75,000	£31,338	42
Scottish Advanced	£75,001 - £125,140	£50,140	45
Additional	Over £125,140	-	47

Notes:

1 Personal Allowance lost by £1 for every £2 income over £100,000; fully lost over £125,140; giving an effective tax rate in this band of 60%.

INCOME TAX

STARTING RATE FOR SAVINGS

For **savings income** there is a **starting rate of 0%** which **only applies where savings income falls within the first £5,000 of taxable income** (income in excess of reliefs and allowances). As the order of income tax is first non-savings income, then savings income, then dividend income, the starting rate would only apply where non-savings income is less than £17,570 (the personal allowance plus the starting rate for savings).

TAX FREE ALLOWANCES

The main tax free allowances available are detailed below. There are also allowances available to those who are blind, or married couples where one of them was born before 6 April 1935.

Tax Free Allowances	Amount (£)	Conditions
Personal Allowance	12,570	Frozen to 5.4.28. Reduced by £1 for every £2 that income exceeds £100,000; lost completely from £125,140.
Personal Savings Allowance Basic Rate Taxpayer Higher Rate Taxpayer Additional Rate Taxpayer	 1,000 500 -	The first amount of taxable savings income falls within this allowance and is taxed at a zero rate.
Dividend Allowance	500	The first amount of taxable dividend income falls within this allowance and is taxed at a zero rate.
Transferable Personal Allowance (Marriage Allowance)	1,260	Some of the personal allowance can be elected to be transferred between spouses/ civil partners, where neither are higher/ additional rate taxpayers.

INCOME TAX

EFFECTIVE RATE TAX TRAPS

The operation of the income tax rules mean that **tax rate traps** exist, where the effective tax rate suffered is higher than the band the income falls within. The personal allowance starts is lost for earnings between **£100,000 and £125,140**, giving an **effective rate of tax in this band of 60%**. A similar tax trap occurs for those earning between **£60,000 and £80,000** where the **High Income Child Benefit Charge** applies. Pension contributions and charitable gifting can be especially tax-efficient for those affected, where income levels could effectively be brought back down below these thresholds.

NATIONAL INSURANCE CONTRIBUTIONS

National Insurance Contributions are another income tax in all but name. The rate differs according to whether you are employed or self-employed, and in addition employers are also liable to pay NICs on the wages they pay to their employees.

For **employed individuals**, the bands are now aligned with income tax rates, and the **NIC rates levy an additional 8% tax on earnings in the basic rate band, and 2% on earnings in the higher and additional rate bands**.

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CAPITAL GAINS TAX

Capital Gains Tax (CGT) is due when **chargeable assets** are disposed of at a gain – these include most personal possessions worth over £6,000, unless they are 'wasting assets' for example your car. Each individual has a **CGT annual exemption** meaning they can make gains of up to the exempt amount free from tax each tax year. Transfers between spouses/civil partners, or to charity, are also normally do not incur CGT.

Gains Falling into Band	Amount (£)	Rate (%)
Annual Exemption	£3,000	-
Basic (Residential Property Sales [1])	See income tax bands	10 (18)
Higher and Additional (Residential Property Sales [1])	See income tax bands	20 (24)

Notes:

1 Capital gains are deemed to be the top 'level' of income when determining which band the gain falls into – see Income Tax for the bands applying.

CAPITAL GAINS TAX

- The gain is normally calculated as **sale proceeds less acquisition costs ('base cost')**, with special rules applying for the valuations of share sales (unless held in an ISA or pension). If the sale proceeds are less than the market value (e.g. if you gift an asset or sell for less than it is actually worth), then the market value is used instead. Where an asset was acquired before 31 March 1982, its value at that date (where higher) is substituted for cost. The calculation of CGT can be a complex area where professional advice is needed.
- An additional 8% basic / 4% higher rate is due on **sales of residential property** which are not covered by Principal Private Residence Relief (your main home). The tax due on sales of residential property must be **reported and paid within 60 days of completion**.
- If you do not live in the UK at the time the gain arises, and remain non-UK resident for 5 years, then you may not have to pay CGT on any sale of UK based assets. However, **all sales of UK property and land are taxable, even for non-UK residents**.

CAPITAL GAINS TAX

CGT RELIEFS AND EXEMPTIONS

Main CGT Reliefs & Exemptions	Details
Annual Exemption	First £3,000 of gains tax free
Inter-Spouse Transfer	Treated as creating no loss or gain, so that any liability is effectively deferred until the recipient disposes of the asset.
Principal Private Residence Relief (Main Home)	Completely exempt, subject to complex rules about periods of non-occupation. See our note on Principal Private Residence Relief.
Deferral Relief (Reinvestment in EIS shares)	May be claimed where a gain is reinvested into Enterprise Investment Scheme shares, the realisation of the gain is deferred until the EIS shares are sold. Reinvested must be within a period starting 12 months before and ending 36 months after gain realised.
Business Asset Rollover Relief (Reinvestment in Business Assets)	May be claimed where proceeds from sale of business assets reinvested into new qualifying business assets, within a period starting 12 months before and ending 36 months after gain is realised. Realisation of chargeable gain is deferred until new assets are then sold.
Holdover Relief (Gift Relief)	May be claimed for transfers of business assets, or where the transfer is immediately chargeable to IHT (e.g. into trust). Treated as nil gain/nil loss as for inter-spouse transfers.
Death	No CGT due on death. Market value on death becomes new owner's acquisition cost.

CAPITAL GAINS TAX

CGT RELIEFS AND EXEMPTIONS

- **Business Asset Disposal Relief (previously known as Entrepreneurs' Relief)**

  this allows the first £1 million of lifetime gains on the disposal of certain assets (e.g. unincorporated trading businesses and shares in trading companies where 5% or more is held) to be taxed at 10%.

  From December 2014, gains which would have been subject to this relief, which are deferred under reinvestment into the EIS or SEIS schemes, will remain entitled to relief when the gains are finally realised.

- **Investors' Relief**

  Was introduced in 2016, and is similar to Business Asset Disposal Relief.

  This relief is available to external investors purchasing newly issued shares in unlisted trading companies from 17 March 2016, provided these are held for a minimum of 3 years from 5 April 2016.

  The maximum lifetime limit for gains benefitting from this investors' relief remains at £10 million.

STAMP DUTY ON RESIDENTIAL PROPERTY

Stamp Duty is charged on certain documents completed in the UK and on property transactions in England & NI. Land and Buildings Transactions Tax has been levied in Scotland from April 2015, and Land Transaction Tax has been levied in Wales from April 2018. Tax, by whatever name, is levied on the value of the property purchased falling into each band, at the rates below:

England & NI (SDLT)		Wales (LTT)		Scotland (LBTT)	
Bands (£)	Rates (%)	Bands (£)	Rates (%)	Bands (£)	Rates (%)
0 – 250,000	0	0 – 225,000	0	0 – 145,000	0
250,001 – 925,000	5	225,001 – 400,000	6	145,001 – 250,000	2
925,001 – 1.5m	10	400,001 – 750,000	7.5	250,001 – 325,000	5
Over 1.5m	12	750,001 – 1.5m	10	325,001 – 750,000	10
-	-	Over 1.5m	12	Over 750,000	12

STAMP DUTY ON RESIDENTIAL PROPERTY

- **First time buyers** have an extended zero rate band to £425,000 (for purchases up to £625,000) in England & NI, and £175,000 in Scotland.
- The **nil rate threshold for SDLT in England & Wales** is due to remain at these levels **only until 31.3.25** when it will fall back to £125,000 (£300,000 for first time buyers for properties up to £500,000).
- Where a **second residential property** is purchased (above the lower starting rate threshold of £40,000), an additional tax applies to the rates stated above in most situations, unless the property is bought to replace the existing main residence. For England & NI, this is 3%; for Scotland it is 4%; for Wales, it is 4% on the portion up to £180k and 7.5% on the portion £180k-£250k.
- Where residential property over £500,000 is purchased by a **corporate entity** then 15% applies. In addition, for residential properties over £1million owned by a corporate entity, an Annual Tax on Enveloped Dwellings applies.
- An additional 2% tax applies on residential property in England & NI acquired by **non-UK residents**.

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INHERITANCE TAX

Inheritance tax (IHT) is charged on the value of an **estate at death**, on **certain lifetime gifts** and some **transfers into and out of trusts**. The **Nil Rate Band** exempts the first part of an individual's estate on death from IHT, or cumulative chargeable and potentially exempt lifetime gifts/transfers within a 7 year period. Thereafter IHT on death is charged at 40%, unless at least 10% of the estate is left to charity where a reduced rate of 36% applies.

There is also a **Residence Nil Rate Band** which can increase the exempt amount on death. The rules around this are complex and our specific note on the subject gives more details. Broadly, it applies where an eligible property (or value thereof if downsizing relief applies) is left to direct descendants (e.g. children, grandchildren, spouse). Where the value of the **net estate exceeds £2m, the RNRB is reduced** by £1 for every £2 over £2m.

IHT Rates	Rate (%)
On Death	40%
On Death, where 10% of the Estate is left to charity	36%
For Chargeable Lifetime Transfers	20%

IHT Main Bands	Amount (£)
Nil Rate Band [1]	£325,000
Residence Nil Rate Band [1 2]	£175,000

Notes:

1 Frozen to 5.4.28

2 Subject to all conditions being met and tapered down for estates over £2m. See our note on the RNRB for more details.

INHERITANCE TAX

LIFETIME GIFTS

The position on **lifetime gifts and transfers** can be complex, but broadly speaking you are able to gift to another **individual** any amount without IHT consequences, so long as you survive for 7 years after the date of gift.

Transfers into a **trust** are chargeable and subject to the **lifetime rate of IHT**, but if the value transferred remains within the nil rate band (cumulatively over 7 years with survival beyond this period), then no IHT would be due.

In order for a gift to be effective for IHT purposes it must be made without reservation. For example, it is not effective to give away your share portfolio to your children and continue to receive the income from it. In these circumstances you will have made a "**Gift With Reservation**" and the value of the portfolio will be included in your estate for IHT purposes on death.

Various tax planning schemes attempt to get around the Gift With Reservation rules and many of these are focused on the family home, which is often an individual's most valuable asset and the most difficult to give away. A new income tax in respect of '**pre-owned assets**' came into effect from 6 April 2005, which targets these schemes.

INHERITANCE TAX

OTHER IHT RELIEFS AND EXEMPTIONS

It is possible to reduce or eliminate liability to IHT by taking advantage of a number of reliefs and exemptions. The main ones are as follows:

Other IHT Reliefs and Exemptions	Details
Inter-Spouse Transfer	Complete exemption unless the recipient spouse is non-UK domiciled.
Potentially Exempt Transfer	Complete exemption on most outright gifts if donor survives for 7 years from date of gift.
Taper Relief	Tax due on gifts made within 7 years of death reduced by 20% (years 3-4); 40% (years 4-5); 60% (years 5-6); 80% (years 6-7).
Normal expenditure out of income	Complete exemption for genuine gifts out of surplus income where a pattern of such gifts is established.
Business Property Relief	Up to 100% relief on business assets which have been owned for at least 2 years, includes assets used in a trade and certain shareholdings.
Agricultural Property Relief	Up to 100% relief on agricultural assets which have been owned for at least 2 years, including land and possibly a farmhouse.
Annual Gifts Exemption	Up to £3,000 per annum, per donor. Unused exemption for previous year only can be carried forward.
Small Gifts	Up to £250 to each individual in each tax year. Cannot be combined with other exemptions.
Gifts on Marriage/Civil Partnership	Each parent can give £5,000; each grandparent can give £2,500; others can give £1,000.
Gifts to charities, political parties and for the national benefit	Complete exemption for qualifying gifts.

INHERITANCE TAX

WHO PAYS IHT?

The concept of **Domicile** is very important in determining who and what falls under the IHT rules (this may be replaced by a residence-based regime from April 2025, currently subject to consultation).

Broadly speaking an individual acquires a "**domicile of origin**" on birth (generally the domicile of their father) and will keep this domicile forever unless the facts suggest that a "**domicile of choice**" has replaced it.

A domicile of choice might be assumed, for example, if someone moved away from the UK, severed all permanent links with the UK and settled permanently in a new country with no intention of returning to the UK other than for occasional visits.

For **a UK domiciled individual, IHT is charged on death on worldwide assets, wherever these are located**.

For a non-UK domiciled individual IHT is only charged on assets physically located in the UK, such as UK property.

FIND OUT MORE

If you have any questions about our investment methodology, or would like some financial planning or investment advice, the clarity team are here to help.

Please contact your usual clarity adviser, or get in touch using the details below:

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