TIM
UNDERWOOD

Newsletter – October 2024

The UK government introduced the first Labour budget for 14 years and as expected raised taxes. The amount in the headlines was 40 billion pounds and by comparison the UK spends about 54 billion on defence in a year, so it was a sizable increase. The main source of extra tax is from a higher employment tax, now at 15% so if a company employs someone, on a salary of 60 thousand pounds per year, they pay 9 thousand pounds in tax/national insurance. For someone living outside of the UK the interesting change was the decision to end the concept of domicile. This is important because domicile is the determining factor regarding UK Inheritance Tax (IHT).

IHT is paid on all estates where someone is UK domiciled. People often think leaving the UK will end their domicile status but that is not always the case. A change of residence does not mean a new domicile and IHT might still be payable. That all changes from 6 April 2025 when the UK government intends to replace the historic approach to domicile with a new residence-based system to be known as 'Long-Term Residence (LTR). *Under LTR, the UK government will change the basic test for whether non-UK assets are in scope for IHT. The test will assess whether a person has been resident in the UK for 10 out of the last 20 tax years immediately preceding the tax year in which the chargeable event occurs, which includes death. If an individual is within the test, then IHT is chargeable on their world-wide assets. If not, then all UK situs assets owned by the individual will be in the scope of UK IHT subject to the nil rate band and any spousal exemptions that may apply.*

Double tax treaties do not always include IHT, as is the case with the UK and Germany and so there is potential to pay IHT both in the UK and Germany. To be completely free of UK IHT then residence outside of the UK needs to be for 10 years. Assets in the UK, for example a property, will however still be liable to UK IHT. The rate is 40% above the nil rate of 325,000 pounds and this is now set until April 2030. Also note ... f*rom 6 April 2027, most unused pension funds will be included within the value of an individual's estate for inheritance tax purposes.*

Beyond the new budget however the UK government is changing the rules on renting property in the UK. For many years most UK rents are based on a six month tenancy agreement. New laws are changing this so that a tenant cannot be forced to leave a property after six months. This will have a major impact on the housing market in the UK and I can see two groups of properties developing. One group has vacant properties and a second group where there is a sitting tenant. The latter may well have less value than the former as it can only be sold to someone who wants a property with a sitting tenant. In times past the property owner could get the property free of tenants at the end of the agreement and then sell it to whoever wanted to live in the property. With a sitting tenant only property investors will be willing to buy such a property. Banks may be less keen to offer mortgages. The budget also increased the tax on buying a UK property for a non-UK resident and it can be now as much as 19%. With that tax, the greater tenant rights and the potential IHT liability, investing in UK property is going to be a lot less attractive to non-UK residents in the future.

Best wishes

Tim Underwood 15 Nov 2024