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Legal Update

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United Kingdom: Autumn Budget 2024 – Key business tax highlights

In brief

On 30 October 2024, the new Labour government Chancellor, Rachel Reeves MP, delivered her first Budget with the objective of restoring economic stability in the UK. For businesses operating in the UK, the welcome publication of the anticipated Corporate Tax Roadmap illustrates the government's intended approach to business taxation during this Parliament. We set out below further details about what is included in the Roadmap and highlight some of the other key business tax announcements made in the Autumn Budget.

Other headline-grabbing announcements related to the changes to capital gains tax rates, changes to the tax treatment of carried interest, the abolition of the remittance basis of taxation for non-UK domiciled individuals and increases to employer National Insurance contributions. For more detail on those announcements, please see our Wealth Management alert here and Employee Benefits alert here.

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In more detail

Corporate Tax Roadmap

As part of the Autumn Budget, the government published a Corporate Tax Roadmap ("**Roadmap**"), which is intended to provide clarity about the UK's corporation tax system and highlights areas where the government expects changes in the coming months and years. The government wants to provide businesses with a stable and predictable tax system and makes a number of commitments which it considers will "keep the UK's regime competitive and supportive of investment":

- **Corporation Tax Capped at 25%** - the headline rate of corporation tax will be capped at 25% during this Parliament, the lowest rate in the G7. In addition, the small profits rate and marginal relief will be retained at current rates and thresholds. The government wants to ensure that the UK remains an attractive jurisdiction for international headquarters and holding companies and is committed to retaining key features of the UK's corporation tax regime to encourage investment.

- **Current R&D Tax Reliefs, Patent Box and Intangible Fixed Assets Regime Maintained** – the tax reliefs under the new merged R&D expenditure credit scheme and the enhanced support for R&D intensive SMEs will be maintained. The government also wants to improve the administration of R&D tax reliefs and is planning to establish an R&D expert advisory panel, as well as improve signposting and guidance on the reliefs and launch an R&D disclosure facility by the end of this year. The government has also committed to discussing widening the use of advance clearances for R&D reliefs with stakeholders and a consultation is expected on this in Spring 2025. The government has committed to maintaining the patent box and preserving the current approach to intangible fixed assets.

- **Continued Support for the OECD's Two-Pillar Solution.** On Pillar One, the government has welcomed the progress that has been made to date, including on the Amount A Multilateral Convention, and hopes that the remaining issues on Amount B can be resolved urgently. It also reiterated the UK's commitment to repeal the UK's digital services tax (DST) when Pillar One is in place. A review of the DST is due in any event in 2025 and the timing and format of this review will be considered in light of the progress made on Pillar One in the coming months. On Pillar Two, the government has also reaffirmed its commitment to implementing the Global Anti-Base Erosion (GloBE) rules and has confirmed that the undertaxed profits rule (UTPR) will be introduced in the UK with effect from 31 December 2024. The UK will continue to ensure that its rules reflect internationally agreed updates to the GloBE rules and the Subject to Tax Rule. The government has also said that it will continue to consider opportunities for simplification or rationalisation of the UK's rules for taxing cross-border activities in light of Pillar Two – noting in particular the repeal of the Offshore Receipts in respect of Intangible Property (ORIP) legislation from 31 December 2024 to coincide with the introduction of the UTPR (see further details on this below). The government acknowledges the tax compliance burden for businesses that comes with navigating the new Pillar Two rules and notes that HMRC has a dedicated compliance team and is developing technical guidance to assist businesses with this.

- **Capital Allowances System Maintained** – the capital allowances system will be maintained, including retaining permanent full expensing (the 100% first-year allowance for companies on qualifying new main rate plant and machinery and the 50% first-year allowance for companies on qualifying new special rate plant and machinery), the GBP 1 million Annual Investment Allowance, writing down allowances for main rate and special rate plant and machinery and the Structures and Buildings Allowance. As highlighted in their manifesto, the government is also going to provide businesses with greater clarity on what qualifies for different capital allowances to improve business investment decisions and, over the course of the Parliament, will seek to simplify the capital allowances legislation to make it more straightforward. It is also going to explore the tax treatment of predevelopment costs and the extension of full expensing to assets bought for leasing.

The Roadmap also includes a list of consultations stakeholders can expect in the coming months including consultations on:

- Reforms to the UK's rules on transfer pricing, permanent establishments and diverted profits tax, including the potential removal of UK-to-UK transfer pricing. This follows up from a 2023 consultation carried out under the previous government, which is intended to provide increased certainty and better alignment with tax treaties;
- The introduction of a new filing obligation that will require businesses in scope of transfer pricing rules to report information to HMRC on certain cross-border related party transactions, intended to enable HMRC to better identify transfer pricing risk and allow for more targeted enquiries;
- Reviewing the transfer pricing treatment of cost contribution arrangements, where the costs and benefits of developing intellectual property are shared by group companies;
- Bringing medium sized businesses within the scope of the UK's transfer pricing rules by reducing the existing thresholds of the SME exemption (an exemption will be maintained for small businesses); and
- A new process for increasing the tax certainty available in advance for major investments.

Finally, the government wants to increase certainty in the corporation tax regime. It plans to modernise the administration of tax and will set out further details on this in the Spring.

UK adoption of Pillar Two

The announcements relating to Pillar Two were consistent with expectations. First, it was confirmed that the UTPR will take effect for accounting periods beginning on or after 31 December 2024. The UTPR will bring a share of top-up taxes that are not paid under another jurisdiction's income inclusion rule or domestic minimum top-up tax into charge in the UK. Draft legislation had already been published for consultation and changes have been made to this to reflect stakeholder feedback. The legislation implementing the UTPR will be included in the Finance Bill.

Second, there will be further legislation in the Finance Bill to make additional amendments to the Multinational Top-Up Tax (MTT) and the Domestic Top-Up Tax (DTT) ensuring that the UK legislation remains consistent with the Commentary and Administrative Guidance to the GloBE rules agreed by the Inclusive Framework. These amendments include the introduction of the transitional country-by-country reporting safe harbour anti-arbitrage rule. Draft legislation for this was published in July and minor changes have been made reflecting responses received. Although many of the amendments will take effect for accounting periods beginning on or after 31 December 2024, care will need to be taken as some amendments will have effect from 31 December 2023 and the anti-arbitrage rule will take effect from 14 March 2024. Provision is being made for certain territories and domestic minimum top-up taxes to have qualifying or accredited status in accounting periods ending before regulations are made specifying particular territories and taxes.

Offshore Receipts in respect of Intangible Property

As mentioned above, ORIP will be repealed in respect of income arising on or after 31 December 2024. It is considered that the new Pillar Two rules will "more comprehensively discourage" the arrangements that ORIP sought to counter and, therefore, the repeal has been timed to coincide with the introduction of the UTPR. This is a welcome change for businesses, removing one set of complex rules from the statute book at a time when businesses are having to navigate the new Pillar Two regime, not only in the UK but worldwide. It is hoped that the government will take the opportunity to further simplify and rationalise UK tax rules in light of Pillar Two as envisaged by the Roadmap.

Energy and the Environment

As previously announced, with effect from 1 November 2024, the Energy Profits Levy (EPL) will increase from 35% to 38% and will be extended for a further year to 31 March 2030. The EPL's Investment Allowance of 29% will also be removed and the rate of the Decarbonisation Investment Allowance will be reduced to 66%. The government intends to publish a consultation in Spring 2025 on how it will respond to price shocks once the EPL ends in 2030.

Alongside this, the government intends to introduce legislation to provide relief for certain payments made by oil and gas companies into decommissioning funds where assets are transferred for use in Carbon Capture Usage and Storage activities, to maintain the tax treatment had these assets been decommissioned instead. It will also exempt associated receipts received by oil and gas companies from the EPL.

A consultation response was published on the proposed UK carbon border adjustment mechanism (CBAM), which will be introduced from 1 January 2027. The CBAM will place a carbon price on some of the most emissions intensive industrial goods imported to the UK from the aluminium, cement, fertiliser, hydrogen and iron and steel sectors that are at risk of carbon leakage. Products from the glass and ceramics sectors will be out of scope. HM Treasury and HMRC will be continuing to engage with stakeholders through the establishment of a CBAM industry working group and a UK CBAM international group will be established by the government to engage with other governments whose exporters have a keen interest in the CBAM. The Finance Bill will include legislation to allow HMRC to prepare for the introduction of the CBAM and enable the UK Emissions Trading Scheme Authority to supply relevant data to HM Treasury and HMRC, to support the development of the CBAM.

For completeness, we also note that:

- The rate of Plastic Packaging Tax will be increased in line with the Consumer Price Index with effect from 1 April 2025;
- The standard and lower rates of Landfill Tax will be increased in line with the Retail Price Index (RPI), adjusted to account for high inflation from 2022 to 2024 with effect from 1 April 2025;
- The rate of Aggregates Levy will be increased in line with the RPI with effect from 1 April 2025; and
- The main rates of Climate Change Levy on electricity, gas, and solid fuels in line with the RPI with effect from 1 April 2026. The main rate of liquefied petroleum gas will continue to be frozen and the reduced rates of Climate Change Levy will remain at an unchanged fixed percentage of the main rates.

Tax Compliance Measures

In September, the Chancellor revealed a package of reforms to improve the UK's tax system, which announced the Exchequer Secretary to the Treasury, James Murray, had become the Chair of the HMRC Board to help oversee the implementation of his three strategic priorities for HMRC; closing the tax gap, modernising and reforming, and improving customer service.

As part of these efforts, the Chancellor announced in the Autumn Budget that HMRC is recruiting an additional 5,000 compliance staff and providing funding for 1,800 debt management staff. The government is also investing in modernising IT and data systems to improve HMRC's productivity and improve taxpayers' experience of dealing with the tax system (and a Digital Transformation Roadmap is expected in Spring 2025).

Further to this, as part of the Tax Administration Framework Review, a summary of responses to the consultation on enquiry and assessment powers, penalties, safeguards was published alongside the Autumn Budget and HMRC is using the responses to inform future reforms. HMRC intends to consult on:

- Potential reforms making it quicker and easier for taxpayers to correct mistakes early;
- Opportunities to reform HMRC's use of behavioural penalties; and

- Ways to improve taxpayer access to alternative dispute resolution and statutory review to help resolve more disputes before they reach tribunal.

Further announcements demonstrate the clear intention by the new government to tackle tax compliance, including that the government:

- Is increasing the late payment interest charged by HMRC on unpaid tax liabilities by 1.5% from 6 April 2025;
- Is considering options to strengthen the regulatory framework in the tax advice market following a previous consultation;
- Is consulting on changes to HMRC's existing powers and processes, and the potential for a new power to require taxpayers to correct mistakes themselves;
- Is introducing legislation to tackle tax non-compliance in the umbrella company market;
- Is investing in modernising HMRC tax advice registration services and mandate registration of tax advisers who interact with HMRC on behalf of clients from April 2026;
- Will consult on a package of measures to tackle promoters of marketed tax avoidance in Spring 2025; and
- Will consult on enhancing HMRC's powers to deal with tax advisers who facilitate non-compliance in Spring 2025.

This certainly was a big, historic Budget for Rachel Reeves and the new Labour government, containing much for businesses to digest. Please contact us, or your regular Baker & McKenzie contact, should you have any questions or want to discuss further.

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