AIMS 10th Anniversary Pensions and Investments

Circular November 2024

UK Budget announcements

Whilst this was a couple of weeks ago now, we've had to take time to investigate the proposed changes as there are some very technical aspects which we needed to obtain feedback from trust providers to understand the full implications.
Whilst there are other elements which will affect UK residents/companies, in terms of tax and national insurance, we are focusing here on 3 main points which may affect expats and their decisions as to whether to leave or return to the UK.

Pensions

From 6th April 2027 all pensions will be liable for UK Inheritance Tax (IHT). This is subject to industry consultation as it is complex to implement and so why the Government need 2 ½ years to bring into law. This would include UK SIPPs, QROPS and QNUPS. The latter are included as whilst set up in offshore jurisdictions, they are beneficial because of UK regulations and so their status has changed accordingly. This means trustees would need to deduct IHT prior to distribution of funds to beneficiaries on death.

These plans are still pensions written under discretionary trust with nominated beneficiaries written outside of your will for planning purposes.

Non-Dom change to Residency tax test

From 6th April 2025, a new residency test for IHT would mean long term expats will no longer be liable for IHT on all assets, only UK assets. The new test is quite involved but in simple terms if you are non-UK resident for 10 out of the 20 years before death, then your non-UK assets will not be taxed. This has major implications which need to be seriously considered whether thinking about leaving or returning to the UK. If you currently hold investments in the UK, as an expat, it could be a good reason to move them offshore. If you need more in depth information on the residency test, let us know.

Capital Gains Tax (CGT)

The increase in UK CGT from 20% to 24% makes offshore planning for UK non-residents even more advantageous to expats than for those living in the UK. The Channel Islands for example has zero CGT so investment growth on a like for like basis would return 24% more than for those living in the UK.

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Expats

For expats who retain investment assets onshore UK and who intend remaining expat, there is logic in transferring the assets into an offshore jurisdiction so they can remain outside UK IHT, CGT and withholding taxes.

US Election

We've seen an initial stock market upturn and USD strengthening following the formal announcement of Donald Trumps election victory.

Importantly, the Republican party has taken control of the US Senate and look likely to control of the House of Representatives. This would mean a clean sweep for the Republican party, allowing Trump to push through his agenda. They also hold a majority in the Supreme Court.

Given Republicans will likely control the policy making agenda for the next 2 years at least (until the mid-term elections), major policies could include lower taxes, higher taxes, renegotiated trade deals, deregulation and lower interest rates:

- *Tariffs to be introduced on goods imported into the US - Trump has threatened to raise tariffs to 60% on goods imported from China and to 20% on the rest of the world. This would bring average US levies above 20%, a level not seen since the early 20th century. Tariffs are typically inflationary and may well dampen growth, as the increases in prices could either impact corporate profit margins or be passed on to the end consumer, slowing growth and increasing prices paid for goods.*

- *Reduction in the corporate tax rate – Trump has discussed cutting the corporate tax rate from 21% to 15% -Citi estimate that this acts as a boost of 6% to the earnings of US Stocks out to 2026, but clearly worsens the US fiscal position.*

- *Extending tax cuts. Trump has pledged to extend the Tax Cuts and Jobs Act for individuals that was introduced in his first term in 2017. This act lowers the federal tax burden for individuals, and Trump has also mentioned eliminating taxes on Social Security Benefits, tips and overtime pay.*

- *Interest rates were coming down anyway and further cuts will depend on economic stability.*

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Given the 'Red Sweep' was the most detrimental in terms of the US Fiscal position, there has been a sell-off in bond yields. Further, a rise in the Dollar, as well as a rally in US stocks relative to other regions (as tax cuts help the earnings of these businesses).
In the medium term, whilst political policy is important, it is the overall macroeconomic health of the US that will matter to both US equities and bonds. This will depend not just on the fiscal policy decisions of the Republican government – but how consumer spending and corporate earnings evolve.

Taxation
We are financial planners, not tax advisers so we'd recommend if you have any tax implications to your personal circumstances, you refer to an independent tax advisor. Please do not rely on our information as advice. We have worked with independent tax advisers in the UK and overseas. Please do contact us for further details if needed.

Referrals
AIMS is proud of our fee-based active investment service proposition which we believe is unique in the region. Most of our new clients are referred from existing clients whom we have long term relationships with us. AIMS is now in its 10th year, and we always welcome client referrals into the AIMS family.

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