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David Mundell MP and Valerie Vaz MP  
Chairs of the Finance Bill Public Bill Committee  
House of Commons  
London  
SW1A 0AA

24 January 2025

Dear David and Valerie

## **FINANCE BILL 2024-25: GOVERNMENT AMENDMENTS**

I am writing to inform you of proposed Government amendments to the Finance Bill, which have been tabled ahead of the Public Bill Committee.

### **Clause 19 and Schedule 4: Pillar 2**

Clause 19 and Schedule 4 amend legislation introducing an internationally agreed global minimum tax in the UK, known as Pillar 2. Pillar 2 addresses aggressive tax planning by large multinational enterprises with revenues over €750 million by ensuring that they will pay a minimum 15% effective tax rate on their profits in every jurisdiction in which they operate.

These amendments make a number of technical corrections and additions to both the Bill before Parliament and to the previously enacted legislation in the Finance (No.2) Act 2023 to ensure the policy works as agreed, reflecting stakeholder feedback and internationally agreed guidance. In more detail:

- Amendments 1 and 2 ensure the correct amount of tax is levied on UK companies under the Under Taxed Profits Rule (UTPR). The changes make it clear that the UK tax liability will only be in relation to the proportion of the total taxable amount attributable to the UK and determined in accordance with the wider UTPR provisions, rather than on the entirety of that taxable amount.
- Amendment 3 introduces rules to specify the outcomes in cases where the Pillar 2 tax rules require the use of different values from those shown in entities' accounts (in particular in relation to certain consequential adjustments)
- Amendment 4 clarifies how to calculate top-up amounts in cases where amounts for a prior period have had to be recalculated.
- Amendments 5-11 make sure that multinational top-up tax, and domestic top-up tax, apply properly in cases involving joint ventures.

- Amendment 12 ensures that market value is only substituted for Pillar 2 purposes in cases where an asset transfer is accounted for on a no gain/no loss basis where that transfer is between entities which are not part of the same effective tax rate calculation.
- Amendment 13 ensures that UK legislation reflects international agreement in cases where the amount of tax paid in a previous period is adjusted after a group has submitted its tax return by providing that no recalculation of the group's effective tax rate in a territory need be made in certain cases. It also corrects the calculation of multinational top-up tax payable in relation to investment entities that would have resulted in an excessive liability. This part of the amendment is retrospective in effect from the introduction of the Pillar 2 rules, since it is entirely beneficial to taxpayers.
- Amendment 14 provides for the retrospective application of part of amendment 13 as referred to above.
- Amendments 22 and 23 ensure that the rules relating to the substance-based income exclusion work correctly in cases where payroll costs are incurred by, or tangible assets are held by, flow-through entities.
- Amendments 21, 24, 26, 27, 28, 29 correct minor typographical and other errors.
- Amendment 25 ensures the correct allocation of taxes as between an entity with a permanent establishment and that permanent establishment.
- Amendment 30 ensures that the amended provision refers to members of a joint venture group rather than members of a group that part-owns the joint venture.
- Amendments 31-37 make adjustments to the rules surrounding the retrospection election (under which groups may choose to apply many of the changes to the Pillar 2 rules in the Bill retrospectively) in order to reduce the administrative burden on groups seeking to make retrospection elections.

### **Clause 21: Application of PAYE in relation to internationally mobile employees etc.**

The process for employers who are required to operate PAYE for globally mobile individuals is being simplified. Amendments are required to the Finance Bill to facilitate this change:

- Amendments 15, 16, and 17 ensure that employers can provide an updated notification during the tax year if more up to date information about an employee's working pattern is received.
- Amendment 18 specifies that it is a Commissioners' Direction and not a generic public notice that will set out the manner and form of the employer notice and the information that it must include.
- Amendment 19 is needed to explicitly state that PAYE directions for tax year 2025/26 and onwards issued prior to April 2025 will cease to have effect. This is an administrative change related to the transition to the new Overseas Workday Relief regime.

### **Clause 31 and Schedule 6: Employee Ownership Trusts**

An Employee Ownership Trust (EOT) is a corporate ownership structure whereby a controlling shareholding of a company is held by a trust specifically set up for that purpose. Clause 31 and Schedule 6 of the Finance Bill makes a range of targeted reforms to the EOT tax regime to ensure that the reliefs remain focused on encouraging and supporting employee ownership while preventing opportunities for abuse.

Part 2 of Schedule 6 introduces a new distributions relief that will apply to certain costs incurred by the trustees of an EOT in connection with their acquisition of a controlling interest in the target company. This gives legislative confirmation to the tax treatment that was previously routinely confirmed through clearance applications.

The government is tabling the following amendments to Part 2 of Schedule 6 in relation to this new relief, following stakeholder feedback and to ensure that the relief operates as intended.

- Amendments 38 and 40 ensure that the distributions relief is available in circumstances where the Capital Gains Tax relief is not available because the vendor is a company (provided that the other conditions for the relief have been met).
- Amendments 39 and 41 confirm that relief is only available with respect to distributions made for the purpose of meeting the acquisition costs.
- Amendments 42 and 43 expand the scope of acquisition costs that can benefit from this relief to include other expenses as may reasonably be incurred in direct connection with the acquisition.

### **Clause 37: Claim for relief on foreign income**

Clause 37 introduces a new relief from income tax on the foreign income of individuals that are within their first 4 years of being UK tax resident following a period of 10 years of being non-UK tax resident. An amendment is required to ensure that the relief functions as intended:

- Amendment 20 provides for income treated as arising to a settlor of a trust as a result of a capital payment made by the trustees to be eligible for relief to the extent that the deemed income arises from foreign income.

### **Clause 38 and Schedule 8: Claim for relief on foreign employment income**

This clause and schedule introduce new rules governing Overseas Workday Relief for qualifying new residents following the removal of non-domicile status and the remittance basis of taxation. Overseas Workday Relief will continue to provide Income Tax relief on qualifying employment income which relates to employment duties performed outside the UK.

Multiple amendments are needed to ensure that relief on travel costs for employees newly resident in the UK function as intended:

- Amendment 44 makes the parenthetical descriptions of sections 373 and 374 of ITEPA 2003 consistent with those sections as amended by Schedule 8.
- Amendment 45 amends the reference to qualifying new resident within section 341 of ITEPA 2003 to ensure that in order to claim relief on travel costs at the start and finish of an overseas employment, an employee cannot be a qualifying new resident.
- Amendment 46 amends the reference to qualifying new resident within section 342 of ITEPA 2003 to ensure that in order to claim relief on travel expenses in respect of employment duties carried on abroad, an employee cannot be a qualifying new resident.
- Amendment 47 amends the reference to qualifying new resident within section 355 of ITEPA 2003 to ensure that the deductions available for qualifying new residents with a foreign employer function as intended.
- Amendment 48 inserts a reference to non-resident within section 360 of ITEPA 2003 to ensure that the parenthetical description of section 373 of ITEPA 2003 consistent with that section as amended by Schedule 8.
- Amendment 49 amends the reference to qualifying new resident within section 373 of ITEPA 2003 so that the deductions available for qualifying new residents with respect to their travel expenses to and from the UK function as intended.
- Amendment 50 amends the reference to qualifying new resident within section 374 of ITEPA 2003 so that the deductions available for qualifying new residents with respect to the travel expenses of their spouse and minor children to and from the UK function as intended.
- Amendment 51 reinstates section 375 of ITEPA 2003 which defines “qualifying arrival date” this is needed so that sections 373 and 374 of ITEPA 2003, which provide a tax relief in respect of the travel costs for non-UK residents and employees that are within their first 4 years of being UK tax resident following a period of 10 years of being non-UK tax resident, function as intended.
- Amendment 52 amends the reference to qualifying new resident within section 376 of ITEPA 2003 to ensure that in order to claim relief on foreign accommodation and subsistence costs in respect of employment duties carried on abroad an employee cannot be a qualifying new resident.
- Amendment 53 makes the parenthetical descriptions of sections 373 and 374 of ITEPA 2003 contained in the Social Security (Contributions) Regulations 2001 consistent with those sections as amended by Schedule 8.
- Amendment 54 amends “public notice given” to “general direction made” to ensure the requirements of notices under new section 690D, application of PAYE to earnings attributable to UK duties, will be specified in a general direction made by HMRC rather than a public notice.

**Clause 40 and Schedule 9: Remittance basis not available after tax year 2024-25**

This clause and Schedule abolish the special income tax and capital gains tax regime (the remittance basis) for persons who are resident but who are not domiciled in the United Kingdom for tax years 2025-26 and subsequent years.

Considering the ending of the relevance of domicile to income tax, several amendments are required to address references to the concept of domicile that are now redundant which had not previously been included within the Bill:

- Amendment 55 in conjunction with Amendment 56 omits subsections with respect to deemed employment that have become redundant in light of the ending of the relevance of domicile to income tax.
- Amendment 57 ensures that an individual's domicile will not be a relevant factor for FOTRA Treasury Stocks, which are issued Free of Tax for Residence Abroad.
- Amendment 58 removes references to domicile in provisions of the Income and Corporation Taxes Act 1988 relating to relief on income from investments of certain pension schemes.

#### **Clause 41 and Schedule 10: Temporary Repatriation Facility**

This clause and Schedule provide for a 'Temporary Repatriation Facility' (TRF) under which former remittance basis users may designate and pay a charge on qualifying foreign capital in order to secure that the remittance of amounts of that capital does not result in a charge to income tax or capital gains tax.

- Amendment 59 corrects an incorrect reference.

#### **Clause 43 and Schedule 12: Trusts: connected amendments, transitional provisions etc**

This clause and Schedule make special provision about trusts in connection with the introduction of relief for qualifying new residents and the abolition of the remittance basis of taxation. It also removes certain protections for foreign-source income that have been available since the tax year 2017-18 and makes transitional provision in respect of income that arose in past tax years.

Amendments are required to ensure that the "onward gifting provisions", which are designed to ensure that taxpayers cannot avoid a liability by gifting funds to a close family relative, extend to circumstances where benefits are provided to a UK resident:

- Amendments 60 and 61 expand the scope of the onward gifting rule to circumstances where benefits are routed via individuals who are UK resident but who are not themselves within the scope of the benefits charge (because they are not the settlor or a close family member)

#### **Clause 46 and Schedule 13: Consequential, connected and transitional provision**

This clause and Schedule set out additional changes consequential on or connected to the changes which replace the domicile-based inheritance tax (IHT) system with a new residence-based system.

- Amendments 62 and 63 are additional minor consequential provisions to the section providing general definitions, including to remove the definition of 'formerly domiciled resident'.
- Schedule A1 of IHTA 1984 provides rules preventing property from being excluded property and outside an IHT charge in circumstances such as tax avoidance schemes or enveloped UK residential property. Amendment 64 provides minor changes to reflect the new excluded property rules defining when property such as non-UK property in a settlement is not subject to IHT.
- Amendment 65 confirms that the saving of the old definition of when a person was deemed to be UK domiciled for IHT purposes should also include the definition of where they were a 'formerly domiciled resident'. This will be relevant in applying double taxation conventions based on fiscal domicile.

#### **New Clause 1: General Haulage Rate**

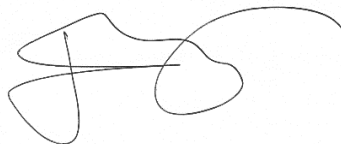
New Clause 1 provides for an increase in the rate of vehicle excise duty applicable to the General Haulage tax class.

At AB24 the Government announced that Vehicle Excise Duty standard rates for all vehicles would be uprated in line with RPI from 1 April 2025 for the 2025/26 year. However an uplift to the General Haulage Rate was inadvertently excluded from the Bill.

Amendment NC1 to the Bill is therefore required to update the currently recorded rate for the General Haulage tax class (tax class 55) from £350 to £365 in line with RPI. Changes will apply from 1 April 2025 for the 2025/6 tax year as was intended in the Budget announcement.

I am copying this letter to the other members of the Public Bill Committee and am depositing a copy of this letter in the Library of the House.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'James Murray', with a long, sweeping flourish extending to the right.

**JAMES MURRAY MP**