HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Gareth Davies MP & James Wild MP
Portcullis House
1 Victoria Embankment
London
SW1A 2JR

28 February 2025

Dear Gareth and James,

FINANCE BILL 2024-25: OUTSTANDING RESPONSES

Thank you for your contributions at Public Bill Committee. There were areas where the Economic Secretary to the Treasury and I undertook to respond in writing with further detail on questions that you raised – and I am setting out answers to these here.

Clause 21: Application of PAYE

You inquired about the treatment of treaty non-resident cases under the new section 690 provisions and whether an alternative process would be made available. I can confirm that HMRC intends to continue supporting treaty non-residents, allowing them to use the new PAYE digital process.

You also raised concerns that the Bill does not explicitly cover scenarios where a section 690 determination is required, such as cases in which all UK tax on foreign employment income is covered by foreign tax credits. Currently, employers can apply for provisional foreign tax credit relief under an Appendix 5 arrangement rather than relying on section 690. This enables an employer deducting both PAYE and foreign tax from employment income to offset the foreign tax against PAYE deductions. For example, if an employer is required to deduct £4,000 of PAYE tax and £3,000 of foreign tax from a £10,000 payment, an Appendix 5 arrangement allows them to deduct only £1,000 of PAYE tax, in addition to the £3,000 of foreign tax.

Further to this, you requested confirmation of the expected impact of these changes. It is anticipated that the number of claimants for overseas workday relief will rise from nearly 5,000 in 2022/23 to over 10,000 per year under the new regime. This reform will also reduce processing delays for an estimated 800 to 1,200 employers, as they will no longer need to wait for an HMRC direction. Currently, processing times are approximately four months; from 6 April 2025, employers will be able to operate PAYE on a reduced proportion of earnings from the date of online application acknowledgement, which should be immediate. An HMRC officer will review each notification post-acknowledgment and can issue a direction overriding the employer's notification if tax compliance concerns arise. Employees will still be required to submit self-assessment tax returns for Overseas Workday Relief, consistent with existing compliance requirements.

Finally, you asked how the amended process will operate for specific groups and suggested that further clarification may be required. As outlined above, the new process is designed to reduce delays while ensuring compliance. We are committed to supporting all affected customers throughout the transition and welcome external engagement on this matter.

<u>Clause 23 & 24: Expenditure on zero-emission cars & charge-points</u>

You requested information on the number of claims made for these specific allowances and the estimated impact of Clauses 23 and 24. HMRC's tax administrative data estimates that 6,000 unincorporated businesses and 13,000 incorporated businesses per year will be affected by these measures.

For the tax year 2022-23, the number of unincorporated businesses claiming these allowances was as follows:

- 1,100 claimed the first-year allowance for electric vehicle charging points; and
- 4,900 claimed the first-year allowance for zero CO2 emission and electric cars.

For the same period, the number of companies claiming these allowances was as follows:

- 2,000 claimed the first-year allowance for electric vehicle charging points or recorded balancing charges; and
- 11,000 claimed the first-year allowance for zero CO2 emission and electric cars or recorded balancing charges.

These figures may contain some degree of double counting, as some businesses may have claimed both allowances.

You also asked about the operational impact of these measures. The Tax Information and Impact Note estimates the operational cost of implementation at £1.2 million. This includes necessary changes to IT systems associated with Corporation Tax and Income Tax, as well as testing and changes to the development work underway through with the Making Tax Digital programme. The cost estimates will be refined as the measure progresses through implementation stages.

Finally, regarding the total number of unincorporated businesses that have exhausted their Annual Investment Allowance, HMRC data indicates that approximately 150 unincorporated businesses fell into this category in 2022-23. However, as there are various reasons why businesses might opt to claim this first-year allowance instead of full expensing, the number of claimants (as set out above) is a more relevant metric.

<u>Clause 32: Overseas transfer charge</u>

You made inquiries about the removal of the exclusion from the Overseas Transfer Charge (OTC) of transfers to qualified pension schemes in the EEA and Gibraltar, and the revenue raised by the OTC since its introduction in 2017. Aligning the treatment of these transfers with those made to the rest of the world will help mitigate the risk of a double tax-free benefit and protect approximately £1 billion of UK tax-relieved pension savings. HMRC figures indicate that, between 6 April 2017 and 6 February 2025, the OTC has raised around £11 million.

You also asked about the impact of Clause 34, which mandates that scheme administrators must be UK residents from 6 April 2026. HMRC estimates that, of the approximately 160 schemes with non-UK resident administrators, only one or two may not meet the new requirements. There is a strong financial incentive for schemes to comply, and the extended lead-in period allows schemes to transition smoothly by appointing UK-based administrators. HMRC will provide further guidance through future Pension Schemes Newsletters to help schemes and individuals navigate these changes.

Additionally, you sought clarification on how the rule change would affect schemes where some trustees act as scheme administrators and are EEA-based, while others are UK resident. If no changes occur in the residence status of administrators before 6 April 2026, EEA-based administrators will automatically cease to be recognised as administrators, while UK-resident administrators will remain unaffected. In such cases, the scheme will retain a UK-based administrator, and there will be no grounds for HMRC to consider deregistration, assuming no other grounds exist. However, if all administrators are EEA-based, they will automatically cease to qualify from 6 April 2026, leaving the scheme without an administrator. In such cases, HMRC would assess whether to withdraw the scheme's registration, although deregistration is never automatic.

Clause 44: Excluded property

You raised concerns put forward by the Chartered Institute of Taxation regarding individuals who, having departed the UK before the new residence-based Inheritance Tax (IHT) regime begins on 6 April 2025, will nonetheless be considered long-term residents when the legislation takes effect, thereby incurring an IHT exit charge. Transitional provisions will be put in place so that a person who was not domiciled or deemed domicile in the UK and who is non-resident in 2025-26 and does not return to the UK will not fall within the scope of the new IHT rules concerning their non-UK assets and trusts.

However, some individuals who are non-resident in 2025-26 will remain within scope as long-term UK residents for up to three years, as they would have been deemed UK domiciled for that duration under the previous rules. This transitional measure serves as an easement, ensuring that these individuals do not face the full 10-year tail under the new rules, which apply to those who had been UK resident for 10 out of the previous 20 years. Instead, they will only be subject to IHT for a reduced three-year period post-departure.

During this period, the new rules will apply, including charges on trusts they have settled. These trusts may be subject to an exit charge (if applicable to that type of trust) when they fall outside the scope of UK IHT. This charge will be proportionate, reflecting only the period during which the settlor has been classified as a long-term UK resident after 6 April 2025.

Clause 74: Rates of Climate Change Levy

You highlighted the significant contribution of the UK chemicals industry, which represents the third-largest manufacturing sector in the country, contributing £30 billion to the economy and employing 138,000 people across 4,100 businesses and asked whether the Chancellor has met representatives from the sector. The Chancellor regularly receives updates on developments within the chemicals sector and remains committed to supporting its growth and sustainability. As part of this commitment, the Government is working closely with the Department for Energy Security and Net Zero (DESNZ) to assess how industrial decarbonisation plans impact the sector.

Energy-intensive businesses, including those in the chemicals industry, benefit from significant relief measures to mitigate high energy costs. Eligible businesses receive up to 92% discounts on their Climate Change Levy bills under the Climate Change Agreements scheme in return for meeting energy efficiency targets. The new six-year scheme, announced on 16 October 2024, will provide an estimated £1.9 billion in relief to 2,600 businesses across 53 industrial sectors, including chemicals. Additionally, the Government supports the industry through the Industrial Energy Transformation Fund, which provides grant funding for early mover technologies.

You also mentioned Grangemouth, which has long played a vital role within Scotland's industrial cluster. It is important we recognise this heritage and do everything possible to secure an industrial future for the site. The UK and Scottish Governments took immediate action following Petroineos's confirmation on the closure of the Grangemouth refinery. A joint investment plan was announced, including a £100 million funding package to secure a just transition for the Grangemouth workforce and community. This includes the £80 million Falkirk and Grangemouth Growth Deal, agreed upon with the Scottish Government and Falkirk Council, to invest in the local economy. An additional £20 million contribution from both Governments will support the community, its workers, and investment in local energy projects.

Moreover, on 23rd February the Prime Minister announced that the National Wealth Fund will provide £200 million of investment to new opportunities in Grangemouth as part of a major intervention to ensure the long-term future of the industrial site. The financing will be available for co-investment with the private sector to help unlock Grangemouth's full potential and secure the UK's clean energy future, subject to investible propositions and the Fund's criteria being met. The announcement comes on top of the existing investments outlined above from the UK and Scottish Governments.

Thank you for your engagement and we look forward to continuing our work together throughout the rest of the Bill's passage.

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,

James Murray