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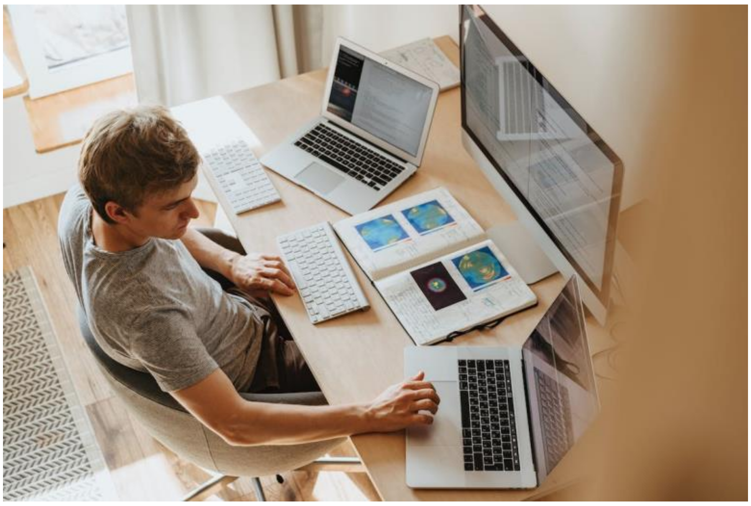
Newsletter

Issue 4 2023

PERSONAL TAX



CAN WE STILL BE PAID £6 A WEEK FOR WORKING FROM HOME?

During the COVID pandemic, the government relaxed the conditions to enable those working from home to be paid £6 a week tax free by their employer, or, where that was not paid by the employer, they could claim relief for £6 a week against their employment income for a tax refund from HMRC. Those relaxed rules applied for 2020/21 and 2021/22.

Many employers and employees may not be aware that from 6 April 2022, the rules reverted to the strict statutory position. Employees can claim tax relief if they have to work from home under a homeworking agreement, for example because:

- their job requires them to live far away from the office,
- their employer does not have an office, or
- the office is closed every Friday and employees are required to work from home that day.

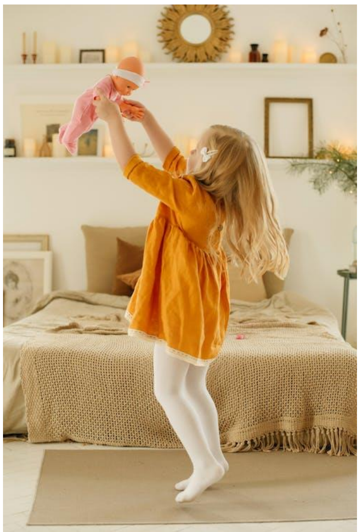
Tax relief cannot be claimed if the employee chooses to work from home.

INCOME TAX ON INHERITED PENSION FUNDS

Currently, where an individual pension holder dies before age 75, drawdown pensions paid to a successor can generally be received free from income tax. Where the pension holder dies over the age of 75, then the amounts drawn by the successor are taxed at their marginal income tax rate. Note also that the current tax rules provide that the value of the fund passes free of inheritance tax to the successor and thus forms an important part of estate planning.

Policy documents published in July 2023 include draft legislation to abolish the pension lifetime allowance and associated income tax charge. These were previously announced as part of Budget Day measures to lure workers aged over 50 back into work and are generally welcomed. However, the policy documents regarding changes to the taxation of pensions also included a suggestion that certain beneficiaries of pensions of members who died under age 75 may become subject to income tax as part of future tax changes, possibly from 2024/25. This would align with the tax position for beneficiaries of pensions where the member dies over age 75.

CHILD BENEFIT MAY CREATE A TAX CHARGE FOR THOSE WITH HIGH INCOME



Parents and carers need to be aware that if either of the couple have ‘adjusted net income’ in excess of £50,000 then the one with the higher income will potentially be charged to tax on some or all of the child benefit and will need to request a Self-Assessment Tax Return to report the amount of child benefit received in the tax year. The High-Income Child Benefit Charge (HICBC) was introduced in 2012/13 and imposes a 1% charge on the amount of child benefit received for every £100 that the taxpayer’s adjusted net income exceeds £50,000. ‘Adjusted net income’ is an individual’s total taxable income before any allowances, but after deducting Gift Aid, pension contributions, and trade union subscriptions.

Where the adjusted net income is £60,000 or more, then 100% of the child benefit is charged, effectively fully clawing back the child benefit. Note that the £50,000 threshold has not been increased since it was introduced in 2012 which means that more and more parents are being caught by the HICBC each year. It has recently been announced that in future years the government plans to deduct HICBC directly from salaries via PAYE.

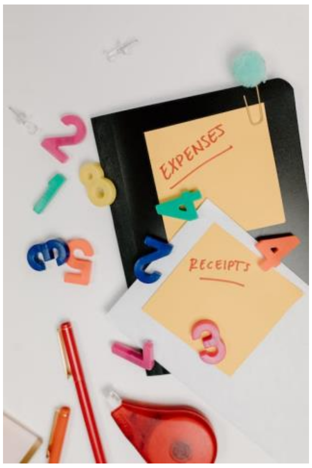
It is possible to opt out of receiving Child Benefit payments where adjusted net income exceeds £60,000. Consequently, the HICBC would not apply, and the child benefit would not need to be reported on the Tax Return. That may mean that a taxpayer who has their tax collected under PAYE would not be required to submit a Self-Assessment Tax Return. It is important to still fill in the Child Benefit claim form but state on the form that you do not want to get payments. That is important as the claimant would then receive National Insurance credits for that year, which count towards their State Pension entitlement.

One of the problems with the HICBC is that those taxpayers who pay their tax under PAYE are not normally required to file a Self-Assessment Tax Return. However, if they are parents and one of the couple is in receipt of child benefit, then they are required to request a Self-Assessment Tax Return from HMRC to report the child benefit if their adjusted net income exceeds £50,000 a year. HMRC have started assessing taxpayers to HICBC where they have not reported their child benefit in earlier years. Several taxpayers have successfully challenged these assessments through the courts in a number of recent tax cases. Whether or not a successful appeal can be made will depend on the circumstances in each case.

CORPORATION TAX

SUPER-DEDUCTION REPLACED BY “FULL EXPENSING”

In the Spring Budget, the Chancellor announced that “full expensing” – 100% relief for new, eligible plant and machinery – would replace the 130% super-deduction from 1 April 2023 for limited companies. This is in addition to the £1 million annual investment allowance (AIA) and will be available for expenditure incurred up to 31 March 2026.

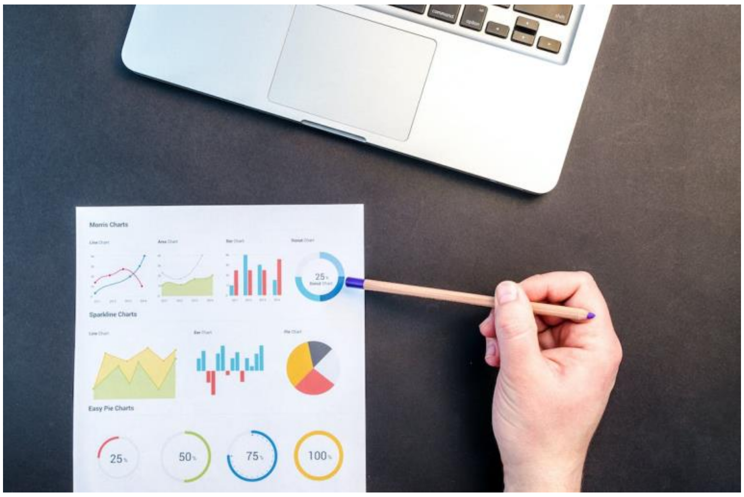


Unlike with AIA, the equipment must be new and must qualify for inclusion in the capital allowances general pool. The legislation specifically excludes motor cars and assets for leasing. The items purchased are not pooled with other equipment, and a separate record needs to be kept of each piece of equipment. That is because there is a clawback charge based on the disposal value of the asset.

Where the company’s year-end straddles 31 March 2023, the amount of super-deduction is pro-rated. For example, if the company had a year end of 30 September 2023, and incurred expenditure on a new machine before 31 March 2023, there would be 115% relief for that equipment. A new lorry purchased in May 2023 would only qualify for 100% full expensing.

Where a company buys new equipment that would normally be dealt with in the capital allowances special rate pool, such as the installation of air conditioning or central heating, the 50% first year allowance (FYA) continues to apply until 31 March 2026. The balance of expenditure would then be dealt with in the special rate pool with a 6% writing down allowance per annum on a reducing balance basis. Where the £1 million AIA is available it would be more advantageous to claim AIA at 100%, rather than the 50% FYA.

PROVIDE ADDITIONAL INFORMATION OF R&D CLAIMS FROM 1 AUGUST 2023



The latest Finance Act includes two changes that will affect all R&D claims:

(1) a requirement to provide additional information before an R&D claim is made; and
(2) a requirement for certain companies to make a claim notification within six months after the end of the accounting period for which they want to claim R&D relief.

When a limited company intends to make a claim for research and development (R&D) tax relief, from 8 August 2023 onwards it will need to provide detailed information to HMRC in advance. We can assist you in preparing the notification or prepare it on your behalf.

You will need to set out details of the R&D project(s) undertaken, including, in particular, the scientific or technical uncertainty that the work was seeking to overcome, along with details of the work done to resolve that uncertainty.

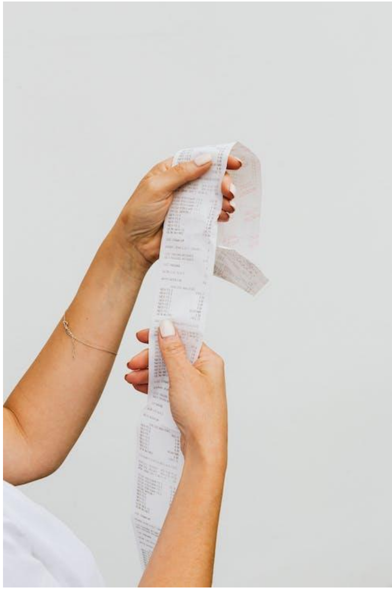
For accounting periods beginning on or after 1 April 2023, there is also a new R&D claim notification form which must be submitted within the ‘claim notification period’, which ends six months after the end of the accounting period for which the company wants to claim R&D relief.

Broadly, new claimants or those who haven’t claimed for three years will need to complete this claim notification form for accounting periods beginning on or after 1 April 2023.

VAT

SHOULD SMALL BUSINESSES STILL USE THE VAT FLAT RATE SCHEME?

The VAT Flat Rate scheme was introduced in 2002 to simplify VAT reporting for small traders, reducing the time taken to calculate VAT and prepare returns compared to normal VAT accounting. The thresholds for using (£150,000 pa) and exiting the scheme (£230,000 pa) have not changed since 2003. With the extension of Making Tax Digital to all VAT registered businesses, those traders are now required to keep digital records and, arguably, the time saving benefits have reduced. The decision as to whether or not traders should use the scheme should now be based on the amount of VAT payable and the risk of making errors.



Rather than recording and reporting input VAT on business expenses, and then deducting that input VAT from the output VAT on goods and services supplied, the trader merely has to report and pay VAT based on the flat rate percentage for that category of business multiplied by the VAT inclusive receipts. The percentages currently range from 4% for businesses retailing food, newspapers, or children’s clothing to 14.5% for IT consultants and labour only builders, unless the “limited cost trader” rules apply. There is also a 1% reduction in the first year of business as an incentive to use the scheme.

As well as making VAT simple to administer many businesses paid less VAT by using the scheme. Some service businesses allegedly exploited the tax savings, resulting in the government introducing the “limited cost trader” 16.5% rate from April 2017.

What is a "Limited Cost Trader"?

A business is classed as a 'limited cost trader' and should use the 16.5% flat rate percentage if the cost of goods purchased is less than either:

- 2% of turnover, or
- £1,000 a year (if cost of goods are more than 2%).

"Goods" excludes expenditure on:

- any services - which is anything that isn't goods,
- food and drink eaten by yourself or your staff,
- vehicle costs including fuel (unless you're in the transport sector using your own or a leased vehicle),
- rent, internet, phone bills and accountancy fees,
- gifts, promotional items and donations,
- goods you will resell or hire out unless this is your main business activity,
- training and memberships, and
- capital items for example office equipment, laptops, mobile phones and tablets.

Consequently, many traders supplying services such as IT contractors, management consultants and labour-only builders are likely to be categorised as "limited cost traders" and using normal VAT accounting is likely to mean less VAT is payable.

Potential disadvantages of using a Flat Rate Scheme

The flat rate percentages are calculated in a way that takes into account zero-rated and exempt sales. They also contain an allowance for the VAT you spend on your purchases.

So the VAT Flat Rate Scheme might not be right for your business if:

- you buy mostly standard-rated items, as you cannot generally reclaim any input VAT*,
- you regularly receive a VAT repayment under standard VAT accounting, or
- you make a lot of zero-rated or exempt sales.

*Unless the business purchases a capital item where the VAT inclusive price exceeds £2,000.

Please contact us if you are considering whether or not to use the VAT flat rate scheme for your business.

GENERAL

DEADLINE FOR TOPPING UP NI CONTRIBUTIONS EXTENDED AGAIN TO 5 APRIL 2025

With all of the changes to personal pensions in the Spring Budget, maximising the State Pension entitlement should not be overlooked. The full rate of new State Pension increased to £203.85 per week (£10,600 pa) from 6 April 2023; a 10.1% increase over the 2022/23 rate as a result of the "triple lock" being restored.

At least 10 qualifying years are required to get a UK State Pension, with full State Pension entitlement at 35 qualifying years. Individuals should log into their Government Gateway account to check their contribution record as they may be entitled to credit for missing years, for example if they were on maternity leave or a carer. They can also check how many more qualifying years they need for a full State Pension, and if necessary, make national insurance (NI) contributions for missing years.

Normally it is only possible to make voluntary NI contributions for the past 6 tax years, to top up any missing or partial years. The Government announced an extended deadline to allow taxpayers to make NI contribution in respect of missing years going back to April 2006. This opportunity was originally scheduled to end on 5 April 2023 and was then extended to 31 July 2023. The deadline has now been extended to 5 April 2025.

Class 3 voluntary NI contributions made before 5 April 2025 will be at the Class 3 voluntary NI rates for the 2022/23 tax year of £15.85 per week, or £824.20 for each full year.

RUMOURS OF THE ABOLITION OF INHERITANCE TAX

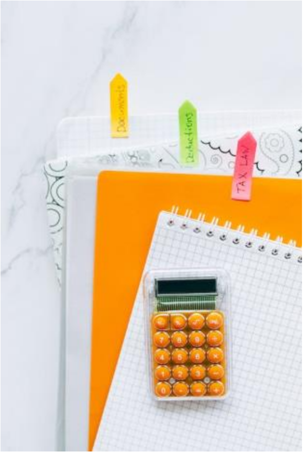
There are rumours circulating in the press of the possible abolition of inheritance tax (IHT) in a bid by the Government to secure the support of wavering Conservative voters. This may cause some individuals to delay IHT planning, but remember these are just rumours, and it may not actually happen.

It should be noted that under the current IHT rules there are a number of generous reliefs and exemptions that would apply, as opposed to speculation of possible future changes. For example, business property relief is available on the transfer of shares in an unquoted trading company during lifetime or on death, such that no IHT would be payable. However, capital gains tax potentially applies to a lifetime transfer of shares, subject to a possible claim to hold over the gain.

So, the current rules allow tax planning to be undertaken with an element of certainty, as opposed to speculating about possible future changes. Please talk to us if you would like to discuss inheritance tax planning.

HMRC RAISE INTEREST RATES AGAIN AS BASE RATE INCREASES

HMRC interest rates are linked to the Bank of England base rate. Late payment interest is set at base rate plus 2.5%. Repayment interest is set at base rate minus 1%, with a lower limit - or 'minimum floor' - of 0.5%.



The latest increased the Bank of England base rate from 4.5% to 5% means that interest on late paid tax will increase to 7.5% for most taxes and the rate of repayment interest will increase to 4% if you overpay.

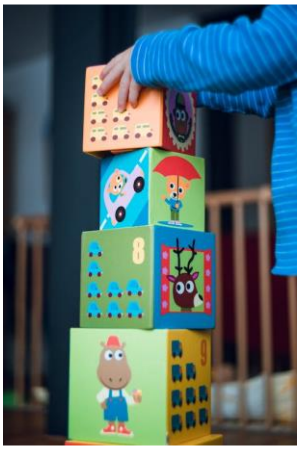
These changes came into effect on 11 July 2023.

For those companies required to pay their corporation tax by quarterly instalment payments the rate increased to 6% from 3 July 2023.

If you are late with your self-assessment payment on account for 2022/23 that was due on 31 July 2023 then you should pay as soon as possible to avoid incurring further interest charges. Note that there is a 5% surcharge added to any tax still outstanding at 28 August 2023 unless you have agreed a payment plan with HMRC.

BACK TO SCHOOL – SET UP A TAX-FREE CHILDCARE ACCOUNT?

The Government's Tax-Free Childcare Accounts provide a 25% subsidy towards the cost of childcare. The account can be used to pay nursery fees, breakfast clubs, after school clubs and registered childminders.



The scheme operates by topping up savings of up to £8,000 per child by 25%, potentially an extra £2,000 a year from the Government to spend on qualifying childcare. The scheme generally applies to children under 12. In the case of disabled children, the age limit is 16 and the amount that can be saved is £16,000 a year, topped up by the Government by a further 25% to potentially £20,000.

Unlike childcare vouchers, still provided by some employers, tax free childcare accounts are available to both employees and the self-employed. To be eligible, the parent generally needs to be working and earning at least the National Minimum Wage or National Living Wage for at least 16 hours a week on average. However, parents are not eligible if either of the parents' adjusted net income is more than £100,000 a year.

Note that where an employer provides Childcare Vouchers then the parents are not allowed to set up a Tax-Free Childcare Account as well. Please contact us for advice on whether or not it would be beneficial to leave your employer's Childcare Voucher Scheme, noting in particular that the voucher scheme applies to children up to age 16, rather than age 12.

HMRC TO REQUIRE MORE INFORMATION TO BE PROVIDED BY TAXPAYERS

Draft legislation released for consultation on 18 July indicates that business and individual taxpayers will be required to provide more information to HMRC in the next few years.

It is proposed that from 2025/26, employers will be required to provide more detailed information on employee hours worked via real time information (RTI) PAYE reporting. The information to be reported will be set out in separate regulations.

From 2025/26, shareholders in owner-managed businesses will also be required to provide additional information via their self- assessment tax returns. These shareholders will be required to disclose the amount of dividends received from their own companies separately from other dividend income, as well as the percentage shareholding that they hold in their own companies.

Self-employed individuals will be required to provide information on the start and end dates of their businesses via their Self-Assessment Returns.

ADVISORY FUEL RATE FOR COMPANY CARS

The table below sets out the HMRC advisory fuel rates from 1 September 2023. These are the suggested reimbursement rates for employees' private mileage using their company car.

Where the employer does not pay for any fuel for the company car these are the amounts that can be reimbursed in respect of business journeys without the amount being taxable on the employee.

Engine Size	Petrol	Diesel	LPG
1400cc or less	13p		10p
1600cc or less		12p	
1401cc to 2000cc	16p (15p)		12p
1601 to 2000cc		14p	
Over 2000cc	25p (23p)	19p (18p)	19p (18p)

Where there has been a change, the previous rate is shown in brackets.

You can also continue to use the previous rates for up to 1 month from the date the new rates apply.