Money Matters

Robin Oatridge & Co

CHARTERED CERTIFIED ACCOUNTANTS & BUSINESS ADVISORS

Tel: 01772 334738 • Email: admin@robinoatridge.co.uk • www.robinoatridge.co.uk

SPRING 2024

Changes boost the self-employed

Inside...

Business taxes
Full expensing permanent from April

Living with fiscal drag
Tax impact increases for higher earners

ISAs loosen up
Broader investment opportunities from 2024/25

Credit: fizkes /Shutterstock.com

Corporate tax update

Full expensing, which was due to end on 31 March 2026, will be permanent, the Chancellor announced in his 2023 Autumn Statement.

Credit: 3rdtimeluckystudio/Shutterstock.com

Full expensing allows companies to write off against tax the full cost of investments in qualifying plant and machinery in the year of purchase.

- To qualify for the 100% allowance the expenditure must be on new, unused 'main rate' plant or machinery. Cars and items bought to lease out do not qualify.
- Main rate plant and machinery includes computers, office equipment, vehicles other than cars, industrial, factory and construction equipment and some fixtures, such as kitchen and bathroom fittings in non-residential property.
- You can claim a 50% allowance on special rate assets. These include items with a useful life of at least 25 years and items considered integral to a building such as lifts, and heating, air conditioning and electrical systems.

R&D reliefs

Companies carrying out research and development (R&D) will see a number of changes in their tax relief.

- The current two schemes – the SME relief and the Research and Development Expenditure Credit – will be merged, so that all companies can claim for their qualifying R&D costs by means of an above-the-line tax credit.
- The rate of tax credit will be 20%.
- New rules will set out how relief is given where R&D work is contracted out.
- The SME rules restricting relief where part of the project has been subsidised by another person have been removed.

Very small businesses will feel the impact of the national insurance (NIC) changes in the Autumn Statement most. The abolition of class 2 contributions and reduction in the class 4 NIC rate to 8% has reduced the tax advantage of operating as a limited company and drawing dividends over the simplicity of being a sole trader. However there are many other benefits and drawbacks to each type of business entity to take into account.

Tax rules change frequently. Perhaps the best advice is that the decision whether to incorporate should not primarily be tax-driven.

> *You can claim a 50% allowance on special rate assets. These include items with a useful life of at least 25 years and items considered integral to a building.*

Living with fiscal drag – tax impact on higher earners

A wide range of tax measures featured in November's Autumn Statement, but they did nothing to reduce fiscal drag. Higher earners have lost reliefs and allowances at certain income levels and are left unduly penalised.

Income exceeding £50,000

The High Income Child Benefit Charge starts to claw back child benefit when income exceeds £50,000, with this threshold not changing since its introduction.

For example, Zoe, who claims child benefit for four children, currently earns £50,000, but will receive a £5,000 pay increase for 2024/25. Tax and NICs on the pay increase feel harsh enough at £2,068, with the frozen basic rate tax threshold meaning 40% tax is paid on most of the increase. However, Zoe will also lose £1,987 in child benefit.

Income exceeding £100,000

It is generally understood that a marginal income tax rate of 60% kicks in on income between £100,000 and £125,140 due to the tapering of the personal allowance. The £100,000 income limit is unchanged since withdrawal was introduced in 2010. However, many may not be aware that government-funded childcare entitlement in England ceases to be available at the same £100,000 threshold.

For example, Daniel currently earns £100,000 and claims free childcare worth £12,800 for his two three-year old children. He has been offered new employment at a salary of £120,000. Tax and NICs on the £20,000 additional earnings will be £12,400, leaving £7,600. This is much less than the value of the lost childcare, so Daniel might be advised to reconsider the move until his children are at school.

Higher earners who have been hit by fiscal drag can avoid high marginal tax rates by paying more into their pensions. Both Zoe and Daniel could remove all of the negative impacts from receiving their extra income by making gross pension contributions of £5,000 and £20,000 respectively.

Contact us to discuss your options.

> *"The government-funded childcare entitlement in England ceases to be available at £100,000, the same threshold that affects the personal allowance.*

Credit: eamesBot/Shutterstock.com

Changes boost the self-employed

November's Autumn Statement included some good news for the self-employed, with class 2 national insurance contributions (NICs) abolished in most cases, a cut to the main rate of class 4 NICs, the expansion of the cash basis for calculating trading profit and further relaxation of the Making Tax Digital (MTD) rules.

National insurance cuts

Class 2 NICs are currently paid at a flat weekly rate, and it is these contributions that give entitlement to contributory benefits, such as the State pension (you need 35 qualifying years to receive a full pension). Until 6 April 2024 class 2 NICs are paid when profits are between £6,725 and £12,570, although NICs can be paid on a voluntarily basis if profits are lower.

- From 6 April 2024, any self-employed person with profits of £6,725 or more will be entitled to contributory benefits without having to pay class 2 NICs – an annual saving of £179 for those who would otherwise have had to pay.
- However, those with profits below £6,725 will still have to pay voluntarily if they wish to maintain access to contributory benefits.

Class 4 NICs are earnings-related. The main rate, currently 9%, is paid on profits between £12,570 and £50,270, with a rate of 2% on profits in excess of £50,270. For 2024/25, the main rate of class 4 NICs is to be reduced to 8%, representing a maximum saving of £377. The rate of 2% is unchanged.

The cash basis

The accruals basis is currently the default for calculating trading profit for sole traders and partnerships. From 2024/25, the cash basis will become the default, although the accruals basis will still be available for those who opt out of the cash basis. In line with this change, three

Credit: fizkes /Shutterstock.com

restrictions that previously applied to the cash basis will be removed:

1. **Turnover restriction:** A business, regardless of size, will now be able to use the cash basis.
2. **Interest costs:** The maximum deduction of £500 will no longer apply and interest costs will be fully deductible.
3. **Losses:** A loss incurred under the cash basis will be relievable in the same way as an accruals basis loss. Under existing rules, a cash basis loss cannot be relieved against other income or carried back.

The cash basis removes complexities such as accruals and most capital allowances. Banks and other financial institutions may still, however, insist on the accruals basis being used.

Making Tax Digital developments

MTD for self-employed workers is due to be introduced from April 2026. The initial mandate will only apply to those with income of more than £50,000; those with income between £30,000 and £50,000 will be expected to join the scheme a year later. The government has committed to review the needs of smaller businesses – those with income under the £30,000 threshold – but any plans to incorporate smaller earners into the programme have been shelved for the foreseeable future.

Reporting

There are also some reporting changes. Year-end reporting was originally going to consist of two separate steps, but there will now just be the one final declaration. Guidance on training costs is to be clarified so that a deduction can be claimed for updating existing skills or maintaining pace with technological advances and changes in industry practices.

News in brief...

Self-assessment filing threshold

From 2024/25, no individual taxed through PAYE will be required to submit a tax return unless there is another reason to do so – such as having property or self-employed income. The exemption currently only applies if income is under £150,000.

Reliefs extended

Relief under the EIS and VCT schemes is extended for a further ten years to shares issued by 5 April 2035.

The sunset date for freeport and investment zone tax reliefs is going to be extended to 30 September 2031.

National living and minimum wages

Rates will be substantially increased from 1 April 2024, with younger workers and apprentices benefiting the most. NLW eligibility will be extended by reducing the age threshold to include 21- and 22-year-olds causing a double hit to the wage bill for some employers.

Make way for basis period reform

Any unincorporated business that does not make up accounts to 31 March, 5 April, or dates in-between, will have to make changes to the way they calculate taxable profits from 2023/24. Basis period reform will additionally affect all taxpayers who have unused overlap relief.

From the tax year 2024/25 unincorporated businesses will be taxed on their profits arising in the tax year itself, regardless of their accounting date. If your accounts run to a date other than 31 March or 1 to 5 April, you will have to apportion, pro rata, the profits of two accounting periods to arrive at your taxable profit.

Individuals with an accounting date late in the tax year are likely to have to estimate their profits for the later accounting period and amend their tax return afterwards. An initial under-estimate may result in late payment interest. Changing your accounting date to 31 March or 5 April would avoid this problem.

Transition year

To move to the tax year basis, 2023/24 is a transitional year. The taxable profits for 2023/24 will consist of two parts:

- the standard part, namely the profits of your accounting period ending in 2023/24, plus
- a transitional part – the profits from then to 5 April 2024.

Any unused overlap relief that arose in the past will be deducted from the transitional part. The remaining transitional profits will then be spread over the five tax years from 2023/24 to 2027/28.

Control over profit allocation

These profits are normally spread evenly over the five years, but a taxpayer can choose to accelerate them. For example a basic rate taxpayer might be able to limit taxation at higher rates in later years by bringing profits forward. Helpfully, transitional profits are not included in calculating the High Income Child Benefit Charge or the income limits above which the pension contributions annual allowance taper kicks in.

> *Transitional profits are normally spread evenly over five years, but a taxpayer can choose to limit taxation in later years by bringing profits forward.*

ISA reforms loosen restrictions

ISAs will be more user friendly from April 2024 following a range of reforms. Although the changes could have gone further, significantly, multiple subscriptions to ISAs of the same type will now be possible during each tax year.

Multiple subscriptions

Opening up multiple subscriptions will mean:

- Cash savers will be able to open a new cash ISA if a better deal becomes available. With more flexibility, some funds could go into a fixed-rate deal, with a reserve held in an easy-access cash ISA.
- Investors will be able to spread their investments over several different providers. For example, one stocks and shares ISA might be used for longer term investments, with another – offering low dealing costs – used where regular trades are made.

Other changes

Although the detail is yet to be announced, the government's intention is that in future it will be possible to hold fractional share contracts within a stocks and shares ISA. Existing rules mean that any holding must consist of at least one full share, even though the shares of some US tech companies can cost £100s.

More changes are scheduled for introduction from April 2024. They include:

- It will be possible to make partial transfers between ISA providers during the tax year. For example, if £10,000 has been paid into a cash ISA since 6 April, £4,000 could be moved to a different provider. Under current rules, the whole £10,000 would have to be moved.
- The minimum account-opening age for cash ISAs is to be harmonised at 18. It will therefore no longer be possible for 16- and 17-year-olds to open a cash ISA – just a junior cash ISA where the investment limit is somewhat lower.

Any 16- and 17-year-olds without a cash ISA might want to open one while they still can – by 5 April 2024 at the latest.

> *Savers will be able to open a new cash ISA if a better deal appears. Some funds could go into a fixed-rate deal, keeping some in an easy-access cash ISA.*

Marriage allowance – savings and pitfalls

Married couples and those in a civil partnership are being urged to check whether they can benefit from the marriage allowance. It takes 30 seconds to see if you can save up to £252.

The marriage allowance is often ignored or misunderstood, but HMRC's online marriage allowance calculator will instantly work out any tax saving. All that's needed is gross income – from all sources – for you and your partner.

Eligibility and claiming

You cannot claim if you're living together but are not married or in a civil partnership.

- One spouse or civil partner needs to have some (or all) of their personal allowance unused, which generally means an income of less than £12,570.
- The other spouse or civil partner must only be paying tax at the basic rate, so normally income of between £12,571 and £50,270.

For Scottish taxpayers, the basic rate definition is extended to include those paying the 21% intermediate rate.

The easiest way to claim is online, although self-assessment taxpayers can apply when submitting their tax return. It is the lower-income spouse or civil partner who applies. Claims remain in force unless subsequently cancelled and can be backdated for up to four years, so a claim made by 5 April 2024 can include 2019/20.

New pitfall for pensioners

Pensioners already claiming marriage allowance might face a problem next tax year. This is because the new State pension will increase to £11,502. If a person has transferred 10% of their personal allowance, from this April there will be insufficient allowance remaining to cover the State pension income, which means for 2024/25, they will face a small tax bill.

To avoid the hassle of making the tax payment, the marriage allowance claim could be cancelled. However this could waste just over £1,000 of personal allowance, so consider carefully.

Robin Oatridge & Co
Black Bull House
353-355 Station Road
Bamber Bridge
Preston PR5 6EE

Telephone: 01772 334738
E-mail: admin@robinoatridge.co.uk
Website: www.robinoatridge.co.uk

Directors
Paul Woodburn FCCA
Ryan Hulme FCCA
Andrew Hilton BA (Hons), ACA

Consultant
Philip Strange ATT

Payroll Manager
Niamh Boardman

Registered as auditors and regulated for a range of investment business activities in the United Kingdom by the Association of Chartered Certified Accountants.

This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The newsletter represents our understanding of law and HM Revenue & Customs practice.
© Copyright 18 January 2024. All rights reserved.