Money Matters

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SUMMER 2024

Property taxation changes

Inside...

New tax year planning

Much tax planning is rightly focused on the end of the tax year with a view to making the most of all available tax reliefs and allowances, but it is also important to be aware of key changes at the start of a new tax year.

National insurance contributions (NICs): The main rate of employee NICs has been cut to 8% and the rate for self-employed people went down to 6%. Self-employed people will no longer have to pay Class 2 NICs. However, those with profits below the small profits threshold of £6,725 may wish to make voluntary contributions to retain access to contributory benefits.

Dividend allowance: Only the first £500 of dividends is now tax free, down from £1,000 in 2023/24. This, alongside the Class 4 NIC reduction, may make self-employment more attractive than working through a limited company.

Capital gains tax (CGT): the annual exempt amount is now just £3,000. However landlords will welcome the cut from 28% to 24% in the CGT higher rate on residential property.

Cash basis: The cash basis is now the default method of calculating business profits for self assessment.

Furnished holiday lettings: The beneficial regime for landlords for short-term letting of furnished accommodation will be abolished from 6 April 2025. Property owners will no longer be able to claim certain business reliefs. The income will no longer count as pensionable earnings, which may affect pension planning.

VAT: The registration threshold has risen to £90,000 and the deregistration threshold is now £88,000. Some businesses will benefit from deregistering.

Non-domicile status: The remittance basis of taxation for individuals not domiciled in the UK will be replaced from 6 April 2025 with an optional Foreign Income and Gains (FIG) regime based on residence, which will be available for up to four years. After that period, all UK residents will be taxed on their worldwide income. Non-doms will need to prepare for these changes and the intended move to a residence-based regime for inheritance tax.

If you may be affected by any of these changes, please get in touch to discuss your planning.

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Self-employed and pensions

Three quarters of self-employed people are not contributing to a pension at the moment, a survey by an investment platform has found. And half of self-employed people have never even started a pension scheme. The figures emerged from a survey of around 9,000 workers by Interactive Investor.

Most employees are now saving into a pension following the introduction of auto-enrolment but self-employed people are not covered.

There are many benefits to paying into a pension and the earlier you start, the less you have to put away each month to build up a sizable fund.

- Tax relief is given on pension contributions of up to £60,000 a year. For every £100 you pay in, HMRC will add £25. If you are a 40% taxpayer, you can in addition claim £25 against your own tax bill. An additional rate taxpayer will get £31.25. Scottish taxpayers may receive slightly more relief because tax rates on earned income are higher.
- Your fund will be broadly free of tax on its investment income and capital gains.
- When you take the benefits, up to a quarter of the fund is normally tax free, although the pension income will be taxable.
- You can draw your funds flexibly from age 55 (rising to 57 in 2028).
- There is no longer any limit to the amount you can hold in a tax-favoured pension scheme without triggering a tax charge. However all tax-free lump sums, including death benefits, are tested against a lifetime limit, currently £1,073,100.

The combination of tax relief on contributions, tax-free growth within the fund and the ability to take a tax-free lump sum on retirement makes a pension plan an attractive and important savings vehicle to factor into self-employed finances. However, there may be benefits in supplementing a pension plan with an individual savings account (ISA) or other investments.

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Property taxation changes

Although the higher rate of capital gains tax (CGT) on residential property disposals has been reduced by 4% to 24% from 6 April 2024, the March Budget was otherwise unhelpful for landlords. The abolition of the tax reliefs available for furnished holiday lettings from April 2025 will particularly hurt higher and additional taxpaying owners with big mortgages.

Reduced rate of CGT

The reduction of the 28% rate to 24% is to encourage second home owners and buy-to-let landlords to sell and release property for those looking to move onto the property ladder.

- The lower rate for gains falling within an individual's basic rate tax band is unchanged at 18%.
- The 4% tax saving will, however, often not be sufficient to compensate for the recent reduction of the annual exempt amount from £12,300 to £3,000.

A higher rate taxpaying landlord selling up with a gain of less than £68,000 will find themselves worse off than two years ago.

Multiple dwellings relief

Those planning to enter the English or Northern Irish property market may face a higher stamp duty land tax (SDLT) cost as a result of multiple dwellings relief being abolished from 1 June 2024.

Currently, the relief reduces the overall rate of SDLT when two or more properties are purchased together. The government has abolished the relief in the face of dubious claims for granny flats, but genuine claims will now be hit. For example, the amount of SDLT payable on a property costing £750,000 containing a qualifying annexe will double from £12,500 to £25,000.

Furnished holiday lettings

Furnished holiday lettings are treated as a trade and therefore qualify for various tax advantages.

- One of the most important of these advantages is interest costs not suffering from the finance costs restriction.
- Owners can also benefit from capital

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allowances on fixtures, furniture, furnishings and equipment.
- A 10% rate of CGT may be available when property is sold.

From 6 April 2025 (1 April 2025 for companies), the furnished holiday lettings tax regime is to be abolished. Furnished holiday lettings will then be treated in the same way as buy-to-let property for tax purposes, with the finance costs restriction being applied.

- **Interest costs:** The change will generally have little impact on basic rate taxpayers. New owners should consider buying property via a company so that interest costs are fully deductible.
- **Capital allowances:** The treatment of existing capital allowance claims is uncertain. Owners should carry out a review to ensure allowances have been fully claimed on historic expenditure.
- **CGT:** Owners who are thinking of selling should do so before 6 April 2025 if the 10% rate of CGT is available. The business asset disposal relief rules do, however, mean that the 10% rate might still be available on disposals for a further three years after 6 April 2025.

Existing higher and additional rate taxpaying owners might consider incorporating their furnished holiday lettings, although other tax issues may make this impractical.

Even without the tax advantages, furnished holiday letting will often be more profitable than a buy-to-let, even though considerably more work is normally required. Owners should carry out a review to see if they will be better off moving to longer-term tenancies, whether they should incorporate, or maybe simply sell up.

News in brief...

Banks close small business accounts

Over the past year, around 140,000 or nearly 3% of small business bank accounts have been closed with little or no notice. If you are concerned this could happen to you, set up a completely separate alternate account, perhaps with one of the challenger or mobile banks.

Probate fees increase from May

The government has confirmed that the cost of obtaining probate for England and Wales will increase from £273 to £300 from May 2024 for estates over £5,000. This comes as part of increases to over 200 court and tribunal fees, although divorce application fees have been maintained at the current level.

Fully funded apprenticeships for small businesses

From 1 April, the cost of small business apprenticeships is fully funded for those up to age 21. However, the announcement is not as groundbreaking as it appears, given only training and assessment are covered, with 95% of these costs paid for previously.

Advisory fuel rates

The 1 March update saw aacross-the-board reductions for both mileage and diesel rates, but an increase to LPG rates – the over 2,000cc LPG is up by 3p per mile. The rate for fully electric cars remains at 9p.

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Navigating the minimum wage rises

National minimum wage rates increased on 1 April 2024 and some employers could get caught out.

At the same time as the increases, the age at which an employee has to be paid the top hourly rate of £11.44, known as the national living wage, was reduced from 23 to 21. The rate for employees aged 18 to 20 is now £8.60 and under 18s have to be paid at least £6.40.

At first sight, making sure you pay workers at least the minimum wage looks straightforward but there are many complexities – so much so that the government recently named over 500 employers that have failed to pay the right amounts. Those companies have had to make good the shortfall to their staff and have faced penalties of up to 200% of their underpayment.

The underpayments are often not deliberate but arise from mistakes in calculating pay. Common causes include:

- Deductions from pay for items connected with the job, such as uniforms, registration or licence fees, transport and meals. However, many other deductions from pay do not reduce pay for minimum wage purposes.
- Failing to pay for time spent travelling on business, for example between clients, although home to work travel time does not count.
- Not paying the right rate when a worker moves up an age band. This year's age change for the top band needs particular care.
- Failing to pay the minimum wage to all workers entitled to it such as interns.
- Paying the apprentice rate when the worker does not meet the definition of an apprentice or is over 19 and has completed their first year of apprenticeship.

Remember also that not all remuneration counts towards pay for minimum wage purposes. Some items that are excluded are tips, benefits in kind, pension contributions, share options and premium payments for overtime worked by staff who are paid according to hours worked.

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Two for one replacement for **pensions lifetime allowance**

The pensions lifetime allowance (LTA) has been abolished, meaning there is no longer any restriction on how much you can hold in a tax-favoured pension scheme without triggering an extra tax charge. Instead, two new allowances will limit tax-free cash benefits on retirement and on death.

The ending of the LTA followed concern that high earners, in particular doctors, were reducing their hours or taking early retirement because of high tax charges on their pensions.

The new lump sum allowance is set at 25% of the pension pot, normally up to a maximum of £268,275. As before, the lump sum does not have to be withdrawn all in one go, but once cumulative withdrawals reach the maximum, any further payments are taxable in full. You can draw a lump sum from age 55, rising to 57 from April 2028.

The lump sum and death benefit allowance (LSDBA) is £1,073,100. This is the maximum tax-free lump sums that you and your beneficiaries can receive from your pension. However, if a pension was first accessed before 6 April 2024 and you die under age 75, the whole death benefit is tax free.

If you held a protected LTA, the amount of tax-free lump sum you can take is likely to be higher. If you are in this position it is important to get specific advice.

It is still possible to apply for Individual Protection 2016 and Fixed Protection 2016, thereby increasing the lump sum allowance to £312,500 and the LSDBA to £1,250,000. Individual Protection 2016 is only available to people whose pension savings at 5 April 2016 had a value of over £1 million. Fixed protection 2016 has no minimum pension value but you must not have paid pension contributions since 6 April 2016. For both these protections you must apply by 5 April 2025.

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High income child benefit charge

From 6 April 2024, the high income child benefit charge (HICBC) threshold has increased by £10,000 to £60,000, with the rate of withdrawal halved. Longer term, the intention is that the charge will move to a household basis from 6 April 2026.

Previously, the HICBC came into play when an individual – or their partner – received child benefit and their annual income exceeded £50,000. The charge effectively reduced the amount of child benefit that could be claimed to nil once income hit £60,000.

From 6 April 2024

The HICBC does not now apply until income exceeds £60,000.

- A parent earning £60,000, who would previously have lost all of their child benefit claim, now keeps the entire amount.
- With the rate of withdrawal halved, child benefit is not fully withdrawn until an individual's income reaches £80,000.
- Once income reaches £80,000, the charge is 100%. Therefore, the child benefit claim is effectively reduced to nil.

The charge leads to a high effective marginal rate of tax, especially where child benefit is claimed for several children. Although still high, the reduced rate of withdrawal means the effective marginal rate of tax is now lower, so there is less penalty for getting a pay rise. Anyone who previously opted out of child benefit because their income was over £60,000 should opt back in by 5 July 2024 as claims can only be backdated for three months.

From 6 April 2026

Because the HICBC is based on individual incomes, a working couple each with income of £59,000 retain 100% of their child benefit claim. However, with a sole working parent, child benefit is completely lost once household income is £80,000.

A move to a system based on household income will address this inequality, but could be controversial. Apart from completely breaching the concept of independent taxation, any revenue neutral adjustment will mean a considerable number of households losing out.

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