Money Matters

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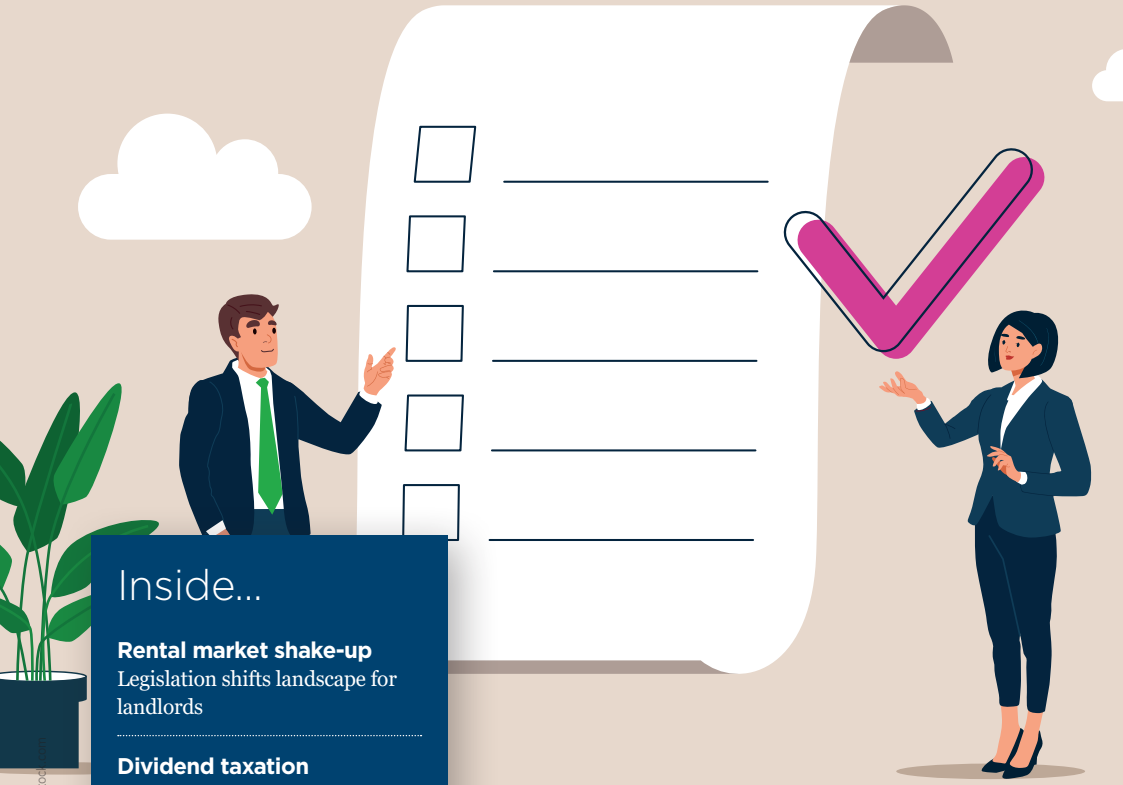
Who needs to register for self-assessment?



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Rental market shake-up

With property prices hitting a two-year high and rents up by around 8% over the past 12 months, it should be a good time for buy-to-let landlords. However, the new Renters' Rights Bill, which abolishes no-fault evictions in England, is scaring some landlords away.

No-fault eviction, known as a section 21 eviction, currently means a landlord can easily obtain possession of their property without giving a specific reason.

The change means a landlord will need valid grounds for regaining possession:

- If the tenant is at fault – antisocial behaviour, damaging the property, significant arrears – the landlord can give notice at any point in the tenancy.
- In the case of arrears, the mandatory threshold is to be increased from two to three months of arrears, although there will also be grounds for obtaining possession if a tenant is repeatedly late.

A landlord can gain possession if they want to move in or sell a property, but this right will not be available during the first 12 months of a tenancy.

The new rules will apply to all tenancies from the same date, with existing tenancies immediately converting to the new system.

Periodic tenancies

There are many other proposed changes, but the removal of fixed-term tenancies will be of particular concern to landlords. Currently a tenancy typically runs for six or 12 months after which the contract is either renewed or switched to a periodic tenancy.

The change will mean all tenancies are periodic, running from month to month. This may be a problem for landlords accustomed to the guarantee of six months' rent to cover the outlay on a new tenancy.

Minimum EPC

To complicate matters further for landlords, at the 2024 Labour Party conference the recently scrapped target of all rental property achieving an energy performance certificate rating of 'C' was resuscitated (this time by 2030). Grants for upgrades will be available from 2025 if a property is situated within an eligible postcode or has low-income tenants.

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Dividend tax-take hits record

Nearly 3.6 million taxpayers are expected to be facing a tax charge on dividend income for 2024/25, double the number just three years ago.

Tax liability

The dividend allowance is now only £500. If you have a modest share portfolio of just over £10,000 yielding 5% it will use up that £500 allowance, leaving you with a tax liability which HMRC needs to know about. With a basic rate of 8.75% on dividend income, the amount of tax due will often be frustratingly low given the inconvenience involved.

At the same time as the dividend allowance has been cut, the level of dividend payouts by companies has generally recovered to pre-Covid-19 levels.

Opting for script dividends will make the outcome more onerous, as these are still taxable despite no cash being received. The same goes for accumulation funds where dividends are reinvested automatically.

Mitigation

If dividend income exceeds the £500 allowance, mitigating steps that can be taken might include:

- **Using ISAs** to shelter up to £20,000 of investment each year.
- **Using pensions** to shelter investments – especially SIPPs.
- **Spreading a share portfolio across the family** can make use of unused dividend and ISA allowances. It will also be worthwhile if dividend income will be taxed at a lower rate.
- **Using venture capital trusts** to produce tax-free dividends, although the high level of risk involved here means such an investment will not be suitable for most investors.
- **Investing for capital growth** rather than dividend income. Although this approach will minimise tax on dividend income, it can result in the equally intractable problem of a much higher CGT liability.

Prioritise investment strategy

Investors need to be careful, however, that decisions are not made just to save tax. Never lose sight of the importance of overall investment return and maintaining a balanced portfolio.

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Who needs to register for self-assessment?

HMRC's deadline for registering your need to complete a self-assessment tax return for the first time was 5 October for tax year 2023/24. To tie in with the deadline, HMRC recently issued a press release debunking some of the most common myths about who needs to complete a return.

I haven't been notified

It is the taxpayer's responsibility to determine if a tax return is required, so claiming lack of awareness is no defence. There are numerous reasons why you might need to register for self-assessment, including:

- You have a new source of income, such as becoming self-employed, being taken on as a partner in a partnership, or letting out a property for the first time; or
- You might need to pay capital gains tax (CGT) or the high-income child benefit charge (HICBC).

If you have missed the 5 October notification deadline, you can usually avoid a penalty provided you submit a tax return and pay any tax due for 2023/24 by midnight 31 January 2025.

Paying tax

Another fallacy is that tax has to be paid at the same time as the tax return is filed. This is not far from the truth when it comes to CGT on the disposal of a residential property, but it is not the case for income tax and national insurance contributions (NiCs). Tax is not payable until 31 January 2025 for 2023/24. This is regardless of when the tax return is submitted, which could have been at any point from 6 April 2024 onwards.

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No tax due

Even if you don't have a tax liability or a requirement to file a tax return, you might still want to submit one. For example, you might be due a tax refund, or if you're self-employed you choose to pay class 2 NICs on a voluntary basis to avoid a gap in your NIC record.

Leaving self-assessment

You may think that HMRC will take you out of self-assessment if you no longer need to file a return. However, it is your responsibility to let HMRC know if a tax return is not required, for example if you have ceased self-employment, are no longer a partner or have stopped renting out property.

Attic clear out

You will not normally have to complete a tax return just because you have sold some personal possessions online. There is a big difference between:

- selling some unwanted items, such as the contents of a loft or garage, when it is unlikely that any tax is payable; and
- buying goods for resale, or making goods with the intention of selling them for a profit, when you are likely to have to pay tax on the profits made from trading.

However, even where there is a trading activity, no tax will be due if income is £1,000 or less for the tax year.

Side hustles

New online platform reporting rules will mean that HMRC will have access to information from online marketplaces. Digital platforms have been collecting seller and income information since 1 January 2024 which will be reported to HMRC by January 2025.

Anyone who is selling goods or services online should therefore review their tax reporting requirements with some urgency.

News in brief...

RTI changes delayed

Employers will be relieved that the requirement to report the actual hours worked by their employees has been pushed back from April 2025 until April 2026 at the earliest. Currently, hours need only be reported within bands.

HMRC nudges

HMRC has dramatically increased the volume of its 'One to Many' nudge letters, making it important to differentiate real letters from scams. For example, HMRC has recently written to taxpayers in regard to possible high-income child benefit charge inaccuracies.

Scam alerts

HMRC has warned about a recent spate of scam emails, letters and mobile calls claiming that taxpayers need to respond or face penalties. The Driving Vehicle Standards Agency (DVSA) has also warned about a spate of fake text messages about DVSA penalty charge notices. Meanwhile under new rules in force from 7 October, if you are scammed into making a bank transfer, your bank must now refund you in most cases.

Advisory fuel rates

From 1 September, there are quite a few changes, with petrol, diesel and the fully electric rate all reduced by 1p or 2p. In particular, the electric rate has been cut from 8p to 7p per mile. LPG rates are unchanged.

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Voluntary liquidations and late payments

The number of companies entering voluntary liquidation is growing. Taking this step allows owners to avoid compulsory liquidation where a creditor, shareholder or director obtains a court winding up order. In 2012 there were two voluntary liquidations for every winding up order; in 2023 the ratio was 7:1.

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Despite the terminology, voluntary liquidation is usually not truly voluntary, but is a means of allowing a business facing financial difficulties to close on its own terms and make plans for the consequences.

Controlling cashflow

The key to avoiding any sort of liquidation is to keep firm control over the business's cash flow and profitability. Your accounts need to be in good order and you should ensure payments due to you are collected quickly. Automation of accounting functions and use of new AI tools will help reduce time and resources spent on finance processes. This means payments can be collected faster and will provide an accurate, real-time view of the business's financial health, enabling firms to take early action to stay on track.

Late payments consequences

According to Intuit Quickbooks, late payments cost SMEs £22,000 a year with 56 million working hours of lost productivity. Research by the Federation of Small Businesses (FSB) indicates this causes 50,000 business closures a year and, the Department of Business and Trade (DBT) says, is "acting as a major brake on growth".

Consultation over law change

The DBT intends to consult on tough new laws which, it says, will hold larger firms to account and get cash flowing back into businesses. Other measures include:

- New legislation in the short term that will require all large businesses to report on payments in their annual reports, which will provide clarity on how they treat small firms.
- Stronger enforcement of existing regulations that require large companies to report their payment performance twice yearly on gov.uk.

Responsible directors at non-compliant companies who do not report their payment practices could face criminal prosecution.

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Making Tax Digital creeps on

Self-employed individuals and landlords with turnover of more than £50,000 will have to report their income and expenditure to HMRC using Making Tax Digital (MTD) from April 2026. From April 2027, those with turnover above £30,000 will have to use MTD. Smaller businesses (under £30,000) will be able to sign up voluntarily.

These dates may seem a long way off, but MTD for Income Tax Self Assessment (MTD for ITSA) is a big change and you need to start preparing for it now. Businesses and landlords will have to use MTD compatible software to:

- Keep digital records.
- Submit summary income and expenditure quarterly.
- Finalise business income at the end of the tax year and submit an End of Period Statement (EOPS) to HMRC adjusting and confirming previous summaries as needed.
- Submit a final declaration to HMRC confirming any other income at the end of the tax year. HMRC will then confirm the tax you owe, payable by 31 January the following tax year.

The first step is to get accounting software that works with MTD and meets your precise needs. HMRC has published a list of compatible software available from commercial providers. Most VAT-registered businesses will already be using MTD-compliant software so only need check that it can deal with self-assessment as well.

- HMRC has promised that taxpayers will be able to register more than one agent for MTD, such as a bookkeeper for quarterly updates and a tax agent for year-end filing.
- Time limits for submissions will be enforced by a points-based penalty system, with one penalty point for each late submission and a financial penalty after a points threshold has been reached.

People who consider themselves digitally excluded – because of age, disability, location or another reason – will be able to apply for an exemption from using MTD.

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The cash savings interest tax trap

More people will have to pay tax on their savings interest this year due to increased interest rates coupled with a frozen tax-free savings limit. If you are in this position and do not complete annual tax returns, you need to notify HMRC of your liability to tax or you could face penalties.

A basic-rate taxpayer – with income up to £50,270 – can receive a total of £1,000 of savings interest before having to pay tax; for higher-rate taxpayers that limit is just £500. Additional-rate taxpayers – those with income over £125,140 – have to pay tax on all their interest.

If you complete a self-assessment tax return each year, you will already be declaring your savings income. Most employees do not complete tax returns so should check whether they have received more interest than their tax-free limit. Banks inform HMRC of all interest paid to savers, but it remains the responsibility of each person to declare any taxable income.

There are ways to minimise your tax. Interest earned in a cash ISA (individual savings account) is free of tax and anyone aged 18 or over can put up to £20,000 a year into an ISA. Couples may be able to save tax by putting savings into the name of the lower earner rather than a joint savings account in which interest is taxed 50-50 between them.

If, to maximise your interest rate, you save into a longer-term, fixed-rate account, you may have the choice of rolling up all the interest until the end of the term or receiving it annually or monthly. If you receive all the interest on maturity, it will all be taxed in the one tax year, meaning more of it is likely to exceed your tax-free limit.

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