



DAVID PATTINSON CHARTERED ACCOUNTANTS

December 2024



QUARTERLY NEWSLETTER

Xmas and New Year Holidays

My office will close at midday on Monday, 23 December and re-open at 9:00 a.m. on Thursday, 2 January.

Autumn Budget

The Chancellor Rachel Reeves presented the new government's first budget at the end of October. As has become the trend in recent years, many of the measures were leaked beforehand, much to the annoyance of the Speaker of the House of Commons, but there were also some surprises. The major changes are discussed in this newsletter.

Although not part of the budget, increases to the National Minimum Wage from next April were also announced. The main rate will increase by 6.73%, which is well above the rate of inflation.

Employer's National Insurance

The headline change was the increase in employer's NI which, apparently, does not break the Labour manifesto promise to not increase Income Tax, National Insurance or VAT. Who knew that they meant only employees' National Insurance?

From 6 April 2025, the rate will be increased from 13.8% to 15% and will start at £96 a week instead of £175 at present. Combined with the increase in the National Minimum Wage, this will mean a significant increase in employment costs for businesses such as nursing homes, which employ a large number of low paid workers.

For some years now, there has also been an Employment Allowance, which covers part of the employer's National Insurance. The maximum claimable will be increased from £5,000 to £10,500 a year, which will cover most or all of the additional NI for small employers. For instance, this is the situation for a business with 3 employees earning £25,000 each:

	<u>2024/25</u>	<u>2025/26</u>
	£	£
Employer's NI	6,582	9,000
Employment Allowance	5,000	10,500
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Payable	1,582	-
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Indeed, the employer could take on an additional employee in 2025/26 on a wage of £15,000 and still pay no employer's NI after the Employment Allowance.

Benefits-in-Kind

When an employer provides benefits, such as a company car or health insurance, the employee is liable to tax (but not NI) which is collected by adjusting the tax code. It is an imperfect system, because the adjustment is usually an estimate, leading to tax being underpaid or overpaid in the year. The employer's NI is collected in a lump sum after the end of the year.

From April 2026, most benefits will be "payrolled" meaning that the value is added to each weekly or monthly salary payment, thus collecting the correct amount of tax.

Capital Gains Tax

An increase in rates was expected, but the surprise was that it would happen immediately, on budget day, rather than waiting for the start of the new tax year. That means that software suppliers will have to revise the programs they are preparing for 2024/25 tax returns, to take account of two rates of CGT in the year.

The lower rate (for basic-rate taxpayers) has increased from 10% to 18% and the higher-rate has increased from 20% to 24%. Those new rates already applied to gains on residential property.

Business Asset Disposal Relief, which used to be called Entrepreneur's Relief, has allowed gains up to £10 million to be taxed at the lower rate of 10%. It usually applies when a business owner sells up and retires. The £10 million has been reduced to £1 million immediately, then the rate will increase to 14% on 6 April 2025 and 18% on 6 April 2026.

Private School Fees

As previously announced, private school fees will be liable to 20% VAT from 1 January 2025.

Inheritance Tax

The nil-rate band, which has been £325,000 since 2019, is frozen for another two years. The big surprise, however, was the reform of agricultural and business property reliefs, which are currently unrestricted. From 6 April 2026, relief will be 100% on the first £1 million of combined agricultural and business property, then 50% on any excess.

The chancellor claimed that the change will mainly affect wealthy people buying farms to avoid IHT (stand up, Jeremy Clarkson) but it has caused uproar in the wider farming community.

From April 2027, undrawn pension funds will no longer be exempt from IHT.

Excise Duties

1. Excise Duty on draft beer will be reduced by 1p on 1 February 2025. It was laughable, though, for the Chancellor to claim that this will be passed on to customers, as most pubs price beer to the nearest 10p a pint. Duty on other beers will rise in line with inflation.
2. The duty on hand-rolling tobacco was increased on budget day, while all tobacco duties will increase annually by 2% over inflation during this parliament. There will be an additional one-off increase to coincide with the introduction of a duty on vaping products on 1 October 2026.
3. Air Passenger Duty will increase in April 2026 by £1 for domestic flights, £2 for short-haul and £12 for long-haul.
4. Fuel Duty will be frozen until 5 April 2026.
5. Road tax will increase in April 2025 for all vehicles except electric vehicles.

MTD ITSA

That's Making Tax Digital for Income Tax Self Assessment. MTD requires businesses to keep records using a computer program or spreadsheet and to submit information to HMRC electronically. It is already mandatory for VAT-registered businesses to file their VAT returns in that way.

Extending those rules to Income Tax Self Assessment, long planned and repeatedly postponed, will now happen in April 2026 for businesses with a turnover of £50,000 or more, extended to those with a turnover of £30,000 a year later, then £20,000 by 2029.

Note that this applies to individuals and partnerships who are liable to Income Tax. Although companies are also included in MTD for VAT, there are no plans to introduce an MTD system for Corporation Tax.

Tax Agents

From April 2026, all tax practitioners must register with HMRC. At the moment, surprisingly, there are some who do not seem to want HMRC to know that they are acting for taxpayers, so never register as agent.

Double Cab Pick-ups

From April 2025, double cab pick-ups will no longer be regarded as commercial vehicles for Income Tax and Corporation Tax, but will be treated as cars. This will create an anomaly with VAT rules, which will still treat them as commercials, so that VAT on the cost can be reclaimed.

This charge will hit businesses who currently have a double cab pick-up and replace it. They will be taxed on the sale of the old one, but will be allowed as little as 6% of the cost of the new one as a deduction from profits.

Tax Compliance

Once again, the budget included an announcement of additional funding of £1,400m for HMRC to recruit 5,000 more staff to tackle tax avoidance and evasion, with the aim of raising £2,700m. I'm afraid rather cynical about this aim, as I don't recall ever seeing any figures for what was actually raised from previous initiatives of this kind.

Stamp Duty

The surcharge for purchases of second residential properties (whether buy-to-let or holiday homes) will increase from 3% to 5% immediately.

Cryptocurrencies

With the recent rise in the value of Bitcoin, this is a good time to remind people of the taxation consequences of buying and selling cryptocurrencies.

Actively buying and selling cryptocurrency is a trade, so profits are liable to Income Tax or Corporation Tax, while losses can be set against other income, subject to normal rules. Otherwise, holdings of cryptocurrencies are a chargeable asset for Capital Gains Tax and profits are taxable, while losses can be set only against other Capital Gains, not against income.

Pass it on

Please feel free to copy or pass on this newsletter to friends and business acquaintances. Anyone who would like to be added to the mailing list should e-mail me at the address below.