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NEWSLETTER

General Election

The incoming government may have plans to change taxes. I would not try to predict what those changes may be, but I can summarise how quickly and easily alterations could be made to various taxes.

1. Income Tax

It is impractical to amend Income Tax rates and bands during the tax year, so any changes will have to wait until 6 April 2025.

2 Tax Allowances

The personal allowance is currently frozen for the next few years, but there is nothing to stop parliament deciding to do something else. Changes normally happen at the start of a tax year, but could be introduced before then. An increase in the personal allowance during the tax year would give employees a nice bonus in the first week or month which it applies. Apart from the marriage allowance, which is linked to the personal allowance, very few people can claim any other tax allowance.

3. National Insurance

I would also have said that it was impractical to change National Insurance during the tax year, but it has happened three times over the last two years, so don't count it out.

4. Corporation Tax

Rates are set for each year starting 1 April, so are not likely to change before 2025. It would be easy, though, to introduce a windfall tax for certain companies, such as banks and oil companies.

5. Capital Allowances

Allowances for plant, machinery, commercial vehicles and new electric cars are currently very generous, particularly for companies, which can write off such expenditure in full in the year of purchase. Changes to those allowances don't have to be aligned to the tax year, so could happen at any time.

6. Pension Contributions

Individuals can currently contribute £60,000 a year and claim tax relief at their highest rate. It has been rumoured for a long time that the higher-rate relief could be removed, leaving just the 20% basic-rate tax relief. The lifetime allowance, which set a limit of just over £1m on anyone's total pension fund, was abolished this year. Despite that, the tax-free lump sum which can be withdrawn is limited to £268,275, which is 25% of the old lifetime allowance. Changes to any of these rules would have to wait until the start of a new tax year on 6 April 2025.

7. HICBC

The High Income Child Benefit Charge starts to reclaim Child Benefit where one parent has income over £60,000, until it is all lost at £80,000. As the calculation is based on income for the tax year, the rules are not likely to change before 6 April 2025.

8. EIS and VCT

The Enterprise Investment Scheme and Venture Capital Trust scheme give generous tax relief of up to 30% on the amount invested, along with other tax benefits. They are meant to encourage investment in start-up companies so, by their very nature, they are risky. Those reliefs could be abolished or revised at any time.

9. Inheritance Tax

This could be amended at any time. Most notoriously, the incoming Labour government in February 1974 announced on its first day that Death Duties would be immediately replaced by a Capital Transfer Tax, without giving any details of how it would operate.

10. VAT

The new government would need to give only short notice of any changes to the scope or rates of VAT, to allow business time to adjust their systems.

11. Excise Duties

Duties on road fuel, alcohol and tobacco, as well as road tax, could be amended at any time

12. Capital Gains Tax

Capital Gains Tax rates and reliefs have never before changed during a tax year, so I would expect the current rules to remain until at least 5 April 2025.

13. Stamp Duty

The Stamp Duty payable on house purchases could be changed at any time.

14. Other Taxes

Insurance premium Tax and Air Passage Duty could be altered at any time.

Scam HMRC e-mails

There are some e-mails going around at the moment which appear at first sight to be from H.M. Revenue and Customs and ask for online business details to be updated. As always, the easiest way to check a suspicious e-mail is to look at the address it came from. In this case, it is an address in Japan, not a gov.uk email.

I would guess that the fraudster is attempting to find out the taxpayer's log-in details for the HMRC website, so that a bogus tax return can be submitted, claiming a tax refund.

Electric Cars

For several years, the government has been encouraging people to buy electric cars through subsidies, road tax exemption and generous tax reliefs for businesses. As more are sold, the amount lost in road tax and fuel duty will start to have a significant effect on government finances, so something will have to be done.

The main problem is how to collect tax on the electricity used to charge a car. It would be easy enough to do at public charging points, by just charging a higher price. Most electric car owners, though, will charge them at home. Since 30 June 2022, all charging points have to be smart, so they could monitor the amount of electricity used, but there are earlier, non-smart, charging points still being used. Furthermore, it is possible to charge an electric car from an ordinary three-pin socket, although it takes a lot longer.

The ideal solution would be some kind of “road-use tax” based on the annual mileage of the car. The technology may exist in the future to remotely monitor usage, but it would have to be tamper-proof and it may not be possible to upgrade existing cars.

A simple, but crude, solution would be to just charge a high rate of road tax on electric cars, but that would be unfair because a granny doing 3,000 miles a year would be charged the same as a taxi driver doing 30,000 miles a year.

There is no easy answer to this problem.

Taxation of Profits

Sole traders and partnerships can prepare their business accounts to any date they choose and the tax system has treated each year’s profit as taxable in the tax year in which it ends. For instance, the profit of an accounting year ended 31 December 2021 was taxed as income for the year ended 5 April 2022. If the first accounts of the business covered two tax years, then part of the profit was taxed twice. Credit for that “overlap profit” was given in the year of cessation so that, over the life of the business, the taxable profits were the same as the accounting profits.

HMRC would have preferred every business to prepare accounts to the end of the tax year on 5 April (or 31 March in practice) because they thought that other year-ends result in some profits being taxed the year after the tax year in which they were earned. They could not persuade the government to make businesses change their year-end, but the law has been changed so that profits are taxable in the year earned from 2024/25. That does mean that, for a business not using a 5 April/31 March year-end, the 2024/25 taxable profit will come from two sets of accounts: for instance, a business with a 31 December year-end will be taxed on 9/12 of the 2024 profit plus 3/12 of the 2025 profit.

2023/24 is a transitional year to switch to the new system and has special rules to avoid any profits falling out of tax. For instance, the business with the 31 December year-end will be taxed on profits from 1 January 2023 to 5 April 2024. That is 15 months and the extra 3 months, less the overlap profit from the start of the business (which should also be 3 months) is called the “transition profit.”

In some cases the transition profit will be a large amount because the business is a lot more profitable now than in its first year. To avoid a big tax hit, the transition profit is spread over five years, unless the business ceases, in which case any remaining amount is taxed in the final year. Taxpayers can also elect to tax all of the remaining transition profit earlier than the fifth year, most likely because the business has had a bad year and the owner is liable at a lower rate, or not at all.

The problem with keeping a year-end of, say, 31 December is that calculating the 2023/24 profit requires the 2024 accounts and the filing deadline for the tax return is 31 January 2025. As those accounts are unlikely to be available in time, the tax return has to be submitted initially with an estimate of profit, then amended later. That seems unnecessary work to me, so I have moved clients off November, December, January and February year-ends and prepared a long set of accounts to 31 March 2024.

Whether the year-end has changed or not, the calculation of the transition profit is the same.

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