



June 2025

NEWSLETTER

Reduced Rate VAT

Construction services are generally liable to VAT at the standard rate of 20%, but there are some exceptions.

1. Construction of a new residential or charitable building is zero-rated for VAT.
2. Installation of a bathroom or lavatory, constructing ramps and widening doorways or passageways for disabled people in their own house is zero-rated for VAT.
3. Increasing or reducing the number of dwellings in a building (which can include converting a commercial property to residential) is liable to a reduced rate of 5% VAT.
4. Renovation of dwellings which have been empty for a least two years is liable to a reduced rate of 5% VAT.

Property owners will generally be aware of these reduced rates and will be eager to inform suppliers that they apply. Sometimes, though, they expect more than the law provides, which is reduced VAT on construction work on the fabric of the building, including any materials installed. The reduced rate of VAT does not apply to a supply of goods only, without installation, which is why the builders' merchant charges 20% VAT on the materials for the work.

The reason for that distinction is simple: the supplier has no proof that the goods have been used in the building if they are not installed. That is only a problem, though, if the property owner pays for the goods directly, as they are unlikely to be able to reclaim the VAT themselves. That problem can be avoided easily if the goods are purchased by the building contractor, who can reclaim the 20% VAT and supply them on to the property owner, with installation costs, at the reduced rate of VAT.

All of this assumes that the property owner is not carrying out the work as part of a VAT-registered business which can reclaim the VAT (which would be an unusual situation). Conversely, it assumes that the builder carrying out the work is VAT-registered; the worst thing any property owner could do would be to engage a builder who is not VAT-registered to do the work.

Finally, it is only goods which will become part of the fabric of the building which qualify for the reduced rate; items such as kitchen appliances and carpets, are subject to 20% VAT.

Anyone asked to supply goods at a reduced rate must, therefore, advise the customer that it applies only where installation is included.

Investment Bonds

I have mentioned these before, but it is worth reminding everyone about their treatment for tax purposes. What is described as an "Investment Bond" is invariably a single-premium life assurance policy: the amount invested is the premium. The insurance companies issuing those bonds never seem to want to admit that, but the giveaway will be a small paragraph about taxation treatment, usually at the end of the documentation, saying that withdrawals up to 5% a year are tax-free. As that is a rule specific to life assurance policies, the investment bond must be one.

If the bond is left to run its full term and withdrawals do not exceed 5% a year, then it is completely tax free. Tax problems arise where withdrawals exceed that limit, particularly if the whole bond is cashed in early. The insurance company will then issue a "chargeable event certificate" specifying a "gain" on the life policy.

Despite the name, the "chargeable gain" is subject to Income Tax, not Capital Gains Tax. In the most extreme cases, this can result in a large amount being added to the policyholder's income for the year, with a large liability to higher-rate Income Tax. For a UK bond, that liability will be partially offset by a basic-rate tax credit, but an offshore bond has no such tax credit.

Anyone taking out an Investment Bond needs to be aware that there could be unpleasant tax consequences if it is cashed early.

Tax Returns

I still see clients thinking that they no longer need to submit a tax return as soon as their business or rental income has ceased. Of course, that cessation will usually happen part-way through a tax year, so the final few months' income needs to be declared on the tax return issued the following April.

People also sometimes query why I request figures for income which has been "already taxed" such as wages or pensions. The reason is that the tax deducted is never intended to be the actual liability on that income. It is just the amount the payer is required to deduct under the PAYE rules, using the code issued by HMRC. The only final tax liability is that which is calculated on total income for the year, not on individual sources of income. That is why tax returns have to include all income, whether or not it has been taxed at source.

Class 2 NIC

Class 2 National Insurance is a weekly contribution for self-employed people. Historically it was paid by buying stamps from a Post Office, then it was paid by direct debit, then collected through self assessment. It is important because it is the contribution which earns benefits, including the state pension. From 2024/25 it has been abolished for most self-employed people, as anyone with a profit of £6,725 or more will receive a credit for the contributions. Anyone with a lower profit can pay the contribution voluntarily which is £3.45 a week or £179.40 a year.

HMRC's computer system seems to be having trouble coping with this change. Now that I am submitting 2024/25 tax returns, I have received a number of HMRC tax calculations saying that the Class 2 NI has been amended, although nothing was entered on the tax return and there is still nothing on the new calculation. I have also read that two other errors are being made:

1. HMRC has added Class 2 NI of £179.40 to the computation, where none should be due.
2. £179.40 has been added to the computation, but the tax liability has increased by double that amount.

HMRC is working "as a matter of urgency" to correct these problems.

Winter Fuel Payments

The government has made a partial u-turn on the Winter Fuel Payment, which was restricted to pensioners who were also claiming pension credit. For 2025/26, it will be paid to all pensioners (but see below) but then reclaimed from anyone with an income over £35,000, in the same way as Child Benefit is reclaimed from high earners, through self assessment or PAYE. There has been no mention of any taper of the amount reclaimed (which applies with Child Benefit) so an income of £35,001 would be enough to trigger a full repayment.

The GOV.UK website says that the payment will be made automatically to anyone over State Pension age but, before the changes in 2024/25, that was never the case. It was paid automatically only to people claiming the State Pension. Anyone who had deferred the State Pension was still entitled to it, but had to claim it. I can't see any reason why that would change, so the GOV.UK website may be wrong.

There are also now complications in the way the payment is made to couples:

1. If one person receives Pension Credit or similar benefits, then the full payment (£200 or £300 if over 80) will be made to the other person.
2. If neither receives any of those benefits, then each will receive half of the payment (£100 or £150 if over 80)

That suggests to me that the £35,000 income threshold applies to each individual receiving a winter fuel payment, not to the income of the household. In case 1 above, the full amount of winter fuel payment would be reclaimed if the person receiving it has income over £35,000. In case 2 above, one person may have to repay their half of the winter fuel payment, while the other does not.

In practice, repayments of winter fuel allowance for 2025/26 will be part of the January 2027 tax payment for those in self assessment, or tax deducted between April 2027 and March 2028 for those on PAYE. From 2026/27, there are likely to be in-year adjustments to payments on account and PAYE codes to collect repayments more quickly.

The winter fuel allowance is paid by the Department of Work and Pensions (DWP) who will be introducing a system for people to disclaim it, but no details are available yet. HMRC will need to know who has disclaimed the allowance, so that it is not reclaimed from people who did not receive it. This will require greater co-operation between DWP and HMRC than currently exists. Here is a surprising fact: HMRC needs to know each taxpayer's state pension, but the only time DWP gives an exact figure is when the pension is first claimed. After that, HMRC just updates the figure by the annual percentage increase. That leads to rounding errors so that, after a few years, the pension figure HMRC is using is never quite right.

Finally, I have read that this change has already attracted scammers pretending to be from HMRC who are contacting pensioners about claims, probably with the aim of obtaining bank account details.

Companies House Identity Checks

I mentioned in my last newsletter that Companies House was introducing new identity checks for directors and shareholders. The start date has now been delayed to some time in Autumn 2025, but it is possible to do the check voluntarily before then. I said that it would have to be done through a commercial provider, but there is a free Companies House service which can be used by anyone with a GOV.UK one account.

My experience so far of this service is mixed. I know of one client who has used it successfully, but when I tried to help another client, it said that it could not verify either his passport or driving licence details, so it failed. I could not work out why.

Since my last newsletter, I have realised that these requirements may cause particular difficulties for charitable companies. It is difficult enough already to persuade people to act as directors/trustees and these new rules will just made them more reluctant.

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