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NEWSLETTER

Spring Budget

Tax changes are included in this newsletter, although there aren't many, because the rates and allowances for 2023/24 were announced in the Autumn 2022 statement. As with the 130% allowance for plant and machinery, introduced three years ago, there are again some changes which apply to companies only, not sole traders and partnerships. Where changes apply to all of them, I shall refer to businesses.

Capital Allowances

1. Annual Investment Allowance

   AIA will remain and allows all businesses to claim 100% of the cost of plant and machinery (excluding most cars) up to £1 million. For most businesses that limit is academic, as they would never spend anywhere near that amount.

2. Full Expensing

   From 1 April 2023 to 31 March 2026, companies will also be able to write off the full cost of new (not second-hand) plant and machinery, other than fixtures which become an integral part of a building. When the asset is sold, the full proceeds will be taxable, rather than it being deducted from other capital expenditure.

   As full expensing is needed only where the £1 million AIA has already been used, it will apply only to the very largest companies.

3. First-year Allowance

   From 1 April 2023 to 31 March 2026, companies can claim a 50% allowance on expenditure on plant and fixtures (other than cars) which do not qualify for full expensing. When the asset is sold, 50% of the proceeds will be taxed, but the remaining 50% can be set against other capital expenditure.

   Again, this FYA will not be needed unless the £1 million AIA has already been used.

4. Charging Points

   The 100% FYA for electric vehicle charging points will be available to businesses for a further 2 years to March 2025.

Energy Price Cap

The government support which limits the average household bill to £2,500 was due to end on 31 March, but will now be extended to June 2023, when wholesale gas prices are expected to be lower.

Pension Schemes

The Lifetime Allowance (LTA) which is currently £1,073,100, is the maximum any individual can hold in a pension scheme without incurring charges. Because some senior doctors have been retiring early to avoid breaching that limit, it was widely predicted that it would be increased. What was not expected was that the Chancellor would abolish the LTA completely from April 2024. However, as the tax charges for exceeding the LTA are abolished from 6 April 2023, it is effectively abolished then.

As I recall, the original reason for introducing the LTA was to prevent extremely wealthy people from using a pension scheme as a form of tax-free savings account, with no intention of ever converting it into a pension. The LTA was therefore a way to counter tax avoidance, so its abolition is even more surprising.

The annual limit on pension contributions will increase from £40,000 to £60,000 on 6 April 2023.

25% of any pension fund can be withdraw tax-free. From April 2024, that tax-free sum will be limited to £268,275 which is 25% of the current LTA.

Excise Duties

1. Tobacco duties are increased immediately by inflation plus 2%, which will push the price of some packets of cigarettes to around £14.00.

2. Alcohol duty will increase by inflation in August 2023, but not for draught beer, to encourage people to return to pubs rather than drinking at home.

3. Road tax will increase by approximately 10% in April 2023.

Divorce

Transfers of assets between spouses or civil partners are exempt from Capital Gains Tax. They are also exempt up to the end of the tax year in which divorce occurs. From 6 April 2023, that tax-exempt period will be extended to 3 years after divorce.

Income Tax Change

Sole traders and partnerships which prepare their accounts to a date other than 31 March or 5 April are taxed as if the profit for the accounting year is the profit for the tax year in which the accounts end. Thus, the profit for the year ended 31 December 2022 will be treated as income for the year ended 5 April 2023. In the tax year 2024/25, that will change so that the actual income is taxed. A business with a 31 December year-end will therefore be taxed on 9/12 of the 2024 profit plus 3/12 of the 2025 profit. That will make it difficult to file the tax return by the deadline of 31 January 2026.

I shall speak to clients individually about how this change will affect them and whether it is worth changing their accounting year to match the tax year.

Mortgage Applications

To assess an applicant's income, mortgage lenders nowadays rigidly use the figures on HMRC documents (P60 for employees, SA302 tax calculation for the self-employed). What they don't understand is that those documents may not show the real income, because of the vagaries of the tax system.

Consider these taxpayers, who all really have the same income:

1. James is employed on a salary of £50,000. He pays 10% of that (£5,000) into a pension scheme and basic-rate tax relief (£1,000) is given at source, so that he pays only £4,000.

2. Richard is employed on a salary of £50,000. He pays 10% of that (£5,000) into a pension scheme under the salary sacrifice arrangement, where tax relief is given by deducting the contributions from salary before it is taxed.

3. David lives on rental income of £50,000 a year from a commercial property. The tenant pays all expenses.

4. Ian lives on rental income of £50,000 a year from a commercial property. Mortgage interest of £5,000 has been taken into account in calculating that income, but there are no other expenses.

5. William is a self-employed builder with a net profit of £50,000. During the year, he bought a new van for £20,000 and depreciation of £4,000 on that was charged in calculating the profit.

These are the figures which the HMRC documents would show for the income of those taxpayers:

1. James' P60 will show the correct income of £50,000.

2. Richard's P60 will show income of £45,000 because the pension contributions are deducted in arriving at the taxable pay.

3. David, although having no real expenses, can deduct the statutory rent allowance of £1,000, so his SA302 will show income of £49,000.

4. Ian cannot deduct the mortgage interest on his tax return because only basic-rate tax relief is allowable, so his SA302 will show income of £55,000.

5. William can choose not to claim any depreciation on the van on his tax return, so his SA302 will show income of £54,000. After his mortgage has been approved, he could amend his tax return to claim the full cost of the van, reducing the profit to £34,000. Should that be regarded as fraud?

So, the documentation provided for the mortgage application is wrong for everyone except James.

Year-end Wages Procedure

1. Give each employee a P60, which can be printed from the payroll software.

2. An employee who has received benefit-in-kind (such as a company car or medical insurance) must be given a P11D, which must also be filed with HMRC by 6 July.

3. After making the final Full Payment Submission (FPS) for 2022/23, the payroll software will need to be updated for the new tax year, 2023/24.

4. Amend code numbers only where a new code has been issued by HMRC, although any week1/month1 markings (an X at the end of the code) can be removed. Other employees will see no change in the tax and NI which they pay.

5. Pay Class1A NIC on benefits-in-kind by 19 July.

National Minimum Wage

Hourly rates will increase on 1 April 2023:

	Old £	New £
Living wage (23 and over)	9.50	10.42
Minimum wage (21 to 22)	9.18	10.18
18 - 20	6.83	7.49
16 - 17	4.81	5.28
Apprentice (under 19 or in first year)	4.81	5.28

Remember that those rates apply to all of the hours worked. An employee of a charity, therefore, cannot claim to be doing some of the work voluntarily, if that would reduce the average rate (wages ÷ total hours worked) to less than those rates.

Pass it on

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