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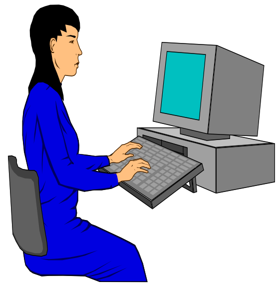
NEWSLETTER



Spring Budget

This newsletter includes changes announced by the chancellor in his Spring budget, insofar as they are relevant to individuals and small businesses. Most of the tax rates and allowances for 2024/25 had been announced in the Autumn statement and there is very little change to them. Once again, the major changes had been leaked before the budget, something which never used to happen.

National Insurance

Following the 2% cut in employee's National Insurance in January, the rate will be cut again from 6 April by the same amount, bringing it down to 8%. Less than 2 years ago, the rate was briefly 13.25% and also started at a lower threshold, so employees paid significantly more. The employer's contribution will remain at 13.8% for 2024/25.

Software suppliers, who had probably already finalised their payroll software for 2024/25, will now have to amend it to take account of the lower rate of NI.

The rate paid by the self-employed will also be cut by 2% to 6%. Although this is lower than the rate for employees, the self-employed do not earn as many benefits; most significantly they are not automatically entitled to unemployment benefits.

National Insurance is paid only on earnings from employment or self-employment, so these cuts are of no benefit to people who are retired or living on income from rental properties or other investments. The government is now happy to describe the lower NI rates as a "tax cut" although it always insisted that NI was not a tax when it was increasing rates.

HICBC

The High Income Child Benefit Charge starts to reclaim Child Benefit where the higher earner in a couple has an income over £50,000 a year, at a rate of 1% of Child Benefit for every £100 of income. At £60,000 of income, therefore, the whole of the Child Benefit is lost. This has long been seen as an unfair system because a couple with income of, say, £40,000 each would not lose any Child Benefit.

For 2024/25, the threshold will be increased to £60,000 and the rate of recovery will be halved to 1% for every £200 of income until all Child Benefit is lost at £80,000 income. From April 2026, HICBC will be assessed on the joint incomes of both parents, but there are no details yet of how that will work.

Non-Doms

There has been much in the news in recent years about "Non-Doms" and their favourable tax treatment, but how many people really understand what is meant by that? First you need to understand what is meant by Non-Domiciled (Non-Dom for short).

The UK is unusual in having the legal concept of domicile as well as residence for tax purposes. Residence is simply where someone is living at the time, whereas domicile is the place where someone belongs, so is a somewhat subjective term. Non-Doms generally refers to foreign nationals who are resident in the UK.

Anyone resident in the UK generally has to pay UK tax on worldwide income and capital gains, but Non-Doms pay only on funds which are remitted to the UK. They also have to pay an annual charge of £30,000 or £60,000, depending on how long they have been resident in the UK.

A new system will be phased in over 4 years from April 2025 so that new arrivals will pay the same tax as other UK residents. Reform of the Non-Dom rules, and extending the windfall tax on oil and gas companies (which is also in the budget) were part of Labour's plans to fund additional government spending. They will now have to think of another way to raise money if they form the next government.

Excise Duties

1. Fuel Duty (petrol and diesel) will be frozen for another year.

2. Alcohol Duty will be frozen for another 6 months to 1 February 2025.

3. Tobacco Duty will increase by £2 for every 100 cigarettes or 50g of tobacco from 1 October 2026.

4. A tax on vaping products will be introduced on 1 October 2026.

VAT

The registration threshold will increase from £85,000 to £90,000 on 1 April 2024, while the deregistration threshold will rise from £83,000 to £88,000.

Whatever the chancellor may have liked to do, he is constrained by the Northern Ireland Protocol, under which it is still subject to EU rules. As the change in the registration threshold has to apply to the whole of the UK, it has to comply with the EU rules which apply in Northern Ireland. The increase announced is the maximum allowed under EU law.

Capital Gains Tax

The higher rate of Capital Gains Tax on sales of residential property will be cut from 28% to 24% from 6 April 2024. As the homes of owner/occupiers are exempt from CGT, this change is largely limited to sales of buy-to-let properties or holiday homes.

Furnished Holiday Lets

Tax rules have always been more generous for earned income than unearned income, but the distinction between the two is not always clear with income from property. At one extreme, running a hotel is clearly a business, so earned income; at the other extreme, a buy-to-let property is clearly an investment, so the rent is unearned income. Between the two, the situation is not always so clear.

For many years there have been special tax rules for properties let to holidaymakers. Subject to meeting certain conditions, those Furnished Holiday Lets have been treated as businesses rather than investments. That will all change from 6 April 2025, when Furnished Holiday Lets will cease to be businesses and will be treated as normal rental income.

I have never had a client with a Furnished Holiday Let, as they are generally located in seaside towns or other resorts.

Pensioners

The state pension is taxable and many people also have a taxable company or private pension. There is no system for deducting tax from the state pension, so the tax code used on the other pension collects tax on the state pension as well.

The state pension will rise by 8.5% in April 2024, but tax allowances have been frozen, making all of that increase liable to tax. Pensioners will typically find that their monthly tax deductions increase by £20 from April.

If the state pension is someone's only income, there could still theoretically be a small amount of tax due. I doubt, though, that HMRC would take any action to collect it. There used to be an additional tax allowance for people over 65 to prevent that situation arising.

National Minimum Wage

Hourly rates will increase on 1 April 2024:

	Old	New
	£	£
Living wage (23 and over)	10.42	11.44
Minimum wage (21 to 24)	10.18	11.44
18 - 20	7.49	8.60
16 - 17	5.28	6.40
Apprentice (under 19 or over 19 In first year)	5.28	6.40

As the change does not coincide with the start of the new tax year, the new rates will apply to most weekly-paid employees for all or part of the final week of 2023/24.

Year-end Wages Procedures

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

2. An employee who has received benefits-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 2023/24, the payroll software will need to be updated for the new tax year, 2024/25.

4. Amend code numbers only where a new code has been issued by HMRC, although any week 1/month1 markings (an X at the end of the code) can be removed. Other employees will see no change in the tax which they pay.

5. Pay Class 1A NIC on benefits-in-kind by 19 July.

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.

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