

Tax E-News

Welcome to the August edition of Tax E-News. We hope that you find this informative. Please contact us if you wish to discuss any matters in more detail.

August 2024

BEWARE THE 60% INCOME TAX TRAP

It has recently been reported over half a million taxpayers paid a marginal income tax rate of 60% in 2022/23, up by 23% from the number in 2021/22. This marginal rate applies where an individual's adjusted net income falls between £100,000 and £125,140, where every £2 income over £100,000 reduces the £12,570 personal allowance by £1, such that it is fully eroded at £125,140.

Planning to mitigate the problem

The definition of "adjusted net income" is the individual's total taxable income less personal pension payments and charitable payments under Gift Aid. Such payments can effectively save income tax at 60%. For example, an £80 payment to charity under gift aid is grossed up to £100 and the taxpayer's income is reduced by £100, thus saving £60 tax where the individual's income is between £100,000 and £125,140. If an individual's total income is projected to be £105,000 for 2024/25 they could consider making an additional pension contribution of £4,000 before 5 April 2025 as that would reduce their income to £100,000, thereby restoring their £12,570 personal allowance.

Such planning is also effective for those caught by the high income child benefit claw back charge (HICBC). That charge claws back child benefit by 1% for every £200 adjusted net income between £60,000 and £80,000.

Salary sacrifice arrangements can also be effective

Another way to mitigate the effects of the personal allowance restriction and the HICBC would be to agree with your employer to forgo some of your salary, pay rise, or bonus for an additional employer pension contribution or an electric company car. For example, an employee on £96,000 a year might be entitled to a £10,000 bonus. They could agree with their employer to have £6,000 of the bonus paid into their pension (tax-free, provided the £60,000 pension annual allowance isn't exceeded) with the remainder of the bonus just keeping them at £100,000 and retaining their personal allowance.

Sacrificing salary for an electric company car isn't quite as tax efficient, as the employee would currently be taxed on 2% of the list price instead of the salary foregone. On a £50,000 electric car that would just be a £1,000 taxable benefit in kind, which for a 40% taxpayer would mean £400 income tax.

The employing company would obtain a tax deduction for the cost of providing the benefit and would also save on employers national insurance. So, it's win, win.

USE TAX-FREE CHILDCARE ACCOUNT TO PAY FOR SUMMER HOLIDAY CLUBS

Tax-Free Childcare accounts can be used to pay for approved childcare for children aged 11 or under, or 16 if the child has a disability. This can include paying for a summer holiday club or childminder.

The account can also be used to pay nursery fees, to pay for breakfast or after school clubs in term-time, as well as out of school activities.

Opening a Tax-Free Childcare account is quick and easy and can be done at any time of the year. Families who have not yet signed up should check their eligibility and apply online today.

For every £8 paid into an online account they will receive an additional £2 from the government. This means parents and carers can receive up to £500 every 3 months (£2,000 a year for each child), or £1,000 (£4,000 a year for each child) if their child is disabled.

Money can be deposited at any time to be used straight away, or whenever it is needed. Unused money in the account can be withdrawn at any time.

Eligibility

Families could be eligible for Tax-Free Childcare if they:

- have a child or children aged 11 or under. They stop being eligible on 1 September after their 11th birthday. If their child has a disability, they can receive support until 1 September after their 16th birthday;
- earn, or expect to earn, at least the National Minimum Wage or Living Wage for 16 hours a week, on average;
- each earn no more than £100,000 per annum; and
- do not receive tax credits, Universal Credit or childcare vouchers.

PLANNING A STAFF SUMMER BARBEQUE?

Employers may meet the cost of certain social events for staff without creating a tax liability. This used to be a concession but is now a statutory exemption provided certain conditions apply.

The exemption applies to an “annual party or similar function” provided it is available to all employees or available generally to those at a particular location. During the Covid-19 pandemic HMRC confirmed that a ‘function’ could include a virtual party, where employers were unable to host a traditional party at which employees would have been physically present.

A key condition is that the cost per head of the party or function must not exceed £150, inclusive of VAT. If an event costs more than £150 then it is taxable in full, not just on the excess over £150.

If you have already held a Christmas Party for staff it may be possible to have another event, and for that to also be exempt from tax, provided the combined cost per head is no more than £150 a year. If the combined cost exceeds £150 for the year the employer can designate which ones should be taken into account to make best use of the exemption. If, for example, the cost per head of the Christmas party was £100, and the Summer event was £70, the employer can nominate the Christmas party to be covered by the exemption, but the £70 Summer Event would be taxable (not just the excess £20).

Rather than the employee being taxed on the £70 the employer can deal with the tax and national insurance on the employees’ behalf by way of a PAYE settlement agreement.

BUDGET DATE ANNOUNCED

The State Opening of Parliament took place on 17 July and the King’s Speech set out the measures that the government intends to introduce during the next session of parliament. Other than a mention of the proposal to remove the VAT exemption for private school fees (which we covered in a previous edition of this newsletter), very little was said about measures that will affect tax for businesses and individuals. Instead, we must wait for the Labour government’s first budget in order to learn about their tax plans. The budget is set to take place on 30 October 2024.

PROPOSED REPEAL OF THE SPECIAL TAX TREATMENT OF FURNISHED HOLIDAY LETTINGS

The government has now issued the draft legislation to abolish the special tax treatment of furnished holiday lettings (FHL) with effect from 6 April 2025 for individuals (1 April 2025 for corporation tax). This change will remove the tax advantages that current FHL landlords have received over other property businesses in 4 key areas by:

- applying the finance cost restriction rules so that loan interest will be restricted to the basic rate of Income Tax;
- removing capital allowances rules for new expenditure and allowing relief when domestic items are replaced;
- withdrawing access to reliefs from taxes on chargeable gains for trading business assets; and
- no longer including this income within relevant UK earnings when calculating maximum pension relief.

After repeal, former furnished holiday let properties will form part of the person’s UK or overseas property business and be subject to the same rules as residential property businesses.

Transitional rules

Where an existing FHL business has an ongoing capital allowances pool of expenditure, they can continue to claim writing-down allowances on that pool — any new expenditure incurred on or after the operative date must be considered under the property business rules

After the changes, former FHL properties will be part of the person's UK or overseas property business as appropriate. That property business will then include the amalgamated profits and losses of all the properties in that business

Losses generated from a person's FHL business will be permitted to be carried forward and be available for set off against future years' profits of either the UK or overseas property business as appropriate.

Eligibility for CGT roll-over relief, business asset disposal relief, gift relief, relief for loans to traders, and exemptions for disposals by companies with substantial shareholdings will cease with effect from 6 (1) April 2025.

In relation to CGT business asset disposal relief, where the FHL conditions are satisfied in relation to a business that ceased prior to 6 April 2025, relief may continue to apply to a disposal that occurs within the normal 3-year period following cessation.

There is also an anti-forestalling rule which is intended to prevent the obtaining of a tax advantage through the use of unconditional contracts to obtain capital gains relief under the current FHL rules, effective from 6 March 2024.

CHANGES TO VAT ON INDEPENDENT SCHOOL FEES

On 29 July 2024, the Chancellor announced that as of 1 January 2025, all education services and vocational training supplied by a private school, or a connected person, for a charge will be subject to VAT at the standard rate of 20%. Boarding services provided by a private school, or a connected person, will also be subject to VAT at 20%.

Draft legislation issued on 29 July 2024 also provides that fees invoiced or paid on or after 29 July 2024 and before 30 October 2024 are to be treated for the purposes of the charge to VAT as a supply taking place on the later of—

- (a) 1 January 2025, and
- (b) the first day of that term.

School fees paid before 29 July 2024 will follow the VAT treatment in force at the time of the normal tax point for these supplies, where the fee rate for the relevant term has been set and was known at the time of payment.

DIARY OF MAIN TAX EVENTS

AUGUST/ SEPTEMBER 2024

Date	What's Due
01/08	Corporation tax payment for year to 31/10/23 (unless quarterly instalments apply)
19/08	PAYE & NIC deductions, and CIS return and tax, for month to 5/08/24 (due 22/08/24 if you pay electronically)
01/09	Corporation tax for year to 30/11/23 (unless quarterly instalments apply)
19/09	PAYE & NIC deductions, and CIS return and tax, for month to 5/9/24 (due 22/09 if you pay electronically)