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CHARTERED ACCOUNTANTS

NEWS UPDATE - 12 February 2025

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A cautionary tale – no excuse for late return

In a recent case heard by the First Tier Tribunal (FTT), a taxpayer lived overseas, encountered postal delays and had limited internet access, but these did not constitute reasonable excuses for the late submission of a self-assessment tax return.

The case

When he was a UK resident, the taxpayer had previously submitted tax returns on time. However, for 2020/21, he was living overseas and presumed there was no need to submit a return because there was no tax liability for that year. The income for his UK property was covered by his personal allowance.

HMRC thought otherwise. The taxpayer was charged late filing penalties totalling £1,600 as a result of his self-assessment tax return being submitted more than a year late.

The penalties of £1,600 included an initial £100 penalty, £10 daily penalties charged for 90 days, and two £300 penalties for being six months and then twelve months late.

Reasonable excuse

At the FTT hearing, the taxpayer argued that:

- A lack of internet access meant he could neither submit a tax return, nor open letters emailed to him with details of the penalties charged; and
- There were postal delays outside his control.

Ignorance of the law is, of course, no excuse in these matters. The FTT considered that the taxpayer should have been more diligent in organising his tax affairs. For example, arrangements could have been made to forward mail from the UK.

A warning

This case shows how important it is to keep on top of your tax affairs, even if no tax is at stake.

The £1,600 of penalties were only for a late tax return. The situation will be much worse if tax is also paid late; with both penalties and interest charged. Late payment interest is currently 7.25%, but the government is adding an extra levy of 1.5% from 6 April 2025.

HMRC's online calculator, which can be used to obtain an estimate of the penalties and interest charged for a late self-assessment tax return and/or payment, can be found from the link below:

https://www.gov.uk/estimate-self-assessment-penalties

What to expect from the Spring Forecast on 26 March

The Chancellor has announced the timing of her next formal report to Parliament.

Cast your mind back six Chancellors ago to Philip Hammond (aka Spreadsheet Phil). In autumn 2016, Hammond announced a change to the timings of Budget announcements, with a Spring Budget and Autumn Pre-Budget Report (PBR) to be replaced by an Autumn Budget and a Spring Statement. His aim was to move away from what had virtually become two Budgets a year, with the PBR introducing as many – if not more – tax changes than the real thing.

The new scheduling was welcomed by the likes of the Institute for Government, but fell victim to events, notably general elections and the Covid-19 pandemic. Since 2017, there have been as many Spring Budgets as Autumn Budgets and in one year (2022) when there was only (and notoriously) one unofficial mini-Budget presented by Kwasi Kwarteng. In her March 2024 Mais Lecture, Rachel Reeves made clear that were she to become Chancellor she would revert to Hammond's schedule and have only one major 'fiscal event' each year, that is, an Autumn Budget.

That still leaves a Spring statement of some sort, not least because the Office of Budget Responsibility (OBR) is required by law to produce two reports each fiscal year on the state of the economy and the government's finances. Shortly before Christmas, the Treasury announced that the 2025 'Spring Forecast' would be presented to Parliament on 26 March, the day that the OBR's report is to be published.

While the accompanying press release did not rule out any tax changes in March, it did say, "The Chancellor remains committed to one major fiscal event a year to give families and businesses stability and certainty on upcoming tax and spending changes". Those words and the continued debate from last October's Budget both point to no new tax measures being revealed on 26 March, even if the OBR numbers are disappointing. However, in January this year, after government borrowing costs rose, rumours were beginning to appear that spending cuts were in the offing.

The probable absence of tax changes is good news as we enter the season of planning for the tax year end and the start of a new tax year. The £40 billion of tax increases in autumn last year can only mean that tax year planning is particularly important for 2025.

Property purchase could get costlier

Although a late reprieve cannot be completely ruled out, the stamp duty cost of purchasing a property in England and Northern Ireland is set to go up from 1 April 2025.

Stamp duty costs have risen now that the temporary £250,000 nil rate threshold has reverted back to £125,000, the pre-23 September 2022 level. First-time buyer discounts will also fall to previous rates.

Landlords

The reduction of the stamp duty threshold from £250,000 to £125,000 will mean an additional cost of £2,500 for anyone purchasing a property costing £250,000 or more as the extra £125,000 of the purchase price is brought into the 2% tax charge.

For landlords, this will come on top of the 2% surcharge increase introduced for purchases from 31 October 2024 onwards. They will have seen their stamp duty cost on, for example, a £350,000 property purchase go up first from £15,500 (pre-31 October 2024) to £22,500 (currently), then to £25,000 (from 1 April 2025) – a more than 60% increase.

First-time buyers

The temporary discounts currently in place mean that first-time buyers in England and Northern Ireland do not pay stamp duty on property purchases costing up to £425,000. So:

- For purchases costing between £425,000 and £625,000, duty at the rate of 5% is paid only on the excess over £425,000; and
- No relief is available if the purchase price exceeds £625,000.

From 1 April 2025, the nil rate threshold will be reduced to £300,000, with the higher limit cut to £500,000. The rate will be at 5% where a property costs between £300,000 and £500,000.

Those purchasing property at prices just over £500,000 from 1 April 2025 will need to negotiate for a discount. For example, a £1,000 reduction on a purchase originally priced at £501,000 will save £5,050 in stamp duty.

The online calculator for the amount of stamp duty payable on a property purchase in England and Northern Ireland can be found from the link below:

https://www.tax.service.gov.uk/calculate-stamp-duty-land-tax/#!/intro

Scotland and Wales set their own devolved property taxes.

What's new on MTD?

A busy start for HMRC on Making Tax Digital (MTD) for 2025 with focus falling on new guidance for three-line accounts and joint property income.

Self-employed individuals and landlords with an annual income of more than £50,000 will start using MTD from 6 April 2026. The £50,000 test is based on overall self-employed and property income for the current 2024/25 tax year.

Three-line accounts

HMRC has confirmed a three-line account approach:

- Currently, when completing a self-assessment tax return, self-employed individuals and landlords whose income from either self-employment or property is below the VAT registration threshold of £90,000, need only enter one figure for total expenses.
- Therefore, keeping digital records for MTD should be a matter of classifying amounts as either income or expense.
- Each quarter, only the total income and expense figures will be submitted to HMRC.

The one exception is when a landlord incurs residential finance costs, which must always be recorded separately because they are not a deductible expense.

Joint property income

Joint property owners only need to record their share of the property's income and expenses. If a landlord chooses to, they can simply record income on a quarterly basis and expenses on an annual basis at the end of the tax year. Individual transactions will not have to be captured; only a total figure for each income and expense category.

If the joint property owner is eligible to use a three-line account approach, it gets even simpler. A total quarterly income figure and a total expenses figure at the year end. Recording and reporting will then be:

- **Each quarter:** record a single income figure and submit to HMRC.
- **End of the tax year:** record a total figure for expenses and report through the end-of-year finalisation process.

HMRC's guidance on the categories of income and expenses that need to be included in quarterly updates (if a three-line account approach is not used) can be found from the link below:

https://www.gov.uk/government/publications/update-notice-for-making-tax-digital-for-income-tax

Overseas workday relief set to improve

Employees coming to work in the UK should see an improvement in the new version of overseas workday relief set to be introduced from 6 April 2025.

Current system

Under the current system of overseas workday relief, earnings for employment duties performed overseas are exempt from UK tax if:

- The employee is not domiciled in the UK;
- The employee is taxed on the remittance basis; and
- The earnings are not remitted to the UK.

Relief is available for a maximum of three tax years.

From 6 April 2025

From 6 April 2025, domicile – along with the remittance basis – will be replaced by a new regime based solely on residence. Overseas workday relief will then be available to an employee coming to work in the UK if they are a qualifying new resident:

- They can claim relief for up to four tax years after arriving in the UK, with a separate claim required each year. The claim will be made on the employee's self-assessment tax return.
- As is currently the case, a claim will exempt remuneration for duties performed overseas. However, it will not make any difference whether or not this remuneration is remitted to the UK.
- Relief will be capped (per tax year) at the lower of:
    - £300,000; and
    - 30% of the employee's worldwide employment income.

A qualifying new resident is someone who was not UK resident for the ten consecutive tax years immediately before they arrived in the UK.

Under the current system, there is no entitlement to the income tax personal allowance and the capital gains tax annual exempt amount as a result of using the remittance basis. It will be the same under the new system, because a claim for overseas workday relief for a particular tax year will result in the loss of both allowances.

HMRC's technical note on reforming the taxation of non-UK domiciled individuals (with overseas workday relief covered on pages 12 to 16) can be found from the link below:

https://www.gov.uk/government/publications/reforming-the-taxation-of-non-uk-domiciled-individuals

Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk