



**NEWS UPDATE - 12 July 2024**

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## From victory to Budget? Labour’s first 100 days

With a majority of over 200 and a weight of expectations, what happens next for Sir Kier Starmer’s new Labour government?

The importance of the first 100 days of a new government cannot be understated. Within that period the new incumbent has the greatest political capital to take bold actions, as well as the greatest opportunity to lay the blame for ‘inherited’ problems on its predecessor.

Given the timing of the election, Labour’s first 100 days are a little complicated and will look something like this:

### 17 July

This date has been set for the State Opening of Parliament and the King’s Speech. Before then parliament will have gone through the process of electing a Commons Speaker and swearing in the fresh intake of MPs.

The King’s Speech: will provide an insight into the new government’s immediate priorities and could reveal the first surprises.

### Early August?

The House of Commons was due to start its summer recess on 23 July before the election was called, but that would not leave enough time for the debate of the King’s Speech. Unless the summer recess is delayed, the new government won’t have time to get to work on those commitments.

### 13 September

Presuming one of Chancellor Rachel Reeves’s first acts was to give notice to the Office for Budget Responsibility on 5 July to start preparing its Economic and Fiscal Outlook, then – perhaps ominously – Friday 13 September would be the earliest date she could give her Budget. However, speculation is growing that there will be no Budget before October. One reason is 22 September..

### 22 September

The Labour Party conference in Liverpool runs from 22–25 September 2024. Previously parliament has had a three-to-four-week recess to cover the conference season. The new government may reduce the length of this recess, although it is unlikely that Labour MPs will be at Westminster rather than at what is set to be a victory conference.

### 12 October

Counting from 5 July, 12 October will mark the end of Labour’s first 100 days. As suggested, we could still be waiting for Rachel Reeves’ first Budget. At her first speech and press conference at the Treasury on 8 July, she confirmed she will present an interim report to Parliament on the state of the government’s finances, or Labour’s “spending inheritance”, before the recess, with the Budget to come later. She may combine her fiscal premiere with the announcement of the Spending Review as the two are closely related.

# Class 4 NIC reductions benefit the self-employed

Self-employed workers will see a substantial reduction in their Class 4 national insurance contributions (NICs) for the current tax year after two percentage cuts were announced in the 2023 Autumn Statement and 2024 March Budget.



## Maximum saving

Class 4 NICs are earnings-related with the main rate paid on profits between £12,570 and £50,270. For 2023/24, the main rate was 9%, but for 2024/25, it is reduced to 6% – representing a maximum saving of £1,131. Add to that:

- Self-employed people with profits of £6,725 or more no longer pay £179 of Class 2 NICs with potential savings of £1,310 compared to last year.
- A husband-and-wife partnership could benefit to the tune of £2,620.

The additional rate of Class 4 NICs on profits in excess of £50,270 is 2% and this rate is unchanged from 2023/24.

However, there can be less tax saving for business investment for 2024/25. Buying a new laptop for £1,500, for example, would have saved a basic rate taxpayer £435 last year, but the tax saving is now £390.

## Lower profits

Those who are self-employed with profits of less than £50,270 will see the following reductions to their total NIC liability:

PROFIT	2024/25 NICS	REDUCTION
£15,000	£146	£232
£25,000	£746	£552
£35,000	£1,346	£852
£45,000	£1,946	£1,152

NICs cannot, of course, be considered in isolation. The personal allowance and basic rate income tax thresholds remain frozen at 2021 levels with the NIC reductions insufficient to offset fiscal drag.

However, for Class 4 NIC purposes, it has been beneficial to have the main rate threshold frozen at £50,270. If it had been increased to, for example, £60,000, the self-employed would be paying 6% – rather than the 2% additional rate – on a further £9,730 of profits.

A House of Commons explainer on fiscal drag gives a summary of the points from the link below:

<https://www.commonslibrary.parliament.uk/research-briefings/cbp-9687/>



# Small businesses top tax gap defaulters

For 2022/23, the tax gap has increased to a record £39.8 billion, with small businesses being blamed for around 60% of uncollected taxes.

The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC and, what is actually paid. Despite the record high receipts in monetary terms, the overall tax gap has fallen in percentage terms. It is now estimated that 4.8% of taxes are unpaid compared with 7.4% back in 2005/06.

## Small companies

The worst offenders are small limited companies, with the amount of unpaid corporation tax now standing at £10.9 billion, nearly triple the £3.7 billion of five years ago. This means:

- In percentage terms, the tax gap for small companies is a somewhat alarming 32.2%.
- Some 45% of small businesses have submitted an incorrect corporation tax return containing an under-declared tax liability.

By comparison, the tax gap for mid-sized companies is 6.7%, and for large companies is 2.9%.

## High tax take

The recently released figures also give a stark illustration of how much the tax take has increased:

- The theoretical amount of tax liabilities has been growing at around 15% a year; increasing from £640.1 billion for 2020/21 to £823.8 billion in 2022/23.
- The theoretical amount has nearly doubled since 2005/06.

Tax receipts as a proportion of GDP over the past 20 years have previously been steady at around 28% but now stand at just over 30%.

## Behaviour

The two types of behaviour contributing most to the tax gap are:

- failure to take reasonable care; and
- criminal actions.

Failure to take reasonable care means not spending the time and effort to make sure reported figures are correct. Directors of limited companies are generally expected to exercise a higher level of reasonable care compared to small sole traders.

If you need help with your tax liabilities, please get in touch. HMRC's summary of the latest tax gap figures can be found from the link below:

[www.gov.uk/government/statistics/measuring-tax-gaps](https://www.gov.uk/government/statistics/measuring-tax-gaps)



# Digital invoicing could prevent invoice fraud

Companies without a digital invoice processing system in place are leaving themselves open to invoice fraud. Over the past year, nearly a third of businesses have been targeted.

Fake invoices often appear to be genuine and are easily processed by employees if the amount involved is below a company's payment threshold.

## Types of invoice fraud

Common types of invoice fraud include:

- a false invoice for non-existent goods or services;
- duplicate invoices; or
- alteration of existing invoices, e.g. bank details are changed which could indicate email hacking has taken place.

Fake invoices can be harder to identify if they appear to be from a business that your company has previously dealt with.

The threat of invoice fraud is not always external. Companies also need to be wary of internal threats, which can be much more difficult to identify. Typically, a senior employee will swap the bank details on an invoice to divert payment to their own account. In a recent case involving a member of staff, a public limited company lost £660,000 due to 29 fake invoices in one month.

Invoice fraud is not just a case of suffering financially. It can also harm business relationships, brand reputation and impact staff morale,

especially among the team that fell for the fraud.

## Prevention

Updating to a digital processing system will mean that invoices are automatically compared with orders and payment information, preventing most types of fraud:

- If all suppliers are required to use your digital system, potentially fraudulent traders are prevented from joining the trading network by carefully managing the onboarding process. There is then little scope for fake invoices.
- You will also find that the benefits of digital invoicing extend well beyond fraud prevention. For example, invoice due dates will not be missed, the number of errors will be reduced and cash flow forecasting improved.

Updating to a digital system also means supplier invoices will be conveniently stored for easy retrieval in the future.

The British Business Bank's guide to how to avoid invoice fraud can be found from the link below:

[www.british-business-bank.co.uk/business-guidance/guidance-articles/business-essentials/how-to-avoid-invoice-fraud](http://www.british-business-bank.co.uk/business-guidance/guidance-articles/business-essentials/how-to-avoid-invoice-fraud)



# Sales suppression one-to-many letter

HMRC has launched a campaign of one-to-many letters given its increasing concern surrounding the electronic suppression of sales (ESS). The campaign targets businesses that might have unpaid taxes due to misuse of their till systems.

ESS allows a till system to hide or alter the value of individual transactions, while producing a credible audit trail. For example, only one out of every four sales might be recorded, resulting in lower reported turnover. Lower reported turnover means income tax or corporation tax is underreported, along with VAT.

## One-to-many letter

The letter provides an opportunity for a business to get its tax affairs in order by making a voluntary disclosure of underreported sales:

- The different penalties that can be charged are explained. These can be reduced if full disclosure is made.
- The letter also explains what further action HMRC might take if a business avoids paying any tax it owes.

HMRC's campaign is expected to run for at least a year. Even if your sales have been correctly reported, you still need to confirm this within 30 days of receiving a one-to-many letter.

## Penalties

A new penalty has been introduced, along with the usual penalties for inaccuracies, for being in possession of an ESS tool:

This is defined as software or hardware which allows a business to hide or reduce the value of individual transactions on its electronic sales records. It includes using a till – or modifying a till – to suppress sales.

The initial penalty for possession of an ESS tool can be up to £1,000. A daily penalty of up to £75 a day is then charged if possession or access to the ESS tool continues.

A penalty can be charged for simply being in possession of an ESS tool, regardless of whether the tool is actually used to suppress sales. Possession also includes access to, or even trying to access, an ESS tool.

HMRC's guidance on ESS can be found from the link below:

[www.gov.uk/government/collections/electronic-sales-suppression](http://www.gov.uk/government/collections/electronic-sales-suppression)



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

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