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CHARTERED ACCOUNTANTS

NEWS UPDATE - 14 January 2025

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Making Tax Digital latest

Although Making Tax Digital (MTD) for the self-employed and landlords is still more than a year away, the October 2024 Budget further extended its scope with the announcement that it will apply to those with income between £20,000 and £30,000 before the end of this parliament.

MTD timeline

With the latest announcement, the MTD timeline for the self-employed and landlords now looks like this:

- 6 April 2026: Those with an income of more than £50,000 for the 2024/25 tax year.
- 6 April 2027: Those with an income of between £30,000 and £50,000 for the 2025/26 tax year.
- Before the end of this parliament: Those with an income of between £20,000 and £30,000 for the tax year prior to the year of mandation.

It is very important to appreciate that the various mandation levels are based on gross income, and not on net profit after expenses have been deducted.

More significant than what was actually announced was what was left unsaid: that the government appears to be fully committed to the implementation of MTD from April 2026 without any further postponement.

Outstanding issues

One of the main concerns is that the testing of MTD by HMRC is still relatively small scale. Until recently, there was a lack of compatible software and a long list of exclusions of those who cannot currently sign up to use MTD voluntarily, e.g.:

- those paying the high income child benefit charge;
- anyone claiming the marriage allowance; and
- those with income from a trust or jointly owned property.

There is still no confirmation on how MTD will work in practice for those with jointly owned property. At issue is that each owner will be expected to keep their own digital records and submit separate quarterly updates – something that will be impractical in many cases.

HMRC's guidance on if and when you will need to use Making Tax Digital can be found from the link below:

https://www.gov.uk/guidance/check-if-youre-eligible-for-making-tax-digital-for-income-tax

Stamp duty hit for landlords

UK landlords are facing increased rates of surcharge when purchasing buy-to-let property following increases over the past three months. The rate is now particularly punitive for those buying property in Scotland.

Stamp duty was devolved to the Scottish and Welsh Governments in 2015 and 2018 respectively. Rather than stamp duty land tax (SDLT), Scottish property purchasers now incur land and buildings transaction tax (LBTT), with land transaction tax (LTT) paid in Wales.

Increased rates

The surcharge increases are as follows:

- For SDLT, the surcharge is 5% (previously 3%) for purchases from 31 October 2024 onwards.
- For LBTT, the surcharge is 8% (previously 6%) for purchases from 5 December 2024 onwards.
- For LTT, the surcharge is 5% (previously 4%) for purchases from 11 December 2024 onwards.

The top rate of duty in England, Northern Ireland and Wales is now 17% where property costs more than £1.5 million. In Scotland, it is 20% payable once a property costs over £750,000.

For a buy-to-let property costing around £450,000, this means landlords in England and Northern Ireland must now pay SDLT of £32,500. For Scotland, the figure is considerably higher at £54,350, and for Wales, a landlord will pay £36,200.

From 1 April 2025, the SDLT figure will rise further by £2,500 to £35,000 when the nil rate threshold reverts to £125,000 after a temporary increase to £250,000.

Adventurous alternatives

Two ways in which more adventurous landlords can drastically reduce the amount of stamp duty payable is by buying mixed-use property (such as a shop with a flat above it), or by buying a commercial property and obtaining planning permission to convert the property into residential use. Both suggestions work equally well in Scotland and Wales. Conversion is a complex area, however, and expert advice is recommended.

In both cases, duty will only be charged at non-residential rates, so, for that £450,000 property outlined above, the cost will be reduced to £12,000 in England and Northern Ireland, to £11,000 in Scotland and to just £10,250 in Wales.

Online calculators for the amount of duty payable on a property transaction can be found from the links below:

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

LBTT revenue.scot/calculate-tax/calculate-property-transactions

LTT services.wra.gov.wales/land-transaction-tax-calculator

Employment rights changes on the horizon

The Employment Rights Bill working its way through parliament will have serious implications for employers once finally enacted. Along with the loss of options for offering more flexible working arrangements, the changes are likely to cost businesses several billion pounds a year to implement.

Businesses operating in the hospitality sector will take a significant hit from implementing and complying with the package of improved workers' rights.

Day one rights

Some employment rights are currently only available after an employee works for a qualifying period:

- Protection from unfair dismissal requires two years of continuous employment.
- Paternity leave is only available after 26 weeks of employment, with unpaid parental leave requiring a year.

The Bill will see these rights available from day one of employment. Not surprisingly, employers are concerned that in future they will be unable to easily dismiss those employees whose performance is not up to par. However, the Bill does provide for an initial period during which the rules for fair dismissal will be less onerous.

The Bill also removes the three-day waiting period before an employee is entitled to statutory sick pay and the minimum earnings level, potentially increasing employer costs.

Zero-hours contract

Under current zero-hours contracts, workers are not guaranteed how many hours they will work, simply working when requested. However, the Bill will mean that workers must be offered a contract with guaranteed hours based on the hours worked over a 12-week period. Workers must also be paid for any shifts that are cancelled, moved at short notice or curtailed.

Although the Bill will not abolish zero-hours contracts as such, this change will be problematic for employers that make extensive use of seasonal workers. Their period of work will probably be curtailed to less than 12 weeks.

As yet, there are no specific start dates for the proposed changes, although employers need to review their employment practices and start preparing well in advance.

Factsheets covering the various measures included in the Employment Rights Bill can be found from the link below:

https://www.gov.uk/government/publications/employment-rights-bill-factsheets

Lost pensions worth billions unclaimed

Over the past six years, the number of lost pension pots has doubled to around 3.3 million. The total value of missing funds now sits at almost £31 billion.

A pension pot is considered to be lost when the pension provider administering the fund is unable to contact the saver who owns the pension pot.

How do pension pots get lost?

Savers may have worked for many different employers during their working life with some employments only for relatively brief periods. The small pension pots from these short tenures can easily be overlooked, especially if they arose many years prior to retirement:

- The loss of contact will often happen because of a saver moving house and not updating the provider with a new address.
- If the saver then loses track of the pension provider, there is no easy way for them to be reunited with their pension pot.

Tracing pension pots

The first step to tracing a lost pension pot is for you to contact the employer associated with the pot; this is only an option, of course, if that employer is still active.

If the employer route is a dead end, then there are various pension tracing services available. For example, the government's pension tracing service will find contact details for a lost pension, such as a workplace pension or a personal pension scheme.

The pension tracing service is, however, only of use if you have the name of either the relevant employer or pension provider. Also, the service will only provide contact details; it will not tell you whether you actually have a pension to claim.

In some cases, a private pension tracing service might be the only option available. They will have access to a large database of information to help with the search.

The government's service to find pension contact details can be found from the link below:

https://www.gov.uk/find-pension-contact-details

From new year to year end – time to keep a tax-planning resolution?

As 2025 gets under way, it is once again the time of year to start considering your tax year-end planning.

The early months of the year are the time to undertake year-end tax planning. Unsurprisingly, the traditional drivers have been the tax year-end (Saturday 5 April 2025) and the Spring Budget. On this occasion, after last October's blockbuster, there is no Spring Budget, although Rachel Reeves will deliver a Spring Forecast in late March. In the wake of that Autumn Budget, there is plenty to consider:

- **Pension contributions:** The Budget announcement that pensions will fall within the scope of inheritance tax (IHT) from 2027/28 makes the review of pension contributions slightly different from previous years. For most people, pensions remain a highly tax-efficient way of saving for retirement, but for the wealthy few unconcerned about retirement income, they are no longer the estate-planning tool of choice.

- **Capital gains tax (CGT):** Capital gains tax rates increased in the Budget to 24% for higher and additional rate taxpayers and 18% for other taxpayers. If you have not used your annual exemption – now just £3,000 of gains – you should consider doing so after what has been a generally good year on the world's stock markets.

- **IHT:** Now is the time to use your annual exempt amount (£3,000 per tax year) for 2024/25 if you have not already done so. If you did not use your full exemption from 2023/24, you can also gift the unused element after you have exhausted this year's exemption.

- **Marriage allowances:** If you or your spouse/civil partner had income below the personal allowance in 2020/21 (£12,500), you have until 5 April 2025 to claim the marriage allowance for that year (£1,250), which could produce a tax saving of up to £250. A claim can only be made if the other partner was a basic rate taxpayer (starter, basic or intermediate rate in Scotland) in that tax year. The same principle applies (with an allowance of £1,260) for 2021/22 and subsequent years onwards.

- **Threshold planning:** The long-term freezes that have applied to income tax allowances and many thresholds may mean you move into a higher tax band in the coming tax year. Equally you could find yourself crossing the unchanged £60,000 threshold for the high-income child benefit charge or the £100,000 threshold for personal allowance taper and loss of tax-free childcare. Among the strategies to beat the unmoving thresholds, you could bring forward income into 2024/25 (e.g. by closing an interest-paying account) or move some income-generating investments across to your (lower income) spouse or civil partner by 5 April.

It is best to seek advice before taking any action – in tax, errors can be costly and difficult to unwind.

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

Disclaimer: This information provides an overview of the issues considered and is for general information only. It is not intended to provide advice and should not be relied upon in any specific transaction.