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CHARTERED ACCOUNTANTS

NEWS UPDATE - 14 October 2024

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Unclaimed child trust funds

With around 670,000 child trust fund (CTF) accounts sitting unclaimed by Generation Z adults aged between 18 and 22, HMRC is concerned.

CTFs were opened for every child born between 1 September 2002 and 2 January 2011, with each account started off with a £250 voucher (£500 for low-income families). A similar amount was added for any child who turned seven by 31 July 2010. That means all CTFs hold some money; in fact, each unclaimed account has an average of £2,200.

Given that nearly 30% of CTFs were set up without any parental involvement, it's no surprise so many account holders are unaware of a CTF's existence.

Tracing a CTF

A CTF will be held by a bank, building society or other savings provider. The number of providers has shrunk, with some merging and others exiting the market, meaning many CTFs will now have a different provider to when the account was set up. There are two free tracing options for anyone who does not know their CFT provider:

- HMRC's tool; or
- The approved tool from The Share Foundation.

Only a few details are required for either tool, although anyone searching for a CTF provider will need the account holder's National Insurance number and date of birth.

HMRC are advising account holders to avoid the use of third-party agents who offer to search for missing CTFs. They will always charge for this service, even as much as 25% of the value of the account.

Fund options

Funds remain in the CTF account until the holder reaches 18, with no one else having access. At age 18, the account holder can either:

- Withdraw the funds; or
- Transfer the money to an individual savings account (ISA).

If the funds are not immediately required, there are currently some attractive interest rates on offer for two- or three-year fixed rate cash ISAs. ISA charges will normally be lower than those for a CTF, with higher rates of interest available. HMRC's guide to child trust funds can be found from the link below:

https://www.gov.uk/child-trust-funds

How to raise £10,000,000,000

With a 'black hole' of £22 billion to fill, there are plenty of groups giving Rachel Reeves advice.

The Fabian Society published a report on taxation on August Bank Holiday Monday. While their main audience is in Scotland, which has its summer bank holiday at the start of August rather than at the end, the timing was unusual. Nevertheless, that was the date chosen by the Fabian Society to release Expensive and Unequal. The case for reforming pension tax (2024).

The Fabian Society is one of the Labour party's original founders and remains an affiliate to this day. Like several other left-leaning think tanks, post-election what it says has suddenly started to attract more attention. This is especially true on the issue of tax ahead of the Budget on 30 October.

The Society's pension proposals are wide-ranging, but all of them have appeared before in one form or another. Taken together, the Society suggests that they could raise £10 billion a year. To put that in context, the controversial decision to means-test Winter Fuel Payments will save about £1.5 billion a year in 2025/26.

The most significant element of the proposals is the introduction of a flat rate tax credit to replace income tax relief on pension contributions. This idea was once allegedly considered by George Osborne, the former Conservative chancellor. For example:

- At present, a higher-rate taxpayer (42% in Scotland, 40% elsewhere in the UK) pays £60 (£58 in Scotland) to add £100 to their pension.
- Alternatively, the Fabian Society suggests a personal contribution of £75 from net income would receive a £25 government tax credit, bringing the total to £100. This is similar to a Lifetime Individual Savings Account.

Such a reform would benefit most taxpayers, who would see the net cost of their pension contributions drop. It would also reduce the tax benefit given to higher and additional rate taxpayers, who according to the most recent HMRC calculations (for 2022/23) receive just over half of all pension contribution tax relief.

Most of the Fabian Society's tax-raising ideas were likely already under consideration by the Treasury. Regardless of whether they are included in the Budget on 30 October, they are worth noting if you are contemplating topping up your pension.

Find out more about the Fabian Society's report from the link below:

https://fabians.org.uk/publication/expensive-and-unequal/

Capital gains tax receipts

Raising tax rates is a traditional government strategy to increase tax receipts for HMRC, but this may not be the case for capital gains tax (CGT). This is because taxpayers generally have more control over when gains are realised.

The upcoming Budget at the end of October is widely expected to see a hike in CGT rates. However, recently published data from HMRC suggests that the 4% higher rate reduction from 6 April 2024 (28% down to 24%) on residential property disposals may have helped to increase tax receipts as landlords could be taking a good opportunity to sell up.

For the five months to 31 August 2024, CGT receipts increased by nearly 10% compared to the year before.

Take care to plan ahead

Compared to landlords, those with an investment portfolio have more opportunity for CGT planning since they have considerable flexibility over the timing of disposals. However, there is now somewhat less scope for basic CGT planning with the annual exempt amount cut to just £3,000:

- With an investment portfolio, disposals can be spread over several years to make use of multiple annual exempt amounts and basic rate tax bands. Couples can also make use of the annual exempt amounts and basic rate tax bands of a spouse or civil partner. Such strategies should be used with care, however, as this type of planning will unravel if CGT rates increase in the future.
- Making personal pension contributions in the same year as a disposal will increase the basic rate tax band.
- More sophisticated investors might consider investing in a seed enterprise investment scheme. With 50% income tax relief and CGT exemption on 50% of a reinvested gain, a landlord could currently benefit from total tax relief of 64%. This relief will increase in line with any future uplift of CGT rates. These investments are high risk and advice should be taken before engaging in them.

Longer term, those with a large investment portfolio might be able to avoid any tax liability if they retire overseas. This option does not work for landlords because UK property remains subject to CGT regardless of the owner's residence status.

HMRC's guide to capital gains tax (what you pay it on, rates and allowances) can be found from the link below:

https://www.gov.uk/income-tax-rates

Making way for E-invoicing

The government wants businesses to make more use of electronic invoicing to combat VAT fraud and enhance tax collection.

E-invoicing is where invoices are created, sent, received and processed in a digital format, with the e-invoice containing exactly the same information as a traditional invoice.

With more than half of the Organisation for Economic Co-operation and Development (OECD) countries having mandated e-invoicing, the UK is seriously lagging and even still allows paper invoices. The government plans to carry out a consultation, the details of which are scarce.

Benefits of e-invoicing

Even though UK mandation almost certainly remains some way off, you will probably need to use e-invoicing if your business operates internationally. Even if this is not the case, there are still benefits to early adoption:

- With a standardised and structured format, e-invoices can be processed faster and with fewer errors. Invoices sent to a buyer can be tracked in real time, and the number of invoice rejections and disputes considerably reduced.
- Duplicate invoices are avoided, and fraudulent activity will be largely prevented since it will not be possible to intercept invoices to change bank details.
- Invoices, both sent and received, will be processed immediately, so cashflow forecasting will be improved and working capital requirements better managed. Faster payment of invoices received will ensure prompt payment discounts are taken advantage of.

Apart from the more obvious benefits, the relationship between buyer and supplier should improve, leading to higher customer retention and satisfaction.

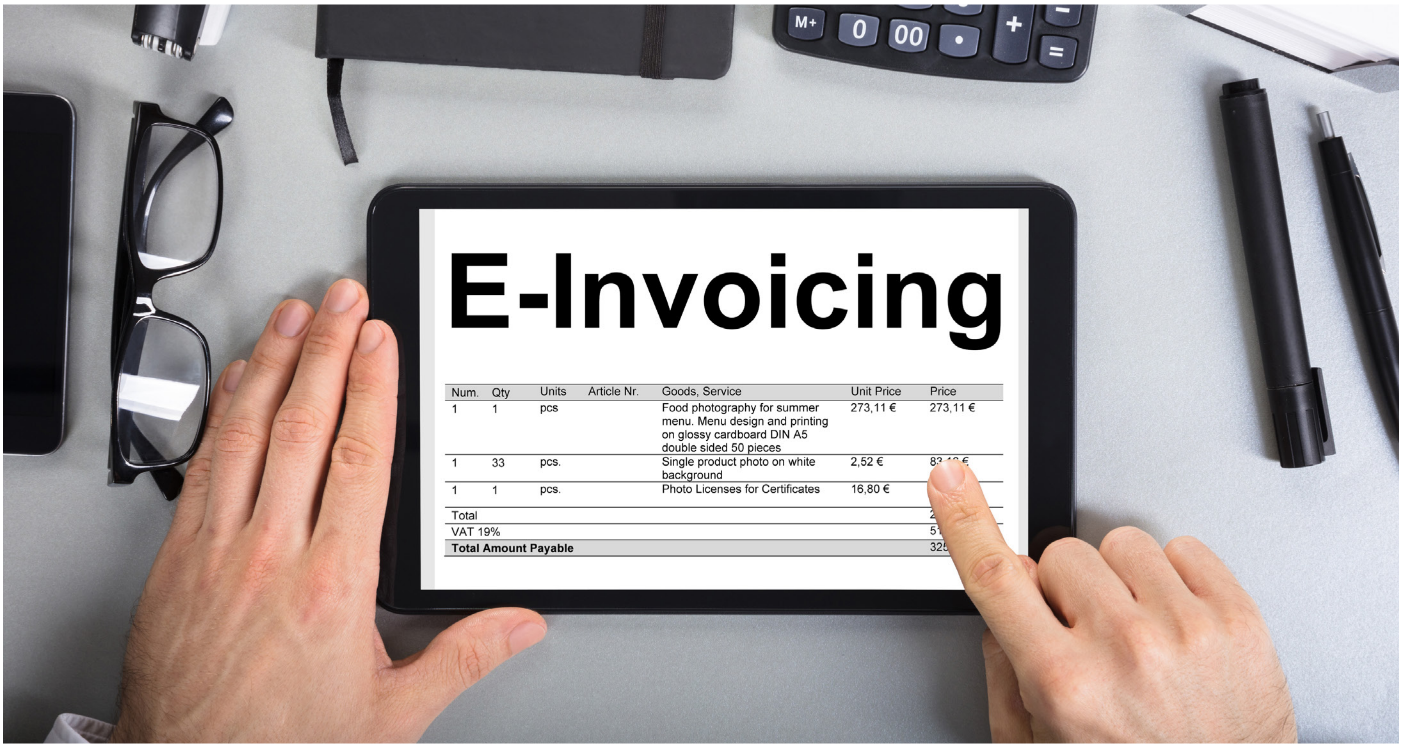
Implementation of e-invoicing

Based on what has happened in other countries that have adopted e-invoicing, the implementation process can take at least three years. The usual approach is for a phased roll-out, with larger businesses required to comply first.

With mandatory e-invoicing likely for the UK, businesses should start preparing as early as possible. Rather than developing their own e-invoicing solution, many businesses will prefer to work with an e-invoicing service provider. Take care in the selection process to ensure that future e-business needs will be fully met.

Guidance on selecting the right e-invoicing service provider can be found from the link below:

https://www.einvoicingbasics.co.uk/selecting-einvoicing/the-right-provider/



EPC upgrade work

Rental property has been set a government target to meet an energy performance certificate (EPC) rating of C by 2030. Although new funding in support of this initiative has been announced, the grants will not help all landlords.

Around a third of rental properties were built before 1919, many with solid walls. Such property will be particularly difficult to bring up to an EPC C rating. From 2030, it will not be possible to legally rent out a property without such a rating.

Grant conditions

From 1 April 2025, a grant of up to £30,000 will be available for a landlord to improve their first rental property. This funding will be capped at £15,000 for energy performance upgrades and £15,000 for low carbon heating:

- For second and subsequent properties, the overall grant will be capped at £15,000, with the landlord having to contribute a corresponding amount (or more).
- If a property is situated within an eligible postcode area, it will automatically qualify for a grant. Around half of England's postcode areas qualify, selected on deprivation factors.
- Other properties will qualify if rented to tenants who receive certain means-tested benefits (such as universal credit or housing benefit), or the tenants' annual gross income is less than £36,000.

There is no limit on the number of properties for which a landlord can claim grants, but the overall maximum funding per landlord will be £315,000.

Properties will only qualify for a grant if they have an EPC rating between D and G. After upgrading, a property should reach a C rating wherever possible.

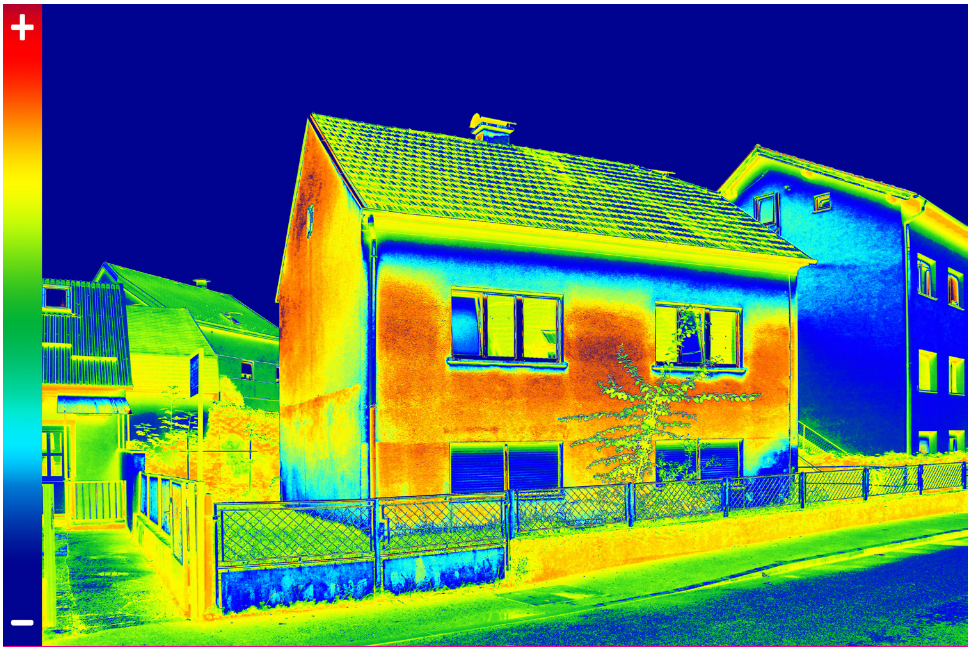
Upgrades

Upgrades include:

- Low carbon heating: Clean heat measures such as heat pumps or high retention storage heaters. Older properties may, however, be unsuited to heat pumps, and the current method of calculating EPCs could result in a lower rating if a heat pump is installed.
- Energy performance upgrades: Measures such as double/triple glazing, insulation, draughtproofing, solar panels and smart heating controls.

A detailed explanation of the available grants can be found from the link below:

https://assets.publishing.service.gov.uk/media/66f1573cbd3aced9da489bcf/Warm-Homes-Local-Grant-guidance.pdf



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