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CHARTERED ACCOUNTANTS

NEWS UPDATE - 7 April 2025

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Spring Statement: the magic of £9.9 billion

There were no tax increases in the Chancellor's Spring Statement (upgraded from an initial Spring Forecast), but that might just be pain deferred.

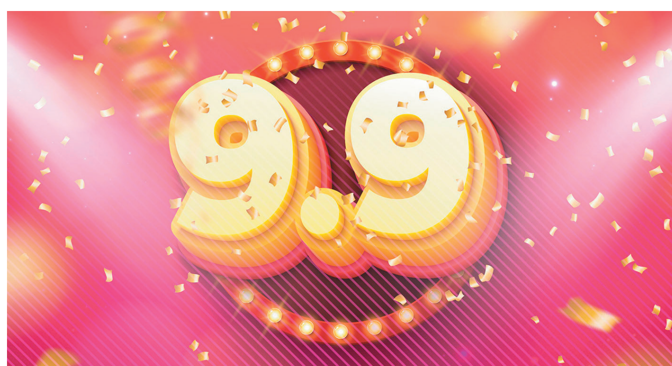
Before becoming Chancellor, Rachel Reeves set out a new goal for the public finances, now badged the 'Stability Rule'. In simple terms, this requires the Government should at least match its day-to-day expenditure with what it receives in tax and other revenue. In 2024/25, the Office for Budget Responsibility (OBR) projects there will be a shortfall under this rule (technically a current budget account deficit) of £60.7 billion. Following past government tradition of fiscal targets, the Chancellor has set a five-year goal taking us to 2029/30.

When Rachel Reeves presented her Budget last October, the OBR projected that she would meet her Stability Rule with £9.9 billion to spare. However five months later, the OBR recalculated the margin (often called headroom) in preparation for the Spring Statement and concluded that, with no changes, the Rule would be missed by £4.1 billion – a £14 billion reversal.

Given that the margin of £9.9 billion (about 0.7% of total government expenditure) proved inadequate last time, it is surprising that the new headroom figure is also £9.9 billion. This is despite the raft of Spring Statement measures – mostly spending cuts. The apparent circularity of the Spring Statement process has prompted speculation that the large cuts to welfare benefits were tailored to fit the Stability Rule, rather than wholly founded in encouraging more people into work.

The problem with maintaining a small £9.9 billion headroom is that when the OBR's next assessment arrives in the autumn, there is a similar risk of missing the Stability Rule once again. The OBR's judgement day will coincide with the Chancellor's one 'fiscal event' of the year – the Autumn Budget. A second miss would probably see Reeves turn to tax increases rather than more spending cuts to recover the situation.

There were already signs of preparation for such a move in the Spring Statement. For example, hidden in the main document was a comment about reviewing the balance between cash and shares in Individual Savings Accounts (ISAs). Reducing the amount that could be placed in cash ISAs would yield extra revenue, because it would mean less tax relief being given. It seems likely that, as happened in 2024, speculation about tax rises will get underway before summer begins. Taking time to focus on your financial planning over the next few months could be more important than ever. You have been warned.



Making Tax Digital expands

Self-employed people and landlords with an income between £20,000 and £30,000 will be required to use Making Tax Digital (MTD) from 6 April 2028. This will bring a further 900,000 low-income taxpayers under the MTD regime.

HMRC previously stated that those with an income between £20,000 and £30,000 would be mandated before the end of this parliament. The specific start date of April 2028 is therefore earlier than expected.

Timing

Taxpayers with an income of more than £50,000 will be mandated from 6 April 2026 for the 2026/27 tax year. The deadline for finalising MTD obligations for this year is not until 31 January 2028, which doesn't give HMRC much time to sort out any problems before the new cohort of taxpayers join the system in April 2028. At present:

- Unrepresented taxpayers with an income between £20,000 and £30,000 are going to need software that is either free or low-cost.
- The availability of such software is quite limited, although more options might become available by April 2028.

The relevant income for meeting the £20,000 threshold will be that for the 2026/27 tax year.

In the future, the MTD threshold might be lowered again as the government has stated there are plans to expand the regime to include those with an income below £20,000.

Self assessment

HMRC has also announced that the year-end self assessment tax return must be submitted using MTD or other suitable software. It was previously thought that taxpayers would be able to use HMRC's online service, but this is not going to be the case.

When selecting suitable MTD software, it is important to make sure it can also deal with the tax return submission. If the MTD software cannot do this, a different software package will be required to complete the year-end requirement.

HMRC's list of software that's compatible with MTD for income tax can be found from the link below:

https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax

Paying the high income child benefit charge

From this summer, employed taxpayers who have to pay the high income child benefit charge (HICBC) will no longer need to complete a self assessment tax return. Instead, they can report the charge using HMRC's new online service.

When the HICBC is payable

The HICBC only comes into play when an individual – or their partner – receives child benefit and their annual income exceeds £60,000. This means:

- The charge removes 1% of child benefit for every £200 of income over £60,000.
- Once income reaches £80,000 the charge is 100%, so the amount of child benefit is essentially reduced to nil.

For those with several children, the HICBC can result in a high effective marginal tax rate.

For 2025/26, child benefit of £26.05 a week is paid for a first child, with £17.25 a week paid for each subsequent child.

New online service

Employed taxpayers will be able to use HMRC's new digital service to report the amount of child benefit received. This will give them the option of paying the HICBC through PAYE:

- Unless the taxpayer has any other income or chargeable gains, there will be no need to submit a tax return following the end of the tax year.
- Taxpayers who are required to file a tax return for another reason will still need to report the HICBC on their return.
- Anyone who has previously submitted a tax return needs to be careful because HMRC will continue to issue a notice to make a return. Penalties will be incurred if the notice is ignored.

It remains to be seen whether the new online service will alleviate the problems associated with the HICBC. One of the main issues continues to be a lack of awareness, despite the charge being in place for more than ten years. Also, most employed taxpayers are not used to dealing with HMRC.

Government guidance on the HICBC can be found from the link below:

https://www.gov.uk/child-benefit-tax-charge

VAT late payment penalties

It is now more expensive to be late when it comes to making a VAT payment. The slowest payers now face a 250% increase to an annualised rate. In addition, the rate of late payment interest has also increased.

Late payment penalties

Payment for each VAT return is considered separately, and penalties can be avoided if a payment is made within 15 days of the due date. Keep in mind:

- An initial 3% penalty is charged if payment is made more than 15 days late (previously 2%).
- If more than 30 days late, a further 3% penalty is charged – so, a 6% penalty in total (previously 4%).

Furthermore, a daily penalty at an annualised rate of 10% is charged immediately after the initial 30-day period (previously 4%).

Late payment interest

Interest is charged from the due date until the date VAT is paid. This means that interest can be due even when no penalty has been incurred, because of the requirement to pay within 15 days. From 6 April 2025, HMRC has added a further 1.5% surcharge to the late payment interest rate, so it now stands at 8.5%.

With the bank base rate currently at 4.5%, the daily penalty rate of 10% and the late payment interest rate of 8.5% are somewhat punitive.

Preventative measures

Simply burying your head in the sand over an overdue VAT liability will just see the debt spiral as penalties and interest are added on.

Setting up a time to pay arrangement will avoid penalties being charged. However, such an arrangement will not retrospectively remove any penalties already incurred, and late payment interest will still be charged. An arrangement cannot be set up by those using either the cash accounting or annual accounting schemes.

If some funds are available, it is better to make a payment on account by the due date, leaving only the balance to be paid late. This will avoid late payment interest as well as (if no arrangement is in place) penalties on the amount paid on time.

Details about setting up a payment plan can be found from the link below:

https://www.gov.uk/difficulties-paying-hmrc/pay-in-instalments

What might spark a CGT bill?

With basic rate taxpayers now facing doubling capital gains tax (CGT) rates, and with the exempt amount a quarter of its previous level, it is no surprise that considerably more CGT is being paid to HMRC.

Given the changes taking place, it is important to understand the rules.

Rates of CGT

Basic rate taxpayers now pay CGT at the rate of 18%, with a 24% rate for higher rate taxpayers. Rates were previously 10% and 20% respectively, so this is an unpleasant tax hike for couples who arrange for their taxable gains to be made by the lower income partner.

Disposals

A common misconception is that CGT is only due if an asset is sold, but assets given away to anyone other than a spouse or civil partner are also disposals. Furthermore:

- With no proceeds coming in if a gift is made, there might be no funds available to pay the related CGT bill.
- Selling an asset, such as a second property, to a son or daughter at an undervaluation doesn't avoid CGT. The tax calculation will be based on the asset's market value.

Similarly, an exchange of assets does not avoid CGT. Again, the market value of each asset will be used when calculating each person's CGT liability.

When it comes to cryptocurrency, there can be a gain if it is used to pay for goods or services, or if there is a switch in currencies – such as converting Bitcoin into Ethereum.

Some basic planning

Although there is now less scope for CGT planning, there are still opportunities:

- Make use of your £3,000 exempt amount each tax year, as it cannot be carried forward;
- Making personal pension contributions in the same year as a disposal may reduce the rate of CGT from 24% to 18%; and
- Crystalise assets standing at a loss so that the losses can be used to reduce taxable gains (but be careful not to waste the exempt amount).

Spouses and civil partners should plan as a couple, so that two exempt amounts and basic rate bands can be utilised.

HMRC's guide to CGT (when it is paid, on what, rates and allowances) can be found from the link below:

https://www.gov.uk/capital-gains-tax

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.