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CHARTERED ACCOUNTANTS

NEWS UPDATE - 7 June 2024

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Not in the NIC of time

A useful new web tool has emerged, a little late in the game, in a joint effort from two government departments.

In early 2023, HMRC and the Department for Work and Pensions (DWP) found they were unable to cope with the volume generated by a 5 April cut-off date that had been set a decade previously. The deadline related to the option to pay backdated National Insurance contributions (NICs) to fill in gaps in contribution records going back to 2006/7, rather than the standard six-year period. Media coverage of the option – often quoting the more extreme examples of benefit – had prompted a surge of last-minute interest, which the departments were unable to manage.

After denying there was a problem, the government finally revealed a band-aid solution in March, pushing the deadline out to 31 July 2023. This solution came unstuck about three months later when, still unable to cope with requests for information, the deadline was extended again to 5 April 2025 – two years after the original cut-off date.

One of the biggest issues causing delays was the difficulty in obtaining details of contribution gaps from the DWP (unavailable online) and then paying HMRC the appropriate amount. Now, at long last, a 'fully end-to-end digital solution' has been launched by the DWP and HMRC under the banner Check your State Pension forecast (https://www.gov.uk/check-state-pension). It is not a complete solution, because it will not work if you are beyond the State pension age (presently 66 years), self-employed or currently living outside the UK with gaps incurred while working abroad. You will also need to have a Personal Tax Account with HMRC to log in (or register for one first with GOV.UK).

If you think you might have missed contributions going back to April 2006, it is well worth taking a few minutes to check your position with the new tool. To fill in one year's missing contribution (before the 2023/24 tax years) costs £824.20 and could mean an extra £328.64 a year in State pension.

The first election tax stories

It's early days yet, but some pointers on tax have emerged from both the main parties.

Within one week of the surprise firing of the general election starting gun, both the Conservatives and Labour have been promoting their tax plans. We can expect more to emerge in the coming weeks and in the manifestos, which will probably appear during the second week of June.

The Conservatives were first out of the blocks with a new tax proposal – higher personal allowances for pensioners. The driver for this is, ironically, an existing Conservative policy, the freezing of personal allowances until April 2028. At present the new State pension (£221.20 a week – £11,502 a year) is below the personal allowance (£12,570). However, given the State pension rises each year in line with the triple lock, it is destined to overtake the personal allowance in the future. As a result, a pensioner with only State pension would have tax to pay.

Mr Sunak's solution is 'triple lock plus', which would see the personal allowance rise in line with the State pension increases, but only for those who have reached State pension age. The cost would be £2.4 billion a year by 2029/30, which the Conservatives said would be funded by that favourite revenue source of politicians seeking re-election, clamping down on tax avoidance.

Rachel Reeves, the Shadow Chancellor, subsequently said that the Labour party would not copy the personal allowance reform. She already has tax avoidance measures earmarked to replace the revenue she had planned to raise from increased tax on non-domiciled individuals. The non-domiciled option was effectively closed off by Chancellor of the Exchequer Jeremy Hunt's March 2024 Budget, which had its own (similar) 'non-dom' proposals.

The Labour party has also responded to Conservative campaign rhetoric with pledges not to increase income tax, National Insurance, corporation tax or value added tax, removing major revenue-raising options.

Budget plans?

On the subject of Budgets, the Shadow Chancellor was asked whether she would hold an emergency Budget if she entered 11 Downing Street. She replied that there would be no Budget without a report from the Office for Budget Responsibility (OBR) – a sideswipe at the Truss Mini-Budget which lacked any OBR oversight. The OBR requires a minimum of ten weeks' notice to prepare a report, meaning that there will be no Reeves' Budget until mid-September, at the earliest. The corollary is that August could be a busy month for tax planning.

Uncertainty for landlords

Despite support from the Labour Party, the Renters (Reform) Bill was not enacted before parliament was prorogued ahead of the general election. The Leasehold and Freehold Reform Act made it under the wire, but without the expected cap on ground rents.

Rental reform

The Renters (Reform) Bill would have seen the abolition of the controversial Section 21 notices, which enable landlords to take possession of a property without providing a reason. Tenants and homelessness charities expressed consternation at the failure to enact the provision.

The Bill is likely to return in some form regardless of who wins the election. A Labour government might well abolish Section 21 notices for all tenancies straight away despite the readiness of the county court system to process possession orders.

Leasehold reform

There was no expectation of an immediate reduction of all ground rents to a peppercorn amount, but it was reported a month ago that a compromise would see ground rents initially capped at £250 annually. Although this measure was not included, the new Act may help landlords who own leasehold flats and apartments:

- Leaseholders can now obtain a 990-year lease extension; previously, leases for flats and apartments could only be extended by 90 years.
- When a lease is extended, future ground rent will effectively be set at zero.

The valuation process is now more favourable to the leaseholder because there is no longer any requirement to pay a marriage value, plus the future value of ground rents in the valuation calculation is restricted. Prior to the new Act, marriage value came into play when a lease had 80 years or less to run. It represented the increased market value of obtaining a longer lease.

Ground rent is not payable on new leases granted from 30 June 2022, so the new measure will help landlords with older leases move to a level playing field.

Furnished holiday lets

The advantageous tax regime for furnished holiday lettings is set to be abolished from April 2025, but the election announcement has introduced uncertainty here as well. The draft legislation has not even been published yet.

HMRC have rejected a suggestion to introduce a brightline test which would have clearly set out the distinction between trading and investment for such properties.

Child benefit charge changes confirmed

Taxpayers will benefit from the changes made to the high income child benefit charge thanks to all tax measures from the March 2024 Budget being enacted before parliament was prorogued.

Changes to benefit charge

For 2024/25, the high income child benefit charge (HICBC) does not apply until income exceeds £60,000, a £10,000 increase from the previous threshold of £50,000. This means:

- A parent earning £60,000, who would previously have lost all of their child benefit claim, now keeps the entire amount.
- The rate of withdrawal is halved, so child benefit is not fully withdrawn until an individual's income reaches £80,000 (previously £60,000). The charge now removes 2% of child benefit for every £100 of income over £60,000.
- Once income reaches £80,000, the charge is 100%. Therefore, the child benefit claim is effectively reduced to nil.

Despite the changes, the HICBC can still mean a high effective marginal rate of tax.

Calculating income

A recently lost appeal to HMRC shows the importance of correctly calculating income for threshold purposes.

The taxpayer's basic salary did not exceed the former HICBC income threshold of £50,000, but for the seven years under investigation he had overlooked the taxable benefit from having a company car. This was sufficient to take income over £50,000, so the charge was payable.

Taxpayers therefore need to be particularly careful when calculating income:

- Savings income is likely to be much higher than previously given increased interest rates. The gross amount is included, ignoring the £500 savings allowance.
- Dividend income, including reinvested dividends, has to be included ignoring the £500 dividend allowance.
- Income from a lodger within the £7,500 exemption is ignored, as is any income within an individual savings account.

The gross amount of pension contributions and gift aid donations reduce the income figure, providing a useful tax planning opportunity where income is between £60,000 and £80,000.

Don't forget to extend child benefit claims for 16- to 19-year-olds who continue in approved education or training. This can be done online (https://www.gov.uk/government/news/dont-lose-out-extend-child-benefit-for-your-16-to-19-year-old) or using the HMRC app.

New carer's leave in effect

Employers need to be aware that since 6 April 2024, employees are entitled to take a week's unpaid leave each year if they need to fulfil caring responsibilities for a dependant. An important consideration is when an employer is entitled to postpone a request for carer's leave.

The basics

Employees are entitled to carer's leave from their first day of employment. The provision means:

- A dependant can be anyone who relies on the employee for care, not just family members. Dependency could be because of old age, a disability, illness or injury.
- One week of unpaid leave can be taken every 12 months, with a week being the length of time normally worked over seven days.
- An employee can take a whole week or take the leave in individual days or half days.
- The minimum notice period to be given to the employer depends on the number of days leave to be taken.

Apart from more obvious examples, carer's leave could be used to care for an elderly neighbour when their main carer is unavailable, or to accompany a housebound relative on a day trip.

As an alternative to carer's leave, an employee might be able to instead take time off for dependants, parental leave or holiday entitlement.

Postponement

A request for carer's leave cannot be refused, but an employer can ask for it to be taken at a different time if the employee's absence would cause serious disruption. The request can be postponed for up to one month. Options to consider include:

- Could an employee from another team or branch be temporarily reallocated to cover for the employee taking carer's leave?
- Is the employee open to taking a shorter period of carer's leave, such as a half day rather than a full day, if this overcomes the serious disruption issue?

The Acas guide to carer's leave can be found from the link below:

https://www.acas.org.uk/carers-leave

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.