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CHARTERED ACCOUNTANTS

NEWS UPDATE - 9 August 2024

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Unveiling plans for the Renters' Rights Bill

While only briefly mentioned in the King's Speech, the government has now revealed more details of the Renters' Rights Bill. The Bill will overhaul the private rented sector in England, with some elements also applicable to Wales.

Labour's election manifesto promised to immediately banish no-fault evictions, but this hasn't happened. Instead, no-fault evictions will be abolished under the Bill with no changes likely until autumn 2024 at the earliest.

The government has promised expanded possession grounds for landlords to reclaim property, but this won't help when repossession involves a lengthy court process. This is likely to mean that the requirement for a rent guarantor will become more widespread.

Changes include:

- Tenants will be given the power to challenge a rent increase if it is a means to eviction.
- Landlords will not be able to unreasonably refuse a tenant having a pet. This is an important issue for many landlords, because it can subsequently be difficult to relet a property where there has been a pet. Even though landlords will be able to request pet insurance, this is unlikely to be a satisfactory solution.
- Landlords will have to fix damp and mould issues within strict time limits – known as 'Awaab's Law'. There will be clear legal expectations about the period within which homes must be made safe from serious hazards.
- Landlords will not be able to discriminate against tenants who receive benefits or have children.
- The practice of rental bidding wars by landlords and letting agents will be stopped, although this practice seems much less prevalent than the government thinks.

Although many of the changes will be unwelcome, Scottish and Welsh landlords have seen more radical measures introduced in favour of tenants. There is also no mention of rent controls.

The government's background briefing on the Renters' Rights Bill can be found, starting at page 68, from the link below:

https://www.gov.uk/government/publications/kings-speech-2024-background-briefing-notes

Opening the books - the government's spending inheritance

The date of the next Budget has been announced, accompanied by the new Chancellor's warning about government finances.

Chancellor Rachel Reeves' first announcement on entering 11 Downing Street was the commissioning of a 'spending inheritance' review from the Treasury. Her decision to do so was questioned by the opposition (Conservatives), among others, who argued that the state of public finances had been made clear in the report from the Office of Budget Responsibility (OBR) in March. However, the OBR's grim outlook was studiously ignored during the election campaign by both main parties, prompting the Institute for Fiscal Studies to complain of "a conspiracy of silence".

Post-election, the new ministers were told to 'bring out your dead' – pull together their departments' financial problems. The result was a steady flow of dire warnings on prisons, the NHS, universities, and more. This was followed by a welter of gloomy reports from the National Audit Office on 23 July, the publication of which had been delayed by the election.

Finally, on 29 July, Rachel Reeves bundled the bad news inside her Treasury-commissioned review and broke the IFS's conspiracy of silence. In her words, "There were things that I did not know", which in total represented a projected overspend of £22 billion in the current financial year. Two immediate actions she announced in response were to:

- scrap the winter fuel allowance, other than for those on means-tested benefits; and
- abandon the introduction of new capped social care funding rules in England, which had been due to start in October 2025.

Ms Reeves also revealed that her Autumn Budget would be on 30 October, later than had originally been expected. Her July statement made clear that there would be action on tax to fill the £22bn 'black hole', but reiterated Labour's manifesto pledge that there would be no increases in national insurance, the basic, higher, or additional rates of income tax, or VAT. That points to capital gains tax, inheritance tax and tax reliefs as possible revenue-raising targets in the autumn.

If you are considering any financial planning in the near term – perhaps pension contributions of gifts to grandchildren – talk to us about the wisdom (or otherwise) of acting before 30 October.

Full details of the Chancellor's statement can be found from the link below:

https://www.gov.uk/government/speeches/chancellor-statement-on-public-spending-inheritance

Caught in the 60% tax trap?

The number of taxpayers caught in the 60% tax trap has increased by nearly 25% over the past year. More than 500,000 people are now affected by higher tax rates due to their income exceeding £100,000.

The 60% rate applies to income between £100,000 and £125,140. This is the tranche of income which sees the £12,570 personal allowance tapered away.

Fiscal drag

There has been no change in the £100,000 income limit since the withdrawal of the personal allowance was introduced in 2010, a classic case of fiscal drag. Once the personal allowance is fully withdrawn, higher earners pay the additional rate of 45% on income in excess of £125,140. However, the 60% charge still applies to income between £100,000 and £125,140.

The past year has seen a particularly high increase in individuals caught by the 60% tax trap due to inflation driving up salaries. The government is unlikely to fix the problem by reinstating the personal allowance for higher earners – the cost would be prohibitive. However, smoothing the transition is a possibility. For example, tapering the personal allowance by £1 for every £4 (rather than £2) that income exceeds £100,000 would reduce the 60% tax rate to a rate of 50%.

Planning measures

Measures that can be taken to mitigate the 60% tax trap vary from individual to individual:

- Pension contributions are particularly attractive if the government is funding 60% of the cost. Be warned, however, that the October Budget might see the tax relief given on pension contributions restricted to a flat rate.
- Some income reallocations might be possible between spouses and civil partners, especially if they are in business together.
- Make the best use of tax-free investments to turn taxable investment income into non-taxable income.
- Be mindful of the timing when cashing in investment bonds or making pension withdrawals.

Employees should consider using a salary sacrifice arrangement for pension contributions or low-emission company cars.

Details of income tax rates and personal allowances for the current tax year can be found on the government website from the link below:

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

New tax plans target private schools and social care

In her first detailed tax announcements as Chancellor, Rachel Reeves targeted both those starting off in life and those approaching the end of their lives.

School fees

From 1 January 2025, private school fees will be subject to the standard rate of 20% VAT for the cost of tuition and boarding, if provided. A private school is defined as one that provides full-time education for pupils who are of compulsory school age but under 19 years old. Nurseries will remain exempt.

While the additional cost may be a minor annoyance for parents who can afford to send a child to some of the elite private schools, it may affect others more:

- Middle-class parents paying private school fees for two or three children at the average UK cost of £15,000 will see fees increase by around £3,000 per child annually.
- Prepaying school fees to avoid the VAT charge will fail as fees invoiced or paid on or after 29 July 2024 (the day of the announcement) for school terms after 1 January 2025 will be subject to VAT.

The exact percentage fee increase will vary between schools. While schools will be able to offset costs through VAT-deductible goods and services, private schools that are charities will no longer qualify for charitable business rates relief.

The government's technical note explaining how private school fees will be subject to VAT can be found here.

Social care cap

The Chancellor also announced the scrapping of the social care cap, which means those with savings over £23,250 will have to continue to pay the full cost of their care, even if bills run into six figures. The previous government planned to cap care costs at a lifetime limit of £86,000 from October 2025 after long delays to the plans.

The NHS website provides information on self-funding social care, this can be found from the link below:

https://www.nhs.uk/conditions/social-care-and-support-guide/money-work-and-benefits/paying-for-your-own-care-self-funding/

HMRC launches VAT registration estimator

HMRC has launched a new digital tool to help businesses estimate the potential impact of their VAT registration. This will be useful for established business owners and those planning to start a business.

VAT registration

Registration for VAT is required if a business's taxable turnover (including zero-rated sales) exceeds £90,000 for the previous 12 months or is expected to exceed this threshold in the next 30 days.

For a business that only makes sales to the general public, the cost of VAT registration can be particularly onerous if it is not possible to increase prices to cover the VAT charged while the cost of VAT on sales becomes an additional cost for the business.

However, a business supplying VAT-registered customers may find it beneficial to register voluntarily even though turnover is below £90,000.

Using the estimator

The estimator tool can be used as many times as needed, with HMRC suggesting it will take around 20 minutes to complete on first use. To use the estimator:

- Select the time period – in months – for the VAT estimate.
- Enter business income for the period, excluding any income from employment.
- If any income is exempt from VAT, zero-rated or at a reduced rate, estimate the appropriate proportion in each case.
- Enter business costs, including those outside the scope of VAT such as salaries.
- Remove the proportion of costs outside the scope of VAT, exempt from VAT, zero-rated or at a reduced rate.
- Then a final, but very important question, about how VAT will be accounted for – added to selling prices or absorbed into current prices.

Running the numbers for a VAT-registered business that has gone £10,000 over the registration threshold (standard rated sales of £100,000) with £10,000 in standard rated expenses, and with all sales to the general public, results in the business being £15,000 worse off annually compared to not being VAT registered. Take into account the extra tax and NICs due on the £10,000 of additional income, and it is clear the business would probably have been better off trying to stay within the £90,000 threshold.

HMRC's VAT registration estimator tool can be found from the link below:

https://www.gov.uk/government/news/hmrc-launches-vat-registration-estimator

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.