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CHARTERED ACCOUNTANTS

NEWS UPDATE - 11 APRIL 2022

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Student loan rule changes from 2023

Around three quarters of those students who started full-time undergraduate degrees in 2020/21 are not expected to fully repay their student loans. However, changes starting with the 2023 student cohort will see many paying more, and over half of new student loans are likely to be repaid in full.

Current rules

English and Welsh students don't make student loan repayments until their annual income exceeds £27,295, with repayment at the rate of 9% on the excess. After 30 years, any remaining debt is cleared.

The 30-year limit means that even someone with a good income may not make full repayment given the relatively high rate of interest that can be charged. This means it is often not worthwhile paying off a student loan any earlier than required.

New rules

The changes will come in for students starting their university courses from September 2023:

- The most contentious change is the extension of the repayment term from 30 to 40 years. This, in what has been described as a 'lifelong graduate tax', will see many students paying for their degree until retirement.

- Students will also start making repayments at a reduced income level of £25,000.

- The interest rate charged – it can currently be as high as the Retail Prices Index (RPI) + 3% – will be cut to just RPI for new borrowers.

The first two measures will increase the cost of student loans, especially for those lower earners who just earn sufficient to make repayments. There will be little difference for the lowest earners, but the interest rate cut will mean gains for higher earners who would have paid off their loans in any case.

If you have children leaving school this year, they might want to rethink any plans for a gap year. Starting at university this year will mean their student loan being repaid under the existing rules.

Changes in Scotland

Student loans will not change for Scottish students, although they already have a £25,000 income threshold following a large increase in 2021. New Scottish students have a 30-year repayment term, with the interest rate currently set at 1.5%.

A detailed analysis of the changes to the student loan system can be found from the link below:

https://ifs.org.uk/publications/15953

NICs boost for the self-employed

Prior to the March Spring Statement, most self-employed individuals were facing increased national insurance contribution (NIC) bills this year. However, those with profits up to and just over £28,000 will now see a fall in the amount they pay compared to last year. What's more, low earners can benefit from deemed contributions.

Class 4 NICs

The introduction of the 1.25% health and social care levy from 6 April put up the rates of profit-related class 4 NICs to 10.25% and 3.25%. However, the rate increase has been mitigated by a substantial uplift to the starting threshold. It was going to be set at £9,880 but will now be £11,908 across the 2022/23 tax year. For 2023/24, the threshold will be fully aligned with the income tax personal allowance of £12,570.

Although the freezing of the upper threshold at £50,270 is pushing more people into higher rate income tax, it is actually beneficial for NIC purposes. Extra profits are subject to NICs at 3.25% instead of 10.25%.

Class 2 NICs

The threshold at which fixed-rate class 2 NICs become payable was due to increase from £6,515 to £6,725. However, this threshold has also now been set at £11,908, and will be aligned with the personal allowance for 2023/24.

The £6,725 threshold has not, however, been discarded. In a big change for class 2 NICs, self-employed people with profits between £6,725 and £11,908 for 2022/23 are deemed to have made contributions without actually having to pay them. They will therefore continue to build up their contribution record. This is particularly important for State pension purposes where 35 qualifying years are required to obtain the maximum.

The deemed contribution threshold might mean a useful tax planning opportunity. For example, if profits for 2022/23 are set to be £12,000, spending £200 on, say, a new telephone before the year end will avoid the cost of class 2 NICs, and also save some income tax and class 4 NICs.

The Spring Statement factsheet explaining the changes can be found from the link below:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1063315/Personal_Tax_factsheet_FINAL.pdf

Overall impact

The table on the right shows the overall impact of the Spring Statement changes at different profit levels:

PROFIT	2021/22	2022/23 (ORIGINAL)	2022/23 (NOW)
£10,000	£197	£176	Nil
£15,000	£647	£689	£481
£20,000	£1,097	£1,201	£923
£30,000	£1,997	£2,226	£2,018

The next step for Making Tax Digital

Making Tax Digital (MTD) for VAT has been in place for three years, but this first phase excluded voluntarily registered businesses beneath the registration threshold. From 1 April 2022, all VAT-registered businesses must implement MTD regardless of turnover.

The vast majority of businesses registered voluntarily under the scheme will have done so because they can recover input VAT without suffering any, or much, in the way of output VAT – typically where customers are VAT registered or sales are zero-rated. Most new entrants will therefore not be using the flat rate scheme and will have to keep full digital records.

There are limited exceptions from MTD, but voluntarily registered businesses can simply deregister if the amount of VAT recovered doesn't warrant the time and/or cost involved with MTD compliance.

Signing up

Those businesses now coming into the scope of MTD must use it for their first VAT return starting on or after 1 April 2022. There could therefore be quite a delay if submitting returns annually. For example, with an annual accounting period to 31 December, MTD will not need to be used until the year beginning 1 January 2023.

Businesses need to sign up for MTD, but this should be done only after the final non-MTD return has been submitted. If paying by direct debit, sign up needs to be at least a week before the first MTD return is due.

Software

Compatible software has to be in place for the start of the first MTD VAT return period. The easiest option will be if records are currently kept on a spreadsheet. Free bridging software can then be used to pick up relevant details and submit VAT returns to HMRC. Bridging software is necessary because any transfer of data must be done using a digital link; cutting and pasting is not a digital link.

Even if full VAT record-keeping software is required, there are some free versions available.

Smaller businesses will invariably be wary of change, but MTD should improve accuracy. HMRC figures show that for 2019/20, a reduction in errors brought in some £195 million in extra VAT revenue.

Details of MTD software that has been through HMRC's recognition process can be found from the link below:

https://www.tax.service.gov.uk/making-tax-digital-software

Can the child benefit charge be fixed?

A critical review of how the government taxes child benefits has raised a major question mark over HMRC's approach to collecting payments.

Child benefit tax, or the High-Income Child Benefit Charge (HICBC) to use its legal name, is a case study in how not to introduce and operate a tax. It was designed as a quick fix to political pressure for the withdrawal of child benefit from high earners during a period of austerity.

When the HICBC was introduced in January 2013 – not even the start of a tax year – broadly speaking, it applied if either parent had 'adjusted net income' of over £50,000. At the time, the higher rate income tax threshold throughout the UK was £42,475, meaning the 'high income' label had some meaning. The threshold has remained at £50,000 ever since, with the result that, outside Scotland, it has now been overtaken by the higher rate threshold (£50,270 in 2022/23). A corollary is that the proportion of families affected has increased over the period from one in eight to one in five, according to the Institute for Fiscal Studies.

In a recent review, the OTS has been highly critical of HICBC and the convoluted way in which HMRC collects the tax. The OTS notes that in 2019/20, HMRC opened over 125,000 compliance checks on 'customers' who it suspected had not paid the correct amount of HICBC. The OTS report also noted that HMRC had written to 94,000 potentially affected people in 2020/21, many of whom could face shock tax bills in the near future.

The HICBC is structured as a tax charge equal to 1% of child benefit received for each £100 of income above the £50,000 threshold. So, for example, if you have:

- two children and are entitled to child benefit of £36.25 a week (£1,865 a year); and
- your 'adjusted net income' is £54,000; then
- you face a tax charge of £754 (£1,865 @ 40%).

At £60,000 or more of income, the tax charge matches the child benefit, making it sensible to opt for non-payment of the benefit. However, you or your partner should still register for child benefit because it gives entitlement to national insurance credits.

In some circumstances, it is possible to use tax planning to limit or even sidestep the HICBC completely, but given the charges' complexities, doing so requires professional advice. from the link below:

https://www.gov.uk/hmrc-internal-manuals/vat-land-and-property/vatlp06130

A new breed of digital nomad

The pandemic has freed many workers from the confines of the office, leading to the emergence of a new breed of digital nomad – people who can take their laptop, jump on a plane and set up a remote 'office' somewhere exotic.

Some countries have responded with schemes to assist long-term workcations. For example, with the Barbados Welcome Stamp, digital nomads can stay in Barbados for up to 12 months with no tax implications – the fee is $2,000 for an individual. But before packing your bags there are some practicalities that cannot be overlooked.

The self-employed should not have any insurmountable problems, but employees will need to consult with their employer to see if they are going to be supportive of a move away, potentially to a different time zone.

UK property

There might not be much of a problem if currently renting in the UK, but home ownership comes with more issues. Simply leaving a home empty – even if affordable – could be in breach of the mortgage agreement and may invalidate household insurance. Property rental is a solution but means meeting serious requirements; a good letting agency should be able to advise. Some remedial work may be necessary, such as the installation of fire alarms.

You should definitely retain your UK bank account, but also look at online options for holding currency and transferring funds overseas.

Tax status

It's all very well having tax-exempt status where you are based, but it is of limited benefit if you remain subject to UK tax. It is important to remember that UK residence status is determined separately for each tax year. The rules can be quite complicated, but you can be classed as non-resident if you:

- Spend fewer than 16 days in the UK during a tax year. Unfortunately, it's probably too late now to meet this requirement for the current year;
- Work full-time overseas, whether self-employed or employed – and you are allowed to visit the UK for up to 90 days each tax year; or

- Balance your visits and ties to the UK. For example, if you just make use of a UK home, UK visits will need to be restricted to no more than 90 days.

A good starting point for establishing residence status is HMRC's guidance on the statutory residence test. This can be found from the link below:

https://www.gov.uk/government/publications/rdr3-statutory-residence-test-srt/guidance-note-for-statutory-residence-test-srt-rdr3

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