Tax & Financial Planning Bulletin

June 2024

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National Insurance contribution
Rates reduced again

The Autumn Statement on 22 November 2023 introduced reductions in National Insurance (NI) contribution rates so that, from 6 January 2024, the Class 1 employee NI contribution rate dropped from 12% to 10% of earnings between £12,570 and £50,270 p.a.

From 6 April 2024, the self-employed Class 2 contributions of £3.45 per week no longer need to be paid (but can be paid voluntarily by those building an NI contribution history) and the Class 4 contribution rate reduced from 9% to 8% for profits between £12,570 and £50,270 p.a.

The Budget on 6 March 2024 further reduced Class 1 employee NI contribution rates to 8% of earnings between £12,570 and £50,270 p.a. from 6 April 2024. The self-employed Class 4 contribution rate also reduced to 6% for profits between £12,570 and £50,270 p.a. Class 3 voluntary contributions remain £17.45 per week.

Inheritance tax
Normal expenditure from income exemption

Inheritance tax receipts continue to increase. In the year from March 2023 to April 2024, they totalled £7.5 billion. The ability to save inheritance tax by making lifetime gifts is increasingly important.

The normal expenditure from income exemption allows a taxpayer to make unlimited lifetime gifts that are treated as exempt transfers for inheritance tax purposes, provided they meet the following three tests:

- There must be an intention to make regular gifts (although the amount of each gift can vary);
- Gifts must be made from income; and
- Making the gifts must not reduce the donor's normal standard of living.

It is worth remembering that regular and partial withdrawals from an investment bond or life assurance policy do not count as income for tax purposes. It is also important that the donor's normal standard of living is not maintained by using capital after making gifts from income, although 'one-off' uses are permitted.

If there is an intention to use income that arose in previous tax years, account should be taken that HMRC's view is that income does not retain its character indefinitely and that, for tax purposes, accrued income will generally be treated as capital after two years.

When setting gifts against inheritance tax exemptions, gifts that qualify for the normal expenditure from income exemption are counted first followed by other exemptions (such as for gifts on marriage and the £250 small gifts exemption). The £3,000 annual exemption is applied last. Any unused part of the £3,000 annual exemption can be carried forward for one tax year only.

Tip
HMRC will confirm whether gifts qualify for the normal expenditure from income exemption after the donor's death. It is, therefore, important that the donor records all such gifts, together with details of income and expenditure in the tax year that each gift is made. Using form IHT403 to record these gifts could make an executor's job easier in the event of the donor's death!

Witnessing of wills
By video

The ability to witness a will by video no longer applies since February 2024. The facility was introduced as a 'special, temporary measure' during the Covid pandemic when social distancing measures applied. It allowed wills to be witnessed over a video link, such as Zoom, Teams or Skype.

There has been a significant increase in inheritance disputes since the pandemic. This has been attributed to increases in house prices, higher numbers of 'DIY' wills and remote witnessing of wills. Even if fraud or 'undue influence' cannot be proved, there is a greater suspicion that such influences may exist, leading to the higher number of contested wills. The Law Commission is undertaking a review of the laws around wills and its report is expected next year. This could lead to a change in the laws that currently apply.

Tip

A will must be signed in the presence of two witnesses, who must not be beneficiaries under the will, to be valid. Wills should be reviewed regularly to ensure that they continue to meet an individual's wishes, especially if there has been a change in circumstances. It is worth remembering that marriage invalidates a will unless that will was drafted in contemplation of that marriage. Different rules apply in Scotland.

Changes to the taxation
Of benefits in kind

Employers will be required to report and collect income tax and Class 1A National Insurance contributions (NICs) through payrolling software from 6 April 2026. The 2025-26 tax year will therefore be the last year in which forms P11D and P11D(b) will need to be filed, in most cases.

From 2026-27, tax and NICs will be collected in 'real time' for each pay period rather than in arrears through adjusting the employee's tax code if benefits are not currently payrolled

The High-Income
Child Benefit charge

The High-Income Child Benefit (HICB) charge was introduced in 2013 to claw back Child Benefit received by families where at least one partner was a 'high earner'. Until 5 April 2024, the HICB charge acted as an additional tax liability for the partner with the higher adjusted net income (broadly gross income less member pension contributions and Gift Aid contributions). The HICB charge was levied at a rate of 1% of the Child Benefit received by the family (regardless of who it was actually paid to) for each £100 that the individual's adjusted net income exceeded £50,000. Once an individual's adjusted net income hit £60,000, the HICB charge reached 100% of the Child Benefit received and had the effect of wiping out any benefit for the family provided by the Child Benefit.

Since its introduction, the HICB charge has faced a lot of criticism, not least because it has not been well understood by taxpayers but also as it was seen to be inequitable – a family where both partners had adjusted net income of £50,000 p.a. each were not subject to an HICB charge but a family where one partner had adjusted net income of £60,000 p.a. would suffer an HICB charge equal to the total Child Benefit received.

From 6 April 2024, the lower threshold when the HICB charge applies has been increased to £60,000 p.a. of adjusted net income and the HICB charge is now calculated as 1% for Child Benefit received for each £200 of adjusted net income in excess of £60,000. This now means that the HICB charge will not reach 100% of the Child Benefit received until the individual's adjusted net income reaches £80,000 p.a.

The Chancellor also stated in the 6 March 2024 Budget that the government would consult on basing the HICB charge on 'family income' rather than on the individual with the higher adjusted net income.

Tip
Families in receipt of Child Benefit where a partner has adjusted net income in excess of £60,000 may benefit from a 'double' tax relief if the partner makes a pension contribution which reduces adjusted net income and any HICB charge.

Changes to UK company law

The Economic Crime and Corporate Transparency Act became law in October 2023. The first tranche of changes to UK company law as a result of this Act became effective on 4 March 2024. Changes include:

- A company will have to have an 'appropriate' address as the company's registered office address. Any document sent to this address should come to the attention of a person acting on behalf of the company. PO Box addresses will no longer be acceptable, but a third-party agent's address can still be used.
- A company that is identified by Companies House as still using a PO Box address for its registered office after 4 March 2024 will be moved to a default address and the company will be given 28 days' notice to change to an appropriate address before the registrar starts the process to strike the company off the register.
- Companies will have to supply a registered email address either when they incorporate or when they file their next confirmation statement after 5 March 2024. Email addresses will not be available on the public register.
- Directors will have to make a declaration of their lawful intentions and companies will have to confirm that they are forming for lawful purposes when they incorporate.
- There will be stronger checks on company names and the names of those involved to clamp down on fraudulent companies.

Further tranches of changes under the Act will be introduced over the coming years. It is also worth noting that Companies House has increased its filing fees. Details of the new fees are available here.

HMRC error could affect Self-employed workers

The Low-Income Tax Reform Group (LITRG) has highlighted that some low income, self-employed workers could lose National Insurance related State benefits, including the State pension, maternity pay and bereavement allowances, as a result of an HMRC error.

Self-employed workers with profits below the small profits threshold of £6,725 in 2022-23, who have made voluntary Class 2 National Insurance contributions, should check that their contributions have not been refunded.

Class 2 NI contributions are normally paid to HMRC under self-assessment by 31 January following the end of the tax year. HMRC then automatically transfers these payments to the taxpayer's National Insurance record to count towards their entitlement to State benefits. However, for the 2022-23 tax year, HMRC transferred Class 2 NIC payments late which led them to be automatically rejected and refunded. This treatment would be correct if the contributions had been paid late by the taxpayer, but for many who paid on time, Class 2 NICs may still have been refunded.

Those affected should contact the National Insurance contributions helpline on 0300 200 3500 to resolve the situation and make a special payment directly to them.

Government gateway service To be replaced

The government gateway service is to be replaced by the new gov.uk *One Login* service. HMRC is one of the first government departments to adopt the new One Login scheme which uses an email address and password to log in. The rollout of One Login for HMRC taxpayers, companies and agents is expected to be completed by May 2025.

15 major government departments have confirmed adoption plans for One Login. At least 145 other government services are expected to implement the new service over the next 18 months with the full rollout anticipated within three years. Once fully implemented, One Login will have replaced the existing patchwork of 191 separate accounts systems, incorporating 44 different login methods, used by agencies.

Changes to Paternity leave

New rules apply to paternity leave for births due after 6 April 2024. Either 1 or 2 weeks leave can be taken after the birth. If 2 weeks are taken, they can be either taken together or as separate weeks. The same amounts of leave apply even if there are multiple births.

Leave must end within 52 weeks of the birth (or due date if the baby was born early). A week of leave is defined as the same number of days that are normally worked by the individual during the week.

It is not necessary to give a precise start date for leave, a general time, such as the day of the birth or one week after the day of the birth is acceptable. However, if the start date is to be changed, the employer must be given 28 days' notice.

Different rules apply to adoptions.

HMRC is challenging some Childcare salary sacrifice schemes

As the costs of childcare have soared, workplace nursery benefit schemes, which allow parents to fund nursery fees from salary, have become increasingly popular. Such salary sacrifice schemes can offer a number of benefits to the parent, including:

- Income tax and National Insurance contributions are levied on the reduced (post-salary sacrifice) pay; and
- The taxpayer's adjusted net income is reduced which can reduce the effects of any tapering of the personal allowance or imposition of the High-Income Child Benefit charge (see above).

These schemes are a legitimate way for parents to save money on childcare costs, provided the scheme is set up properly. To qualify, the employer either must have the nursery onsite or must somehow finance and run an offsite nursery.

However, a number of schemes have been established where the employer pays for the nursery place for the employee's child and an additional fee for the scheme promoter. The promoter is then appointed as the employer's agent for the management of the nursery, but the employer is not then involved in the running of the nursery. These types of scheme are vulnerable to attack by HMRC and could result in the company picking up the tax bill. However, if the employer were to go into administration or not settle with HMRC, the participating employees could then be expected to pick up the tax bill.

While some accountants say that these types of scheme work, HMRC is adamant that they don't, and a definitive answer may not be obtained until a court makes a ruling.

New state pension & Voluntary National Insurance contribution scheme

At the end of April 2024, the government launched a new service called 'Check your State Pension forecast'. This new service is intended to make it easier to check State pension entitlement and how this may be increased by making voluntary National Insurance contributions. It also allows the individual's full National Insurance history to be viewed and downloaded.

Should the individual wish to make voluntary contributions, these can be paid through the service. Confirmation will be provided for the amounts paid and the individual's National Insurance (NI) record will be updated. Before paying voluntary contributions, an individual should check whether any NI credits may be available to be claimed.

Any gaps in NI history between 6 April 2006 and 5 April 2018 can be closed by paying voluntary contributions by 5 April 2025. From 6 April 2025, only gaps in the previous 6 tax years will be able to be closed.

Trust Registration Service

HMRC has provided further clarification on how HMRC may levy penalties should trustees fail to register a trust requiring registration. HMRC has confirmed that no automatic penalties will be issued for late trust registration.

However, should HMRC become aware of a trust which has not been registered by the relevant deadline, a warning letter may be sent to the trustees or their agent. If the trustees or agent then fail to register the trust within the deadline contained in the letter, a penalty of up to £5,000 per offence may be issued to the lead trustee.

Similarly, where a trust has been registered but the registered information has not been kept up to date, HMRC may send a warning letter to the trustees or their agent. Again, failure to update the trust's details within the time period stated in the letter could result in a penalty of up to £5,000 per offence.

Tip

Trustees should ensure that registered details are regularly reviewed (perhaps as part of a regular trustee meeting). Any changes to the registered details should be updated on the Trust Register within 90 days of the change. Trustees of taxable trusts also have a duty to make an annual declaration, by 31 January following the end of each tax year, that the trust's registered details were correct and up to date during the tax year.

Increased pension provision
For high earners

High earners are subject to restrictions on the contributions that can be made to registered pension schemes while still receiving tax relief. This is known as the tapered annual allowance.

The taper applies to an individual's annual allowance once that individual's adjusted income exceeds £260,000 p.a. provided that threshold income also exceeds £200,000. The taper reduces the individual's annual allowance by £1 for every £2 that adjusted income exceeds £260,000, subject to a minimum applicable annual allowance of £10,000 (for those whose adjusted income exceeds £360,000).

Adjusted income includes income from all sources, both earned and investment income, and also includes employer pension contributions.

Threshold income is basically adjusted net income and therefore is reduced by member pension contributions and other tax-deductible items such as Gift Aid contributions.

Tip

Those potentially subject to a tapered annual allowance should, where possible, consider making member pension contributions and/ or Gift Aid contributions to reduce their threshold income to below £200,000. This will maintain their annual allowance at £60,000, regardless of the level of their adjusted income. If total pension contributions in a tax year exceed £60,000, carry forward relief may be available to help avoid an annual allowance charge.

Furnished
Holiday lettings

In the March 2024 Budget, the Chancellor announced the abolition of the furnished holiday letting (FHL) tax regime after 5 April 2025. Current owners will, from 6 April 2025, be treated for tax purposes in the same way as other letting businesses losing some important tax benefits.

One benefit of the current FHL regime is that rental profits from furnished holiday lettings is treated as UK relevant earnings for pension purposes. This means that the owner is free to make pension contributions of up to £60,000 or the amount of their UK relevant earnings, whichever is the lower, without incurring an annual allowance charge.

This is unlikely to be the position with effect from 6 April 2025 when it is expected that such rental profits will be treated as income from property for tax purposes and not count towards UK relevant earnings.

Tip

Owners of furnished holiday lets may wish to maximise pension contributions, including the use of any available carry forward relief, in 2024-25 whilst rental profits from FHLs count towards UK relevant earnings. From 2025-26, it is likely that an owner of FHLs without other sources of UK relevant income will be limited a gross pension contribution of £3,600 p.a. without incurring an annual allowance charge. Carry forward relief would also not be available in this situation.

Capital gains tax rate
For residential property sales reduced

From 6 April 2024, the rate of capital gains tax (CGT) for capital gains from the disposal of residential property that fall into the higher rate income tax bands when added to the taxpayer's taxable income has reduced from 28% to 24%. The rate of tax applying to gains from residential property that fall into the basic rate tax band remains 18%.

The rationale behind the reduction in the higher rate of CGT is to encourage people with second properties to sell those properties which would, in turn, free up the market for younger property purchasers or renters.

This 4% reduction in tax is partly offset by the reduction in the CGT annual exempt amount from £6,000 in 2023-24 to £3,000 in 2024-25. Those disposing of residential properties who are keen to minimise CGT liabilities as far as possible could consider several options:

- If they have other investments showing a loss, and it is commercially expedient to do so, the investor could realise those investments and set the capital loss against the capital gain on the disposal of the residential property. Where possible, don't realise investment losses that take net gains below the available CGT annual exempt amount of £3,000 as the annual exempt amount will then be wasted.

- Where the investor is only just a higher rate income taxpayer, it may be possible to pay a pension contribution to reduce taxable income to below £37,700 and so bring some, or all, of the residential property gain into the basic rate tax band where it is subject to CGT at 18%.

- Where the investor is married or in a civil partnership and their partner is a basic rate taxpayer or non-taxpayer, a transfer of the property into their joint names before sale will mean that each can subsequently use their CGT annual exempt amount of £3,000. More of the taxable gain may also then be assessed at 18%. No capital gains tax or inheritance tax arise on such a transfer, but care should be exercised if there is a mortgage on the property as stamp duty land tax may be payable.

It may also be possible to transfer the whole property into the partner's name if the partner's income level will mean that the whole taxable gain can be assessed at 18% (whereas, if the property were held in joint names, part of the gains assessed against the investor may suffer CGT at 24%). However, the benefit of a second CGT annual exempt amount should also be considered. For these strategies to be successful, the transfer must be genuine and unconditional with an appropriate change in property title at the Land Registry. The proceeds of the sale should be invested in the names of the new owner(s) and not simply passed back to the original owner.

Abolition of the Pensions lifetime allowance

The pensions lifetime allowance (LTA) was abolished with effect from 6 April 2024. Two new allowances have been introduced – the lump sum allowance (LSA) which limits tax-free lump sums paid during the member's lifetime to £268,275 (or a higher protected amount, if applicable) and the lump sum and death benefit allowance (LSDBA) which limits the amount of lump sum death benefits that can be paid tax-free if the member dies before age 75 to £1,073,100 (or a higher protected amount, if applicable).

A third allowance, the overseas transfer allowance (OTA), set at £1,073,100 (or a higher protected amount, if applicable) applies to limit the amount of pension funds that can be transferred tax-free from UK schemes to a qualifying recognised overseas pension scheme (QROPS).

The Labour Party has stated that it intends to reinstate the lifetime allowance if it forms the next government. Due to the complexity of pensions legislation, this may not be easy.

The existing legislation around the abolition of the lifetime allowance and the introduction of the LSA, LSDBA and OTA has been found to be defective in some areas and HMRC is advising that, in some cases, pension scheme members should, where possible, refrain from taking benefits from pension schemes until the legislation has been amended. It is important to seek advice in this area before taking action.

British Savings Bonds

The March 2024 Budget announced the launch of British Savings Bonds through National Savings and Investments (NS&I). These were then launched on 3 April 2024 and each bond can accept investments of between £500 and £1 million. Two versions are available:

- Guaranteed Growth Bonds (British Savings Bonds) issue 71 are 3-year fixed interest bonds offering interest of 4.15% gross/ AER p.a. No withdrawals are possible until the end of the 3-year term. Interest is payable when the bond matures (and is subject to tax at this time); and
- Guaranteed Income Bonds (British Savings Bonds) issue 71 are 3-year fixed interest bonds offering interest of 4.07% gross p.a./ 4.15% AER p.a. Interest is paid as a monthly income. Capital cannot be accessed until the bond matures.

Investments in British Savings Bonds can only be made online. Investments can be made by individuals aged 16 or over or two individuals jointly. British Savings Bonds can also be held in trusts and SIPPs.

UK ISAs

The March 2024 Budget also announced the introduction of the UK ISA, an additional £5,000 annual subscription allowance to ISAs. This additional subscription can only be invested into a specified range of UK assets with a view to providing a boost to UK businesses.

The government is currently going through a consultation process on how UK ISAs will work which is expected to close in June 2024. Whilst a provisional launch for UK ISAs during summer 2024 had been anticipated, it now looks likely that the launch may be delayed until after the general election which will be held on 4 July 2024. If there is a change of government, the launch of UK ISAs may not go ahead.

It is estimated that roughly 1 in 7 ISA investors currently invest the full annual subscription allowance of £20,000 each year. If launched, UK ISAs may be attractive to those currently investing over £15,000 a year into ISAs. Those investing less than £15,000 are likely to have more investment flexibility by increasing their existing investment up to the £20,000 standard annual subscription allowance.

Tax planning
For the 2024-25 tax year

The 2024-25 tax year started on 6 April 2024. Taxpayers wishing to minimise tax liabilities should consider their expected levels of income in 2024-25 and consider taking action to minimise tax liabilities, where possible. Some actions could be taken now, others may need to be taken later in the tax year but could include:

- Maximising pension contributions, where appropriate, to make use of any unused annual allowance (including unused annual allowances from the previous three tax years). The annual allowance is £60,000 in 2024-25 and 2023-24 (£40,000 in 2021-22 and 2022-23). Any member contributions made in a tax year should not exceed the individual's UK relevant earnings to avoid the imposition of an annual allowance charge.
- Making pension contributions to reduce adjusted net income to below:
    - the £100,000 threshold at which the personal allowance is eroded resulting in a 60% marginal income tax rate on taxable income between £100,000 and £125,140; or
    - the £60,000 threshold at which a liability to the High-Income Child Benefit (HICB) charge can apply to families in receipt of Child Benefit.
- Considering salary and bonus sacrifice schemes, where offered by employers, to reduce income tax and National Insurance liabilities in return for increased employer pension contributions. These schemes can also reduce adjusted net income for the purposes of mitigating any erosion of the personal allowance or the High-Income Child Benefit charge.
- Ensuring that all tax reliefs and allowances are utilised as fully as possible. For married couples, transferring assets to 'reallocate' income and/ or capital gains between partners can lead to further tax savings.
- Maximise investments in tax-advantaged investment wrappers as far as possible, where appropriate. These include ISAs, Venture Capital Trusts (VCTs), Enterprise Investments Schemes (EIS) and Seed EIS, pensions and investment bonds.
- Reviewing interest rates on savings accounts to check whether they are competitive and consider moving savings, where appropriate. Premium Bonds provide tax-free prizes.
- Gifting assets to trusts to help reduce potential inheritance tax liabilities and provide other tax planning opportunities without necessarily losing access to the asset.
- Deferring capital gains tax (CGT) liabilities by investing in an enterprise investment scheme (EIS) and claiming CGT deferral relief. CGT reinvestment relief and disposal relief are available when investing in a Seed EIS.

The next Budget

The date of the general election has been announced as 4 July 2024. It is likely that the new government will hold a Budget soon after the general election and, potentially, an Autumn Statement in November 2024 and/ or a Spring Statement in March 2025.

Any measures that are announced in a Budget will not take full legal effect until they have been confirmed in a Finance Act. Whilst it is important to plan based on current tax law and other legislation, any planning should retain sufficient flexibility should legislation or personal circumstances change.

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