CHP Accountants Limited **March** *2024*

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Tax E-News – Budget 2024

On 6 March 2024, Chancellor Jeremy Hunt presented his Spring Budget to Parliament. In the knowledge that the government must hold a general election before 28 January 2025 this was a Budget designed to restore confidence and win votes. But on the heels of Britain entering a recession and downgraded Office for Budget Responsibility (OBR) forecasts, the Chancellor had his work cut out and this budget, out of necessity, seems more Gordon Brown (boring) than Nigel Lawson (visionary). And the tax raised by government continues to be at record high levels which have been necessary following the pandemic - all those handouts have to be paid for!

Headlines included further cuts in National Insurance for workers and the self-employed, a modest increase in the VAT registration threshold and an increase in thresholds to reduce the number of people affected by the high-income child benefit charge. There has also been a cut in the rate of capital gains tax for higher earners disposing of residential property. However, income tax rates and thresholds remained frozen and inheritance tax continues to apply to estates over £325,000.

Below, we consider more about the Budget and what it might mean for you. This newsletter is intended as a general guide to the budget changes but is not exhaustive so please contact us for personalised advice.

INCOME TAX

Please note that‘tax years run to 5 April each year and that, for example, 2024/25 signifies the tax year which will end on 5 April 2025.

Personal allowance for income tax

Your tax-free personal allowance remains at £12,570 for 2024/25. The personal allowance starts to be withdrawn if your income is over £100,000 and is fully withdrawn once your income is over £125,140.

Income tax rates and allowances

For 2024/25, rates and thresholds remain frozen at their 2023/24 levels.

After your personal allowance has been deducted, your remaining income is taxed in bands and for 2024/25 these are:

		‘Other income’	**Savings income**	**Dividend income**
Basic rate	£1 - £37,700	20%	20%	8.75%
Higher rate	£37,701 - £125,140	40%	40%	33.75%
Additional rate	Over £125,140	45%	45%	39.35%

‘Other income’ means income other than from savings or dividends. This includes salaries, bonuses, profits made by a sole trader or partner in a business, rental income, pension income and anything else that is not exempt.

So what? Without inflationary increases to the income tax bands, the Chancellor is effectively imposing an income tax increase; as wages and earnings rise because of inflation a larger proportion falls into higher tax bands, which is known as ‘fiscal drag’.

Content accurate as of 6 March 2024

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CHARTERED ACCOUNTANTS

Scottish and Welsh taxpayers

Certain parts of the tax system (the "other income" in the table above) have been devolved to Welsh and Scottish governments. If your main residence is in Wales or Scotland you are classed as a Welsh or Scottish taxpayer, which is why if you are an employee you have a C or an S at the beginning of your tax code. So far Wales hasn't varied the rates of income tax (unlike Scotland, Wales has no power to vary the existing bands or introduce new bands) but Scotland has used this power to increase many tax rates and shrink tax bands; for example their higher rate is 42% and starts at £31,000 of taxable income. After the personal allowance has been deducted, a Scottish taxpayer's 'other income' is taxed in bands as follows:

	2024/25		**2023/24**	
Starter rate	£1 - £2,306	19%	£1 - £2,162	19%
Basic rate	£2,307 - £13,991	20%	£2,163 - £13,118	20%
Intermediate rate	£13,992 - £31,092	21%	£13,119 - £31,092	21%
Higher rate	£31,093 - £62,430	42%	£31,093 - £125,140	42%
Advanced rate	£62,431 - £125,140	45%		
Top rate	Over £125,140	48%	Over £125,140	47%

The Scottish Budget was held on 19 December 2023 and made changes for 2024/25 including the introduction of the new 'advanced rate' of income tax.

Tax on savings income

The savings allowance determines how much savings income you can receive at 0% taxation, instead of the usual tax rates for savings income as shown in the first table above.

This continues to be set at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers, but note that this allowance is lost for additional rate (45%) taxpayers, who must pay tax on all interest that they receive.

Tax on dividend income

The dividend allowance determines how much dividend income you can receive at 0% taxation, instead of the usual tax rates for dividend income as shown above.

As set out in the 2023 budget this allowance drops to £500 for 2024/25, down from the £1,000 2023/24.

Individual Savings Accounts (ISAs)

Interest and dividend income from an Individual Savings Account (ISA) continues to be exempt from tax as are capital gains arising within a stocks and shares ISA. And ISAs don't have to be reported on your tax return!

The limit on how much you can save into ISAs (including cash and stocks and shares ISAs) in 2024/25 remains at £20,000 overall.

The Chancellor did announce that the government will introduce a new 'UK ISA' with an additional allowance of £5,000 a year but this is subject to consultation, and we do not yet have a start date.

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CHARTERED ACCOUNTANTS

The high-income child benefit charge

In an effort to reduce unfairness the thresholds and banding for high-income child benefit charge (HICBC) will be increased for 2024/25.

You have to pay the HICBC if you are considered to have ‘high income’ and child benefit is being paid for a child that lives with you, regardless of whether you are a parent of that child. If you are living with another person in a marriage, civil-partnership or long-term relationship, you will be liable to HICBC if you are the higher earner of the two of you.

	2024/25	**2023/24**
Child benefit ‘high-income’ threshold	£60,000	£50,000
Income level at which child benefit is fully clawed back	£80,000	£60,000

From 2024/25 HICBC will be calculated at 1% of the child benefit received for every £200 of income above the threshold. This is a slower rate of clawback than in 2023/24 and now means that child benefit is only fully clawed back where income exceeds £80,000, rather than £60,000 in 2023/24.

HICBC does not apply if the child benefit claimant opts out from receiving the payments. The Chancellor also announced plans to administer HICBC on the basis of total household income, rather than the income of the highest earner in the household, by April 2026.

The Lawson budget of 1988 introduced independent taxation, giving wives their own income tax allowance and tax bands. Before that a wife’s income was assessed for tax on her husband so independent taxation was a huge tax-saving measure. It will be interesting to see how HMRC will update the tax system by 2026 to combine the tax affairs of both married and unmarried couples making up a household for HICBC purposes. I am not sure how easy this will be - how HMRC’s software developers must hate new budget announcements!

So what? Disregarding for this purpose the other changes announced in the Budget, if we take a couple claiming child benefit in respect of two children and the higher earner earns £70,000, the household will be £1,106 better off than if the threshold had not been increased. If the higher earner instead earns £60,000, the household will be £2,212 better off in 2024/25 and the higher earner will not be required to submit a self-assessment tax return in respect of the HICBC.

EMPLOYMENT TAXES

For employees

As announced in Autumn Statement 2023 and in effect since 6 January 2024, the main rate of Class 1 employee National Insurance Contributions (NIC) has already reduced from 12% to 10%. In the Budget, the Chancellor cut this by a further two percentage points to 8%, taking effect from 6 April 2024.

For 2024/25, this combined 4% reduction will apply to earnings between £12,570 and £50,270. The NIC rate on earnings above £50,270 a year remains at 2%.

So what? The combined 4% NIC reduction means that someone with employment income of £50,000 will pay £1,497 less NICs in 2024/25 than if the rate had remained at 12%, meaning that their monthly pay packet will increase by almost £125.

For employers

There have been no changes to the rate or thresholds for employer’s Class 1 NICs, which remain at 13.8% for wages paid in excess of £9,100 a year (£175 per week). For eligible employers, the employment allowance remains at £5,000 per year.

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Benefits in kind

Employees are required to pay income tax on certain non-cash benefits. For example, the provision of a company car constitutes a taxable 'benefit in kind'. Employers also pay Class 1A NIC at 13.8% on the value of benefits. The percentages used to calculate company car benefits are fixed until 5 April 2026 at which point modest increases will apply to most car types, including electric and ultra-low emission.

The figures used to calculate benefits-in-kind on employer-provided vans, van fuel (for private journeys in company vans), and car fuel (for private journeys in company cars) remain fixed for 2024/25 at their 2023/24 levels, which are:

- Van benefit £3,960
- Van fuel benefit £757
- Car fuel benefit multiplier £27,800

NATIONAL MINIMUM WAGE (NMW)

Employers must pay their employees at least the national living wage (which is the name where workers are aged over 21) or national minimum wage for workers below the age of 21. The hourly rates increase on 1 April each year and depend on the worker's age and if they are an apprentice. Note that from April 2024 most employees become entitled to the main rate at age 21 unless they are an apprentice.

	1 April 2024 – 31 March 2025	**1 April 2023 – 31 March 2024**
Age 23 and over		£10.42
Age 21 and over	£11.44	
21-22 year old rate		£10.18
18-20 year old rate	£8.60	£7.49
16-17 year old rate	£6.40	£5.28
Apprentice rate	£6.40	£5.28

NATIONAL INSURANCE FOR THE SELF-EMPLOYED

Self-employed individuals with profits of more than £12,570 a year pay two types of NIC: Class 2 and Class 4. Two key changes come into effect from 6 April 2024, as previously announced in Autumn Statement 2023 and further extended in this Budget:

1. The main rate of Class 4 NICs will be cut from 9% to 6% in 2024/25. Class 4 NICs continue to be charged at 2% on profits over £50,270.
2. Class 2 NICs will effectively be abolished, saving £179.40 per annum.

So what? This NIC reduction means that a sole trader with, say, trade profits of £50,000 will pay £1,302 less NICs in 2024/25 than will be due for the 2023/24 tax year. But please be aware that because of the self assessment payments on account system this saving may not be felt until the 2024/25 self-assessment balancing payment is due, at the end of January 2026.

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Entitlement to state benefits including the state pension

If you are self-employed, your Class 2 NIC payments have ensured that you accrue entitlement to a range of state benefits, including the state pension. If your profits exceed £6,725 in 2024/25 you will continue to accrue entitlement to state benefits despite not paying Class 2 NICs. If your profits are less than £6,725, or you make a loss, you may need to pay Class 2 NICs on a voluntary basis to maintain your state benefit entitlement. Quite why the government thinks that this quirk in the system makes sense is beyond us!

VAT

From 1 April 2024, the VAT registration threshold and deregistration thresholds will each increase by £5,000 to £90,000 and £88,000 respectively. The thresholds had previously been frozen at £85,000 and £83,000 since 1 April 2017. There have been no changes to the rates of VAT and the standard rate continues to be set at 20%.

CORPORATE TAXES

Rates from 1 April 2024

Corporation tax rates and thresholds remain at the levels used in the year to 31 March 2024 as follows:

Financial Year Starting 1 April 2024	
Main rate	25%
Small profits rate	19%
Lower threshold	£50,000
Upper threshold	£250,000
Marginal relief fraction	3/200
Effective marginal relief rate	26.5%

The main rate of corporation tax increased to 25% for profits above £250,000 on 1 April 2023 having been at 19% for many years, when there was no difference in corporate tax rate between companies with low levels of profit and those with high profits. Since April 2023 companies with profits between the lower and upper thresholds qualify for 'marginal relief', which means they pay tax at 19% up to the lower threshold and at 26.5% on the remainder of the profits.

The thresholds must be equally shared between companies in a group and those controlled by the same person or persons, meaning that if you own two companies the lower threshold is reduced to £25,000 so less of each company's profits will be taxed at 19%.

It has been confirmed in the Budget that the same rates and thresholds will also apply in the year to 31 March 2026.

Research & Development (R&D) reliefs

For company accounting periods commencing on or after 1 April 2024, a new R&D scheme will come into effect, merging the current R&D Expenditure Credit (RDEC) scheme for larger companies with the Small and Medium Enterprise (SME) scheme. There will also be a second new R&D scheme for 'R&D intensive SMEs' along with other amendments as part of a government campaign to tackle fraud and abuse of the scheme.

These are significant changes and come on top of a raft of changes already seen in 2023.

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Any company claiming (or considering claiming) R&D reliefs will need enhanced support to adopt the new rules and framework and make successful claims. Please do get in touch if we can assist you with this.

Annual Tax on Enveloped Dwellings (ATED)

Companies and some other entities need to file ATED returns and pay ATED if they hold a residential property with a value of more than £500,000. The rates of ATED increase from 1 April 2024 so if you think this tax might affect your company please contact us.

BUSINESS TAX

Tax relief for expenditure on plant and machinery

The £1million Annual Investment Allowance (AIA) and, for companies only, unlimited 'full expensing', means that your business is likely to be able to claim 100% tax relief on qualifying plant and equipment purchases.

Conditions may apply and, in some cases, the rate of tax relief in the year of purchase can be 50% or less. In particular, some connected or group businesses need to share their £1million AIA limit between them and this is something that HMRC are currently focusing on so please do talk to us if you have any concerns.

Motor vehicles

While vans and commercial vehicles will often qualify for 100% tax relief when purchased, the rate of tax relief for a car will be less, unless it is both brand-new and electric. The cost of buying other cars is tax relieved by way of an 18% or 6% annual writing-down allowance, based on whether the car has carbon dioxide emissions of up to or more than 50g/km respectively.

HMRC had planned to update their guidance so that double-cab pick-ups with a payload of 1 tonne or more were reclassified from commercial goods vehicles to cars from 1 July 2024, which would have significantly reduced the tax reliefs available. However within a week of announcing this in February 2024 HMRC had backtracked and committed to retaining the existing tax treatment. Although it was not part of the Budget speech, legislation should soon follow which is anticipated to cement the existing commercial vehicle approach. This applies for both capital allowances and benefit-in-kind purposes.

Making Tax Digital (MTD)

Under the government's MTD initiative, businesses will keep digital records and send a quarterly summary of their business income and expenses to HMRC using MTD-compatible software. These requirements will be phased in from April 2026, starting with sole traders and property landlords with gross income over £50,000.

HMRC is re-launching its optional beta testing, with eligible businesses able to opt-in from April 2024. Please talk to us if you'd like to know more.

Using the cash basis to compute business profits

As announced in the 2023 Autumn Statement most unincorporated businesses will default onto the 'cash basis 'of calculating taxable profits for the 2024/25 tax year onwards. As a simplification measure for some, it will mean that your annual profits are calculated based on when you receive payments from customers and make payments to suppliers. Adjustments for stock and amounts owing by or to you will not be possible.

Some small businesses are already using the cash basis voluntarily and won't be affected by the change.

It is possible to 'opt-out 'of the cash basis and instead use traditional 'accruals 'accounts (with adjustments for stock etc.) for tax purposes. The decision will affect the timing of your tax liabilities and will ultimately be based on your personal circumstances. Please talk to us for more information and to plan the approach for your business.

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Tax relief for training costs

Alongside the Budget, HMRC published updated guidance on tax deductions available to sole traders and self-employed individuals. Amid the AI revolution, the guidance clarifies that tax relief can be claimed on training costs relating to updating existing skills, maintaining pace with technological advancements, or changes in industry practices.

CAPITAL GAINS TAX

Annual exemption

The capital gains tax (CGT) annual exemption drops to £3,000 for 2024/25, down from £6,000 in 2023/24. This change means that more of those selling capital assets such as shares and making modest profits on those shares will have to fill in a self assessment return and pay CGT.

Rates

The rate of capital gains tax depends on your income and the main rate of CGT remains at 10% for gains falling within the basic rate band of income and those disposing of a business that qualifies for Business Asset Disposal Relief, increasing to 20% for any part of the gain that goes over the basic rate band.

However, increased rates apply to gains on the sale of residential property which is not your private residence. The residential property CGT rate remains at 18% for gains falling within the basic rate tax band, but from 6 April 2024 will reduce from 28% to 24% for those with residential property gains falling beyond their basic rate band.

Chancellor Jeremy Hunt hopes that this rate reduction will encourage those taxpayers who would have held off selling because of the 28% rate will be more amenable to selling and paying tax at 24%, and increase the overall tax take. We shall see.

Remember that property disposals which give rise to a payment of CGT have to be reported to HMRC and the tax paid just 60 days after your date of exchange, so please make sure you take advice in good time. We suggest gathering together your capital gains records for the original cost of the property and any subsequent improvements as soon as you are thinking about selling it.

TAX REGIME FOR FURNISHED HOLIDAY LETS

If you let out residential or commercial property, the profits are taxed as part of your ‘other income’. If you sell property that has been rented out, capital gains tax is highly likely to apply. Generally, rental business activity attracts fewer tax reliefs than trading ventures but if a residential property meets the strict definition of a ‘furnished holiday let’ (FHL), enhanced tax relief rules are currently available because FHL are taxed as a trade rather than investment.

It was announced in the Budget that from 6 April 2025 the concept of FHLs and their beneficial tax treatment will be abolished, representing another attack on those who seek to profit from their ownership of property. It is proposed that profits from FHLs will be taxed in the same way as any other rental property profits. If you own FHLs this will feel harsh, particularly if you have borrowing on the property and especially the loss of a potential claim to ‘Business Asset Disposal Relief’ on any future sale.

While the abolition won’t happen until 6 April 2025, it should be noted that there will be measures in place from Budget Day (6 March 2024) to prevent tax planning steps that artificially accelerate the disposal date of an FHL to a date before 6 April 2025. It will be interesting to see if lobbying from the FHL sector and/or a change of government might mean this proposal may not reach the statute book, but given the tax changes made against landlords since 2016 (such as changes to interest relief and 60 day payment of CGT) and the current rise in local property taxes on empty homes and second homes, it does seem that the political direction of progress is against landlords.

Please get in touch for a more detailed analysis of how the withdrawal of the FHL status will affect you.

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INHERITANCE TAX

Rates and thresholds

The main rate of inheritance tax remains at 40%, reduced to 36% for estates where 10% or more is left to charity.

The inheritance tax nil rate band continues to be frozen at £325,000. The residence nil rate band will also remain at £175,000 and the residence nil rate band taper will continue to start at £2million.

Agricultural property and woodlands relief

From 6 April 2024 the scope of agricultural property and woodlands relief will be limited to property within the UK. Property located in the European Economic Area (EEA), the Channel Islands and the Isle of Man will be treated the same as other property located outside the UK.

Payment of inheritance tax before probate

From 1 April 2024, personal representatives of estates will no longer need to have sought commercial loans to pay inheritance tax before applying to obtain a 'grant on credit 'from HMRC. This is a welcome relaxation.

UK RESIDENCY AND DOMICILE

Significant tax changes have been announced for individuals resident in the UK but not permanently settled here, known as non-domiciled.

While individuals resident and domiciled in the UK must pay UK taxes on their worldwide income and capital gains, it is possible for UK resident but non-domiciled individuals to claim a 'remittance basis' of taxation for overseas income and capital gains. In return for paying a remittance basis charge of up to £60,000 a year, non-domiciled individuals are able to shelter their overseas income and capital gains from UK taxation, as long as they do not bring (remit) those monies into the UK.

The remittance basis of taxation will be abolished from 6 April 2025 and replaced with a simpler residence-based regime. New arrivals to the UK will not pay UK tax on their overseas income and gains for their first 4 years of UK residence.

In addition, inheritance tax rules apply to the worldwide assets of a UK-domiciled individual but, broadly, just to the UK assets of a non UK-domiciled individual. The non-domicile rules for inheritance tax are also likely to move to a residence-based regime from 6 April 2025 but the government plans to consult on options.

If you are not domiciled in the UK, please talk to us about how the new rules and the transition to them will affect you.

STAMP DUTY

Wales and Scotland

Property purchasers in Wales and Scotland do not pay SDLT because Stamp Taxes on property are devolved to their governments. If you buy a property in Scotland you pay Land and Buildings Transaction Tax and in Wales you pay Land Transaction Tax. No amendments to these taxes have been announced by their respective governments.

England and Northern Ireland - thresholds

The £250,000 0% threshold for Stamp Duty Land Tax (SDLT), applicable in England and Northern Ireland, remains unchanged until 31 March 2025. The same is true of the £425,000 0% threshold for first-time buyers.

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These thresholds are set to revert to £125,000 and £300,000 respectively from 1 April 2025 and while there were rumours that the increased thresholds would be extended beyond 2025, no mention was made of this in the Budget.

England and Northern Ireland - Multiple Dwellings Relief

Multiple Dwellings Relief (MDR) is a relief currently available when buying two or more dwellings in a single transaction or series of linked transactions.

MDR is to be abolished for purchases of residential property in England and Northern Ireland with an effective date on or after 1 June 2024.

Transitional rules apply to the abolition, so that MDR can still be claimed in some situations where contracts were exchanged on or before 6 March 2024, regardless of when completion takes place.

First-time Buyers 'Relief: leases and nominees

Following the Budget, the definition of a 'First-time Buyer 'has been amended. Anyone who leases a residential property via a nominee or bare trust with an effective date (usually the completion date) on or after 6 March 2024 will potentially be eligible for First-time Buyers 'Relief, in the same way as any other qualifying first-time buyer. Transitional rules may apply where contracts were exchanged prior to 6 March but completed or substantially performed afterwards.

ALCOHOL AND FUEL DUTIES

The government has confirmed that alcohol duty will remain frozen until 1 February 2025 and that the previous 5p per litre cut in fuel duty will remain in place until March 2025.

CHARITIES AND GIFT AID

In anticipation of enhanced protections for consumers who take out subscription contracts, the government will soon introduce rules to ensure that charities which operate subscription models can continue to claim Gift Aid on those subscriptions.

IN CONCLUSION

The start of the 2024/25 tax year sees some significant tax changes and more seem likely to follow if there is a change of government following a general election. Where a government gives with one hand (NIC cuts for workers) they often take with the other (frozen income tax thresholds) so it can be a challenge to get a clear view on the fairness of a budget.

We are here to work alongside you and help you prosper so please do get in touch at any time.

Disclaimer: This newsletter covers the key news headlines from Budget 2024. The authors take great care in its production, but it is not exhaustive and should not be read as a full fiscal summary. The content displayed is correct as of 6 March 2024. We cannot take responsibility for any action taken or not taken from this document alone. Please contact us for personalised advice.