

2024

# SUMMER NEWS



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## Recent and upcoming tax changes

We now know that the General Election will be held on 4 July. In the Spring Newsletter, we speculated on some of the tax reform that the next government might introduce and, so far, the campaigns have not shed any further light on this. Whoever wins power will probably have a fiscal statement of some sort in September, with a main Budget to follow in November or March.

In this newsletter, we concentrate on things that have recently happened and also some of the announcements, due to take effect in April 2025, that were made in the March Budget.

For those involved in the construction industry, we discuss the recent changes to the rules on obtaining and keeping gross payment status, as well as reviewing a case that has shown that, if you do not have adequate supervision of your compliance processes, you will struggle to avoid liability when errors happen. Meanwhile, all those running their own business as a self-employed trader will be interested in HMRC's new guidance on tax relief for training costs.

PAYE reporting rules for salary advances have changed (see page 4) and we also expand on and quantify the new tax rules affecting Child Benefit, which will enable more families with young children to keep more of their money, rather than having it clawed back as a tax charge.

On page 3, we discuss the proposals for fundamental reform of the tax treatment of those who are not domiciled in the UK, as well as examining the government's intention to abolish the advantageous tax rules for short-term holiday lettings.

The biggest headline from the March Budget was, of course, the additional 2 percentage points cut in the main rate of National Insurance Contributions (NICs) payable by employees and the self-employed, over and above what had been announced in the Autumn Statement. For those running their own companies and considering tax-efficient profit withdrawals, this change cannot be looked at in isolation, but needs to be considered within the context of the overall tax changes that have taken place over the last couple of years. Dividend tax rates are now 1.5 percentage points higher than in the recent past and corporation tax has risen sharply for companies with profits above £50,000.

Where profits are between £50,000 and £250,000, the marginal corporation tax rate is 26.5%, before dropping to 25% for profits above £250,000. Previously, the 19% rate that applies to profits below £50,000 applied to all profits. (Note that these thresholds are usually reduced where companies are under common control.) Decisions over whether to draw salary or dividends are also complicated by the fact that there is no corporation tax relief for dividend payments, but there is for salaries.

While dividends have traditionally been a more tax-efficient mode of profit withdrawal (mainly because they avoid employer NICs), this advantage has been diminished by the effects of the dividend and corporation tax increases and the employees' NICs reductions. Indeed, at some profit levels, drawing salary may end up being more efficient, when considering the tax position of the company as well as the individual.

Any decisions in this area always need to be tailored to the individual, who may, for example, have other forms of taxable income or may have specific minimum cash needs.

***We are here to help you navigate these changes, as well as those outlined in this newsletter. Please get in touch if you need more information or have any questions.***



# Changes to CIS compliance checks

Under the Construction Industry Scheme (CIS), contractors must withhold deductions from payments made to subcontractors who do not hold gross payment status (GPS) at either:

- 20% (the standard rate); or
- 30% (if the recipient is not registered for CIS or cannot be verified).

To obtain GPS and therefore receive payments without any deductions, subcontractors must meet certain requirements. One of these (the 'compliance test') includes that all CIS and direct tax returns and payments (excluding certain income tax and corporation tax self-assessment payments) must be:

- correct; and
- submitted by the applicable deadlines.

Once granted, HMRC perform an annual automated compliance check to establish whether the subcontractor still qualifies for GPS and, if the subcontractor is not compliant with its relevant tax obligations, GPS can be withdrawn. It then cannot be reapplied for within 12 months.

Finance Act 2024 changed the GPS tests from 6 April 2024. In particular, VAT returns and payments are added to the compliance test for GPS status to be obtained and kept by a subcontractor.

Any VAT failures that occur prior to 6 April 2024, however, will not be considered as grounds to cancel GPS for existing holders.

Other GPS changes include:

- advancing the first compliance check for GPS holders to six months after application (currently it is 12 months); and
- changing how to apply for GPS, by introducing digital applications.

Subcontractors who currently hold (or plan to apply for) GPS should review their VAT compliance to check whether they are at risk of having their GPS withdrawn or an application refused. **We can help you with this.**

## More on the CIS

Regulation 9 of the 2005 CIS regulations allows HMRC to issue a direction that relieves a contractor of their CIS liability where certain conditions are met, including where the failure to make a deduction arose from:

- an error made in good faith; or
- a genuine belief that the payment was outside the scope of CIS.

However, the contractor must have taken reasonable care to comply with the CIS regulations for this to apply. In a recent case, the appellant (which provided the labour of tradespeople) was found not to have taken sufficient care, due to a lack

of oversight at director level.

The person who had overseen compliance (including CIS returns) for the firm had retired, handing over duties to the office manager, who had previously assisted him. A few years later, the company started work with some new clients and the office manager confirmed the CIS status of each with HMRC. They should have been subject to CIS deductions, but the appellant made payments gross and filed CIS returns on that basis. HMRC sought to recover almost £450,000 of under-deducted CIS tax and imposed penalties.

The Tax Tribunal said that there were no checks or controls on the office manager's CIS compliance for what were substantial payments (over £700,000 in 2015/16). Due to the significant impact that failing to comply with the CIS regulations would have on the company and the lack of controls and checks in that respect, the appellant had not acted with enough reasonable care to comply with the regulations. A Regulation 9 direction to relieve it of its liability was therefore inappropriate.

**Try not to run into the same problems. We can discuss with you the appropriate level of supervision of CIS returns needed for your business.**

# Self-employed training costs

HMRC have revised their guidance on tax relief for a business owner's training courses. They now say that learning a new skill in a new area will be tax-deductible against profits, if 'wholly and exclusively' incurred for any 'ancillary purposes' of the trade or business.

Their previous approach was to block tax relief for expenditure on any course fees that provided the business owner with new expertise or knowledge, on the basis that this was capital expenditure, creating an asset of enduring benefit for the business. The effect of that view was that no tax relief was possible on upskilling, but training courses for a refresher or update for an existing skill was allowable.

The new approach aims to consider the fact that sole traders often need to undertake training to acquire new skills or knowledge, to keep pace with:

- advancements in technology; and
- changes in industry practices in their business area.

The changes mean that the costs of **any training in the individual's existing business area** will now be tax deductible against the profits of the business, provided that either it:

- updates existing expertise or knowledge; or
- provides new expertise or knowledge.

**Example** (from HMRC's revised guidance)

*Tim spends his weekends selling his handmade pottery at a stall in his local town centre and now wants to sell his pottery online. He thinks this will help him to reach more customers, which will increase his sales. He decides to complete an e-commerce course and then goes on to complete a short, introductory course on website development.*

Although the courses are not directly related to pottery, they will teach Tim new skills so that he can move his business into online selling. The skills and knowledge Tim acquires will help him to keep up to date with the modern ways of selling, so the costs of the course are likely to be an allowable expense for tax purposes.

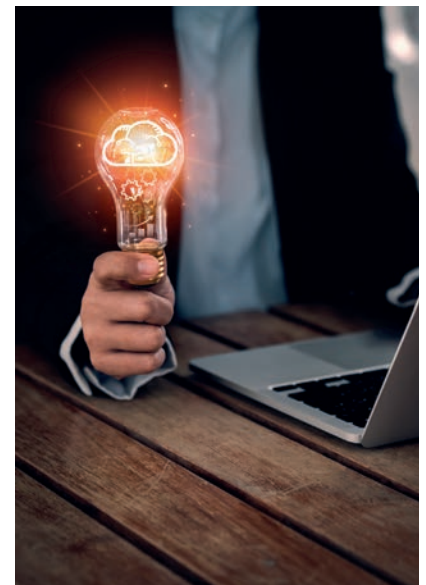
## Training costs of employees and directors

Note that these changes are irrelevant for directors and employees, the training costs of whom are governed by different tax law. Generally, where an employer pays for work-related training of any sort for an employee or director, there will be no taxable benefit for the worker and the business will be able to deduct the cost for tax purposes. However, where an employee or director pays for training themselves, it almost certainly will not be a deductible expense for employment tax purposes. This is because it is not

incurred "... wholly, exclusively and necessarily in the performance of duties", as required by the legislation. If the employer reimburses the costs to the worker, this will be a separate taxable benefit for the individual.

It is clearly therefore better for training costs to be paid directly by an employer, where possible.

**If you want help in understanding if any training you are undergoing will be tax-deductible, please let us know.**



# Major changes coming for non-doms

Domicile status is a difficult legal issue that is very important for tax. Very broadly, it is one's country of natural or permanent home, which of course may be different to where someone is resident at any given time. To establish domicile status, the courts will look at where a taxpayer's parents (and sometimes grandparents) were domiciled, as well as the taxpayer's future intentions.

Currently, if someone is UK-resident but domiciled outside the UK, they can claim 'remittance basis' on their tax return. This means that their foreign income and capital gains will not be taxable in the UK unless brought here. Once someone has been resident here for 7 of the previous 9 years, they have to pay an annual fee of £30,000 to use remittance basis; this increases to £60,000 when someone has been here for 12 of the previous 14 years. However, once someone has been resident for 15 of the last 20 years, they become deemed domiciled in the UK, at which point remittance basis is no longer available. This means that their worldwide income and gains are taxable in the UK, even if the funds are left overseas.

The other advantage of non-dom status is that, for Inheritance Tax (IHT), only UK assets come within the net of the tax. In contrast, those who are UK-domiciled are subject to IHT on their worldwide assets. For example, if a non-dom dies owning shares in an Indian company and a holiday home in France, neither asset will be subject to UK IHT. If they are owned by a UK-domiciled taxpayer, they will be subject to UK IHT.

It seems that all of this is going to change from 6 April next year, irrespective of the result of the General Election. Labour has a long-stated intention to abolish remittance basis and this idea has now been taken up by the Conservatives too. The key points of the changes that the latter have proposed are as follows:

- From 6 April 2025, the current remittance basis of taxation will be abolished for UK resident non-doms. This will be replaced with a new 4-year foreign income and gains (FIG) regime, for individuals who become UK tax resident after a period of 10 tax years of non-UK residence.
- Qualifying individuals:
  - will not pay tax on FIG arising in the first 4 tax years after becoming UK tax resident; and
  - will be able to bring these funds to the UK free from any additional charges.
 They will pay tax on UK income and gains, as is the case for non-domiciled individuals now.
- Individuals who, on 6 April 2025, have been tax resident in the UK for less than 4 years (following 10 years

of non-UK tax residence) will be able to use this new regime for any tax year of UK residence in the remainder of those 4 years.

- Individuals who move from the remittance basis to the arising basis on 6 April 2025 and are not eligible for the new 4-year FIG regime (i.e. have been here for more than four years) will, **for 2025/26 only**, pay tax on 50% of their foreign income. This reduction applies to foreign income only, not to foreign chargeable gains. For 2026/27 onwards, tax will be due on all worldwide income as it arises.
- From 6 April 2025, an individual who is not, or who later ceases to be, eligible for the new 4-year FIG regime will be taxed on foreign gains fully, irrespective of whether the funds are brought to the UK.
- From 6 April 2025, individuals who have been taxed on the remittance basis will be able to elect to pay tax at a reduced rate of 12% on remittances of pre-6 April 2025 FIG under a new Temporary Repatriation Facility (TRF), which will be available for tax years **2025/26 and 2026/27 only**.
- The government intends to move IHT to a residence-based system. It is envisaged that the new rules will involve charging IHT on worldwide assets:
  - when a person has been resident in the UK for 10 years (the "residence criterion"); and
  - for 10 years after leaving the UK (the "tail" provision).
- The design of the system will be subject to consultation, but UK assets will remain in charge on the same basis as at present, regardless of residence.

It is likely that, should they form the next government, Labour will introduce similar rules, but probably with less generous transitional provisions (e.g. the 12% TRF).

This fundamental reform will have a big impact on anyone from overseas or UK residents who are thinking of emigrating. Although the final details are still to be decided, all such people should consider how these changes will affect their tax liability in the UK. **Please contact us if you have any concerns in this area.**



# Goodbye to furnished holiday lets

Since first being introduced forty years ago, furnished holiday letting (FHL) tax breaks have been very beneficial to those owning qualifying properties. With the spread of Airbnb and years of low interest rates, it seems that more and more people have been buying properties to let short-term to holiday makers. This has distorted the normal residential lettings market and perhaps, too, reduced the supply of properties on the market for first-time buyers.

At the Budget, the Chancellor announced that these tax breaks will end after 5 April 2025. This will have the following main consequences for those affected.

- Currently, finance costs on the property (mainly mortgage interest, but also including other items, such as arrangement fees) are fully deductible against the rental income. From the 6 April 2025, these costs will now only attract basic rate tax relief, which itself may be subject to restrictions. This will be particularly important where someone is highly geared (i.e. the cost of the property was largely funded by loans).
- Various CGT reliefs will no longer be available:
  - Business asset disposal relief (BADR), which over one's lifetime can reduce CGT by (at current rates) up to £100,000.
  - Rollover relief, which enables the gain on the sale of a FHL to be deferred, where the proceeds are reinvested in another qualifying property.
  - Gift relief, which allows a similar deferral when an FHL is gifted (e.g. to a family member). Without the relief, a gain is calculated based on deemed proceeds of the property gifted. If the long-term plan is to gift your FHL to someone, you may want to consider bringing forward the gift, so that it takes place this tax year.
- Fixtures and fittings (e.g. tables and beds) will no longer qualify for 100% relief against tax when first installed in such a property from 6 April 2025. The rules will be the same as for normal residential lets (i.e. only the costs of replacing such assets will attract tax relief).

If you own one or more FHLs, it is important to understand how these changes will affect you and to plan for any extra tax that may become due. In particular, the changes to tax relief on finance costs may mean some FHL businesses are no longer economic, particularly with, it seems, the days of ultra-low interest rates now over. **Please contact us if you need help in quantifying how these changes will affect your letting business.**

# No trading means no BADR

Business asset disposal relief (BADR) replaced Entrepreneurs' relief (ER) in 2020. It operates in essentially the same way, but with a greatly reduced lifetime limit of gains eligible for the relief. The current limit allows £1m of gains to be taxed at 10% rather than the normal 20%, so potentially saves £100,000 of CGT.

Among the conditions for a disposal of shares to qualify are:

- the person making the disposal must be an officer or employee of the company;
- the company must be a trading company (or holding company of a trading group); and
- the individual must own (broadly) 5% of the shares.

Other conditions apply and all conditions must be met for a minimum of 2 years up to the date of disposal.

The relief is also available if a previously trading company is liquidated within 3 years of ceasing trading, subject to conditions.

Note that this CGT relief is never available to investment businesses, such as property rental companies; being a commercial business is not the same as trading, at least for tax purposes!

The Tax Tribunal has recently heard

a case where the owners of a company sought to show that it had changed from being an investment company to a trading company. The company's only asset was a parcel of land, which included a protected site. The original intention, at the time of acquisition, was to maintain the site as an investment.

After acquisition, the protections over the site were lifted and the site was identified as suitable for mixed-use development. The company sought major planning consents for change of use, with a view to the site's onward sale, and appropriated the site to trading stock for accounting purposes in December 2013.

A third party purchased the site on 18 January 2016. The company entered members' voluntary liquidation on 11 March 2016 and the three shareholders received distributions in the liquidation. They claimed ER on the distributions received, on the basis that the company had commenced trade in December 2013, when the change of intention occurred. HMRC disagreed, stating that no trade ever came into existence.

The Tribunal decision was that the company was investing in land rather than dealing in land. It was not a trading company because:

- It did not intend to carry out a development or do anything that would make a significant change to the site.
- The company had changed its plans, as it no longer wished to hold the site as an investment; however, appropriating the site to trading stock cannot have any tax significance if the company was not actually carrying on a trade.
- The company did not have the expertise or funds itself to carry out the development identified and, if it were to be trading, needed to do something more than simply deciding to sell the asset.

ER was therefore not available to the shareholders.

Whether or not a company is trading is crucially important to many tax reliefs, not just BADR. Unfortunately, it is not always clear-cut, with many cases ending up at tax tribunals. Never assume that your disposals will benefit from a tax relief, particularly if the company's activities might be classified as investing. **We can help you with any concerns you may have in this area.**

## Children have become less taxing!

From 6 April 2024, there have been major changes to the High-Income Child Benefit Charge (HICBC), which (as discussed in the Spring Newsletter) effectively claws back Child Benefit via a tax charge when income of the higher earner in the household exceeds a particular threshold.

The key changes are:

- The income threshold before a clawback starts increased to £60,000 (from £50,000).
- The rate of clawback will be 1% for each £200 (not £100, the previous rate) of income above £60,000.

So, 100% of the Child Benefit is now not clawed back until income reaches £80,000, a big increase on the previous £60,000 threshold.

These changes will mean that a lot of families with young children will have a significant increase in their spending power this year.

### Example

Frank is a househusband, whose wife Cheryl has income of £65,000 and claims child benefit for each of her 4 children.

Child benefit rates per week are:

2023/24: 1st child: £24; subsequent children: £15.90.

2024/25: 1st child: £25.60; subsequent children: £16.95.

### Cheryl's Child Benefit claims are:

2023/24:  $[(£24.00 \times 52) + (3 \times £15.90 \times 52)] = £3,728$

2024/25:  $[(£25.60 \times 52) + (3 \times £16.95 \times 52)] = £3,975$

### HICBC

2023/24: With income of over £60,000, Cheryl will suffer HICBC equal to the child benefit received.

2024/25: With the lower threshold now £60,000 and income of £65,000, she will suffer HICBC of 25% of £3,975, i.e. £993.75.

As a result of these new rules, Cheryl and her husband's increase in net cash from child benefit for 2024/25 is 75% of £3,975 = £2,981.25.

### Reinstating Child Benefit payments

Some people who have previously opted out of receiving Child Benefit will now want to reinstate their claims. To do so, you need to either:

- fill in an online form via the government gateway; or
- contact the Child Benefit Office.

After the Child Benefit Office gets your request, it can take up to 21 days before you get your first payment. The office will write to tell you how much money you'll get from backdated payments (if any). Payments can normally be backdated for up to three months.

Remember that, if you reinstate payments, you will potentially need to file a tax return to deal with any HICBC.

**Please contact us if you have any questions about the impact of HICBC on your family's finances.**

Note that, from 6 April 2026, it is intended that HICBC will be based on household income, rather than just that of the higher income generator.

## Salary advances

Normally, under Real-Time Information (RTI), PAYE reporting must be done on or before the time when a payment is made to the worker. From 6 April 2024, there is a change in the rules for reporting of salary advances, which can now be reported on or before the employee's contractual pay day. This avoids having to report the advance and the regular salary payment separately. Effectively, the reporting of the advance will be delayed until the remainder of the salary instalment is paid.

Note that the change only applies to advances of pay already earned by the time the advance payment is made.

**Please talk to us if you have any concerns about your PAYE reporting, as the penalties for getting things wrong can be onerous.**

