bright grahame murray

CHARTERED ACCOUNTANTS

NEWS UPDATE - 12 March 2024

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Spring Budget: a pre-election balancing act

What was almost certainly the last Budget before the election was a serving of the widely expected, sprinkled with a handful of small surprises.

The Chancellor of the Exchequer, Jeremy Hunt, delivered the Spring Budget 2024 on 6 March. As anticipated, it was a typical pre-election event focused on tax relief measures – including further national insurance contributions (NICs) cuts – and the promise of a new savings bond from National Savings.

With little fiscal wriggle room, Mr Hunt was unable to give away as much as some of his backbenchers may have wanted, yet managed to hit some political targets, including co-opting Labour's flagship scrapping of non-domicile rules.

Key announcements

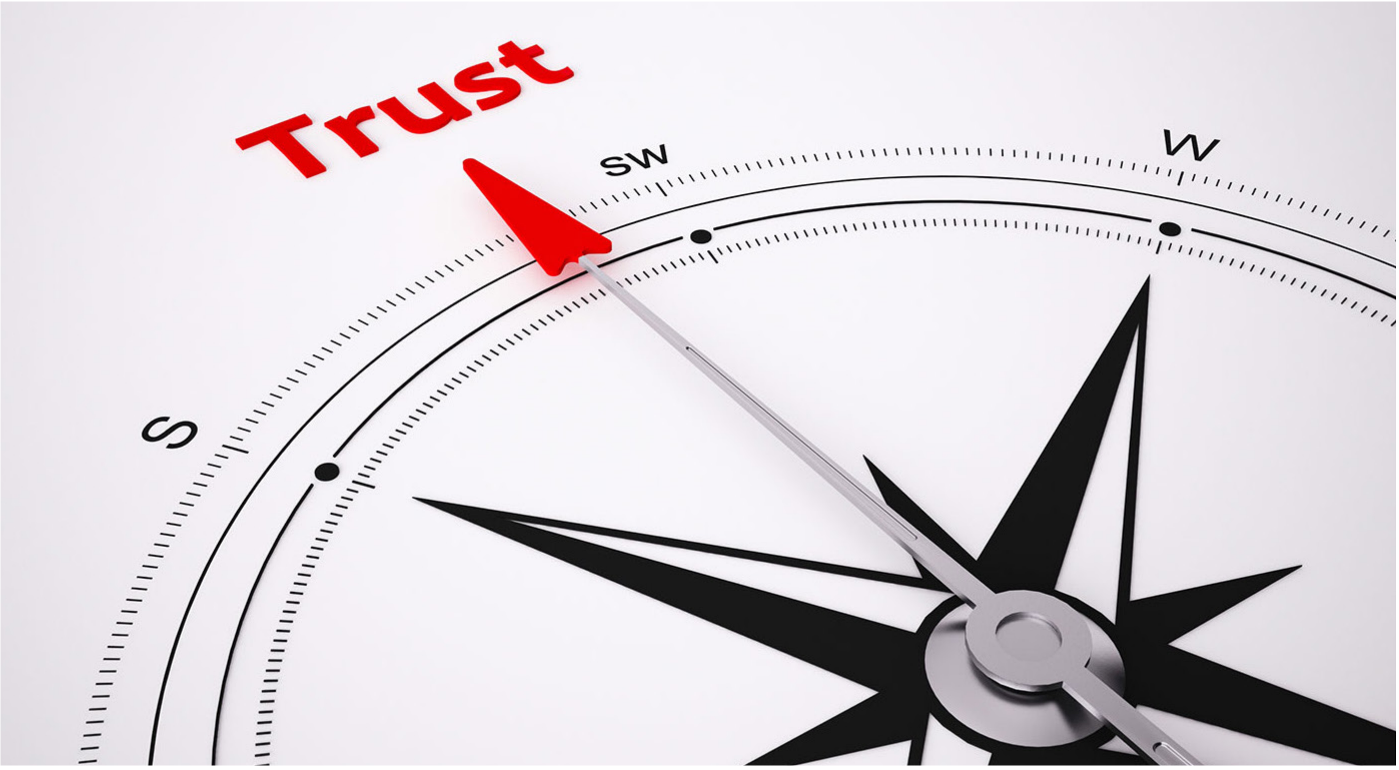
The main headlines and changes to grapple with are:

- **High income child benefit charge (HICBC):** This unpopular tax charge will undergo a two-stage reform. Firstly, in 2024/25, the income threshold rises in 2024/25 with a £10,000 increase from £50,000 to £60,000 with a halving of the rate of charge. As a result, the full 100% HICBC charge will apply once individual income exceeds £80,000. Secondly, by April 2026, the income threshold will be switched from an individual basis to a household basis.
- **National insurance contributions (NICs):** From 6 April 2024, the main rates of employee (class 1) and self-employed (class 4) NICs will be cut by two percentage points to 8% and 6% respectively, doubling down on the cuts announced in last November's Autumn Statement. The maximum annual saving is £754.
- **Residential property:** In 2024/25, the maximum capital gains tax rate on residential property gains will fall to 24%. The lowered rate may encourage more buy-to-let investors to sell up rather than pay higher mortgage rates at the end of their fixed-rate deals. It may have a similar impact on holiday cottage owners, as the favourable tax rules for furnished holiday lets will be scrapped from April 2025.
- **UK ISA:** The Chancellor issued a consultation paper on a new 'UK ISA'. This will have a contribution limit of £5,000 – in addition to the existing overall £20,000 ISA limit (unchanged since 2017/18). However, investments will have to be primarily in the UK, probably both shares and bonds. There was no specific timeline on the proposal.

These Budget changes may affect you personally or your business. For more information on any aspect of the implications of the Budget, please contact us.

How to navigate the £500 trust income exemption

The introduction of a £500 income exemption from 6 April 2024 will impact many trusts. It comes with various complications, especially as income within the £500 exemption will still be taxable in the hands of beneficiaries.



The exemption is on an all-or-nothing basis. A trust with an income of £501 will find the whole amount is taxable; not just the excess over £500. A further complication is that, in some circumstances, the £500 exemption is shared between trusts created by the same person.

When the £500 exemption was first proposed, it appeared relatively generous for savings income given the bank rate was 0.75%. However, it does not appear as beneficial now that the current bank rate sits at 5.25%.

Interest in possession (IIP) trusts

IIP trusts pay income tax at 20%, except for dividend income which is taxed at 8.75%. The £500 exemption will mean that smaller IIP trusts no longer have to file returns or pay tax, but this income will now be received gross by beneficiaries without any associated tax credit.

This is good news for non-tax paying beneficiaries as they will no longer need to make repayment claims. However, basic rate taxpayers will now have to account for tax on trust income, a liability previously met by the tax credit.

There will be no change for either the trust or the beneficiaries where trust income exceeds £500.

Discretionary trusts

Discretionary trusts pay tax at 45%, except for dividend income which is at 39.35% – the same rates paid by an additional rate individual taxpayer. Previously, there was a £1,000 standard rate band on which lower rates applied.

The £500 income exemption has replaced the standard rate band.

The complication for discretionary trusts is that any distributions to beneficiaries carry a 45% tax credit, even if the exemption applies. Therefore, the trust will still have to pay sufficient tax to cover the tax credit, which can mean complex calculations.

The beneficiaries of discretionary trusts will not see any change to their tax treatment given that trust income will continue to have a 45% tax credit attached.

HMRC ramps up its checks

There's no respite for HMRC with inheritance tax (IHT) accounts, undeclared dividend income and gains from share disposals to scrutinise.

HMRC is currently busy with several ongoing checks. They are looking at IHT accounts, targeting undeclared dividend income, and making sure any gains from share disposals have been correctly declared.

Inheritance tax accounts

The complexities of IHT can catch out even seasoned observers and there are many pitfalls, including:

- **Business property:** 100% relief from IHT may be available, so it is important to make sure claims are correct. It is worth noting that relief may not be available if a business has a large amount of cash or assets held as investments.
- **Valuations:** HMRC might contest valuations submitted in respect of unquoted shares, property or jointly owned assets. To avoid problems, obtain formal IHT valuations from experts.
- **Payment deadline:** IHT on an estate must be paid within six months after the end of the month in which death occurred; this is a much tighter deadline than for most other major taxes.

Dividend income

HMRC is writing to company owners who may have undeclared dividend income. Its approach is to compare a company's reported profits with the movement in reserves. Where a difference is identified, this could be an indication of dividends being paid to shareholders.

Anyone receiving a letter should contact HMRC within 30 days of its receipt, even if there is no dividend income to declare, or risk facing a compliance check.

Share disposals

Letters are also being sent to taxpayers who have disposed of shares but are suspected of omitting the details from their tax returns.

HMRC has looked for discrepancies by checking the information it has on share disposals against details declared on self-assessment tax returns. Anyone receiving a letter will have 60 days to amend their return.

If no capital gains tax is due on the disposal identified by HMRC, the taxpayer needs to explain why in writing.

HMRC's guide to valuing an estate for IHT purposes can be found from the link below:

https://www.gov.uk/valuing-estate-of-someone-who-died

The cost of incorporating a company increases

The fees associated with incorporating and maintaining a company will rise from 1 May 2024, due to an increase in charges from Companies House.

Companies House has explained that fees are set on a cost recovery basis – meaning that the increases are intended to solely cover the cost of the services they deliver without making a profit.

Incorporation

Currently, the cost of registering a company with Companies House ranges from £10 to £40, depending on the channel used. With fees increasing across-the-board from registration to exit, increased costs include:

- **Online registration for a business or limited liability partnership:** this is normally completed within 24 hours at the cost of £12. However, online registration fees will rise to £50, an uplift of 300%.

- **Same-day incorporation:** the fee for this service is going up from £30 to £78.

- **Voluntary striking off:** When a company is no longer required, voluntary striking off will now incur a fee of £33; it is currently £8.

- **Overseas entities:** the largest increases apply to overseas entities who need to register with Companies House. The registration fee goes up from £100 to £234, with the removal fee increasing to £706 from £400.

Many people set up a new company through a company formation agent. Their most basic offerings only add a small margin to the Companies House charge. This means the fees charged by agents are going to see similar increases come 1 May.

Confirmation statements

Every company, including dormant companies, must file a confirmation statement at least once a year. The cost is currently £13 and rising to £34. This fee, at least, covers a 12-month period. It's paid with the first filing during the period with no further charge for any subsequent filings during the same period.

For a full list of Companies House's current fees visit the government website and for an update on price increases.

https://www.gov.uk/government/publications/companies-house-fees/companies-house-fees#co-inc

How much does retirement cost?

New research has put some surprising numbers on the income needed in retirement.

Each year since 2019, the Pensions and Lifetime Savings Association (PLSA) has set about answering the question of how much retirement costs for couples and single retirees. It considers three different Retirement Living Standards, which are summarised as:

- **Minimum:** covers all your needs with some disposable income.
- **Moderate:** more financial security and flexibility.
- **Comfortable:** more financial freedom and some luxuries.

To give a more granular idea of what the different standards imply, the chart on the right shows how two sub-categories break down for food and drink, holidays and leisure.

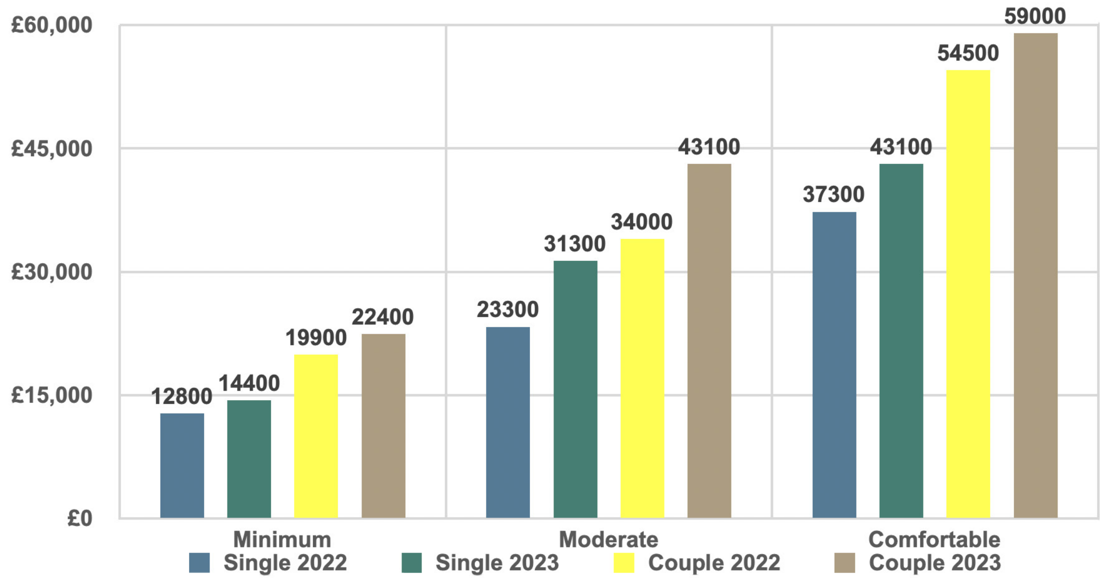
For the first time since 2019, the Moderate and Comfortable standards have been 'rebased' to allow for changed spending patterns. For example, out went two cars for the Comfortable standard and in came much higher spending on clothes in the Moderate standard. The rebasing means the gap between the 2023- and 2022-income requirements reflects more than just inflation – leading to the 34% jump for the Moderate single income requirement.

The bottom-line costs shown in the graph below are net (after-tax) income requirements and take no account of any rental expenditure. As a reminder, from April 2024 the new State pension will be £11,502 a year.

	MINIMUM	MODERATE	COMFORTABLE
Food & drink	■ Around £95 a week on groceries. ■ £50 a month per couple on food outside of the home. ■ £30 a month per couple on takeaways.	■ Around £100 a week on groceries. ■ £60 a week per couple on food outside of the home. ■ £20 a week per couple on takeaways. ■ £100 a month to take others out for a monthly meal.	■ Around £130 a week on food. ■ £80 a week per couple on food outside of the home. ■ £30 a week per couple on takeaways. ■ £100 a month to take others out for a monthly meal.
Holidays & leisure	■ A week-long UK holiday. ■ Basic TV and broadband plus a streaming service.	■ A fortnight three-star, all-inclusive holiday in the Mediterranean and a long weekend break in the UK. ■ Basic TV and broadband plus two streaming services.	■ A fortnight four-star holiday in the Mediterranean with spending money and three long weekend breaks in the UK. ■ Extensive bundled broadband and TV subscription.

Retirement living standards

Source: PLSA



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