bright grahame murray
CHARTERED ACCOUNTANTS

NEWS UPDATE - 9 February 2024

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Increased income – the double-edged sword

With tax bands and other thresholds frozen, taxpayers should be aware of the implications of their income increasing. Increased income can mean more than facing a higher tax bill.

Higher rate taxpayers need to look at which allowances, reliefs or benefits are no longer claimable and those which are now worth claiming.

Lost reliefs

- **Marriage allowance** – this is not available once the recipient spouse/civil partner becomes a higher rate taxpayer. The person who made the claim (the lower income spouse/civil partner) should now cancel it on their Government Gateway. However, one way to retain the allowance is for the recipient to make sufficient pension contributions so that their net income remains within the £50,270 basic rate threshold.

- **Child benefit** – this starts to be clawed back once income hits £50,000 and is completely lost if income reaches £60,000. Within this band, each £1,000 of extra income represents a 10% loss of child benefit. The claw back is by way of a tax charge, with details declared on a self-assessment tax return. Again, pension contributions can reduce the level of income.

- **Childcare** – if income exceeds a £100,000 threshold, tax-free childcare will no longer be available. Full free hour entitlement will also cease. Both must therefore be cancelled, with the tax-free childcare entitlement amended on the claimant's Government Gateway. Pension contributions can, once again, help to remain below the threshold.

Using pension contributions

Pension contributions are more attractive once relief is at a higher rate than just the 20% basic rate. Contributions make even more sense if entitlement to marriage allowance, child benefit or child-care is preserved. Given that the personal allowance starts to be tapered away at the same point that tax-free childcare is lost, the overall cost of pension contributions where income just exceeds £100,000 can be negligible.

Tax trap

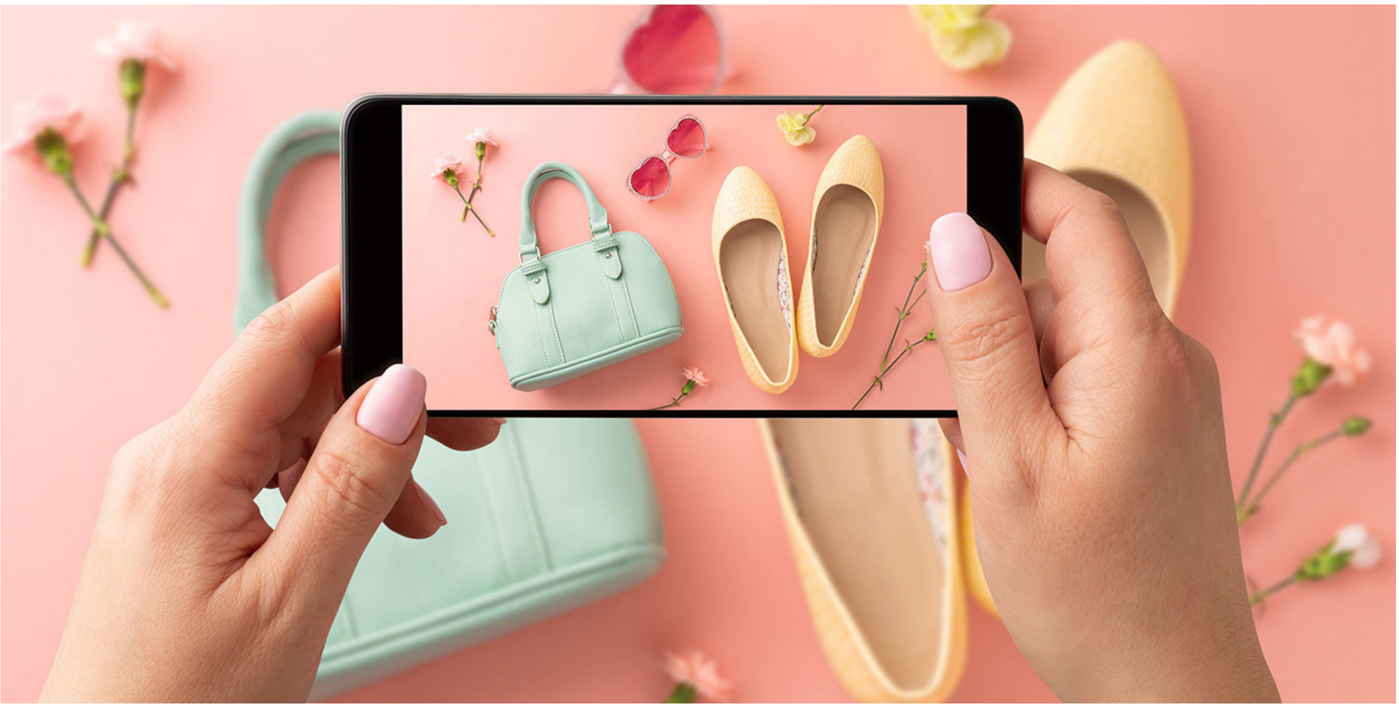
Aside from the increased rate of tax when income crosses a threshold, the savings allowance is cut in half to £500 for higher rate taxpayers. This is lost altogether once income reaches £125,140. Tax on savings can therefore increase despite the amount of savings income not changing. Investing in Individual Savings Accounts (ISAs) can mitigate the problem, as can pension contributions particularly if income is above the £50,270 threshold.

There are different childcare schemes in Scotland, Wales and Northern Ireland, and Scottish tax rates and thresholds differ. For information on tax relief for private pension contributions visit the government website from the link below:

https://www.gov.uk/tax-on-your-private-pension/pension-tax-relief

HMRC, eBay and second-hand news

The media storm surrounding HMRC taxing eBay and other online sellers from the start of 2024 was, in fact, itself counterfeit goods.



A crop of stories across social and traditional media swirled across the start of the new year about HMRC cracking down on 'side hustle' tax from 1 January, leaving sellers using sites like eBay and Vinted feeling uncertain. Coming after an early December announcement that HMRC had effectively closed its main self-assessment helpline until 1 February 2024, the story only fuelled the outrage directed at the Revenue.

Except that it was not fresh news or, even, news at all. There was no new 'side hustle' tax. HMRC was starting the first year in which digital platforms, such as eBay, would be required to automatically report details of sellers who in a calendar year:

- Had sales of at least €2,000 (about £1,725 at current exchange rates); or
- Made at least 30 sales.

Further, this was not a UK-led law as revealed by the denominating currency. The initiative started with a set of model rules published in July 2020 by the Organisation for Economic Co-operation and Development (OECD), of which the UK is a member, aimed at reducing tax avoidance via digital platforms. The first reports from platforms will not be sent to HMRC until January 2025 and will cover only the current year.

Contrary to fears raised online in the New Year, neither HMRC nor the OECD have any interest in the sale of personal items no longer required, whether clothing or mobile phones. The new reporting requirements are for people who are trading – buying and selling goods with the aim of making a profit, something that has always been taxable.

It is worth bearing in mind that there is also a little-known trading allowance, which exempts from tax £1,000 of trading income (before expenses) in a tax year. A similar £1,000 allowance applies to property income (also before expenses), which matters here because Airbnb falls within the scope of the reporting regime.

There are a couple of lessons to learn from this saga of the 'side hustle' tax. The first is that tax is rarely simple and media information – especially social media – can be misinformation. The second is that HMRC's ability to gain insight into your sources of income is ever-expanding.

You have been warned…

The government has published information on who may be affected by the advent of reporting rules for digital platforms, see link below:

https://www.gov.uk/government/publications/reporting-rules-for-digital-platforms/reporting-rules-for-digital-platforms#general-description-of-the-measure:~:text=This%20measure%20introduces,their%20tax%20obligations

Companies House reform brings tougher company checks

Companies House is introducing wide-ranging reforms – subject to new legislation being in place – from 4 March 2024. Directors need to get ready for the first tranche of measures.

The reforms are being introduced with the aim of clamping down on financial crime and improving corporate transparency and form part of the recently enacted Economic Crime and Corporate Transparency (ECCT) Act. The changes will particularly impact when incorporating a new company, but existing companies are also affected.

Registered office

The use of a PO box as a registered office will no longer be permitted. A registered office must be an address where the receipt of documents can be recorded by an acknowledgement of delivery. This means that a third-party agent's address should still be suitable.

Directors should make sure that any existing company using a PO box as a registered address has made a change by 4 March 2024. This can be done online at the Companies House website.

Any company without an appropriate registered office address risks being struck off the Companies House register.

Email address

When a company is incorporated from 4 March 2024, it will be a requirement to provide a registered email address for Companies House. The same email address can be used for more than one company:

- Existing companies will need to provide an email address when they next file a confirmation statement.
- Companies House will use the email address for communications about the company.
- A company's email address will not be published on the public register.

It will be possible to update an email address in the same way as a company's registered office address online at the Companies House website.

In future, the subscribers (shareholders) will need to confirm they are forming a new company for a lawful purpose.

For existing companies, confirmation statements filed from 4 March 2024 will include a declaration that a company's future activities will be lawful. Companies House may take action if it receives information that a company is not operating lawfully.

Other changes are in the pipeline, in particular, mandatory identity checks for company officers will be introduced later in 2024. Details of the changes being introduced by The ECCT Act can be found from the link below:

https://changestoukcompanylaw.campaign.gov.uk/

Another lesson learned in equal pay

Having already paid out over £1 billion in equal pay claims, and now facing claims for further millions, Birmingham City Council's financial crisis is a stark reminder of why it is so important to get equal pay right.

All employers will undoubtably know the basic principle that men and women must receive equal pay for doing equal work. However, it is possible for employers to be caught out by some complications of the rules:

- **Associated employers:** equal pay applies across associated employers. This is not about overall control, but also where one organisation sets the pay and benefits for both entities.
- **Pay:** equality extends to payment for holidays, overtime, redundancy, sickness and performance. Entitlement to benefits, such as company cars, must also be on an equal basis, along with pension funding and entitlement.
- **Terms and conditions:** the whole employment package needs to be equal – not only salaries. For example, working hours and annual leave allowance must be equivalent.
- **Right to equal pay:** it does not matter whether employees are full-time or part-time when considering equal pay; apprentices and agency workers are also included.

Equal work

Where equal pay rules become less black and white is in the arena of equal work. This is where Birmingham City Council came unstuck. The original dispute in 2012 arose because bonuses given to staff in traditionally male-dominated roles discriminated against female workers working in roles such as cleaners, teaching assistants and catering staff.

Comparisons are not necessarily on an exact like-for-like basis. It might be that the level of skill, responsibility and effort needed to do work are equivalent, or work might simply be of equal value, even if the roles seem different, such as comparing warehouse and clerical jobs.

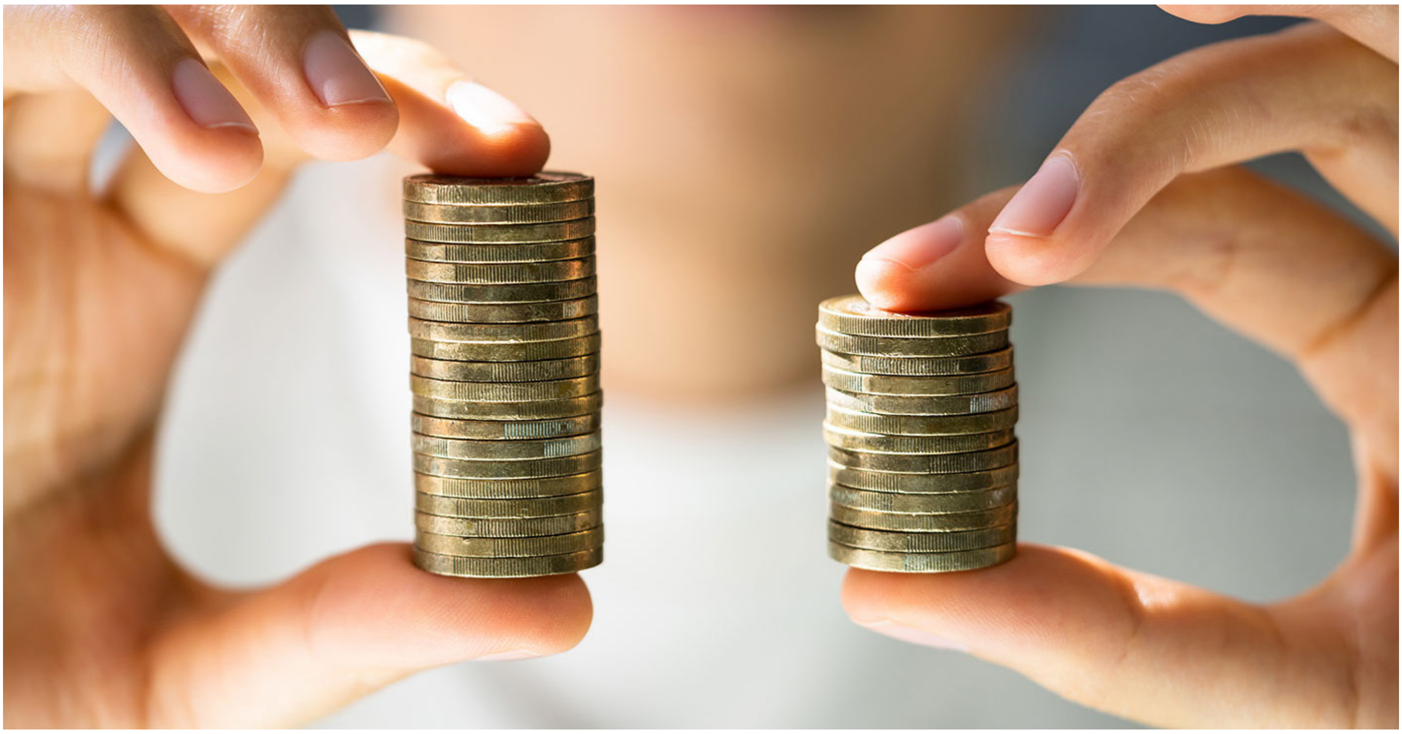
Differences in pay

Although differences in pay terms and conditions are permitted, this must have nothing to do with gender identity. For example, someone in a similar role could be paid more if they are better qualified or are employed in a location where recruitment is difficult.

One way for employers to avoid equal pay disputes is to be transparent in regard to pay and grading systems. Job descriptions should be up-to-date and accurate.

The Advisory, Conciliation and Arbitration Service (Acas) has published guidance for employers on equal pay can be found from the link below:

https://www.acas.org.uk/equal-pay/employer-responsibilities



Moving to Scotland – the cost in tax

There are many benefits to moving to Scotland for work or retirement, especially the stunning scenery. However, anyone contemplating a move should consider the tax cost of relocating from elsewhere in the UK.

The Scottish Parliament has set income tax rates and bands since April 2017, with the result that most Scottish taxpayers have generally faced a higher tax burden than other UK taxpayers. This cost is set to get even wider from April 2024.

Tax rates

The main difference between Scottish tax rates and those applicable to the rest of the UK is going to be Scotland's new advanced rate of 45% which, from April 2024, will apply on income between £75,000 and £125,140. This is 5% higher than is payable on equivalent income in other parts of the UK.

Given that the personal allowance is tapered away where income is between £100,000 and £125,140, this will mean a marginal rate of 67.5% on this band of income: it is 60% in other parts of the UK. Once income hits £125,140, the Scottish top rate is 48% compared to the rest of the UK's 45% additional rate.

Comparison

The Scottish tax system generally hits harder at the higher end of the pay scale. Someone moving to Scotland after April with an income of £40,000 will see their annual tax bill go up by just over £110. However, it is nearly £3,350 more with an income of £100,000, and almost £6,000 where income is £150,000.

At the lower end of the scale, a pensioner moving to Scotland with an income of, say, £25,000, will actually see a modest reduction in their tax liability.

Scottish taxpayers

Having one home in Scotland and living there will make you a Scottish taxpayer, but also if:

- You have two or more homes – whether owned, rented or lived in for free – and the main home is in Scotland; or
- You spend more time in Scotland compared to the rest of the UK.

A person's main home is usually where the majority of time is spent, although this is not always the case.

The government has published a guide to income tax in Scotland which can be found from the link below:

https://www.gov.uk/scottish-income-tax

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