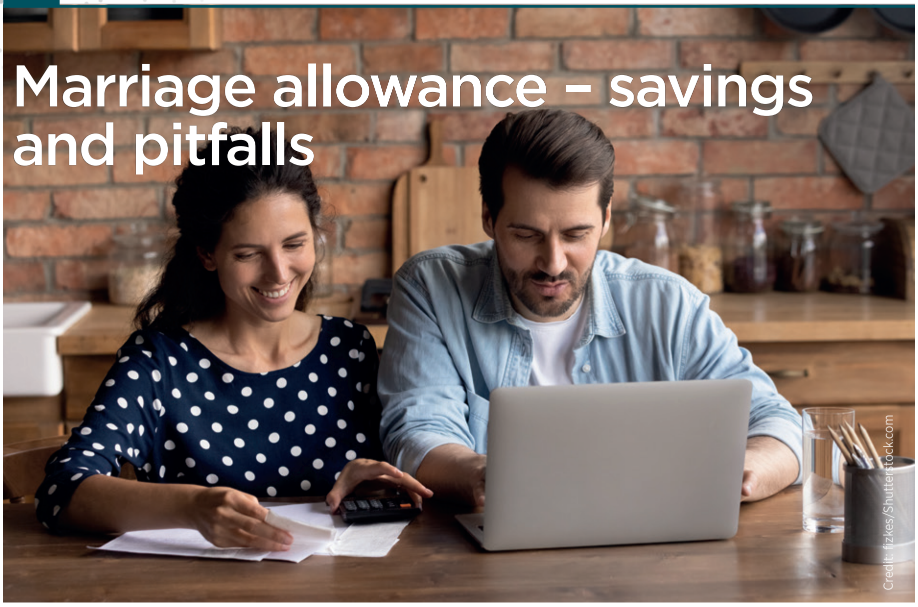
eNews
JAN/FEB 2024

Forrester Boyd
CHARTERED ACCOUNTANTS

TAX

Marriage allowance – savings and pitfalls



Credit: fizkes/Shutterstock.com

Married couples and those in a civil partnership are being urged by HMRC to check whether they can benefit from the marriage allowance. It takes just 30 seconds to see if you are eligible for an annual tax saving of up to £252.

The marriage allowance is often ignored or misunderstood, but HMRC's online marriage allowance calculator will instantly work out any tax saving. All that's needed is gross income – from all sources – for you and your partner.

> *It is the lower-income spouse or civil partner who applies. Once made, the claim remains in force for future tax years unless subsequently cancelled.*

Eligibility and claiming

You cannot claim if you're living together but are not married or in a civil partnership.

- One spouse or civil partner needs to have some (or all) of their personal allowance unused, which generally means an income of less than £12,570.
- The other spouse or civil partner must only be paying tax at the basic rate, so normally income of between £12,571 and £50,270.

In Scotland the basic rate definition includes those paying the 21% intermediate rate.

The easiest way to claim is online, although self-assessment taxpayers can apply when submitting their tax return. It is the lower-income spouse or civil partner who applies. Once made, the claim remains in force for future tax years unless subsequently cancelled. It is possible to backdate claims for four years, so a claim made by 5 April 2024 can include 2019/20.

New pitfall for pensioners

Next tax year the new State pension will increase to £11,502. Pensioners who have transferred 10% of their personal allowance will find from this April there will be insufficient allowance remaining to cover the State pension income, which means for 2024/25 they will face a small tax bill.

To avoid the hassle of making the tax payment, the marriage allowance claim could be cancelled. However, this could waste just over £1,000 of personal allowance. Contact us if you think you may be affected.

BUSINESS

Small company scrutiny increases

Small companies and micro-entities will have to file a profit and loss account with Companies House under the new Economic Crime and Corporate Transparency Act (ECCTA).

Small companies will also have to file a director's report and the option to file abridged accounts will be removed. No commencement date has been set and the form and content of the profit and loss account are yet to be set out in regulations. Companies House has promised to give fair notice of the changed requirements.

The aim of the change, and other measures in the ECCTA, is to achieve a more reliable and accurate companies register and greater transparency, with a view in particular of preventing fraud and money laundering. To help small companies concerned about sensitive trading information becoming publicly available, especially to competitors, the Act includes provisions allowing the Registrar to make their profit and loss accounts unavailable for public inspection.

Also in the ECCTA, but coming into force later, is the introduction of identity verification for new and existing company directors, people with significant control and those delivering documents to the registrar.

Other measures, such as greater investigation powers for Companies House, better cross-checking of data with other bodies and more stringent checks on company names, will start sooner. Not in the ECCTA but planned are mandatory digital filing and full tagging of financial information in iXBLR format.

Credit: Deemerwha studio/Shutterstock.com

Corporate tax reliefs extended

Full expensing, which was due to end on 31 March 2026, will be permanent, the Chancellor announced in his 2023 Autumn Statement.

Full expensing allows companies to write off against tax the full cost of investments in qualifying plant and machinery in the year of purchase.

- To qualify for the 100% allowance the expenditure must be on new, unused 'main rate' plant or machinery. Cars and items bought to lease out do not qualify.
- Main rate plant and machinery includes computers, office equipment, vehicles other than cars, industrial, factory and construction equipment and some fixtures, such as kitchen and bathroom fittings in non-residential property.
- You can claim a 50% allowance on special rate assets. These include items with a useful life of at least 25 years and items considered integral to a building such as lifts, and heating, air conditioning and electrical systems.

Credit: 3rdtimeluckystudio/Shutterstock.com

R&D reliefs

Companies carrying out research and development (R&D) will see a number of changes in their tax relief.

- The current two schemes – the SME relief and the Research and Development Expenditure Credit – will be merged, so that all companies will be able to claim for their qualifying R&D costs by means of an above-the-line tax credit.
- The rate of tax credit will be 20%.
- New rules will set out how relief is given where R&D work is contracted out.
- The SME rules restricting relief where part of the project has been subsidised by another person have been removed.

Smaller businesses benefit most

Very small businesses will feel the impact of the national insurance (NIC) changes in the Autumn Statement most. The abolition of class 2 contributions and reduction in the class 4 NIC rate to 8% has reduced the tax advantage of operating as a limited company and drawing dividends over the simplicity of being a sole trader. However there are many other benefits and drawbacks to each type of business entity to take into account.

Tax rules change frequently. Perhaps the best advice is that the decision whether to incorporate should not primarily be tax-driven.

TAX

Living with fiscal drag — tax impact on higher earners

A wide range of tax measures featured in November's Autumn Statement, but they did nothing to reduce fiscal drag. Higher earners have lost reliefs and allowances at certain income levels and are left unduly penalised.

Credit: JamesBot/Shutterstock.com

Income exceeding £50,000

The High Income Child Benefit Charge starts to claw back child benefit when income exceeds £50,000, with this threshold not changing since its introduction.

For example, Zoe, who claims child benefit for four children, currently earns £50,000, but will receive a £5,000 pay increase for 2024/25. Tax and NICs on the pay increase feel harsh enough at £2,068, with the frozen basic rate tax threshold meaning 40% tax is paid on most of the increase. However, Zoe will also lose £1,987 in child benefit.

Income exceeding £100,000

It is generally understood that a marginal income tax rate of 60% kicks in on income between £100,000 and £125,140 due to the tapering of the personal allowance. The £100,000 income limit is unchanged since withdrawal was introduced in 2010. However, many may not be aware that government-funded childcare entitlement in England ceases to be available at the same £100,000 threshold.

For example, Daniel currently earns £100,000 and claims free childcare worth £12,800 for his two three-year old children. He has been offered new employment at a salary of £120,000. Tax and NICs on the £20,000 additional earnings will be £12,400, leaving £7,600. This is much less than the value of the lost childcare, so Daniel might be advised to reconsider the move until his children are at school.

Higher earners who have been hit by fiscal drag can avoid high marginal tax rates by paying more into their pensions. Both Zoe and Daniel could remove all of the negative impacts from receiving their extra income by making gross pension contributions of £5,000 and £20,000 respectively.

Contact us to discuss your options.

BUSINESS

Business rates relief update

The small business rates multiplier, which applies to properties in England with a rateable value (RV) of less than £51,000, has been frozen at 49.9p for the fourth consecutive year. The standard multiplier will increase from 51.2p to 54.6p from April 2024.

The government has also extended the 75% rates relief for retail, hospitality and leisure (RHL) businesses in England. This is available for business premises used mainly as a shop, restaurant, café, bar or pub, cinema or music venue, or a hospitality or leisure business such as a gym, spa or hotel. Relief in each year is capped at £110,000 per business.

Scottish developments

In Scotland the basic rate poundage for properties with an RV below £51,000, will remain frozen at 49.8p. However, the intermediate and higher rates will increase in line with the September consumer prices index. Relief under the RHL scheme will only be available for properties on the Scottish Islands. RHL relief in Wales will be reduced to 40% in 2024/25.