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CHARTERED ACCOUNTANTS

NEWS UPDATE - 11 APRIL 2023

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The Budget surprise: changes to the pension tax rules

New measures affecting pension allowances announced in the March Budget could mean your retirement planning strategy needs to be reviewed.

If Jeremy Hunt did produce a 'rabbit-out-the-hat' in his Spring Budget, it was the announcement of the effective abolition of the pensions lifetime allowance (LTA) from 2023/24. Since 2006, the LTA has been a cornerstone of the pension tax rules, effectively setting a ceiling on the tax efficient value of all your pension benefits.

In its pre-Budget guise, for most people the LTA was £1,073,100, a figure that was due to be frozen until April 2026. That may sound more than enough, but a 65-year-old non-smoker using that sum for an inflation-proofed annuity would only generate an income of about £45,000 a year (before tax).

In his speech, Mr Hunt made clear that one of the main aims of the abolition was to discourage doctors from retiring early to avoid a pension tax charge. However, the beneficiaries of the change will stretch far beyond the medical profession. The LTA was £1.8 million in 2011/12, but since then has been frequently cut or frozen.

Consequently, an increasing number of higher earners have reduced or stopped pension contributions for fear that they too would face a tax charge (at up to 55%) when they drew their benefits.

Additional pension measures

There were three other pension measures in the Budget:

- The annual allowance, which sets a limit on the tax-efficient total contributions in a tax year, was increased to £60,000, but remains subject to taper rules for the highest earners.
- The money purchase annual allowance, which applies if you have drawn pension income flexibly, was also raised, from a constraining £4,000 to a less restrictive £10,000.
- A new total cash limit of £268,275 will apply on the tax-free pension commencement lump sum, unless they are covered by some form of LTA protection. The strangely specific figure is based on the effective 2022/23 limit – 25% of the then LTA of £1,073,100.

Mr Hunt's reforms could offer an opportunity to boost your retirement fund, particularly if you are one of those people forced to halt pension contributions some years ago. In those circumstances, you may be able to contribute up to £180,000 in 2023/24. However, before taking any action, advice is essential – not all the pension tax traps have disappeared.

Energy support boost for home-based businesses and employees

The energy price guarantee of £2,500 was extended in the March Budget for a further three months, which is welcome news for employees and any small business owners who work out of residential accommodation.

The extension of the energy price guarantee runs from 1 April to 30 June and should bridge the gap to the lower prices predicted for the summer.

The three months of additional support is somewhat less generous than that being given to business customers, who will benefit until 31 March 2024.

Price guarantee

The guarantee is a temporary government subsidy that limits the annual energy costs for a typical household. The scheme covers households in England, Scotland and Wales.

- An important point is that the price guarantee is based on a typical household but can be more or less depending on energy usage.
- The price guarantee was set to increase to £3,000 from 1 April, but this increase has now been postponed until 1 July.
- Household energy prices are currently set at the lower of the price guarantee and a price cap. The price cap is set by Ofgem, the energy regulator, and is forecast to be as low as £2,000 for the second half of 2023. So this figure would then apply, rather than the higher £3,000 price guarantee.

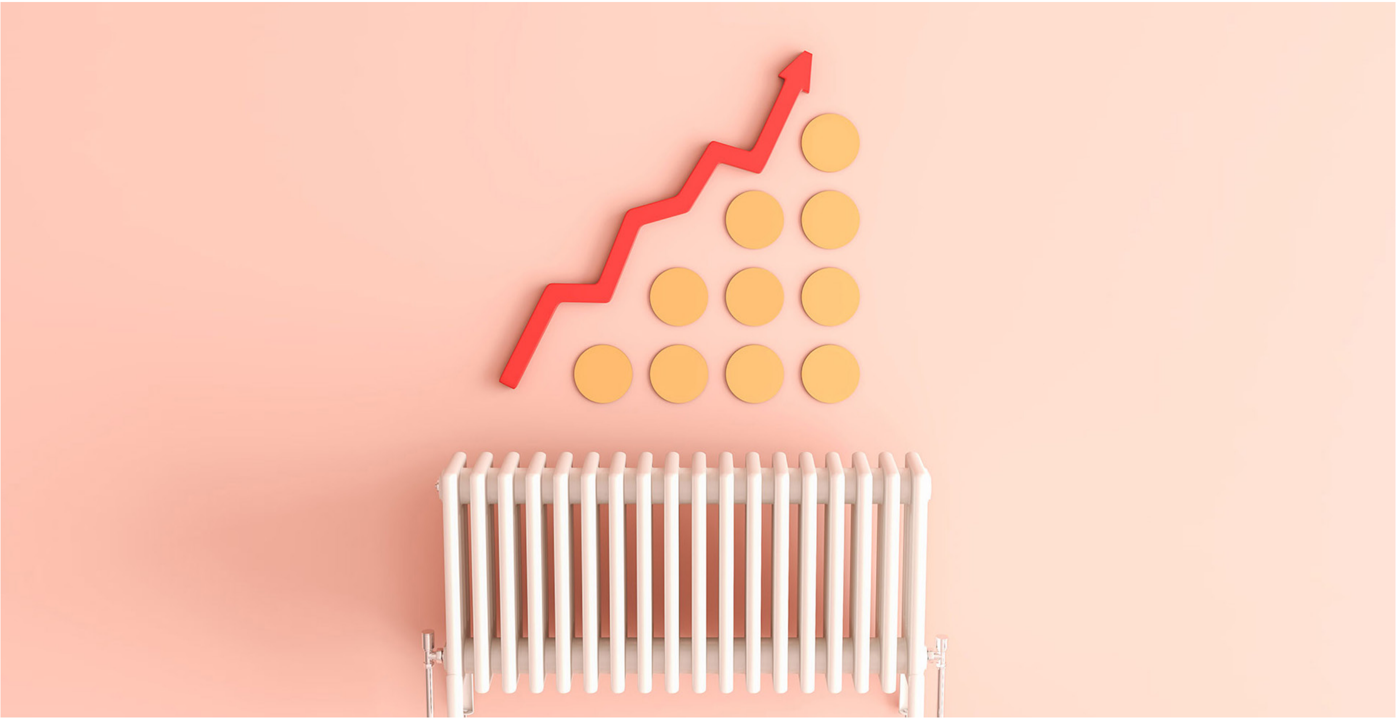
Despite the continuance of the price guarantee, many households will still see higher energy bills from April onwards. This is because the £400 government support scheme came to an end in March, which was given as a monthly credit of £66 or £67 against energy bills.

Fixed deals

Those on fixed energy deals should keep a watchful eye on energy prices. A fixed price tariff could well be higher than the price cap from July onwards, so it might then be beneficial – if permitted – to move to an energy supplier's standard tariff.

Details of the energy price guarantee can be found from the link below:

https://www.gov.uk/government/publications/energy-bills-support/energy-bills-support-factsheet-8-september-2022



Demise of paper tax returns

More than 12 million taxpayers file self-assessment tax returns, but less than 3% do so using a paper return. Given this low demand, HMRC is reviewing the current paper filing service.

HMRC stopped sending out paper tax returns three years ago, with any taxpayer wishing to file by paper required to download a blank version of the form. That move brought a further 3% of taxpayers to the online service. HMRC has now announced that self-assessment tax returns will not be available to download for the 2022/23 tax year.

Alternatives

Subject to a limited exception, anyone who still wants to file offline will have to obtain a tax return form by phoning HMRC.

- The limited exception is for visually impaired taxpayers and those aged 70 or over who have not previously submitted online. HMRC will continue sending them paper returns to complete.
- As an alternative to contacting HMRC, a blank tax return can be printed using commercial software.

There are some taxpayers who, because of the complex tax calculations involved, simply cannot file online. This is the case even if commercial software is used, which means they will have to print their completed tax return and file it by post.

Online filing

HMRC has written to some 135,000 taxpayers who file on paper to encourage them to complete returns online in the future. In many cases, this may now be the most sensible option, and there is a wide range of commercial low-cost software available if anyone does not wish to use HMRC's offering.

Filing online has two distinct advantages:

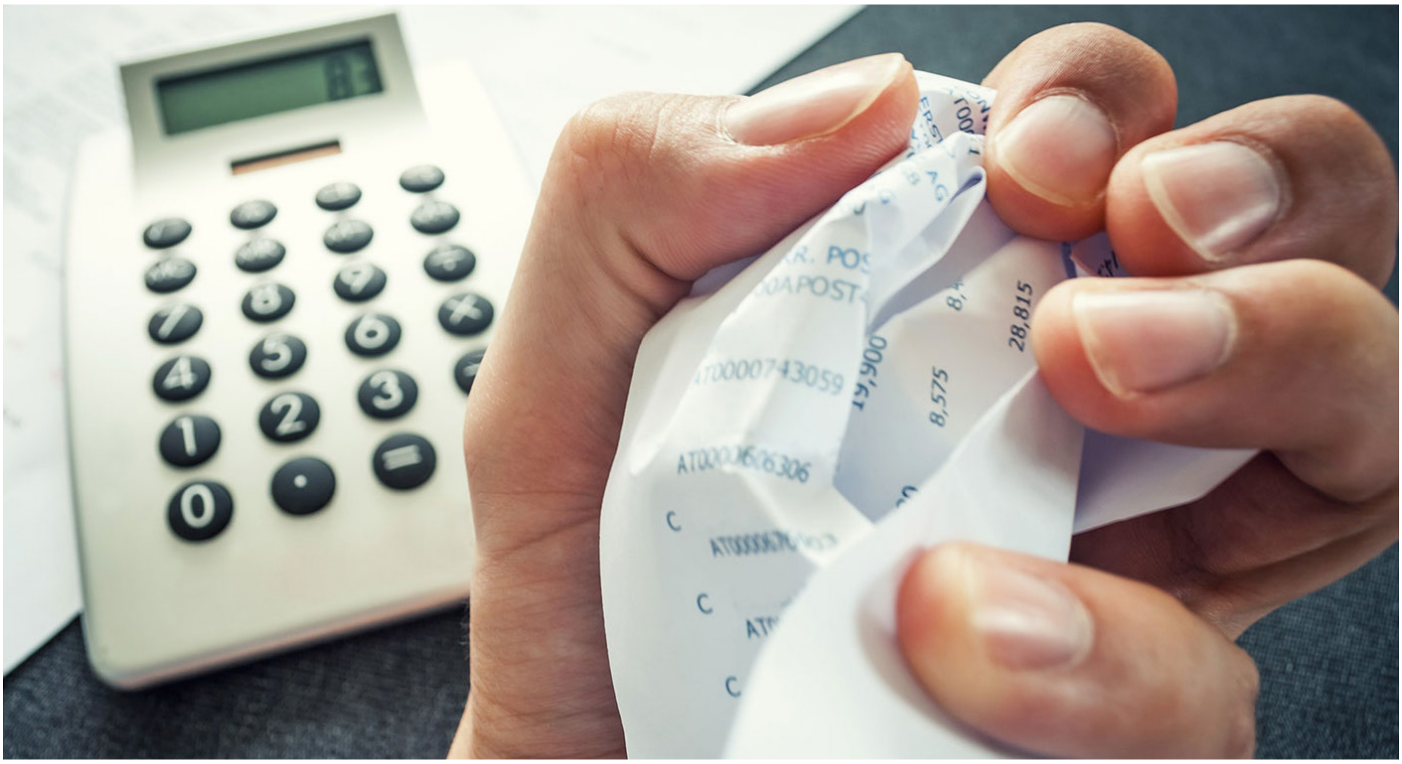
- Not having to use the postal system when a return might be lost; HMRC will sometimes deny having received a mailed return even when there is a record of delivery.
- An additional three months to file each year – the online filing deadline being 31 January following the tax year, rather than 31 October.

Capital gains tax (CGT)

Going somewhat in the opposite direction, HMRC has made a downloadable version of its CGT UK property return available on a four-month trial basis. The intention is that the downloadable form can be used by those taxpayers who cannot report and pay tax using the online service.

HMRC guidance on self-assessment tax returns can be found from the link below:

https://www.gov.uk/self-assessment-tax-returns



Childcare support extended to children over nine months

The government is extending the provision of 30 hours of free childcare for 38 weeks to now include all pre-school children over the age of nine months.

Phased introduction

The extended childcare provision will be of benefit to parents with newborns – or those planning a family – but parents with children currently aged one or two years old will not see the full benefit of the changes because of the phased introduction of the support:

FROM	FREE CHILDCARE EXTENDED TO	AMOUNT OF CHILDCARE
April 2024	Children aged two years	15 hours
September 2024	Children aged nine months to two years	15 hours
September 2025	Children aged nine months to two years	30 hours

Children can take up their childcare place in the term after they meet the age requirement (subject to having received a code to give to the childcare provider), with terms typically beginning on 1 January, 1 April and 1 September.

To be eligible, both parents must work at least 16 hours a week at the National Minimum/Living Wage, and neither can earn more than £100,000 a year.

Challenges and shortfalls

Government-funded childcare entitlement is currently only available for a total of 1,140 hours a year, which works out to 30 hours over 38 weeks, so the new rules may spur some adjustments by children providers.

- Providers may simply offer fewer hours a week to stretch the funded hours over the whole year; or
- They may provide 30 hours for the whole year with parents paying for the shortfall of unfunded hours.

In theory, the changes will help parents who want to go back to work but finding an available childcare space will likely continue to be problematic, even with the September 2023 child-to-staff ratio increase from four to five. Many nurseries are encountering financial difficulties, and the childcare extension will mean providers cannot make up shortfalls by charging more for younger children.

There are different schemes in Scotland, Wales and Northern Ireland.

Government guidance on help with paying for childcare can be found from the link below:

https://www.childcarechoices.gov.uk/

Cash basis reform: potential turnover threshold changes

With basis period reform now underway, HMRC is looking at further tax simplification for sole traders and partnerships by increasing the cash basis turnover threshold. The cash basis scheme removes complexities such as accruals and most capital allowances.

The cash basis can only be used currently if a business's annual turnover does not exceed £150,000, although the business can then remain in the scheme until turnover reaches £300,000.

Income threshold

HMRC is considering two alternatives to expand the availability of the cash basis:

- The turnover limit could be set at £1.35 million, with businesses not required to leave until turnover reaches £1.6 million. These are the same limits that apply for the VAT cash accounting scheme.
- The turnover threshold could be removed so that any business, regardless of size, can join.

HMRC is also looking at making the cash basis the default method of calculating trading income for eligible businesses, so the scheme would become 'opt out', rather than the current 'opt in'.

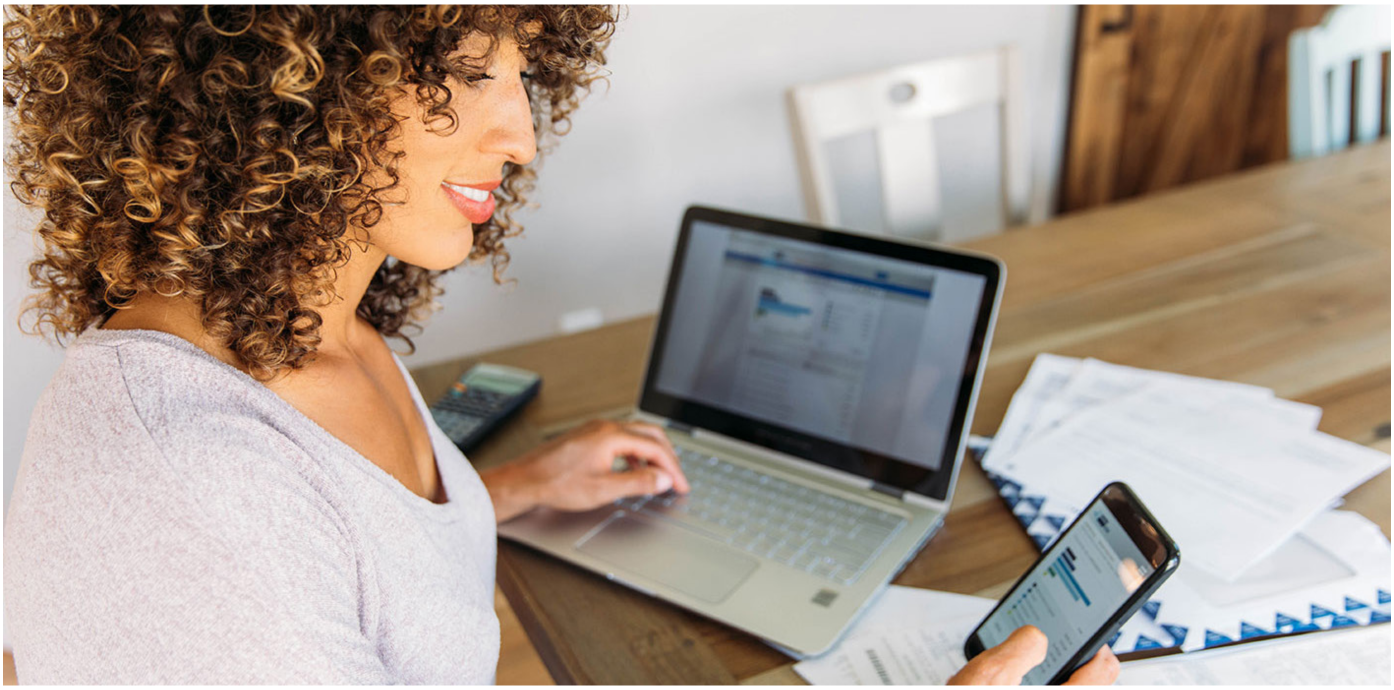
Other proposals

Two reasons why a business may currently choose not to use the cash basis are because of restrictions on relief for interest costs, and the use of losses. HMRC is looking at changes here, although nothing definite has been announced:

- Interest and bank charges are restricted to a maximum deduction of £500. This limit might be increased, possibly as high as £1,000. With the rise in interest rates, the £500 restriction means the cash basis is currently not beneficial for many businesses.
- If the cash basis is used, any losses can only be carried forward – they cannot be relieved against other income or carried back. A number of options are being considered, but it does look as if loss relief rules will be relaxed, just not to the extent that relief is available where normal accounting rules are used.

HMRC's guide to the cash basis can be found from the link below:

https://www.gov.uk/simpler-income-tax-cash-basis



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

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