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CHARTERED ACCOUNTANTS

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Company cars: not-so-free fuel

If your employer pays for the fuel in your company car, it may cost you more than you expected.

As the Autumn Statement was not a Budget, detailed publications that would normally emerge as the Chancellor sat down have taken time to appear. For example, the HMRC projections of how many more capital gains tax (CGT) payers there would be because of the much-reduced annual exemption (another 570,000 by 2024/25) did not appear until the Monday after the Autumn Statement, missing the weekend personal finance pages.

One even later arrival – three weeks after the Autumn Statement – was an HMRC bulletin on the fuel benefit charge for company cars in 2023/24. For some years the basis has been an increase in line with September annual CPI inflation (published in mid-October), so there was no explicit reason for HMRC's procrastination. The number that was eventually revealed was the current figure, increased by 10.1%, as had been expected.

Taxable value for 2023/24

That means for 2023/24 if you have 'free' fuel, its taxable value will be assessed by multiplying £27,800 by your car's percentage scale charge. For example, if you have a petrol-engine car with CO2 emissions of 130–134 g/km, your scale charge is 31% and £8,618 (£27,800 x 31%) will be added to your income for tax purposes. In terms of hard cash, that is an extra £3,447 going to the Exchequer if you are a 40% taxpayer.

At this point you are probably wondering how far £3,447 of petrol would take you. Assume a price of £1.60 a litre and 40 miles a gallon and the answer is about 19,000 miles. In 2019, before the pandemic disrupted travel, the average car covered 7,400 miles a year. If that figure still applies – and it is probably less because of increased working from home – then the 'free' fuel break-even point is more than 250% of typical use.

Not all benefits are so harshly taxed – electric cars can be an attractive option – but the large cost of 'free' fuel is a reminder that when it comes to anything financial, 'free' is a word to be treated with great caution.

Associated company rules changing 1 April 2023

Small company owners should by now be aware of the corporation tax changes taking effect from 1 April 2023, but with the associated company rules being introduced at the same time, don't be caught off guard.

From 1 April 2023, there will be two rates of corporation tax:

- A small profits rate of 19% where profits are below £50,000; and
- A main rate of 25% where profits exceed £250,000.

Where profits are between £50,000 and £250,000, marginal relief applies so that the rate of tax is gradually increased from 19% to 25%. The effective tax rate on this band of profits is 26.5% – slightly higher still if a company receives dividend income.

Impact of associated companies

The profit thresholds are divided between associated companies. For example, if two companies are associated, they will respectively only benefit from the 19% tax rate on profits up to £25,000. This means each company pays around £1,875 more in corporation tax each year than if the full £50,000 limit had been available.

- Overall, this may make little difference if both companies have profits in excess of £25,000 – the full £50,000 limit being utilised – but it will if one company has minimal profits.
- Should this be the case, business owners may wish to consider running just the one company.

Meaning of associated

The basic rule is that companies are associated if they are under common control – this means a shareholding of more than 50%. For example, two companies are associated if two people both have 30% shareholdings in each company.

- Companies only associated for part of an accounting period count as associated companies for the whole of that period.
- Overseas resident companies can be included.
- Dormant companies (not carrying on a trade or business) do not count as associated companies.

Determining whether or not a company is associated can get quite complex because shareholdings of associates can, in certain circumstances, be included.

The associated company rules almost certainly prevent the hiving off of profits to another company controlled by a spouse or civil partner in order to benefit from two £50,000 limits.

A detailed explanation of the associated company rules can be found from the link below.

https://www.icas.com/landing/tax/as-the-25-corporation-tax-main-rate-draws-near,-its-time-to-once-again-become-familiar-with-the-corporation-tax-associated-company-rules

Making Tax Digital delayed once more

With the self-employed and landlords facing a challenging economic environment, the government has again delayed the introduction of the Making Tax Digital (MTD) scheme for income tax self-assessment (ITSA) – this time by two years until April 2026.

Although the introduction of MTD ITSA prompted the basis period reform, no corresponding postponement for this has been announced. The tax year 2023/24 is therefore still the transitional year.

Income reporting threshold

Along with the two-year delay, the minimum income reporting threshold has also been raised.

- Rather than an income threshold of £10,000, MTD ITSA will now initially only be mandated – from April 2026 – for a self-employed individual or landlord who has income of more than £50,000.
- Those with income between £30,000 and £50,000 will join a year later from April 2027.
- The government will review the needs of smaller businesses – particularly those with income under the £30,000 threshold – before making further decisions.

Given the low level of awareness of the MTD reporting requirements, the entry point U-turn will be widely welcomed, especially by landlords for whom MTD will have few benefits. Previously, the introduction of MTD ITSA was going to impact on some four million taxpayers, but only 700,000 will now be involved from April 2026, with a further 900,000 included a year later.

Partnerships and companies

General partnerships (those with only individuals) were previously set to start reporting under MTD ITSA from April 2025.

- With the revised timetable, there is no set mandation date for general partnerships.
- Non-general partnerships (such as those with a corporate partner) and limited liability partnerships were previously excluded from the MTD timeline, and this remains the case.

A self-employed individual who wishes to avoid MTD reporting requirements can easily (at least initially) do so by converting to a partnership with the addition of a spouse, partner or other family member as a partner.

The government announcement makes no mention of MTD for corporation tax, so this is unlikely to be introduced any time soon. Information for those who wish to voluntarily sign up for MTD ITSA before 6 April 2026 can be found from the link below.

https://www.gov.uk/guidance/sign-up-your-business-for-making-tax-digital-for-income-tax

Tax implications for the bank of mum and dad

With property prices expected to fall during 2023, parents may be thinking about getting their children onto the property ladder. However, although help with a deposit does not raise that many tax issues, joint ownership can have expensive tax consequences.

Nearly half of first-time property buyers aged under 35 have received help from the bank of mum and dad. However the following implications should be considered alongside generous intentions.

Help with a deposit

- **Outright gift:** This will be treated as a gift for inheritance tax (IHT) purposes. There is no immediate tax cost, but it could mean more IHT is payable if the parent subsequently dies within seven years.
- **Loan:** An interest-free loan arrangement avoids any IHT implications, but it could impact on mortgage affordability calculations.

Stamp duty

Joint ownership is likely to mean upfront stamp duty consequences.

- In England and Northern Ireland, first-time buyers can benefit from a nil-rate threshold of £425,000, saving a potential £8,750 compared to a normal purchaser. However, with joint ownership, all purchasers need to be first-time buyers to qualify for relief; parents are unlikely to qualify.
- There is a similar, although much lower, relief for Scottish first-time buyers.
- Furthermore, the inclusion of parents will probably mean that the stamp duty surcharge on second homes is payable. For property in England and Northern Ireland, this is 3%, with higher surcharges for Scottish and Welsh property.

The surcharge can mean an extra cost of £9,480 for a property purchase in England at the latest published average price (October 2022) of £316,000.

Capital gains tax (CGT)

CGT exemption on property disposal only applies if a property has been the seller's main residence, and this again is unlikely to be the case for a joint owning parent. The tax charge will probably be mainly, or wholly, at 28%. The future reduction of the CGT annual exemption to just £3,000 will not help.

A useful guide on helping a child buy their first home can be found from the link below:

https://hoa.org.uk/advice/guides-for-homeowners/bank-mum-dad-help-children-buy-home/

High-Income Child Benefit Charge: penalties and defaults

New data reveals that penalties issued by HMRC for not paying the High-Income Child Benefit Charge (HICBC), or paying the incorrect amount, have fallen significantly. However, the number of individuals still in default is estimated at more than 60,000.

If the HICBC is payable, an individual is required to submit a self-assessment tax return each year even if all of their income is taxed through PAYE.

- Such individuals are unlikely to receive professional advice, so there is a lack of awareness.
- Salary increases can lead to someone becoming subject to the charge, especially as the income limit has remained at £50,000 since the charge was introduced.

Complications

The HICBC can apply if either partner has income over £50,000. The definition of a partnership for this purpose includes people living together.

The charge falls on the partner with the higher income, and in many cases one partner will not know what the other partner's income is, especially if they have separated.

Although child benefit is normally paid to the person the child is living with, it is possible for the other partner to make the claim if they are contributing at least as much as the amount of the child benefit towards the child's upkeep.

Moving in or out

Where a partner (B) moves in or out (with partner A) the position is:

- **Partner B moves in:** Partner A could become liable to the HICBC, but only from when partner B moved in. Partner B will take over partner A's HICBC if they have the higher income.
- **Partner B moves out:** If partner A has the higher income, they will only be liable for the HICBC up to the date partner B moves out.

Self-assessment

Given the 31 January deadline for filing the 2021/22 tax return, individuals should urgently review their situation to ensure any HICBC is correctly declared. This is also the deadline for amending the 2020/21 return without the need to write to HMRC.

Failure to pay the HICBC, or paying the incorrect amount, will mean backdated assessments, often for considerable sums, plus, if no reasonable excuse, late notification penalties.

HMRC's basic guide to the HICBC can be found from the link below:

https://www.gov.uk/child-benefit-tax-charge

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

Disclaimer: This information provides an overview of the issues considered and is for general information only. It is not intended to provide advice and should not be relied upon in any specific transaction.