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CHARTERED ACCOUNTANTS

NEWS UPDATE - 12 May 2025

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More detail on business and agricultural IHT reliefs threshold cut

HMRC's recently closed consultation offers further clarity on how the £1 million inheritance tax (IHT) business and agricultural relief allowance will work from 6 April 2026.

The total value of business and agricultural property eligible for 100% IHT relief will be limited to £1 million. Any qualifying assets above this limit will receive relief at a reduced rate of 50%.

For an entrepreneur with a business valued at, for example, £5 million, the new relief threshold could result in an additional IHT liability of £800,000.

The relief

The £1 million allowance will be used up by any lifetime transfers of business and agricultural property made within seven years of death. So:

- The allowance will be renewed every seven years on a rolling basis in a similar way to the nil rate band of £325,000.
- Business and agricultural property that only qualifies for 50% relief, such as Alternative Investment Market shares, will not use up the £1 million allowance.

Although spouses and civil partners will each qualify for their own £1 million allowance, any unused allowance will not be transferable in the same way as the nil rate band.

Planning

Currently, with unrestricted 100% business and agricultural relief, IHT planning primarily concerns ensuring relief is available.

- In future, there will be more incentives to make lifetime gifts where the £1 million allowance is insufficient to cover the value of business and agricultural property. This, of course, has implications for capital gains tax that must be considered.
- It may be worthwhile to put a fairly substantial gift into trust. For example, the lifetime IHT payable on a £2 million gift of agricultural property into trust would be £35,000

If making a lifetime transfer of business or agricultural property to a spouse or civil partner, you must be aware that the property should be held for two years before relief will be available.

Annex A of HMRC's consultation has six case studies which illustrate how the £1 million allowance will be applied. The consultation can be found from the link below:

https://www.gov.uk/government/consultations/reforms-to-inheritance-tax-reliefs-consultation-on-property-settled-into-trust

Statutory Sick Pay changes

Proposed changes to Statutory Sick Pay (SSP) will introduce entitlement from the first day of sickness, with the lower earnings threshold removed.

The changes are part of the Employment Rights Bill, currently progressing through parliament. While the new rules are not expected to take effect until autumn 2025, at the earliest, employers should start revising their policies to be ready.

Unlike other statutory payments, SPP is not recoverable from HMRC. Therefore, the cost is fully borne by employers.

Day one right

Employees are not currently entitled to SSP until the fourth day of absence. This three-day waiting period is to be removed, so an employee will be entitled to receive SSP from day one of sickness. This will mean:

- Many employees will no longer have to choose between going to work when unwell or not getting paid.
- However, employers could be impacted by increased absences and a loss of productivity.
- Employers will also face an extra cost. Under the existing rules, an employee on a week's sick leave receives SSP of £47.50. The amount payable under the new rules will be £118.75 (the weekly amount of SSP for 2025/26).

Employers could see a rise in sick leave abuse, which will require careful handling. Approaches to reducing abuse include asking employees to check in regularly when off sick, and holding return-to-work interviews.

Lower earning threshold

To qualify for SSP, there is currently an earnings threshold of £125 per week. When this threshold is removed, employees off sick will receive the lower rate of SSP and 80% of their average weekly earnings. Although a small number of employees will receive less SSP per day as a result of this change (those earning between £125 and £148), they will benefit from more qualifying days.

The Government's factsheet on the removal of the lower earnings threshold can be found from the link below:

https://assets.publishing.service.gov.uk/media/6809098f-0324470d6a394f33/statutory-sick-pay-lower-earnings-limit-removal-structure.pdf

Mandatory payrolling of benefits

The deadline requiring employers to report most taxable benefits through payroll software has been postponed by one year to 6 April 2027. As a result, employers can continue using form P11D to report benefits for a further year.

Once mandatory reporting is introduced, all benefits, except for employer-provided accommodation and cheap/interest-free loans, will need to be payrolled. The two exceptions can still be reported using form P11D, although the longer-term intention is that they will also come under payroll provision.

For 2026/27

Payrolling remains voluntary, and employers must register before 6 April 2026 to payroll employees' benefits for this year. As is currently the case, it will not be possible to payroll accommodation or cheap/interest-free loans.

From 2027/28 onwards

Since payrolling will be mandatory, registration will not be necessary. Therefore:

- Registration will be required if an employer wants to voluntarily payroll accommodation or cheap/interest-free loans.
- The P11D process will remain in place for those employers who provide, but do not payroll, accommodation and cheap/interest-free loans.

An end-of-year process will be available to account for the values of any taxable benefits that cannot accurately be determined during the tax year.

HMRC will automatically remove benefits from employees' tax codes in readiness for payrolling from 6 April 2027.

Cashflow impact

The move to mandatory payrolling could see employees facing tax deducted for multiple tax years at once. With payrolling, tax is deducted in real-time, but employees could have tax collected through their tax code for benefits received in earlier years.

Should an employee face financial difficulty due to multiple tax deductions, they can request that HMRC spread the underpayment over more than one tax year.

HMRC has published a technical note providing a detailed overview of the changes from 6 April 2027, available from the link below:

https://www.gov.uk/government/publications/reporting-and-paying-income-tax-and-class-1a-national-insurance-contributions-on-benefits-in-kind-in-real-time-an-update/

Companies House identity verification

Identity verification is being introduced for directors, people with significant control (PSC) and those who file at Companies House. Verification is currently voluntary, but will be made mandatory from this autumn.

From autumn 2025, mandatory identity verification will be required:

- When you file your company's confirmation statement;
- If you are appointed as a director; or
- If you become a PSC.

In the future, it will be a legal requirement for all directors and PSCs to verify their identity, and there may be financial penalties for not doing so. It is now possible for directors and PSCs to voluntarily verify their identity in advance of mandatory verification.

The online verification process should only take 10 to 15 minutes, so it is a good idea to do this ahead of the deadline in case of any problems that may arise.

Verification

There are three ways to verify your identity:

Online: This route uses GOV.UK One Login to verify your identity using a photo ID (such as a passport or driving licence) and is free of charge. Depending on your answers to certain questions, you will be guided to verify using the GOV.UK mobile phone app or in your web browser.

In person at a Post Office: This is again free of charge and can be done at any Post Office that offers in-branch verification. However, photo ID is still required, and you will need to enter details online to start.

Use an Authorised Corporate Service Provider: Accountants and lawyers may offer this service, but a fee will most likely be charged.

Once you have successfully verified, you'll get a unique identifier known as a Companies House personal code. This code will be required when, for example, filing your company's confirmation statement.

Verify your identity at Companies House, if you haven't already, by following the link below:

https://www.gov.uk/guidance/verify-your-identity-for-companies-house

HMRC suffers from too much interest

Taxpayers relying on HMRC to sort out the tax due on interest are given a warning.

As had often been noted over the last few years, one of the strategies adopted by successive governments to increase tax revenue is the freezing of tax allowances and bands. As inflation increases income, the net result is generally to:

- bring more people into the tax system; and
- make existing taxpayers pay more tax, both in absolute terms and as a proportion of their income.

One frozen allowance causing growing problems is the personal savings allowance (PSA), unchanged since its introduction in 2016:

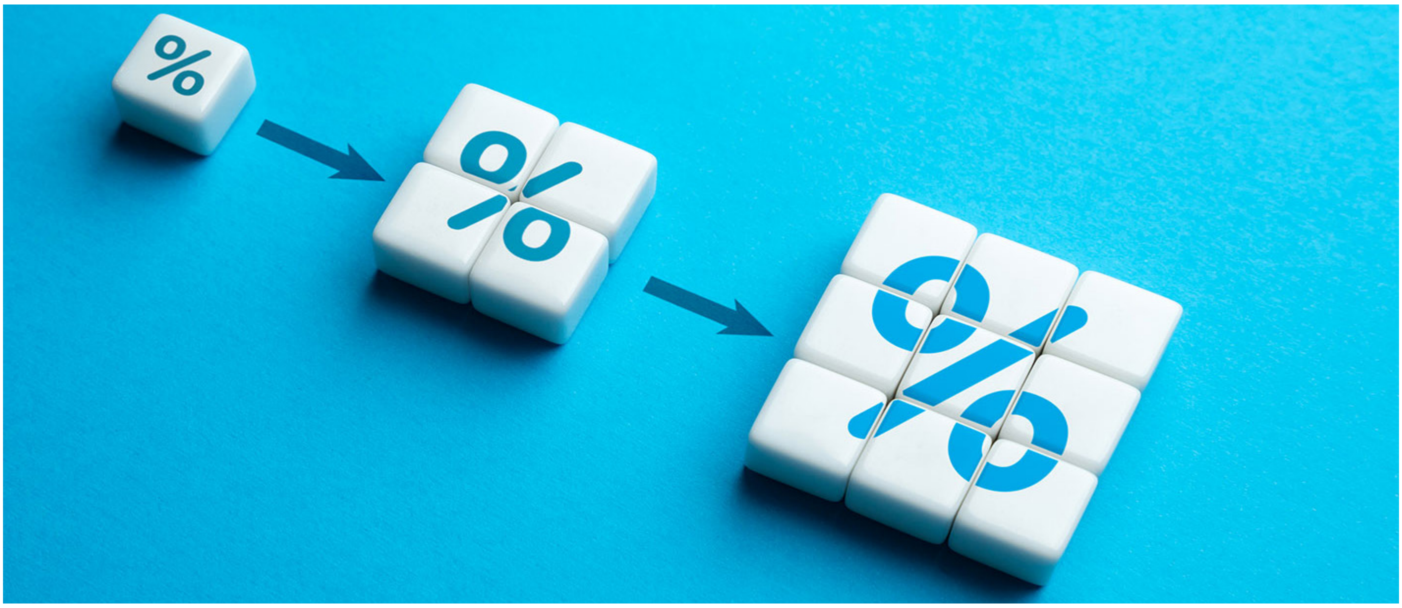
- For basic rate taxpayers, the PSA is £1,000 per tax year, which means they have no tax to pay on their first £1,000 of interest income.
- For higher rate taxpayers, their tax-free interest under the PSA is £500.
- Additional rate taxpayers do not qualify for a PSA.

Until 2022, a sub-1% Bank of England Bank Rate meant that the PSA covered interest on a substantial five-figure deposit, meaning most savers had no tax to pay on their interest earnings. However, the effects of rising inflation dramatically changed the picture with higher interest rates. In the 2023/24 tax year, Bank Rate averaged about 5%. Consequently, savers earned much more interest to set against their frozen PSA.

HMRC is now struggling to collect all the income tax due on interest for 2023/24. To prevent a flood of tax returns, HMRC has previously told taxpayers that it would use the personal interest information sent directly by banks and building societies to calculate tax due on interest, and then issue a Simple Assessment or adjust their tax code. However, the volume of computations needed for 2023/24 was so great that HMRC did not complete the task of issuing assessments until March 2025. This was over a month after the normal online filing deadline for 2023/24 tax returns.

To make matters worse, HMRC was unable to match about one in five of the 130 million account reports it received to taxpayer records. HMRC is now reminding savers that the taxpayer is ultimately responsible for paying tax on interest received and that they should do so urgently if they have not heard from HMRC.

A similar problem seems certain to occur for the tax year just ended, but do not expect Rachel Reeves to increase the PSA in response. The current focus on potentially placing restrictions on cash ISAs could end up making things worse.



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