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CHARTERED ACCOUNTANTS

NEWS UPDATE - 13 May 2024

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Daily penalties come in for late self assessment returns

Around 1.1 million taxpayers who failed to submit the self assessment tax return for 2022/23 on 31 January 2024 now face a £10 daily penalty charge by HMRC.

HMRC has imposed a daily penalty of £10, effective from 1 May 2024, on late submissions. The penalty can run for 90 days, reaching a potential fine of £900 and is charged even if nothing is owed to HMRC, or a tax refund is due. Separate penalties, along with interest at the high rate of 7.75%, are charged for paying tax liabilities late.

What to do?

- Submit an online tax return as soon as possible. This will not avoid penalties up to the date of submission but will prevent further fines accumulating.
- If there is information missing for 2022/23, submit a provisional return with estimated figures. The return should note which figures are provisional, why accurate figures are not available, and when accurate figures will be provided.
- HMRC will cancel penalties already charged if they have asked for a 2022/23 tax return in error. For example, if you have ceased self-employment or no longer rent out property.

HMRC can cancel a tax return within two years of the submission deadline, which means there is time to have a return for 2022/23 cancelled by 5 April 2025.

Reasonable excuse

You can appeal against the daily penalty if you can demonstrate a reasonable excuse, such as prolonged ill-health or bereavement. However, work pressure, lack of information or missing reminders from HMRC are unlikely to be accepted.

The challenge with appealing against the daily penalty is providing HMRC with a credible excuse running from the original filing date (31 January) through to the issue of penalties (from 1 May).

Have you overlooked a changed tax status?

With allowances frozen or cut, you may have underpaid tax for 2023/24.

Your tax position may have changed for the last year without you really noticing. Consider the following:

TAX YEAR	2021/22	2023/24	2024/25
Personal allowance	£12,570	£12,570	£12,570
Dividend allowance	£2,000	£1,000	£500
Personal savings allowance	£1,000 max*	£1,000 max*	£1,000 max*
Bank of England base rate	Close to 0%	Average 4.5%	5.25% May 2024
New State pension	£9,339	£10,600	£11,502

**£1,000 for basic and nil rate taxpayers, £500 for higher rate taxpayers, and nil for additional rate taxpayers.*

Rising income – for example in the form of pensions, dividends or interest – and frozen or reduced allowances are a recipe for creating more taxpayers and higher tax bills. This is becoming increasingly clear as some people are discovering that they became taxpayers in 2023/24 despite their only income being a State pension (new or old, supplemented by the additional State pension). For those affected, HMRC will issue a simple assessment tax bill as the Department of Work & Pensions provides details of payments made.

If you do not already complete a self assessment tax return, it is your duty to inform HMRC of your income if a new tax liability arises because:

- Your interest has exceeded your personal savings allowance, and/or:
- Dividends breached the dividend allowance.

You can inform HMRC of a change of circumstances through your online personal tax account, if you have one, or by trying to call them (good luck with that!). In most circumstances, you will not have to complete a full self assessment return: you can check whether you have to file at the government website (https://www.gov.uk/check-if-you-need-tax-return). If you do not tell HMRC about your interest receipts, be aware that building societies and banks (including those located offshore) automatically report information to HMRC.

A similar situation applies to greater payments for capital gains tax where the annual exempt amount has fallen from £12,300 in 2021/12 to £6,000 in 2023/24, and just £3,000 in the current tax year.

Careful planning may help you to sidestep HMRC's growing slice of your income and gains, but, as ever, expert advice is needed to avoid the traps

Landlord update on Renters Reform Bill

The Renters Reform Bill has finally completed its passage through the House of Commons with important concessions made in favour of landlords. Landlords with leasehold property may also benefit from an annual cap of £250 on ground rents.

Concessions: what's next?

The Bill has taken nearly a year to clear its first hurdle. Next, it must now proceed through the House of Lords. There is a good chance it will become law, although any subsequent changes are likely to benefit tenants rather than landlords if Labour wins the next election.

The main concessions from the original Bill are:

- The abolition of Section 21 notices will be delayed for existing tenancies (those which commenced before the Bill comes into force) until the county court system for possession orders is deemed to be functioning properly. Such reforms might take years to complete. A section 21 notice can currently be used by landlords to take possession of a property without providing a reason.

- Despite fixed term tenancies being abolished, a tenant will now not be able to end a tenancy during the first six months. This is effectively the same as the existing system.

- The introduction of a tenant's right to keep a pet will also be linked to improvements in the county court system. In future, a landlord will have to accept a request to keep a pet unless there is a reasonable reason for not doing so. Landlords will, however, be able to require pet insurance.

Leasehold property

While plans to abolish leasehold properties has been scaled back, it looks like a compromise will see ground rents capped at £250 annually for the next 20 years. However, this decision has not yet been formally announced. This will be good news for any landlords who own leasehold flats or apartments which have an escalating ground rent.

The importance of a well-drafted will

The risk of relying on homemade wills was highlighted in a recent case where a will was held to be invalid. Even a well-written will must be kept up to date given the possibility of future inheritance tax (IHT) changes.

Invalid will

While there is usually the presumption that the testator will have had knowledge of a will, and will have approved it, a will might be considered as suspicious if:

- It is a homemade will;
- It is created by a beneficiary;
- It contains spelling mistakes;
- It represents a radical change from a previous will; or
- The relationship between the testator and beneficiary was not close.

In the case of Ingram and Whitfield v Abraham 2023, a homemade will would have seen Joanne Abraham's estate inherited by her brother – who drafted the will – rather than her children who were previously the beneficiaries. The homemade will, which also misspelt Joanne's name, was held to be invalid, therefore, her children inherited the estate.

Future IHT changes

Although IHT reliefs have remained largely unchanged since the introduction of the residence nil rate band in 2017, future changes cannot be ruled out – especially with an election on the horizon.

The Institute for Fiscal Studies has recommended that three IHT reliefs are cancelled:

1. **AIM shares:** these shares are exempt from IHT, with AIM portfolios – including AIM ISAs – often used to avoid IHT.
2. **Business and agricultural property relief:** although full abolishment might be politically difficult, relief could be capped.
3. **Pension pots:** funds in money purchase pension schemes can currently be passed on to beneficiaries free of IHT.

The lesson here is to review your will regularly, even if it is well-written, because your circumstances, wealth and IHT rules could change.

The Government's guide to making a will can be found from the link below:

https://www.gov.uk/make-will/writing-your-will

Electric vehicles can boost income with salary sacrifice

It may seem counter-intuitive, but taking a pay cut and opting for a salary sacrifice scheme with an electric car can boost take-home pay thanks to tax and national insurance contribution (NIC) savings.

Salary sacrifice

Despite the recent introduction of the Government's zero emission vehicle mandate, the number of electric car sales seems to have stalled recently.

Electric cars work well as part of a salary sacrifice scheme because the taxable benefit for employees is low. It is calculated as just 2% of the car's list price. This percentage is to increase by 1% for each of the next three tax years but will still be a fairly reasonable 5% by 2027/28.

However, it is important to note that while hybrid cars can have the same tax advantage, the electric range for the majority of models is too low to qualify for the 2% rate. The current percentage for most hybrids will be a less attractive 12%.

High marginal tax rates

With tax thresholds frozen, more and more employees are facing higher marginal tax rates. In particular, a rate of 60% applies on income between £100,000 and £125,140 due to the withdrawal of the personal allowance:

- For example, an employee earning £125,000 might sacrifice £10,000 of their gross earnings, with the employer then providing an electric car worth £40,000. The employer's leasing arrangements will typically cover the full costs of running the car.
- The employee's tax and NIC bill will be reduced by £6,200, although they will have to pay tax of £480 on the benefit of having the company car.
- However, if the employee had leased the car personally, it would take almost £26,000 of their gross pay to cover similar leasing costs.

From the employer's perspective, an electric car salary sacrifice arrangement could help boost staff retention, as well as attracting new staff.

A basic guide to salary sacrifice for employers can be found from the link below:

https://www.gov.uk/guidance/salary-sacrifice-and-the-effects-on-paye

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