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CHARTERED ACCOUNTANTS

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New PAYE process for High Income Child Benefit Charge

One of the many criticisms aimed at the High Income Child Benefit Charge (HICBC) is that anyone caught by the charge needs to submit a self-assessment tax return even if all of their tax is collected under PAYE. However, this is set to change.

The government has announced that employed individuals will, in future, be able to pay the HICBC through their PAYE tax code without the need to register for self-assessment. The statement in July on draft Finance Bill legislation from Victoria Atkins, the Financial Secretary to the Treasury, didn't give a date for the change, but said details would be released "in due course".

The change will be particularly welcome for those earning just over £50,000 who have to go through the self-assessment process just to report and repay a small amount of child benefit.

Child benefit

For 2023/24, child benefit of £24.00 a week is paid for a first child, with £15.90 a week paid for each subsequent child. Child benefit is paid regardless of income, so the HICBC is the government's way of reducing the amount paid to higher earners.

The charge

The HICBC can come into play when an individual – or their partner – receives child benefit and their annual income exceeds £50,000.

- The charge removes 1% of child benefit for every £100 of income over £50,000.
- Once income reaches £60,000, the charge is 100% so the amount of child benefit is essentially reduced to nil.
- For those with several children, the HICBC can result in a high effective marginal tax rate.

For 2020/21, some 355,000 individuals were hit by the charge, with a high proportion having been subject to compliance checks by HMRC for failing to register for self-assessment. Despite the HICBC being in place since 2013 – and with HMRC running various publicity campaigns – there is still a general lack of awareness.

Although HMRC has adopted a more lenient attitude towards HICBC penalties in recent years, the maximum penalty can potentially be equivalent to the amount of HICBC owed.

Detailed government guidance on the HICBC can be found from the link below:

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

Agri-tax reliefs set for restrictions

Draft legislation has been published that will, from 6 April 2024, restrict the geographical scope of agricultural relief and woodlands relief to property in the UK.

Currently, property can qualify for either agricultural relief or woodlands relief if it is situated in the European Economic Area (EEA). With the UK having left the EU, the change will bring the inheritance tax treatment of property located in the EEA in line with the treatment of property located in the rest of the world.

The change will also see property located in the Isle of Man and the Channel Islands ceasing to qualify for agricultural relief from 6 April 2024, bringing the treatment in line with that for woodlands relief.

Inheritance tax relief

- Agricultural relief: This effectively exempts most land or pasture used to grow crops or to rear animals from inheritance tax. Relief applies both for lifetime gifts and on death.
- Woodlands relief: Not as generous as agricultural relief, given it only covers growing timber, not the land itself, and inheritance tax is just deferred until timber is sold.
- Business relief: There are no indications that business relief will be likewise restricted, so it may be possible to restructure agricultural and woodland interests affected by the change to instead qualify for this relief. Another option will be to gift agricultural property while relief is still available. If such planning is not possible, individuals will need to review their future inheritance tax exposure.

Environmental land management

The government is also consulting on how agricultural relief might be extended to certain types of environmental land management. The current rules are sometimes perceived as a barrier to landowners participating in environmental schemes due to concern that tax relief could be lost. Although business relief will often be available as an alternative, this relief is not available in all circumstances.

HMRC's detailed guidance on agricultural relief can be found from the link below:

https://www.gov.uk/guidance/agricultural-relief-on-inheritance-tax

Intestacy entitlement increased

If an English or Welsh domiciled person dies without leaving a will, the amount that a surviving spouse or civil partner can inherit as a statutory legacy under the intestacy rules has – from 26 July – been increased from £270,000 to £322,000.

This statutory legacy only comes into play if the deceased also has children – the spouse or civil partner receives £322,000 and the deceased's personal possessions, plus 50% of the remainder of the estate. The children receive the other 50% of the remainder. An exception applies where property is jointly owned. If there are no children, the spouse or civil partner will inherit the whole estate.

Example

Noah died intestate leaving an estate valued at £900,000. He is survived by his spouse, Emma, and two children. Emma inherits a total of £611,000 (£322,000 plus 50% of the remainder), and the two children will share £289,000.

Controversy

The statutory legacy is reviewed every five years, and the next review is due in January 2025. However, the five-year review period is overridden if inflation increases by 15% or more. The trigger point should have been December 2022, but inflation then fell in January 2023 before again going over 15%.

The 26 July uplift is therefore around seven months late, and some surviving spouses and civil partners will receive £52,000 less as a result of the delay. A House of Lords committee has raised the matter with the relevant authority, the Ministry of Justice, asking how such shortfalls will be dealt with.

Importance of leaving a will

The importance of leaving a valid will can be seen by looking at those who have no automatic right of inheritance:

- Unmarried partners;
- LBGT partners not in a civil partnership;
- Relations by marriage;
- Close friends; and
- Carers.

Close relatives other than children only inherit in certain circumstances.

The intestacy rules differ for those domiciled in Scotland or Northern Ireland.

The government has created an online tool to check who will inherit if someone dies without leaving a valid will. This can be foundfrom the link below:

https://www.gov.uk/inherits-someone-dies-without-will/y

Abolishing the pensions lifetime allowance

Although the lifetime allowance was effectively abolished from April 2023 as the lifetime allowance charge was removed, it has been retained on statute for a year to allow time for the intricacies to be ironed out. Draft legislation, to take effect from 6 April 2024, has now been published.

With the lifetime allowance abolished, the problem faced by the legislators was how to tax lump sums and death benefits in its absence. They have overcome this by introducing a new lump sum and death benefit allowance, which, not surprisingly, is the same amount as the old lifetime allowance – £1,073,100.

If the draft legislation is enacted, the most significant changes will be in the way death benefits are taxed when a pension saver dies before age 75.

Death benefits – lump sum

A beneficiary can generally receive lump sum death benefits tax free if the pension hasn't been accessed (uncrystallised).

- Previously, any excess over the lifetime allowance was taxed at the rate of 55%.
- From 2024/25, the excess over the new lump sum and death benefit allowance will be taxed at the beneficiary's marginal rate of tax.

This is as intended when the changes were announced.

Death benefits – Income

What was not announced alongside the initial abolition news is the proposed approach to taxing uncrystallised death benefits taken as income – either by drawdown or an annuity. Previously, the pension income was exempt from tax. From 2024/25, the proposed legislation will see pension income taxed in full at the beneficiary's marginal rate of tax.

The new rules are broadly neutral if a pension saver dies after reaching age 75, but the tax treatment could be potentially worse from 6 April 2024 for those that die younger.

Given the more advantageous tax treatment if uncrystallised funds are taken as a lump sum (completely exempt if less than the new lump sum and death benefit allowance), this could push more beneficiaries into taking a lump sum even where income would be more suitable for their needs.

HMRC's policy paper on the abolition of the lifetime allowance can be found from the link below:

https://www.gov.uk/government/publications/abolishing-the-pensions-lifetime-allowance/abolition-of-the-lifetime-allowance

Behind the numbers on income tax

New income tax statistics from HMRC appear to be good news, but the numbers are not what they seem.

TAXPAYER'S MARGINAL RATE	BASIC RATE	HIGHER RATE	ADDITIONAL RATE
2020/21 Average tax rate	9.5%	21.8%	38.3%
2023/24 Average tax rate	9.9%	20.8%	38.0%

Source: HMRC.

This table, recently released by HMRC, shows the average income tax rate for the three main categories of taxpayer. For example, in 2020/21, on average, basic rate taxpayers paid 9.5% of their income in tax and in the current tax year are expected to pay a slightly larger share, 9.9%. At first sight, higher rate and additional rate taxpayers seem to be doing better, as their average income tax rate drops.

HMRC offers no real explanation for the difference, other than a statement that says, "Average rates of income tax vary over time depending on the number of overall income tax payers and the number in each marginal rate band, as well as growth in incomes and changes to income tax thresholds and allowances."

The story behind the changing numbers may be why HMRC is less than fulsome in setting out what has happened:

- For basic rate taxpayers, the average rate has increased because the personal allowance has only risen by £70 (0.56%) since 2020/21, whereas average weekly earnings increased by 23% between April 2020 and April 2023. So a greater share of income is taxable in 2023/24 than in 2020/21 and the proportionate tax rate rises.

- The backdrop for higher rate taxpayers is the same, so why the falling average rate? What HMRC forgot to mention is that in 2020/21, the higher rate tax band ended at £150,000, whereas in 2023/24 it stops at £125,140. Many higher rate taxpayers towards the top of the band three years ago have now migrated into the additional rate band. The overall result is the lower average rate for higher rate taxpayers.

- The picture for additional rate taxpayers is almost a mirror image of the higher rate scenario. The near £25,000 lower starting point for additional rate in 2023/24 than 2020/21 means there are just about double the number of additional rate taxpayers in 2023/24 than in 2020/21. That extra, lower income population in the additional rate band drags down the average rate.

All of which should make you check what tax band you fall into for 2023/24 and seek professional advice if you have questions or concerns about how the changing rates might affect you.

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