bgm

bright grahame murray

CHARTERED ACCOUNTANTS

NEWS UPDATE - 7 November 2024

Contents

The Autumn Budget – a brave new tax world

Chancellor Rachel Reeves' first Budget was a significant one in all senses.

"…this Budget delivers a large, sustained increase in spending, taxation, and borrowing."

So said the Office for Budget Responsibility (OBR) in the first paragraph of its overview of the Autumn Budget. The numbers are indeed large:

- **spending** is up by almost £70 billion a year over the next five years;
- **taxation** will rise by £36 billion a year; and
- **borrowing** will still be above £70 billion a year in 2029/30.

The Chancellor's tax-raising opportunities were constrained by the Labour manifesto pledges to hold the rates of income tax, VAT, corporation tax and national insurance contributions (NICs) – only for employees, although other interpretations are available. The result was that other taxes had to carry the burden of providing extra funds for the Treasury:

- Over half the additional revenue came from changes to employer's NICs from 2025/26. These saw the class 1 employer rate rise from 13.8% to 15.0%, and the starting point for payments fall from £9,100 of annual earnings to £5,000. The impact of this was mitigated slightly by a £5,500 increase to £10,500 in the employment allowance – effectively an employer NIC credit.
- The main capital gains tax rates have increased from 10% to 18% (for non-taxpayers and basic rate taxpayers) and from 20% to 24% (for higher and additional rate taxpayers). The rate for business assets disposal relief will rise from 10% to 14% in 2025/26 and then 18% in the following tax year, with the maximum amount of lifetime relievable gain staying at £1 million.
- Inheritance tax (IHT) relief for businesses and agricultural property will be cut back from April 2026, with the relief for qualifying shares listed on the Alternative Investment Market halved to 50%.
- Death benefits from pensions will be brought into IHT from 2027/28, although there were none of the other tax changes that had been rumoured in the weeks before the Budget. Notably full income tax relief on contributions remains and employer contributions continue to be free of NICs.

If you could be affected by any of these changes (or further changes not mentioned in this update), make sure that you seek advice. The sooner you are prepared for this new, higher tax environment, the better.

Double hit for employers

The October Budget was not particularly kind to employers, with the cost of employer national insurance contributions (NICs) going up substantially from April 2025, combined with inflation-busting increases to the National Living/Minimum Wage.

Employer NICs

From 6 April 2025, the rate of employer NICs will increase from 13.8% to 15%, and the starting annual threshold will be lower at £5,000 (it is currently £9,100). For example, for someone employed on £50,000 per annum, the employer NIC cost will be just over £1,100 higher for 2025/26:

- The increased 15% rate will also hit employers if they provide taxable benefits, such as medical cover, to employees.
- The £5,000 threshold will stay in place until 5 April 2028. The threshold reduction will have a disproportionate impact on employers with a large number of low earners.

On the plus side – especially for smaller employers – the employment allowance is being increased from £5,000 to £10,500. Currently, this allowance is not available where employer NICs were £100,000 or more in the previous tax year. This restriction will be removed.

Although four full-time workers on the National Living Wage can be employed without any NIC cost for the employer, the changes are likely to see employers being increasingly careful with their recruitment policies.

National Minimum/Living Wage

Minimum wage rates will see substantial increases from 1 April 2025, with younger workers and apprentices benefiting the most:

- For those aged over 21 and over, the hourly rate will go up by 6.7% to £12.21.
- For 18- to 20-year-olds, there is a 16.3% increase to £10.00.
- For apprentices and those under 18, the increase to £7.55 represents an 18% hike.

This follows similarly high increases in April 2024. Employees will welcome the uplift, but many employers will struggle with the additional cost; especially those in the hospitality sector. For full-time employees aged 21 and over, the increase is worth £1,400 a year. For 18- to 20-year-olds, the annual benefit is potentially worth over £2,500.

The rates of National Minimum/Living Wage can be found from the link below:

https://www.gov.uk/national-minimum-wage-rates

Business rates worth the relief?

Business rates relief has been extended for the retail, hospitality and leisure sector but, with the rate of discount cut from 75% to 40%, many English businesses will face a near doubling of their rates bill for 2025/26.

Next year's changes for 2025/26

Retail, hospitality and leisure properties not qualifying for small business rates relief currently receive a 75% business rates discount, subject to a cap of £110,000 per business. This relief is to continue for 2025/26, but with the rate of discount cut to 40%:

- A business rates bill consists of a property's rateable value multiplied by a multiplier.
- For 2025/26, the small business multiplier (rateable value below £51,000) is again frozen at 49.9p. This covers over a million properties in England.
- The standard multiplier (rateable value £51,000 or more) is being uprated from 54.6p to 55.5p.

On the one hand, businesses will be relieved that the business rates discount will not cease altogether on 31 March 2025. However, on the other, they will be disappointed with the level of replacement discount.

Property will typically qualify for the 40% discount if the business is mainly being used as a shop; restaurant, café, bar or pub; cinema or music venue; or gym, spa or hotel.

2026/27 onwards

With the aim of implementing a fairer system of business rates, permanently lower multipliers will be introduced for retail, hospitality and leisure properties with a rateable value below £500,000:

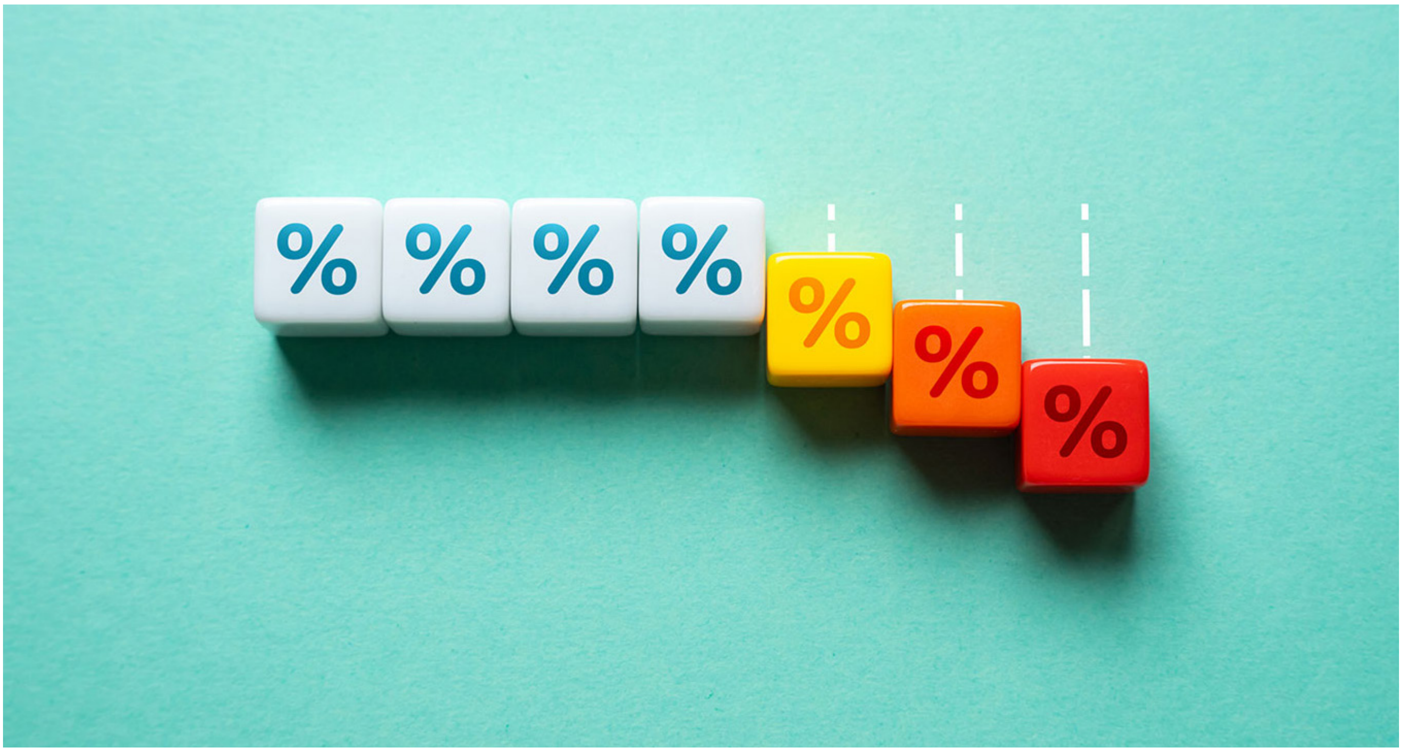
- This reduction will be funded by a new higher multiplier for properties with a rateable value of £500,000 or higher.
- The higher multiplier will include most large distribution ware houses, including those used by online retailers.

The Government will also be consulting on other areas for reform. For example, where the presence of cliff-edges in the system acts as a disincentive to expand.

There are currently no details yet of any discounts for property in Scotland, Wales or Northern Ireland, nor have multipliers been announced. Welsh retail, hospitality and leisure property currently benefits from a 40% discount.

Details of the business rates reliefs currently available in England can be found from the link below:

https://assets.publishing.service.gov.uk/media/67212a5f4da1c0d41942a8c1/Transforming_Business_Rates.pdf



Employment expenses pushed to paper

Despite its digital ambitions, HMRC has recently reverted to paper-based claims for employees who want to make a claim for employment expenses. The change from an online basis has been made to reduce fraud.

Reports suggest that businesses are claiming expenses even when there is little, or no, business relevance in an attempt to counteract increasingly onerous tax burdens. Given HMRC's move to paper-based claims for employment expenses, it seems as if some employees may have adopted a similar attitude. Tax refund companies have also misused the expenses system in order to obtain inflated tax repayments.

Form P87

Employees can claim tax relief for expenses through PAYE if they have not been reimbursed by their employer. From 14 October this year, claims must be made using a paper form P87 which is then posted to HMRC. Claims have to be supported by appropriate evidence. For example:

- **Professional subscriptions:** receipt copy showing how much was paid.
- **Mileage allowance:** mileage log copy, giving the reason for each journey; with start and finish points.
- **Subsistence:** hotel or restaurant receipts copies.
- **Working from home:** proof that an employee is required to work from home, such as a copy of the employment contract.

  An employee who simply chooses to work from home is not eligible for a claim.

Despite the change, online claims can still be made for flat rate expenses (uniform, work clothing and tools). HMRC expects the digital claim route to be available again from next April.

Self-assessment

An alternative to claiming via PAYE is to claim for employment expenses when submitting a self-assessment tax return. If employment expenses for the year exceed £2,500, this is the only permitted route.

Although there is no initial requirement to provide evidence when claiming employment expenses this way, HMRC will be extending the number of compliance checks on the eligibility of expense claims made. In such cases, they may request further evidence.

HMRC guidance on claiming tax relief for employment expenses can be found from the link below:

https://www.gov.uk/government/publications/hmrc-issue-briefing-evidence-required-to-claim-paye-p87-employment-expenses/

New company size thresholds from April 2025

Thresholds defining company sizes have not changed since 2016, but revised thresholds are now set to be introduced from 6 April 2025. Companies House intends to roll out their new identity verification requirements for directors and people with significant control (PSCs) by late 2025.

Static reporting thresholds, along with a couple of years of relatively high inflation, will have drawn more companies into reporting requirements that may not be appropriate for them.

Threshold sizes

The company size thresholds are expected to increase by approximately 50%, although there will be no change for the average number of employees. The new thresholds – with current thresholds bracketed – will be:

	MICRO-ENTITY	SMALL COMPANY	MEDIUM-SIZED COMPANY
Turnover	£1 million (£632,000)	£15 million (£10.2 million)	£54 million (£36 million)
Balance sheet	£500,000 (£316,000)	£7.5 million (£5.1 million)	£27 million (£18 million)
Average number of employees	10	50	500

To qualify as a micro-entity, small or medium-sized company, a company must normally not exceed two of the three relevant criteria above.

As a result of the redefinition exercise:

- The increased thresholds will see more than 100,000 small companies reclassified as micro-entities.
- Micro-entities benefit from reduced reporting requirements, although lenders may require more detailed information in order to assess a company's creditworthiness.
- Small companies may qualify for audit exemption; companies that were in danger of moving to a medium-sized classification might now retain this exemption.

Growing companies may find it preferable to maintain their current reporting requirements, even if increased thresholds hold out the offer of a temporary step down to a lower regime. This is to avoid disrupting their current reporting systems for a change taking place over one or two years.

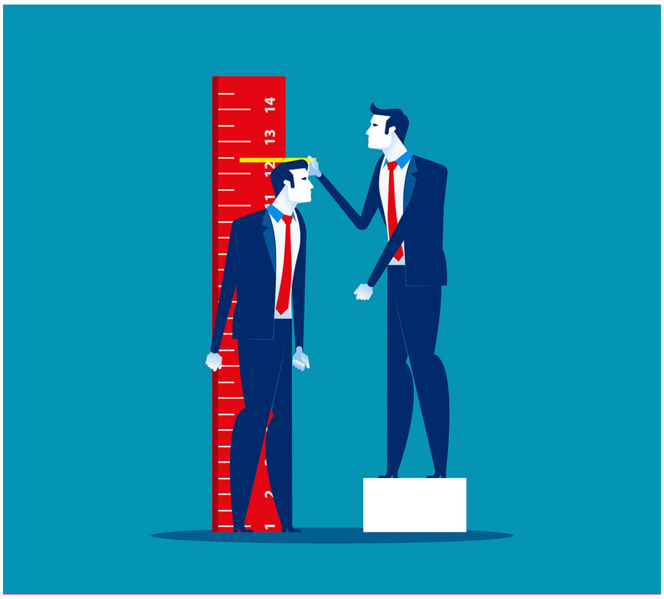
Identity verification

The plan is that by autumn 2025, directors and PSCs will have to verify their identities at the point a new company is incorporated. Verification for existing companies will then take place over the following 12 months when a company's confirmation statement is filed. This transition could be quite burdensome for many companies.

Compliance activity against those who have failed to verify their identity is expected to commence by the end of 2026.

Companies House accounts guidance can be found from the link below:

https://www.gov.uk/government/publications/life-of-a-company-annual-requirements/life-of-a-company-part-1-accounts



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