bright grahame murray

CHARTERED ACCOUNTANTS

NEWS UPDATE - 7 September 2023

Contents

Deferring your state pension

You do not have to take your state pension at state pension age

The current state pension age (SPA) – the earliest age at which you can draw your state pension – is 66. It will be gradually increased to 67 between April 2026 and April 2028. A further rise to 68 is due, probably between 2037 and 2039, but the confirmation of that timing has (conveniently) been delayed until after the next general election.

Most people draw their state pension as soon as it becomes available, which requires a claim to be made. If you do not make that claim, your state pension is automatically deferred until you choose to claim it. Up until then your deferred pension will increase every week you defer, provided you defer for at least nine weeks. The rate of increase is the equivalent of 1% for every nine weeks, which works out at just under 5.8% a year.

For example, if you defer the current state pension of £203.85 a week for 52 weeks you would receive an extra £11.82 a week once it started before adding the normal inflation related uplift. The increase is not compounded, so for two years' deferral the extra would be £23.64, and so on.

5.8% a year does not sound bad, but don't forget, your higher pension will be paid for a shorter period, as it started later. It can take a long time for the extra payments to overtake the loss of the full pension in the deferred period. For example, for a one-year deferral you will need to wait until you are about 81 before the total pension payments you have received are higher because of deferral, assuming 2.5% CPI inflation.

Nevertheless, there can be good reasons to defer. For example, if you are still working, your state pension would attract tax at your highest rate(s) which could be lower once you fully retire. There are other tax planning situations where being able to minimise income in a tax year can be useful, for example when cashing in an investment bond. Before you claim your state pension, make sure you take all your circumstances into consideration.

Government guidance on deferring your state pension can be found from the link below:

https://www.gov.uk/deferring-state-pension

Interest rate rises fuelling increased tax take

The Bank of England base rate increase is impacting on the government's tax takes, with more taxpayers paying tax on savings income due to higher interest rates. Increased mortgage rates are contributing to rocketing capital gains tax (CGT) takings too.

The impact of savings on tax

National Savings & Investment is offering a 5% return on its one-year bonds, and some financial institutions are offering 6% for a similar investment. So, a higher rate taxpayer with £10,000 or more invested will easily exceed their £500 savings allowance. In fact, it is estimated that the number of taxpayers paying tax on their savings income for 2023/24 will be a million more than the previous year.

There are two options to minimise tax liabilities:

- You could move savings into ISA accounts, up to an annual investment limit of £20,000. This limit could restrict the scope of such planning for some.
- You could invest in tax-free premium bonds. Although not paying interest as such, the expected annual return for larger investments is 4.65% – equivalent to a gross 7.75% for a higher rate taxpayer.

It's advisable to keep careful track of your savings income for tax purposes. If tax is owed, it will be paid through self-assessment or via a PAYE coding adjustment.

Why is capital gains tax revenue increasing now?

The substantial increase in CGT receipts reported recently is partly explained by the number of buy-to-let landlords who are selling up. A buy-to-let was a good investment choice when mortgage costs were low, property prices were increasing, and cash savings accounts offered a very poor return in comparison. But all three of these factors are now in reverse, and landlords will often be able to get a better return investing their funds elsewhere.

Uncertainty around possible future increases to CGT is also pushing landlords to sell sooner rather than later.

If selling up, landlords can keep CGT bills as low as possible by:

- Making sure any qualifying expenditure is claimed, including any enhancement expenditure which hasn't qualified as a deduction against property income.
- Disposing of any other investments standing at a loss in the same tax year, because capital losses cannot be carried back to earlier tax years.
- Putting property into joint ownership with a spouse or civil partner prior to disposal.

These measures can help alleviate some of the seemingly punitive rates of CGT.

HMRC information on the taxation of savings income on can be found from the link below and we are always happy to advise you on your options.

https://www.gov.uk/apply-tax-free-interest-on-savings

Fraud countermeasure drives R&D tax relief changes

The level of fraudulent claims being made for research and development (R&D) tax relief has prompted HMRC to introduce a new procedure: companies must provide detailed information ahead of making their claim.

HMRC figures show that nearly 20% of claims for R&D tax relief are fraudulent, so it is no surprise they are tightening up on the claim process. Non-compliance is a particular problem when it comes to small value claims, with nearly 80% of claims for less than £10,000 being suspect.

The new requirement will mean having to submit an additional information form to HMRC to support a claim for R&D tax relief or for expenditure credit.

This new form is a separate requirement to the claim notification form a company must submit to HMRC in advance of a claim for R&D tax relief. Notification applies for accounting periods beginning on or after 1 April 2023.

Submitting the new form

The additional information form must be sent to HMRC before the company's corporation tax return is filed. If the tax return is filed without the additional information being provided, HMRC will simply remove the claim for R&D tax relief from the company's tax return.

- HMRC has set up an online portal for submitting the additional information form.
- The new process will allow HMRC quickly to assess the validity of a claim, especially the level of expertise of those involved in preparing the claim.
- The form requires detailed information on the R&D project, including a breakdown of the costs involved. For SMEs with just one to three projects, a full description of each project is required.

HMRC now require a considerable amount of additional information to be submitted, and this will be a challenge for SMEs. Companies should therefore start preparing for their R&D tax relief claims as far in advance as possible to avoid any last minute surprises.

HMRC guidance about the new requirements can be found from the link below:

https://www.gov.uk/guidance/submit-detailed-information-before-you-claim-research-and-development-rd-tax-relief#what-information-you-will-need

Don't get caught in the VAT penalties net

The 50th anniversary of the UK's introduction of VAT was earlier this year, but despite being around for a while, many VAT-registered businesses still find VAT too complex and confusing. No surprise then that more businesses than ever are getting hit with penalties for inaccuracies.

Inflation and frozen thresholds

Two things that are not helping are the high rate of inflation combined with a freeze on various VAT thresholds.

Since 2017, the registration threshold has been £85,000, so with increased prices it is easy for a business to become liable for VAT despite staying the same size.

Meanwhile the thresholds for remaining within the flat rate, cash accounting and annual accounting schemes, have remained virtually unchanged for around 15 years, so, again, it is easy to mistakenly continue with a scheme when no longer eligible to do so.

Beware penalties

With HMRC aiming to close the tax gap for VAT, the risk of penalties for inaccuracies will only increase; for 2021/22, the number of penalties issued was already substantially higher than for the previous year, a trend which is sure to continue.

HMRC is able to charge a penalty of up to 30% of the extra VAT due if an error arises due to lack of reasonable care.

In HMRC's view, it is reasonable to expect a business to find out about the correct VAT treatment or to seek appropriate advice when encountering a transaction with which they are not familiar.

A get out of jail card?

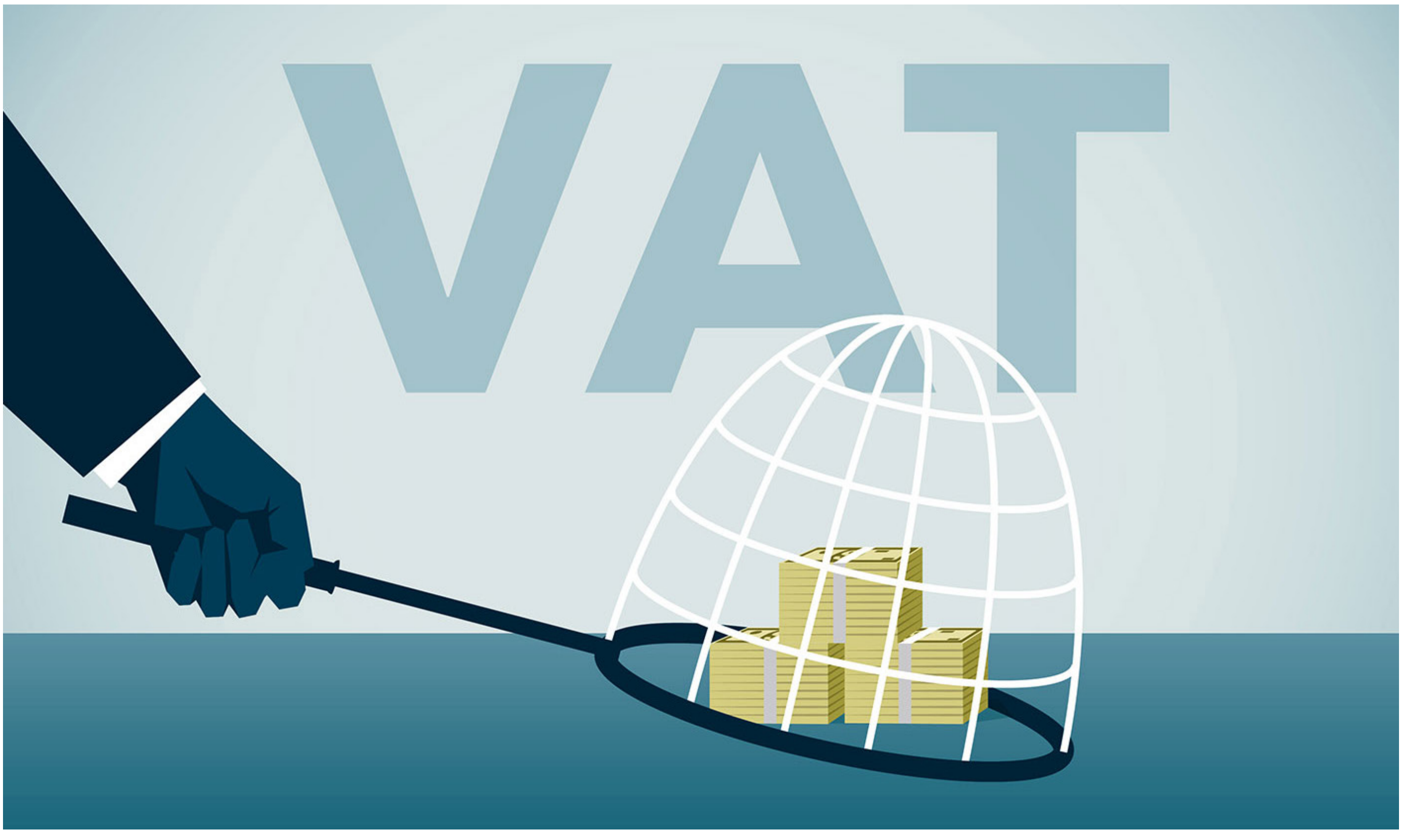
Incurring such a penalty is somewhat careless. However, there may be a get out of jail option if this arises.

HMRC have the discretion to suspend a penalty, for period of up to two years, during which time a business must comply with certain conditions. The aim is to prevent further penalties in the future, so a business could, for example, be asked to improve its record keeping.

If this is done, the penalty will be cancelled at the end of the suspension period, but best to avoid such a scenario in the first place.

HMRC's guidance on VAT errors can be found from the link below:

https://www.gov.uk/guidance/how-to-correct-vat-errors-and-make-adjustments-or-claims-vat-notice-70045#VAT-errors-submitted



Finalising returns figures and filing early

HMRC is chasing taxpayers who have submitted tax returns for 2021/22 containing unresolved provisional figures, while also extolling the benefits of filing early for 2022/23.

What are provisional figures?

A provisional figure is not the same as an estimated one.

- An estimated figure is used when it is not possible to provide a more accurate figure – so it is intended to be final. For example, small amounts of income might be estimated, or records could have been lost, making an accurate figure impossible.
- A provisional figure, on the other hand, is one that is used temporarily, with the intention to submit a more accurate figure later.

On a tax return, a box needs to be checked if a provisional figure has been supplied. HMRC will then be aware that an amended tax return is due.

HMRC is not chasing taxpayers directly, but via letters to tax agents. The strict deadline for amending a 2021/22 tax return is 31 January 2024, but HMRC is pushing for amendments by 30 November (if actual figures are now available), or otherwise by 31 December.

If the missing information is now too old to obtain, it will instead be necessary to confirm the provisional figure as final.

Why filing early is often a good idea

The deadline for submitting 2022/23 tax returns is also 31 January 2024, but there are benefits to earlier filing:

- Tax liabilities will be established sooner, enabling more accurate financial planning throughout the year.
- Using HMRC's budget payment plan, as a taxpayer you can make regular weekly or monthly savings towards your tax bill.
- Any tax refunds you are owed will be received earlier.
- It is always advisable to contact HMRC well in advance if it's not going to be possible to pay a tax bill in full.

If you submit your tax return early, you will avoid the worry of last-minute filing – always a stressful task and especially so if your record-keeping is not all that it should be.

HMRC's guidance on self-assessment tax returns can be found from the link below:

https://www.gov.uk/self-assessment-tax-returns

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