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CHARTERED ACCOUNTANTS

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Capital gains targeted in Autumn Statement

It comes as no surprise that capital gains tax (CGT) was targeted in the government's Autumn Statement, with the changes forecast to raise some £1.6 billion over the next five years. The annual exempt amount (AEA) will be cut to £6,000 for 2023/24, with a further, permanent, fall to £3,000 from 2024/25.

The AEA is currently £12,300, so someone with, for example, gains of £20,000 to £25,000 from the sale of shares will have been advised to spread the disposals over two tax years to benefit from two AEAs. With an AEA of just £3,000 from 2024/25 onwards, a disposal would need to be spread over seven or eight years to fully eliminate the gain.

Instead, many investors may prefer to take the full tax hit from an early disposal, especially if they have concerns that CGT rates could be the next target. For a higher or additional rate taxpayer disposing of a buy-to-let property, for example, the reduction of the AEA to £3,000 will mean an additional £2,604 in CGT.

The AEA available to trustees is half the normal level, so for 2023/24 they will have an AEA of £3,000, with £1,500 available from 2024/25.

Reporting requirements

With a lower AEA, more individuals and trusts will find themselves having to report gains to HMRC. The estimate is that by 2024/25, an additional 260,000 people will be brought into the scope of CGT for the first time.

This will mean filing a self-assessment tax return or making use of HMRC's real-time CGT service. Dealing with CGT can be a challenge given the complex computational rules and reliefs, plus the one-off nature of the tax.

CGT planning

The reductions to the AEA make planning around capital gains more important than ever.

- Consider utilising the current, more generous, AEA by 5 April 2023.
- Make use of ISAs to shelter gains from CGT.
- Ensure the best use is made of any capital losses – these can be wasted if crystalised in a later tax year to gains.
- Spouses and civil partners can transfer assets between themselves to make the best use of exemptions and capital losses.
- Look at whether holding buy-to-let property in a company structure is beneficial.

HMRC's guide to reporting and paying CGT can be found from the link below. For detailed guidance on your options, please get in touch.

https://www.gov.uk/report-and-pay-your-capital-gains-tax

The effects of fiscal drag on your tax position

Fiscal drag is the stealthy way in which governments pull more and more taxpayers into higher tax brackets without the backlash that comes with increased tax rates. This is something taxpayers can probably live with when inflation is negligible, but it's another matter entirely with inflation at over 11%.

Inheritance tax

One of the starkest examples of fiscal drag is the freezing of the inheritance tax (IHT) nil rate band that has been set at £325,000 since April 2009. Combined with soaring property prices, it is no surprise the government's IHT receipts have nearly doubled in the ten years to 2021/22, with current year receipts set to see a further significant increase.

The nil rate band had previously been frozen at £325,000 until 2026, but the Autumn Statement has now extended the freeze until 2028. IHT bills can sometimes be mitigated with careful lifetime planning, although people should be careful not to leave themselves short of funds later in life.

Income tax thresholds

The personal allowance (£12,570) and the basic rate tax threshold (£37,700) are unchanged since 2021/22, and, like the IHT nil rate band, are now set to remain frozen until 2028. Other thresholds are subject to fiscal drag because the government simply ignores them from year to year.

- The £100,000 income limit at which the personal allowance starts to be withdrawn is unchanged since withdrawal was introduced in 2010. Personal allowance withdrawal leads to a 60% marginal tax rate, and an estimated one million more taxpayers could be caught if nothing changes over the next five years.

- The High Income Child Benefit Charge income limit of £50,000 is unchanged since the charge was introduced in 2013. Around one in five families are now affected by the limit, compared to one in eight when the charge was first introduced.

To mitigate the impact of these frozen thresholds, some income tax planning may be possible for spouses and civil partners. Pension contributions can also reduce the amount of income counting towards the various income limits.

Details of income tax rates and personal allowances for the current tax year can be found from the link below.

https://www.gov.uk/income-tax-rates

Business rates revaluation in 2023

From 1 April 2023, business rates in England and Wales will be updated to reflect changes in property values since the last revaluation in 2017. Although many businesses will see increased bills, others will see reductions. A package of targeted support will help with the transition.

The revaluation is based on April 2021 rental values, a time when the property market was seeing significant turbulence. Not surprisingly, there will be considerable fluctuation between areas. For example, in London, the estimated change in rates bills payable across sub-markets range from a decrease of 11% in Victoria, to an increase of 34% in Clerkenwell and Farringdon.

The changes target the 'bricks vs. clicks' tax imbalance between physical and online businesses by substantially raising the business rates bills for big warehouse operators, but limiting rises for many high street retailers, restaurants and pubs.

Business support package

A support package has been announced to help business rate payers affected by the revaluation.

- Business rates multipliers will be frozen for a further year, keeping them at 49.9p (small business) and 51.2p (standard) for 2023/24.
- For 2023/24, retail, hospitality and leisure properties not qualifying for small business rates relief will receive a 75% business rates discount, subject to a cash cap of £110,000 per business. Relief is only 50% for the current year.
- The downwards transitional relief caps will be abolished so that a business with a decreased rates valuation for 2023/24 immediately benefits from the full reduction on their bills.
- For businesses with higher rates bills for 2023/24 as a result of the revaluation, upwards transition caps will limit the increase – these are set at 5%, 15% and 30% for small, medium and large premises respectively.
- There will be protection for small businesses who lose eligibility (or see reductions) for either small business or rural rate relief due to the updated valuations. Bill increases will be capped at £600 for 2023/24.

The government's business rates valuation service, which shows a business's updated rateable value for 2023/24, can be found from the link below.

Any revisions for Scottish businesses are expected in the Scottish Budget on 15 December.

https://www.gov.uk/find-business-rates

Tackling rising employment costs

The 9.7% uplift to the National Living Wage from April 2023 should be welcome news for lower-paid workers, but could present problems if their employer simply cannot afford the increased cost of employing them.

The cost of living crisis is impacting many businesses, especially those in the hospitality sector. Some will cope with rising employment costs by reducing their headcount, but others may have no choice but to close up shop. Small businesses owned by self-employed people are likely to be hit particularly hard.

On top of this, the freezing of the employer national insurance contribution (NIC) threshold until April 2028 will also mean an increased NIC cost for many businesses.

Wage increase

The National Living Wage is paid to employees aged 23 and over, with similar percentage increases to the rates payable to younger employees. The percentage increase for 21- to 22-year-olds at 10.9% is even higher.

- For each full-time worker aged 23 and over, the increase will see employers having to pay nearly £2,000 more a year in gross salary, with pension, holiday pay and NIC costs on top.
- There will probably be a knock-on effect higher up the pay scale, with other employees looking for an equivalent salary boost.

Some employers might be tempted to try and cut their wage bill by turning to 'self-employed' workers. However, employment status is not simply a matter of choice, and incorrect categorisation can have serious implications.

NIC threshold

The employer threshold is to be frozen at its current level of £9,100, although the annual employment allowance of £5,000 will shield smaller employers (with just two or three employees) from the impact of this decision.

Larger employers will see a stealthy increase to their NIC cost as wages increase, but the starting threshold for NIC remains unchanged.

The minimum wage rates from April 2023 can be found from the link below:

https://www.gov.uk/government/publications/minimum-wage-rates-for-2023

Cohabitation law reforms rejected

The government has rejected proposals to modernise cohabitation laws in England and Wales, leaving it up to individuals to arrange their financial affairs for partners and dependents.

In August, the House of Commons Women and Equalities Committee published The rights of cohabiting partners for England and Wales (Scotland and Northern Ireland have their own laws). Amidst all the other political excitement of that month, the report received little coverage.

The lack of media attention was a pity, as the Committee made some important recommendations about a significant proportion of the population – the one in five couples who have chosen cohabitation rather than marriage or civil partnership. The report noted that "Whereas married couples and civil partners have certain legal rights and responsibilities upon divorce or death, cohabitants receive, in general, inferior protections". This fact is compounded by what the report called the "common law marriage myth" – the erroneous belief that after a certain amount of time of living together, the law treats cohabitants as if they were married.

The report made six recommendations for action, only one of which was accepted in full by the government. The following three proposals were rejected outright:

- **Family Law should be reformed to better protect cohabiting couples and their children from financial hardship in the event of separation.** A potential structure for such reform was proposed by the Law Commission in 2007, which having ignored for so long the government now says is too old to be implemented without a review or fresh consultation.

- **The intestacy rules should be immediately redrawn to recognise cohabitation.** The Committee again supported ideas put forward by the Law Commission (this time from 2011). The government's rejection of any intestacy reform was largely predicated on the notion that cohabiting couples could make wills to deal with their estates.

- **The inheritance tax regime should be the same for cohabiting partners as it currently is for married couples and civil partners.** This was rejected by the Treasury – the responsible government department – which said it "has no plans at present to extend the longstanding treatment of spouses and civil partners to cohabiting partners."

If you are cohabiting, the government's message is clear: make your own legal and financial arrangements – and don't believe that common law marriage myth.

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