NEWS UPDATE - 11 OCTOBER 2021

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Making Tax Digital delayed until 2024

In recognition of the challenges to many businesses due to the pandemic, the government has delayed the introduction of Making Tax Digital (MTD) for income tax self-assessment (ITSA) by a further year.

MTD will not be mandatory for self-employed individuals and landlords until accounting periods commencing on or after 6 April 2024. The start date for general partnerships (those with only individuals as partners) will now be from April 2025, with the date for other types of partnerships still to be confirmed. The planned April 2026 commencement date for MTD for corporation tax now also seems uncertain.

Knock-on effect

The one-year delay means that:

- The reform of the basis period rules for unincorporated businesses has been pushed back until at least April 2024, with the transition year no earlier than 2023 – so yet another change that now appears less certain than previously.
- The new penalties for late payments and late submissions will now no longer apply to the self-employed and landlords (mandated to use MTD for ITSA) until April 2024, with other ITSA taxpayers included a year later.

No change

Although the delay will be welcomed by the majority of businesses, a delay is all it is. There is no change to the entry point (taxable turnover from self-employment and/or income from property over £10,000), nor to the requirement to keep digital records and provide quarterly returns using third-party software to HMRC.

HMRC has estimated the average transitional cost of becoming digital as £330, with an annual cost of £35 per business, although that assumes no new hardware will be required.

The delay will mean that more software packages are available before MTD for ITSA comes in, and there will be more opportunity to join the pilot scheme. If you are self-employed or a landlord, you should make the most of the extra time to ensure your business is ready come April 2024.

IHT receipts reach £6 billion record

The amount of inheritance tax (IHT) collected by HMRC over the past year reached a record £6 billion, some £1 billion more than the previous 12 months. This increase comes as no surprise given booming property values and frozen nil rate tax bands. It seems the tax is no longer the preserve of the super-rich.

The IHT nil rate band has not been uprated for 12 years and is set to remain at £325,000 for another four. For a reasonably well-off couple, the loss of indexing means around an additional £200,000 of assets being subject to tax. The residence nil rate band (RNRB) is also fixed, at £175,000, until 2026.

Property

Although the nil rate bands total £1 million for a couple, the average value of a terraced house in London, for example, is now over £700,000. Unfortunately, there may be little scope for any IHT planning if the value of your estate comes mainly from your property. However, it is important to have an up-to-date will, and to make the best use of reliefs and exemptions – especially the RNRB.

You might wish to take out life assurance if you want your heirs to hold on to your home, rather than being forced to sell to fund IHT. The policy should be written in trust and increase in line with property values.

Planning

Any IHT planning will depend on your age, assets and how much you can afford to gift without impacting your lifestyle. Professional advice is always recommended, but there are some important considerations:

- **Pensions:** There are various possibilities, but, for example, you could fund pension contributions for your children or grandchildren. The recipient can benefit from tax relief, and your estate is reduced over time without the need for a large capital gift.
- **Business property relief:** Riskier, and there is no guarantee of future exemption, but you might consider ISAs that are invested in the AIM market. The ISAs will escape IHT after being held for two years.

HMRC's basic guide to how IHT works, including details of various exemptions, can be found from the website below:

https://www.gov.uk/inheritance-tax

Are your young adults missing out on their Child Trust Fund?

HMRC says many teenagers are missing out on their Child Trust Funds (CTFs), urging parents to check for hidden cash and forgotten accounts.

The first CTFs matured just over a year ago, at the start of September 2020. CTFs will continue to mature until January 2029 as their owners reach the magic age of 18. At present, about 55,000 CTFs mature every month.

HMRC has been looking at the CTFs that have already matured. Its interest is more than academic because over the life of the scheme, HMRC set up one million CTFs – about 15% of the total. HMRC took the CTF establishment role when parents or guardians had failed to do so within 12 months of receiving a CTF government voucher. HMRC randomly allocated an approved CTF provider to each such orphan.

In a recent press release, HMRC said "Hundreds of thousands of accounts have been claimed so far, but many have not". Annoyingly – and perhaps deliberately – HMRC does not spell out specific numbers of non-claimants, but said if only 10% miss the date, that amounts to over 5,000 a month.

It should come as no surprise that many parents, guardians and children have forgotten that a CTF exists. To judge by data issued earlier this year, over 80% of CTFs are worth less than £2,500, with many probably only valued in the hundreds, having received no more than one voucher of £250 or £500 before government payments ceased.

If you want to find a 'lost' CTF, the best starting point is HMRC's online tool (see **https://www.gov.uk/child-trust-funds/find-a-child-trust-fund**). To use this, you will need to create a Government Gateway user ID and password if you do not already have one.

CTFs that carry on beyond their owner's 18th birthday continue to offer the same tax benefits as ISAs – no UK tax on income or capital gains. However, the underlying investments may be unattractive – deposits with minimal interest rates, for example. The same investment drawbacks can apply long before maturity, so it is worth reviewing any existing CTFs. A transfer to a Junior ISA (JISA) could be a better option than carrying on with a CTF.

Apprenticeship levy transfers simplified in England

Larger employers can transfer up to 25% of their annual apprenticeship levy pot to support other, smaller, employers to take on apprentices in England. While there is nothing new about this, what is new is an online service where funds can be pledged by larger employers.

Apprenticeship levy funds are lost if not used within 24 months, so transferring surplus funds is obviously more rewarding than losing them.

Pledging

With the new service, the pledging employer simply uses their apprenticeship service account to create a transfer pledge. This will specify the amount of funds available for the current financial year. They can then choose four optional criteria to reflect priorities for transferring funding. These are:

- Location;
- Sector;
- Type of job role; and
- Apprenticeship qualification level.

It is entirely up to the pledging company whether to accept or reject an application.

At the time of writing, there were 45 funding pledges listed on the new online service, ranging from £1,618 up to a maximum of £342,263 – some without any criteria.

Apprenticeships

The benefit for smaller and medium-sized employers receiving a transfer of funds might not be as beneficial as it appears, because, for up to ten new apprenticeship starts each year, the employer only pays for 5% of the apprenticeship fees (and nothing if they have less than 50 employees). However, a transfer will remove the 5% cost, and the full cost if the ten-apprenticeship limit is exceeded.

Although any employer can receive a transfer, they will need to set up an apprenticeship service account.

- The transfer can only be used to cover apprenticeship training costs up to a funding band limit. Transfers cannot be used to cover, for example, wages or travel costs.

- Transfers can only be used for new apprenticeship starts, although this could be an existing employee.

One notable benefit is that funding will run for the full duration of the apprenticeship and cover 100% of relevant costs.

The current list of funding opportunities can be found from the website below:

https://transfers.manage-apprenticeships.service.gov.uk/Opportunities

New tipping rules to come into force within months

Five years after carrying out a consultation, the government is going to make it illegal for employers to withhold tips from workers. The change to legislation, due to take effect over the next 12 months, is not just for staff in restaurants, hotels and bars, but also anyone employed in industries such as hairdressing, casinos and private car hire.

With some 80% of tipping now occurring by card, the change is considered urgent. Cash tips to workers are already protected, but for card tips, an employer can either choose to keep tips or pass them on to staff. This new change to legislation will bring consistent treatment regardless of how a tip is paid.

Legislation

The legislation will mean that employers will have to:

- Pass on all discretionary card tips to workers without any deductions. Employers have typically made deductions to cover card processing costs, payroll, staff food and drink, recruitment and training.
- Distribute tips fairly and transparently, have a written policy on tips, and record how tips have been dealt with.

Workers will have the right to make a request for information relating to an employer's tipping record, enabling them to bring an employment tribunal claim for compensation if the rules have not been followed.

Tronc scheme

A tronc is a separate organised pay arrangement used to distribute tips, gratuities and service charges. The troncmaster runs the related payroll and reports information to HMRC.

A tronc scheme run by an independent troncmaster will be the most effective way for many employers to comply with the new requirements. A tronc, if run independently, will meet the fair and transparent requirement, and workers can have a say in how tips are shared, which should help improve staff motivation. Another benefit is that tips shared from a tronc are free of NICs, but this is not the case where the employer decides how tips are shared out.

HMRC's guide to how tips are taxed can be found from the website below:

https://www.gov.uk/tips-at-work/tips-and-tax

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