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CHARTERED ACCOUNTANTS

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Pension top-ups for lower-paid employees

Employees who contribute to an occupational pension scheme under a net pay arrangement do not currently benefit from any tax relief if their earnings are below the personal allowance. This anomaly will be rectified from 6 April 2024 when HMRC will start making top-up payments.

A net pay arrangement is where pension contributions are deducted from pay before tax is calculated. The anomaly arises because someone in a similar situation, but making contributions with relief given at source, benefits from 20% relief. The change will mean low earners benefiting from the same tax relief regardless of earnings.

Top-up payments

HMRC's top-up payments will be introduced from tax year 2024/25 onwards, with the top up not paid until after the end of the tax year. The implementation delay is due to the significant HMRC system changes required.

- The intention is that HMRC will notify those who are eligible and invite them to provide the necessary details for the top-up to be paid direct to their bank account. The requirement to claim the top-up, however, runs the risk of non-take up.
- As an example, someone qualifying with savings of £500 into an occupational pension scheme for a tax year should receive a subsequent top-up from HMRC of £500 at 20% = £100. The same rate will apply for Scottish taxpayers.
- If part of a person's pension savings already benefits from tax relief due to earnings exceeding the personal allowance, a top-up payment can still be given for the proportion not benefiting.
- Top-ups will be taxable, although this will not mean any additional income tax for many recipients given their level of earnings.

Although top-ups are only estimated to be an average of just over £50 a year, more than a million employees should benefit – the vast majority of them women.

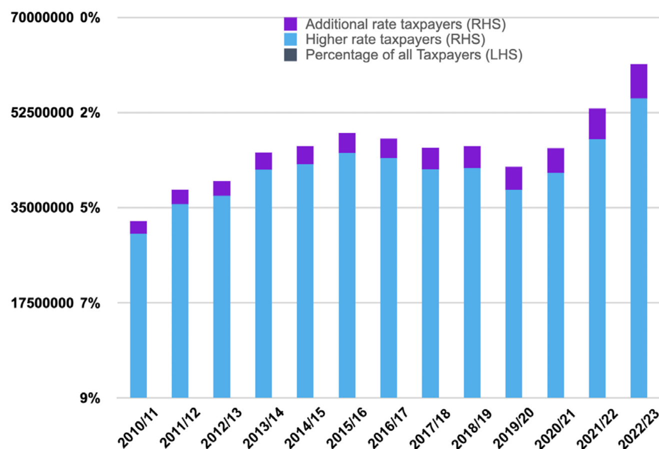
The government's policy paper explaining the change can be found from the link below:

https://www.gov.uk/government/publications/low-earners-anomaly-pensions-relief-relating-to-net-pay-arrangements/pensions-relief-relating-to-net-pay-arrangements

Setting new taxpayer records

New data from HMRC reveals there are now over six million people paying higher or additional rate tax in the UK.

Higher and higher...



Source: HMRC.

Initial measures for 2022

In recent years, the end of June has been the time for HMRC to issue its annual statistics on taxpayer numbers. This series is more up to date than some of HMRC's releases and includes a projection for the current tax year.

The latest set of data received more press attention than usual for several reasons:

- The number of income tax payers jumped by 1.3 million (4%) for 2022/23, the largest increase since 2004/05.
- Higher rate taxpayer numbers rose by 750,000 (16%), an increase unmatched in over 30 years of HMRC data.
- The population of additional rate taxpayers grew by 66,000 (12%). When the additional rate of tax was introduced in 2010/11, only 0.75% of taxpayers were in this lofty band, a proportion that has since grown to 1.75%.
- Add together higher and additional rate taxpayers and the total exceeds 6.1 million, over one in six of all income taxpayers. This means there are more taxpayers than ever before and more of them are paying higher and additional rates due to a combination of two main factors:

1. The then Chancellor Rishi Sunak's decision in March 2021 to freeze the personal allowance, higher rate and additional rate thresholds from 2021/22 through to 2025/26. In fact, the additional rate threshold has never moved from its initial £150,000.
2. Inflation has been vastly higher than anticipated back in March 2021, when the CPI rate was running at 0.7% (a year, not a month) and the Office for Budget Responsibility (OBR) was projecting that it would not reach 2% until 2025. The OBR's projection for total inflation over the four years from the start of 2022 to the end of 2025 was 7.7%, a figure that is almost certain to be below what 2022 alone will deliver.

The winner in all of this is the Treasury, so much so that there is now talk of tax cuts being announced in the Autumn Budget, if not sooner. As with July's 'tax cut' in National Insurance contributions, any new income tax cut will be a reduction in the size of the previously planned increase.

Meanwhile, if you have become a higher rate taxpayer this year, you should make sure you are using all available reliefs and allowances to the full. The one piece of good news is that tax relief on your pension contributions has potentially doubled.

Less stress on CGT deadlines for separation and divorce

Couples in the process of separating may find themselves facing a costly capital gains tax (CGT) bill if they miss the tight deadline for transferring assets as part of their divorce settlement. From 6 April 2023, separating couples will be given considerably more time.

Currently, the basic rule is that:

- Transfers only escape CGT (on a 'no gain, no loss' basis) if made by the end of the tax year in which the couple are no longer living together – the year of separation.
- After the end of the year of separation, but before divorce is final, any transfers of assets are treated as made at market value, so CGT can be payable.

The rules apply equally to couples dissolving a civil partnership.

Proposed changes

Under the new proposals, separating couples will be given up to three years after the end of the tax year when they cease to live together in which to make no gain or no loss transfers. However, earlier divorce, dissolution of a civil partnership or separation under a separation order will bring the no gain, no loss period to an end.

There will be no time limit for any assets transferred as part of a formal divorce agreement.

The changes will apply to disposals made on or after 6 April 2023, so couples separating during 2022/23 can also benefit.

Private residence relief

Additionally, some special rules will apply to individuals who maintain a financial interest in their former family home following separation:

- Where an individual maintains a financial interest in the family home, they will have the option to claim private residence relief when the home is subsequently sold to a third party.
- An individual who transfers their interest in the former family home to their ex-spouse or civil partner but is entitled to receive a proportion of the sale proceeds on eventual sale, will be able to apply the same tax treatment to those proceeds that applied when they transferred their original interest in the home.

The government's policy paper explaining the change can be found from the link below:

https://www.gov.uk/government/publications/capital-gains-tax-transfers-of-assets-between-spouses-and-civil-partners-in-the-process-of-separating/capital-gains-tax-separation-and-divorce

Help to Grow: Digital scheme expanded

The government's Help to Grow: Digital scheme has just been expanded to businesses with at least one employee. Previously, only businesses with five or more employees were eligible. The scheme provides a 50% discount towards the cost of software.

The extension of the scheme's eligibility criteria means that some 1.2 million businesses can now benefit. The scheme has also been expanded to include:

- Additional software in the form of eCommerce software that can help businesses sell online and reach new markets; and
- One-to-one advice on how best to adopt digital technology, although this service will not go live until later this year.

The discount

The 50% discount is worth up to £5,000 (excluding VAT) on approved software, which is purchased for the first time. Only one software product can qualify for the discount, and only the first 12 months of software costs are covered. The business has to be incorporated and trading for at least 12 months.

The types of software covered are:

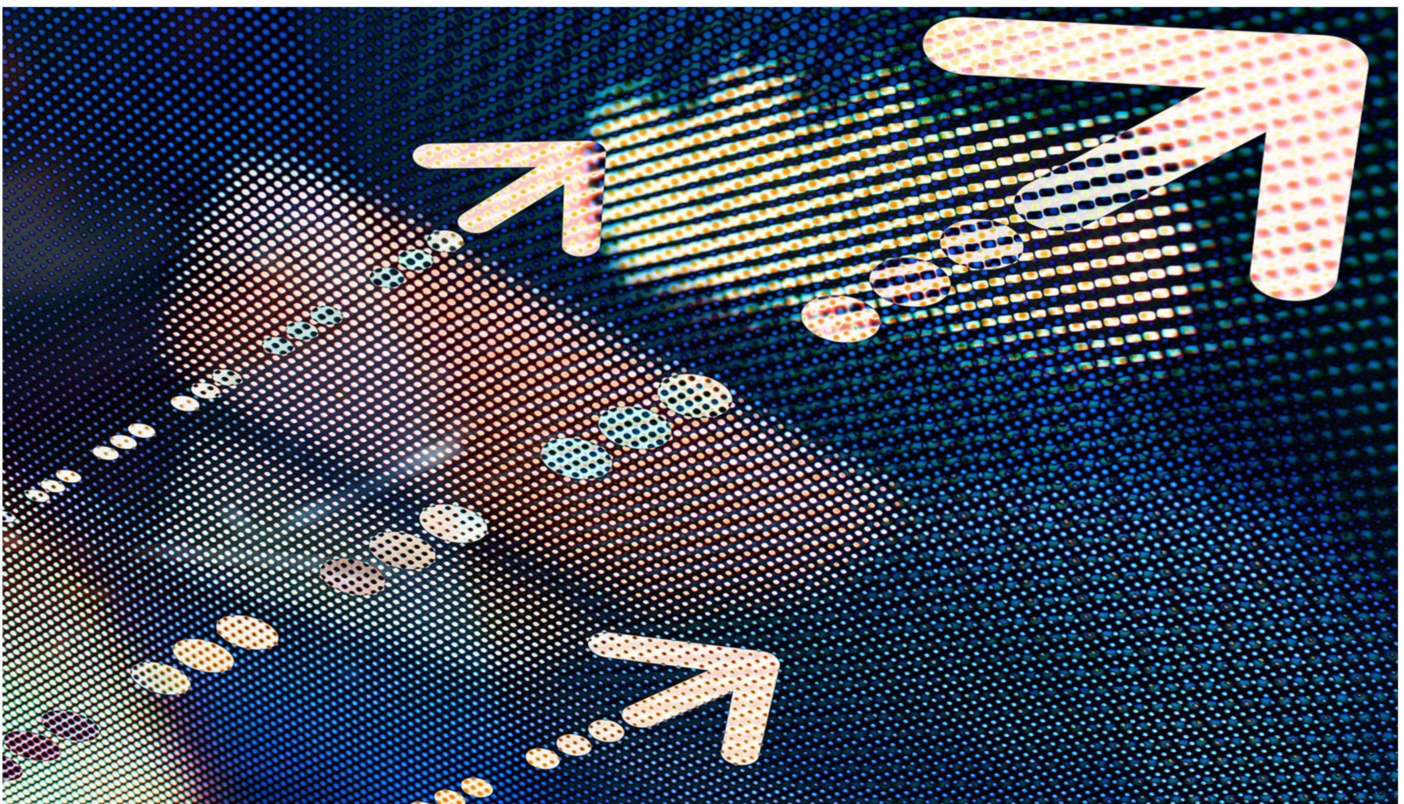
- Customer relationship management software that allows a business to store its customer contact and order data all in one secure, central location.
- Digital accounting software that makes essential business finance tasks like raising invoices, expense tracking, and sharing information easier to manage.
- eCommerce software that helps a business sell its products and services online.

On average, using customer relationship management software boosts productivity by 18%, with digital accounting software increasing employee sales by nearly 12% over three years.

There are currently 14 approved technology suppliers listed on the Help to Grow: Digital website, which also provides a considerable amount of guidance. Business owners can learn about the different types of software available, how to identify their business needs, and use step-by-step guides to embrace new ways of working.

More information about the Help to Grow: Digital scheme can be found from the link below:

https://www.learn-to-grow-your-business.service.gov.uk/



R&D tax relief reforms on the cards

New reforms will affect companies claiming tax relief or credits on research and development (R&D) expenditure for accounting periods beginning on or after 1 April 2023.

Currently, R&D tax relief for small or medium-sized enterprises provides an extra 130% deduction on qualifying R&D expenditure. Large companies can claim a 13% R&D expenditure credit.

R&D expenditure

The new reforms will mean that expenditure on data licenses and cloud computing will now qualify for relief, and the definition of R&D is amended to remove the exclusion of pure mathematics.

However, relief will be focused on UK activity. This means expenditure on external workers will generally only qualify to the extent that those workers' earnings are taxed through PAYE. The intention is to have employee skills and industrial know-how arising in and benefiting the UK, but it will make it more difficult for companies facing global competition for specialist talent.

Exceptions will apply where the activity cannot reasonably be undertaken in the UK, however cost and workforce availability are not reasons for an exception.

Abuse and compliance

All claims will in future have to be made digitally.

- Claims will have to break costs down across qualifying categories and provide a brief description of the R&D. Details of any agent who has advised the company on compiling the claim will also have to be provided.
- HMRC must be pre-notified of claims using a digital service within six months of the period to which the claim relates. There will be an exception if a company has already made a claim in one of the preceding three periods. There is a risk here that lack of awareness of the pre-notification requirement will mean an otherwise legitimate claim being denied.
- The time limit for making a claim will be extended to two years from the end of the period of account to which the claim relates.

The government's policy paper explaining the changes can be found from the link below:

https://www.gov.uk/government/publications/research-and-development-tax-relief-changes/research-and-development-tax-relief-reform

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

Disclaimer: This information provides an overview of the issues considered and is for general information only. It is not intended to provide advice and should not be relied upon in any specific transaction.