Henderson Loggie

Year End Tax Planning Guide

2024

Welcome

Tax rules and rates change regularly with more changes than usual in recent times. This means it is more important than ever to take a proactive approach to your tax planning.

We have prepared a summary of tax planning ideas that can be considered, both pre-year end on 5 April and throughout the year.

We have a great team at Henderson Loggie and we are happy to discuss any aspect of this guide with you.

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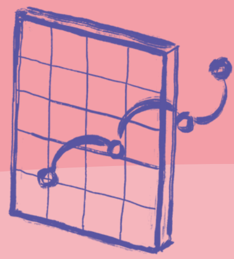
Income tax rates



There are now several different tax rates. There are UK income tax rates that apply to all saving income for all UK taxpayers and non-savings income for the rest of the UK taxpayers (this excludes Scottish taxpayers).

There are Scottish income tax rates that apply to the non-savings income of Scottish taxpayers. The final rates for income tax are the dividend rates that apply to dividend income for all UK taxpayers including Scottish taxpayers.

The UK rates apply to all income for UK taxpayers and to savings and dividend income for Scottish taxpayers.

UK income tax rates and thresholds

Rates apply to all savings and non-savings income for UK (not Scottish) taxpayers and to all savings income for Scottish taxpayers. The rates and thresholds remain the same for the 2023/24 and 2024/25 tax years.

23/24 and 24/25	Tax rate (UK)	Income
Personal allowance	0%	First £12,570
Basic rate	20%	£12,571 to £50,270
Higher rate	40%	£50,271 to £125,140
Additional rate	45%	Over £125,140

Dividend tax rates

The rates apply to all UK taxpayers and the rates remain the same for the 2023/24 and 2024/25 tax years. The thresholds for the different rated are the same as the thresholds above for the UK income tax rates.

23/24 and 24/25	
Tax on dividends at the basic rate	8.75%
Tax on dividends at the higher rate	33.75%
Tax on dividends at the additional rate	20%

Scottish income tax rates

Scottish rates apply to non-savings income including employment, trading profits, property, and pension income for those who are Scottish taxpayers. The rates and thresholds differ from the UK rates above and are different in each of the 2023/24 and 2024/25 tax years.

2023/24 Tax year	**Tax rate (Scotland)**	**Income**
Personal allowance	0%	First £12,570*
Starter rate	19%	£12,571 to £14,732
Basic rate	20%	£14,733 to £25,688
Intermediate rate	21%	£25,689 to £43,662
Higher rate	42%	£43,663 to £125,140
Top rate	47%	Over £125,140

2024/25 Tax year	**Tax rate (Scotland)**	**Income**
Personal allowance	0%	First £12,570*
Starter rate	19%	£12,571 to £14,876
Basic rate	20%	£14,877 to £26,561
Intermediate rate	21%	£26,562 to £43,662
Higher rate	42%	£43,663 to £75,000
Advanced rate	45%	£75,001 to £125,140
Top rate	48%	Over £125,140

Income tax allowances

Personal allowance

The UK personal allowance remains at £12,570 for the 2023/24 and the 2024/25 tax years. All income within the allowance is taxable at 0% regardless of income type.

The savings and dividend allowances are the amount taxable at 0% on the respective income types.

Dividend allowance

Tax year	Allowance received
2023/24	£1,000
2024/25	£500

The dividend allowance for individuals will reduce from 6th April 2024 as summarised above.

Personal savings allowance

Tax band	Allowance received
Basic rate	£1,000
Higher rate	£500
Additional rate	£0

The savings allowance remains the same for the 2023/24 and the 2024/25 tax years.

Planning point

The allowances are valuable, and it is important to ensure they are fully utilised where possible.

Personal allowance restriction

The personal allowance for a UK individual in the 2023/24 and 2024/25 tax years is £12,570.

When an individual's income exceeds £100,000 in a particular tax year, their personal allowance will be restricted by £1 for every £2 of income in excess of this amount, up to a maximum of £125,140.

As a result, for an individual with an income that is greater than £125,140 in either of these tax years, the personal allowance will be restricted to nil.

The effective tax rate on income between £100,000 and £125,140 is around 60% for rest of the UK taxpayers and over 67% for Scottish taxpayers. There are a number of ways to mitigate this with the main ones being pension contributions and gift aid which are explained in more detail in the subsequent sections.

Did you know?

Gift aid and pension contributions can reduce personal allowance restrictions.

High income child benefit

If a household receives child benefit payments and there is a taxpayer in the home with an adjusted net income of more than £50,000, that individual may be liable to the high-income child benefit charge (HICBC).

This charge is applied to every £100 of income received between £50,000 and £60,000 at a rate of 1% of the child benefit received. This means that if net income is greater than £60,000 the child benefit is repayable in full to HMRC.

If all earners in the household have income greater than £50,000 then the charge is reportable by the highest earner regardless of who receives the payment in the household. It is possible to reduce the exposure to the high-income child benefit charge by making gift aid and/or personal pension contributions.

You can elect not to receive child benefit payments and the charge will not apply, but this should only be considered if your income is consistently over £60,000. All facts of your situation should be considered prior to making this type of election.

When you have children, you should register for child benefits even if your income is over £60,000 and then decide if your household will opt out of receiving the payments. This ensures your child will receive a national insurance number when they reach 16, rather than having to apply and also means if there is a non-working parent in the household, they will have national insurance credits.

Gift aid

Gift Aid is a UK tax incentive that provides a potential tax relief for charities and individuals on donations. Charities can claim an extra 25p for every £1 donation. This means that for a donation of £1,000, the charity can claim an additional £250 - giving a gross donation of £1,250.

Tax bands for individuals are extended by the gross charitable donation. For a net donation of £1,000, the bands are extended by the gross amount of £1,250. This means that for higher rate taxpayers an additional £1,250 is taxed at the basic rate, usually giving 20% tax relief.

In addition to extending the basic rate band, where an individual's income exceeds £100,000, Gift Aid payments may also mitigate the reduction of the personal allowance and the high-income child benefit charge where one individual in the household has income in excess of £50,000.

In the Spring Budget 2023, there was a change to the charities and Community Amateur Sports Clubs (CASCs) that qualify for Gift Aid. Donations to non-UK charities and CASCs (such as European Union and European Economic Area (EEA) charities) will not be eligible for Gift Aid from April 2024.

It's also important to note that where an individual has not paid sufficient tax to cover the Gift Aid claim by the charities, they can be charged this amount in tax. Using the example above, the tax due would be £250 being £1,250 at 20%.

Pensions

Contributing to a pension scheme can be a tax efficient way to save for your future. In some cases, it can even help reduce your annual income tax charge, as you contribute.

Tax relief on contributions into your pension is limited to the higher of 100% of your net relevant earnings NRE or where you do not have any NRE you can contribute and get tax relief on £3,600 (regardless of your level of earning).

You can continue to contribute to your pension up to the age of 75.

Personal pension payments can be made via:

- A salary sacrifice arrangement
  - This is where you receive full tax relief at source, as payment is taken from your gross salary, prior to any deductions and tax.
- A net pay arrangement
  - In this arrangement, payments are made to a pension from net income (after tax).
  - HMRC allow tax relief to be claimed by grossing up your pension contribution at a rate of 20%.

For example, if you contribute £800 into your pension, HMRC will contribute £200, meaning there is a total pension input of £1,000. If you are a higher, additional, or top rate taxpayer, further tax relief can be available as the gross pension contribution extends your income tax bands.

Annual allowance

The allowance that you can annually pay into your pension scheme(s) is £60,000 for the 23/24 tax year and while you can contribute more than this, there can be a charge on the excess. To calculate the total available allowance and whether there is an excess on which a charge can apply, there are a number of factors to consider.

The annual allowance is reduced if your income levels are above the following thresholds:

- Threshold income £200,000 (your regular income)
- Adjusted income £260,000 (threshold income plus your pension contributions)

Where this is the case, your annual allowance entitlement is reduced by £1 for every £2 your income is over the adjusted income of £260,000. The annual allowance is tapered to a minimum of £10,000.

Any unused annual allowance can be carried forward for up to three tax years, provided you were a member of a registered pension scheme in these years. If this is planned correctly, it ensures you can still receive maximum tax relief in a later year, should you not have the funds available to contribute at a certain point.

Once your annual allowance after any taper is calculated, this is added to the unused allowance from earlier years if available and any contributions in excess of this figure are subject to the pension charge. The tax charge can either be included in your tax return and the tax collected or in certain circumstances, the pension can pay (known as scheme pays).

Lifetime allowance

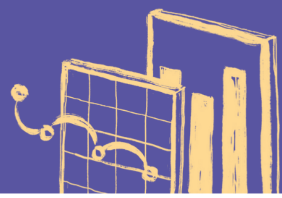
Since 2006, tax charges have been incurred on pension savings for those exceeding the lifetime allowance.

Major reforms in place from 6 April 2023 will see zero tax charges on savings in excess of the current £1,073,100 limit. From 6 April 2024, the lifetime allowance will be scrapped completely.

For the 23/24 year, lump sums of excess savings will no longer be taxed at 55% but at the recipient's marginal tax band.

The tax-free amount of the Pension Commencement Lump Sum remains at 25%.

Tax efficient Investments



There are a number of tax reliefs associated with certain investments. Some of these are noted below. Please note that with all investments, specialist investment advice should be sought in addition to tax advice.

ISAs

Individual savings accounts (ISAs) are tax efficient investments available to individuals. There are different types of ISAs, with the main ones being cash ISAs, stocks and shares ISAs and lifetime ISAs.

The maximum that can be contributed to an ISA each year is £20,000. This resets each year at 5 April and any unused allowances will not carry over to the next tax year and will be lost. So, if you would like to top up your ISA this year, make sure you do so before 5 April to maximise the amount you can contribute.

Previously only one ISA of each type could be paid into each year from the £20,000 allowance however it has been announced that multiple ISAs of the same type can be opened from April 2024 without losing the allowance.

The Government also announced from April 2024 that partial transfers of ISA balances can be made to other providers rather than transferring the full ISA balance.

Income from ISAs are tax free, so there is no tax charge on interest or dividends arising on funds held in an ISA and there are no capital gains for the disposal of assets held in an ISA. There are Junior ISAs available to children under the age of 18. The annual amount that can be contributed to a Junior ISA is £9,000.

Enterprise Investment Scheme (EIS) & Seed Enterprise Investment Scheme (SEIS)

EIS and SEIS are tax favoured investment schemes which encourage individuals to invest in certain companies by giving income tax relief on their investment.

n investment in a qualifying EIS company can reduce your tax liability by up to 30% of the amount invested up to a cap of £1,000,000 or up to £2,000,000 where investments are made in "knowledge intensive companies".

Taxpayers can defer gains arising from disposals of capital assets when the proceeds are reinvested in qualifying EIS shares between one year before or three years after the gain arises. There is no limit on the amount that can be deferred, however, this is a deferral and not a relief so careful planning is needed. If the rate of CGT is higher when the deferred gains come back into charge, that is the tax rate you will pay.

SEIS investments can reduce your tax liability by 50% of your investment, capped at the annual investment limit of £200,000. When sale proceeds are reinvested in SEIS shares, up to 50% of the gain can become exempt from capital gains tax. This differs from deferral for EIS shares.

Disposals of EIS or SEIS shares are usually exempt from capital gains tax, subject to certain conditions being met. When considering EIS and SEIS for inheritance tax planning, they can qualify for business relief meaning no inheritance tax is payable when conditions are met.

Venture Capital Trusts (VCT)

An investment in a VCT can reduce your tax liability by up to 30% of the value of your investment. The amount you can invest and receive tax relief is capped at a £200,000 annual investment limit. While you can invest over the limit, the tax advantages noted here will not apply to excess investment.

Dividends received from VCT shares are exempt from income tax, but this exemption only applies to the first £200,000 invested in a VCT in a tax year.

The sale of qualifying VCT investments are exempt from capital gains. However, unlike EIS and SEIS, gains from the sale of other assets cannot be deferred or exempted by investments in VCT shares.

Cryptocurrency

A cryptocurrency is a digital or virtual currency and there are many different types including Bitcoin and Ethereum to name a couple.

While cryptocurrency exists only on digital platforms, it is still taxable and with large profits being common on crypto assets it is important to get the tax right.

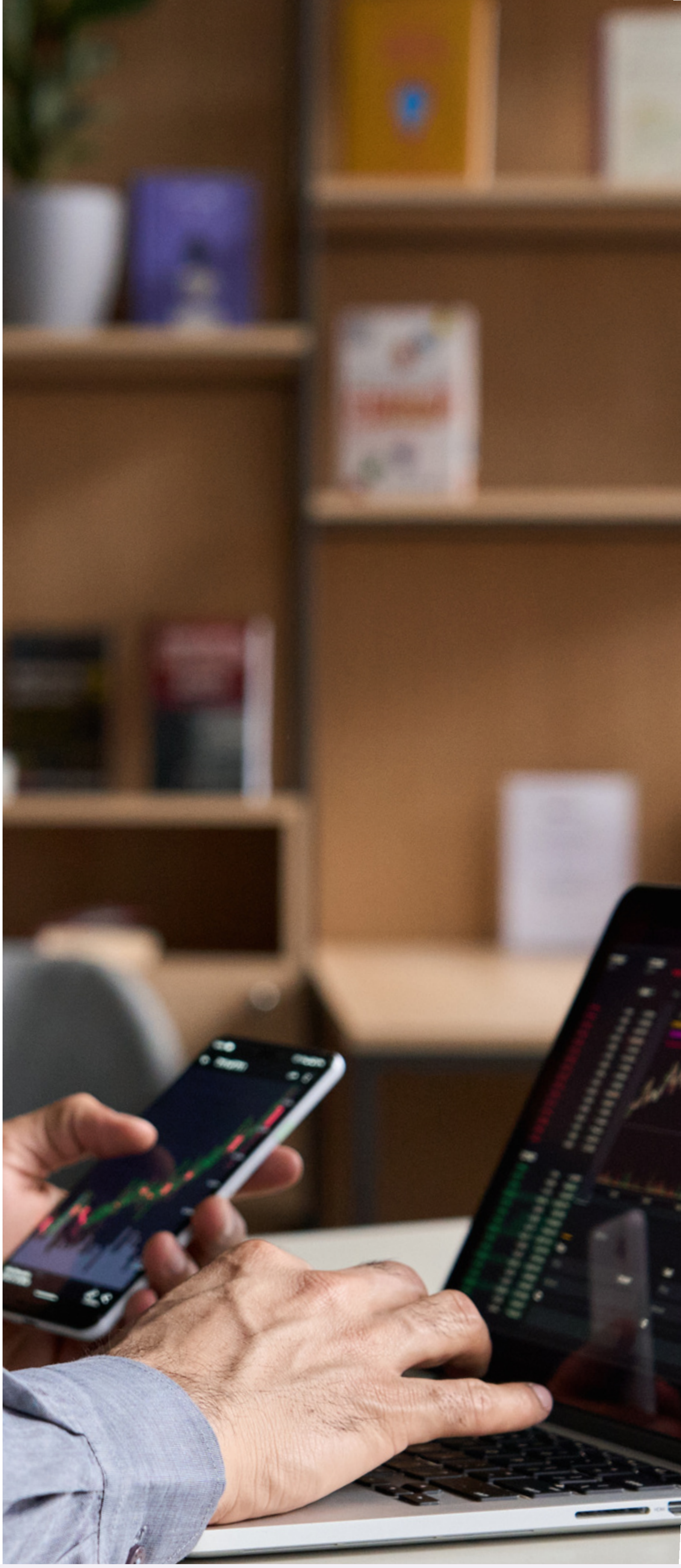
There is no specific legislation for crypto assets in the UK which means they are subject to the existing legislation for all assets digital and physical.

This means that crypto assets including cryptocurrency are subject to income tax, capital gains and inheritance tax just as any other assets. If you are trading in cryptocurrency, you can be taxable to income tax with the same tax rules as any other trading business.

If you buy and sell cryptocurrency but are not considered trading, you would instead be subject to capital gains tax on any gains.

If your employer pays you in cryptocurrency, this is taxed to income tax as salary in the same way as paying your salary in pounds sterling or any other currency.

If you hold crypto assets in your estate, these will be subject to IHT under the same rules as the rest of your estate.



Inheritance Tax Planning

Short term planning

There are short term IHT (inheritance tax) planning points that should be considered each year to optimise the use of your allowances and reduce the value of your estate exposed to IHT. The main allowances available are:

Annual allowance
You can give up to £3,000 each tax year, if this is not fully utilised, the unused amount can be rolled forward up to one year.

Regular payments from excess income
Payments out of normal income that are paid on a regular basis can also reduce the value of your estate for IHT purposes.

Small gifts exemption
£250 can be gifted to each person each tax year as long as the other allowances have not been used already on the receiving individual.

Marriage exemption
This applies when gifting for a marriage or civil partnership. The allowance can vary depending on the relationship between the transferor and the individual getting married.

The various amounts are as follows;

- To your child – £5,000
- To your grandchild – £2,500
- Any other person – £1,000

Planning point

With any IHT planning, it is important to keep good records and start your planning early.

Long term planning

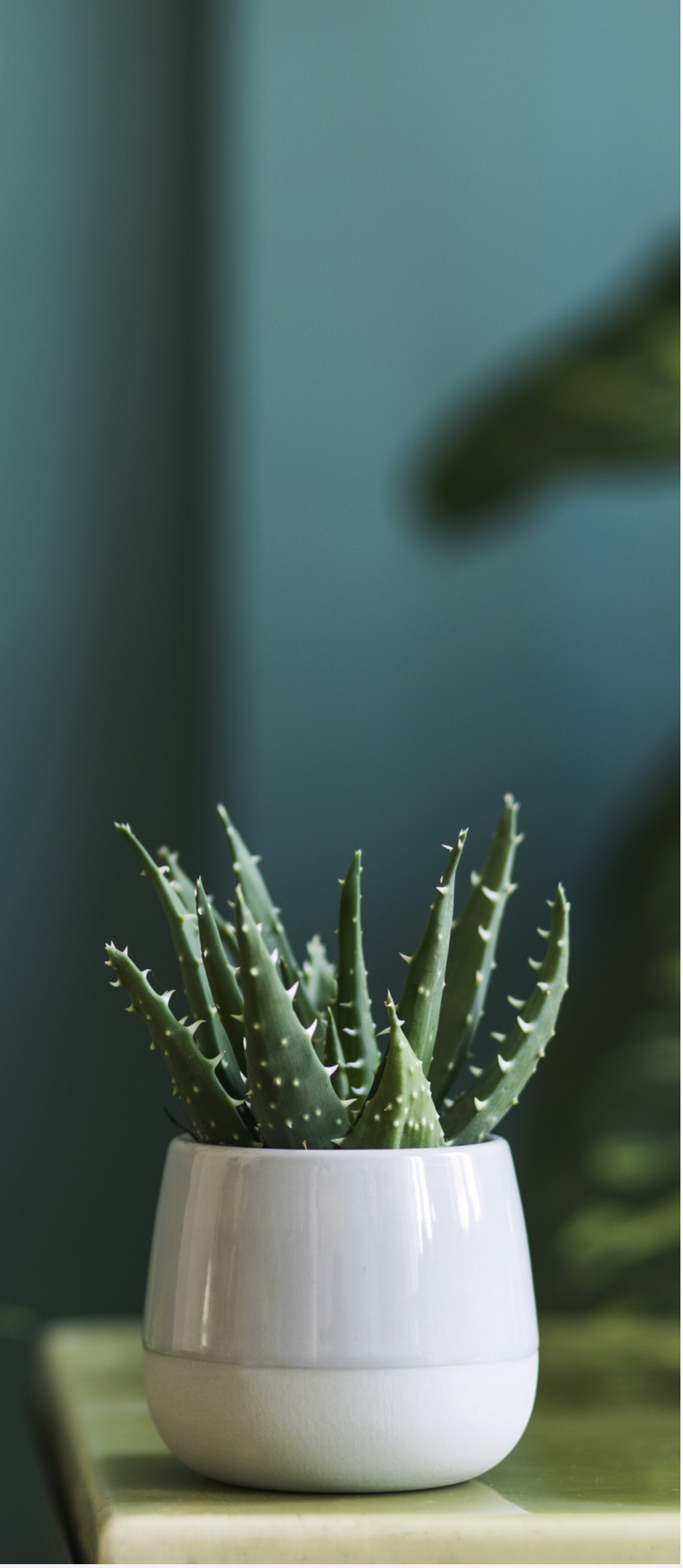
There are many longer-term planning options that can be used to mitigate IHT, and these should be considered as part of your overall retirement and IHT plan. If you are over 50 and have not already started to think about your retirement plans and IHT, now is the time.

The planning tools can include potentially exempt transfers, trusts, tax efficient investments, family investment companies, gifts to charities and many more. This can be combined with planning for your retirement, possible future care requirements and ensuring your finances are in order.

The current nil rate bands which apply to all UK domiciled individuals, have been frozen until at least 2026. As inflation increases, this means more people will become liable to IHT on their Estates. The nil rate band is currently £325,000 and the residential nil rate band is £175,000 where conditions are met, so up to £500,000 per individual and up to £1 million per couple.

Where estates are in excess of £2 million the residential nil rate band is tapered, reducing the tax saving. Effective IHT planning can look to reduce the estate below £2 million where appropriate preserving the allowance and associated tax saving.

The most tax efficient IHT and retirement planning is usually when this can be done over a number of years and is flexible to meet the changing requirements of you and your family's income and capital requirements. However, regardless of when you start planning, there may still be plenty of opportunities to mitigate your IHT.



Capital gains tax

Capital gains tax (CGT) applies to the disposal of assets and includes the sale and gift of assets. The CGT annual exemption has been reduced to £6,000 for the year to 5 April 2024 and will be reduced to £3,000 for the year to 5 April 2025 and all subsequent years.

If you have assets to dispose of and want to maximise the amount of allowance you will receive, thus saving some tax, it is important to consider the timing of the disposal.

The CGT rates currently remain at 18% and 28% for residential property and 10% and 20% for all other capital disposals.
When disposing of a residential property, there is a 60-day time limit, from the completion of the sale, for reporting the disposal and paying the tax if there is a gain.

If you are planning a sale of residential property, to avoid a last-minute rush, start the CGT planning and calculations early.

The main reliefs that apply to capital gains are:

- gift and rollover reliefs.
- Business Asset Disposal Relief (BADR), formally Entrepreneur's Relief. The lifetime limit for BADR remains at £1 million with a tax rate of 10%

If you are planning the disposal of a business or other large assets that might qualify for any of these reliefs, plan early.

Making tax digital for income tax

MTD for ITSA is still due to be introduced but has been delayed until April 2026. The updated qualifying criteria for MTD, as announced last year, is unchanged, however, it remains under review. From 6 April 2026, individuals with self-employment and/or land and property income above £50,000, will need to keep digital records and report their income and expenses every quarter.

From 6 April 2027, these record-keeping and reporting requirements will also apply to those individuals with self-employment and or land & and property income above £30,000.

The Government is currently reviewing the needs of smaller businesses, particularly those with income under £30,000. We expect further announcements in the future on how MTD will affect them.

General partnerships have also been affected by the delay with the implementation of MTD taking place at a date not yet confirmed. 'Complex' partnerships such as LLPs and partnerships with corporate partners, have also yet to be given a date.

The Government have announced that the end-of-period statements will no longer be required as part of the MTD process.

Basis period reform

Basis Period Reform came into effect on 6 April 2023, with 2023/24 being the transitional year.

Regardless of your business accounting year end or whether you are a partnership or sole trader, you will now be taxed on business profits earned across the tax year, 6 April to 5 April rather than based on the accounting year end for the business. This means all unincorporated businesses with a year end that is not 31 March – 5 April will have to change the way they calculate profits.

In the 2023/24 transitional year, a business will be taxable on the profits for the accounting period ending in the tax year as usual and in addition they will be taxable on the profits from the end of this period to 5 April resulting in additional profits taxable in one tax year.

For example, if your current accounting year end date is 31 July, the profits taxable in the 2023/24 tax year will be those for the year to 31 July 2023 and the period 1 August 2023 to 5 April 2024. This is an additional 8 months of profits taxable in this example.

HMRC have confirmed that any tax due during the transitional period can be spread over a period of up to five years. Many things will have to be considered before deciding how many years to spread over, such as, how close you are to retirement or how this interacts with your other income and cashflow.

It is worth considering how these rules will impact you and your business and whether a change in accounting year end should be considered.

Cashflow projections can be prepared to help plan and help with deciding on how many years to spread any additional tax over.

International personal tax

Tax on earnings generated overseas can be confusing to navigate. Several factors contribute towards determining one's tax liability for such earnings, mainly being the residency status of the individual and where they are deemed domicile.

- Residence is determined by the Statutory Residence Test and will depend on each individual's circumstances.
- Domicile: Most commonly, the country where an individual was born and has a permanent home. This is often determined also by where one's parents are deemed domicile.

UK residents must pay tax on all income, regardless of where in the world it comes from. This can include wages, foreign investments, interest from foreign bank accounts, income from overseas pensions and any rental income from properties held abroad.

The following table shows a summary of UK tax implications on foreign income:

UK Resident & UK Domicile

All foreign income is taxable on an arising basis – tax is due on the year the income is received.

If dividend income is received and has already been taxed overseas, Double Taxation Relief can be available for individuals if the UK shares a tax treaty with the country where the income arose.

UK Resident & Non-UK Domicile

All foreign income is taxable on an arising basis, however, a 'Remittance Basis' may apply. This is where foreign income is only taxable if it is brought into the UK to use and enjoy.

Split year treatment

It is not uncommon for individuals to spend part of the tax year resident in the UK and another part resident in another country. This is often for work or to move home.

This can often lead to a split year treatment being available for individuals and applied to their tax status.

Split year treatment separates the tax year into a UK part (where the individual is deemed a UK resident and will be taxed UK tax) and an overseas part (where they are non-UK residents and charged according to the country's tax rules).

There are various tests and criteria to determine if split year treatment can be applied. These are complex and depend on various aspects including the number of days one is present in the UK, the number of consecutive years working in the UK and family ties.

Business Tax

Cash extraction issues

There are a number of ways in which business owners can extract cash such as dividends and salary, bonus payments, pension contributions and repayment of any loans made from the company. The optimal position depends entirely on individual circumstances

Salary payments are subject to PAYE and NIC.

There are several incoming legislative changes which will impact cash extraction planning opportunities. The 2023 Autumn Statement announced changes to the rates of National Insurance Contributions (NIC), meaning that employees will pay NIC at a rate of 10%, or 2% on higher earnings from January 2024. Employer rates will remain unchanged at a rate of 13.8%.

Additionally, with effect from 1 April 2024, there will be 7 different Scottish income tax rates with the addition of an advanced rate of 45% (£75,001-£125,140) and an increase in the top rate of tax to 48% for earnings over £125,140.

As noted earlier in this guide, the Dividend Allowance will reduce from £1,000 to £500 from 6 April 2024, which could result in additional tax liabilities for shareholders. It is worth noting that dividend payments are not subject to national insurance payments. Dividends are paid out of after-tax reserves, so a corporation tax deduction is not available in relation to dividends paid.

A corporation tax deduction is available for salary, bonuses, and employers NI contributions and this means there will be a tax saving in the company, based on the current corporation tax rate of 25% of the amount of salary, bonus etc plus the employers NI.

Contributing to a pension plan is a tax efficient way of extracting money from the company as this is an allowable expense for corporation tax purposes and the individual also gets tax relief on their contribution.

A loan from the company can be a useful low-cost source of funds. The shareholder/director must pay the company interest at the rate set by HMRC to avoid a benefit in kind charge. Additionally, the shareholder/director should aim to repay the loan before the end of the company's financial year or within 9 months of the company's year-end, otherwise, the company will be liable to an additional tax charge (33.75%) of the loan outstanding.

The various tax rate changes mean that the most tax-efficient manner for owner-managers to extract cash from their company is changing and we recommend you revisit the mix of cash extraction as soon as you can.

Business structure

It can be beneficial in tax terms to trade as a limited company rather than as a partnership or a sole trader as there can be tax savings. This will depend entirely on the individual circumstances of the directors and the profitability of the business. However, assuming the shareholder/director does not want to extract all the retained profits from the company there is great flexibility in terms of how the director/shareholder can be remunerated in terms of receiving a mixture of dividends and salary which can in certain circumstances greatly reduce the annual tax bill.

Further advice can be provided in relation to whether it is worthwhile to incorporate your business and whether this will lead to tax savings.

Capital allowances

Businesses can claim capital allowances when purchasing qualifying assets with the amount claimable being dependant on the type of capital expenditure incurred.

Main pool allowances relating to qualifying plant and machinery (e.g. office equipment computer equipment, cars below 50g/km, vans, and lorries etc) will be eligible for an 18% writing down allowance (WDA), whereas special rate pool qualifying expenditure (e.g. integral features, thermal insulation, cars over 50g/km etc.) will be eligible for a 6% WDA.

Structures and Buildings Allowances (SBA) are also available for commercial buildings (and structures) used by a business, where construction began on or after 29 October 2018, provided that the contract was agreed upon after that date. Relief available on qualifying expenditure (offices, retail premises, factories etc.) is given at a flat rate of 3% per annum on the qualifying cost.

Fully expensing first year allowance and 50% special rate first year allowance

Until 31 March 2023, the super-deduction allowance permitted companies to claim 130% on the cost of qualifying plant and machinery (excluding non-zero emission cars and items classed as integral features). From 1 April 2023, this was replaced by fully expensing which now allows companies to claim 100% relief on the same qualifying expenditure. This relief was initially in place until 31 March 2026; however, this has since been made permanent by the UK chancellor in the most recent Autumn Statement and will continue to remain uncapped.

Companies can also continue to claim enhanced capital allowances of 50% first year allowance for special rate pool purchases. The remaining balance of the special rate expenditure will be relieved at a rate of 6% per year.

Annual investment allowance

AIA is available for all businesses meaning it is also available for sole traders and partnerships. AIA is a 100% allowance that can be claimed on qualifying plant and machinery (except for cars). It is capped at a maximum allowance of £1 million per year, this allowance is shared between companies within the same group and/or companies under the control of the same person(s).

Corporation tax

As of 1 April 2023, the main rate of corporation tax rose to 25% for profits above £250,000. The existing 19% rate will remain for companies with small profits (below £50,000). There are marginal relief provisions for profits that fall between these two limits which bridge the gap between the two rates. It should be noted that the small profits rate will not apply to close investment-holding companies.

An additional change that has been brought in on the same date is the associated companies test. Previously, tax thresholds (e.g. for quarterly instalments, tax rate, tax payment date) were proportionately reduced depending on the number of 51% group companies. This has been replaced by the associated companies test (e.g. one company has control of the other, or both companies are under the control of the same person). This means that a single individual shareholder who controls multiple companies will have to reduce the thresholds proportionately to determine tax payment deadlines and the applicable tax rates.

It should be noted that when calculating the number of associated companies, it must include overseas companies but can exclude dormant entities.

The impact of these changes could mean that tax payments are due earlier, and interest may be charged on any payments not made in time. The Bank of England Monetary Policy Committee announced an increase to the Bank of England base rate on 3 August 2023.

As HMRC interest rates are linked to the Bank of England base rate, the interest rate for late payment and repayment have also increased. These changes took effect on 14 August 2023 for quarterly instalments and from 22 August 2023 for non-quarterly instalments.

Employment benefits

From 6 April 2023, the rate of Class 1A NIC paid by companies for non-cash benefits provided to staff and reported on the P11Ds is decreasing to 13.8%. A business (including those that have payroll benefits) must report non-cash benefits to staff to HMRC in a tax year must do so by 6 July and pay the Class 1A NIC by 19 July (22 July if paying electronically) following the end of the tax year.

HMRC have confirmed that company car tax percentages are frozen for three tax years from 2022/23 until 2024/25. The multiplier for the car fuel benefit will be £27,800 for the 2023/24 tax year, with the benefit on which employees are taxed dependent on the CO2 emissions. There is no fuel benefit charge for fully electric company cars.

Did you know that fully electric vehicles currently have a benefit in kind percentage of 2% frozen until 2024/25 resulting in lower income tax due for employees and a lower Class 1A national insurance liability for the employer when compared against petrol/diesel cars? An electric vehicle can be provided to employees through salary sacrifice/exchange however there are national minimum wage and contractual obligations that need to be considered when operating a salary sacrifice arrangement.

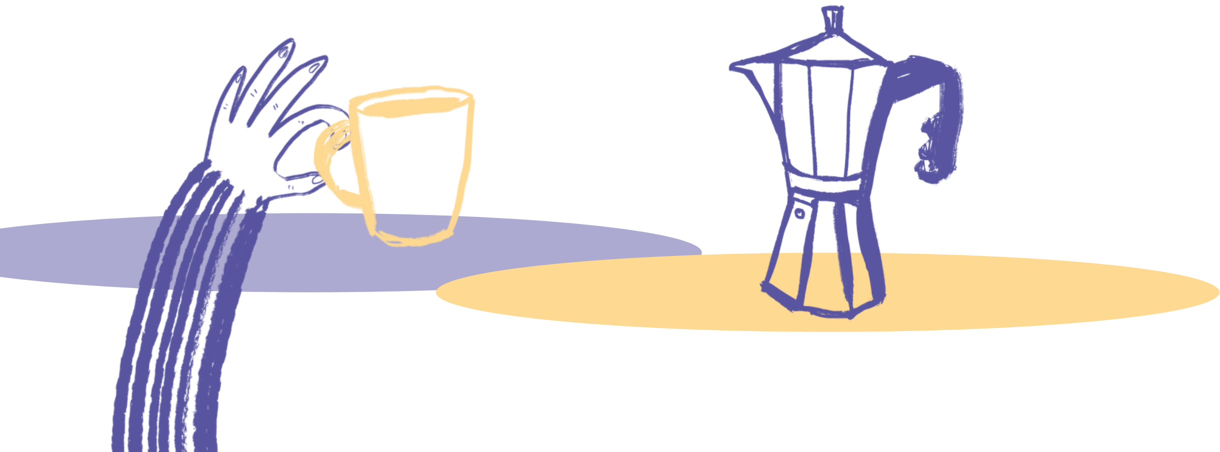
The van benefit charge will remain at £3,960 until 5 April 2025 and the van fuel benefit charge for vans frozen at £757.

Businesses that pay all fuel costs on a company vehicle should consider whether reimbursement of personal/business miles would be beneficial as this will reduce the employer NIC liability. It may also result in a reduced cost to the employee if the level of personal miles is lower than the tax paid on the total fuel benefit.

Businesses can provide staff with trivial benefits, without having to report these to HMRC provided that the value of each benefit does not exceed £50. The trivial benefit cannot be cash or in recognition of services/contractual.

For employers providing a social event/party to staff, these may not be reportable to HMRC if it costs less than £150 per head. If there is more than one event in the year the combined cost must not exceed £150 per head.

Should the business wish to pay the tax on the employee's behalf on the benefits they received, they can do so via a PAYE Settlement Agreement (PSA) which must be agreed with HMRC by 5 July.



Incentivising staff

Enterprise Management Incentive (EMI) scheme

Currently, the most tax-efficient share scheme for incentivising staff is the Enterprise Management Incentive (EMI) scheme. The conditions for the scheme should be checked by the company prior to implementation, however, most trading companies should qualify.

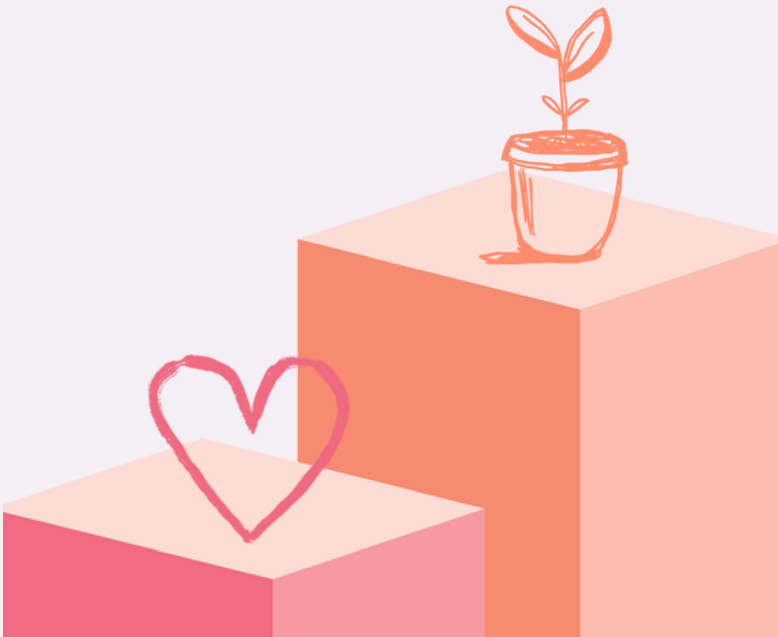
Under this scheme, options to acquire shares are granted to qualifying employees. The scheme is very flexible and can be structured with different exercise conditions.

If the exercise price is at least equal to the market value of the shares at grant, then no income tax will arise on the employee when exercised. Furthermore, if the options are held for at least 2 years before being exercised, the disposal could qualify for business asset disposal relief attracting a more favourable 10% tax rate (even if the employee holds less than a 5% interest in the company which is another stipulation for this relief usually).

EMI is not available to employees working fewer than 25 hours a week (or less than 75% of their paid working time, if less) for the company; nor is it available where the share reward is to recognise past efforts, as EMI options are intended to help with staff incentivisation and retention.

Other schemes

There are various other tax advantaged and non-tax advantaged share schemes that can be implemented to assist the retention of staff and growth of your company.



National insurance

Self-employed NIC Rates

If you are self-employed, you will usually pay two types of National Insurance:

- Class 2
  If your profits exceed £12,570 (2023/24) per year. The government have removed the requirement to pay Class 2 NICs from 2024/25.

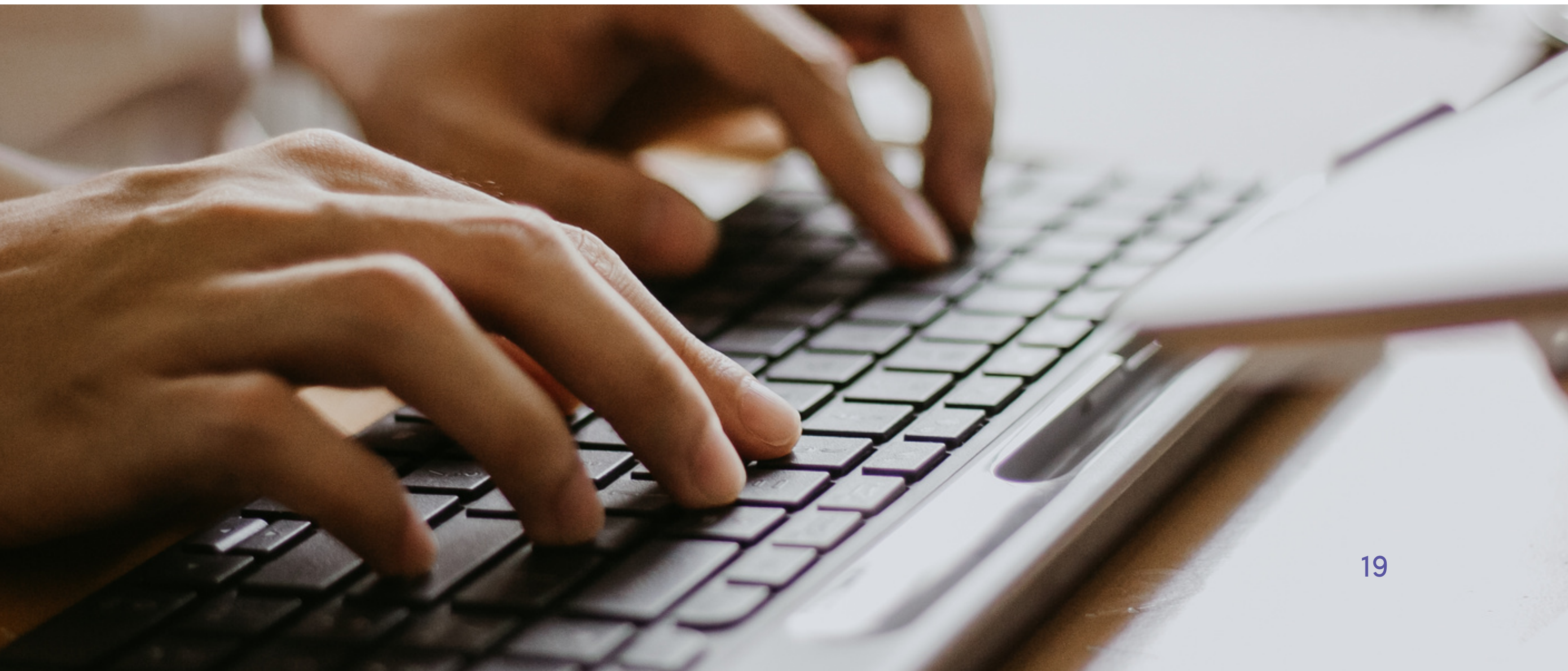
- Class 4
  If your profits exceed £12,570 (2023/24 & 2024/25) per year.

Class	Rate - Tax year 2023/24	Rate - Tax year 2024/25
Class 2	£3.45 per week	£3.45 per week if paying voluntarily
Class 4	9% on profits from £12,570 - £50,270 2% on profits above £50,270	8% on profits from £12,570 - £50,270 2% on profits above £50,270

If your self-employed profits are below £6,825 you may wish to pay voluntary Class 2 NIC so that the year qualifies towards your state pension record.

The rates for the 2023/24 and 2024/25 are:

- £3.45 a week for Class 2 (£179.40 per year)



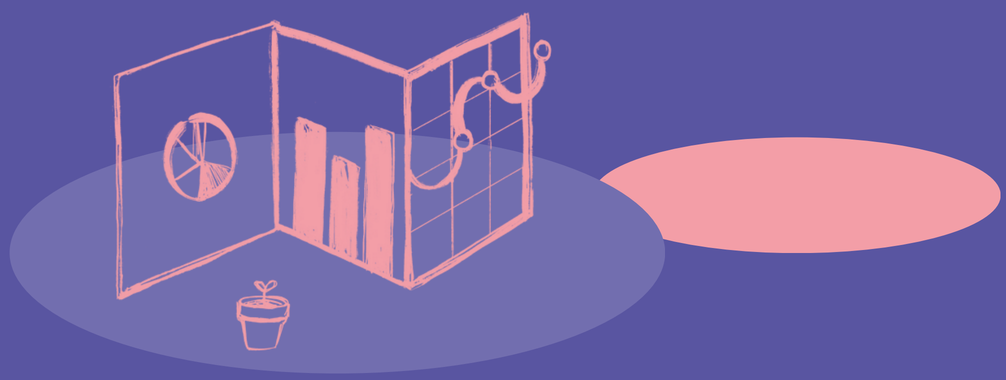
Employer and employee NIC rates

The thresholds at which employees (primary) and employers (secondary) must pay Class 1 NICs are noted below.

The rates noted below apply to the majority of employees who are subject to Category A NICs. Rates for certain other groups of employees such as those under 21, those in receipt of a state pension or those that work in Freeports may be subject to different rates. The government announced in the Autumn Statement that the main Class 1 NIC rate will be cut from 12% to 10% from 6 January 2024.

	2023/24 & 2024/25
Primary Threshold (PT)	£12,570
Secondary Threshold (ST)	£9,100
Lower Earnings Limit (LEL)	£6,396
Upper Earnings Limit (UEL)	£50,270

	Tax year 2023/24		Tax year 2024/25
	06/04/23 – 05/01/24	06/04/23 – 05/01/24	06/04/24 – 05/04/25
Earnings at or greater than LEL up to PT	0%	0%	0%
Earnings above PT up to & including UEL	12%	10%	10%
Earnings above UEL	2%	2%	2%



Research and development

R&D tax relief offers enhanced tax relief to limited companies in the UK who undertake qualifying R&D projects. There are two R&D tax relief schemes; the SME scheme which applies to small and medium enterprises (unless a project has received state aid) and the RDEC scheme which applies to large companies and SMEs who have received state aid.

To qualify for R&D tax relief, the project must have:

1. Looked for an advance in science or technology
2. Had to overcome uncertainty
3. Tried to overcome this uncertainty
4. Could not be easily worked out by a professional in the field

If a project qualifies, certain costs relating to the project such as salary, subcontractor and consumable costs are eligible for additional relief. Under proposed new rules, from April 2024, subcontractors or externally provided workers costs are only eligible for relief if incurred in the UK.

For profitable companies, corporation tax is saved at 19% (increased to 25% from 1 April 2023) on the enhanced deduction of 130% (86% from 1 April 2023). Where an SME is loss-making, it is possible to surrender this loss for an R&D tax credit at 14.5% (decreased to 10% for expenditure incurred from 1 April 2023 onwards).

The RDEC scheme offers an 'above the line' tax credit at 13% on qualifying expenditure (increased to 20% for expenditure incurred from 1 April 2023).

From 1 April 2023, there is now an R&D intensive scheme specifically for loss-making companies. To meet the definition for R&D intensity, companies must have 40% (30% for accounting periods beginning on or after 1 April 2024) or more of their total expenditure on qualifying R&D expenditure and claim the SME R&D tax credit. Companies claiming the existing SME tax relief will be eligible for a higher payable credit rate of 14.5% if they meet the definition for R&D intensity, instead of the 10% credit rate for non-intensive companies.

For accounting periods beginning on or after 1 April 2024, there will be changes for companies claiming R&D tax relief under either of the two current schemes. The change combines the current RDEC and SME schemes into a 'merged scheme' which will operate in a similar way to the current RDEC scheme. The rate offered under the merged scheme will be implemented at the current RDEC rate of 20%. The notional tax rate applied to loss-making companies in the merged scheme will be the small profits rate of 19%, rather than the 25% main rate set in the current RDEC. The 'R&D intensive scheme' will continue to be applicable for companies who meet the qualifying conditions.

From August 2023, companies must now complete and submit an 'additional information form (AIF)' to HMRC to support all claims for R&D tax relief or expenditure credits.

International Tax

There are various international tax compliance issues that directors of a company should be considering when the company:

- trades with of in an overseas territory
- is a large company which is defined as a company that has more than 250 employees and meets at least one of the conditions of turnover over €43m
- is a member of a large group of companies

An example of these types of issues to consider include the following:

1

Transfer pricing

A large group is required to maintain contemporaneous transfer pricing documentation that is reviewed regularly to ensure it accurately reflects the intergroup transactions taking place.

That format of transfer pricing documentation should follow a standardised approach which consists of:

- a master file containing standardised information relevant to all multinational enterprise group members
- a local file referring specifically to material transactions of the local taxpayer
- a Country-by-Country report for the largest multinational enterprise groups containing aggregate data on the global allocation of income, profit, taxes paid and economic activity of the tax jurisdictions in which it operates

2

Country-by-Country reporting (CbCR)

A large group of consolidated turnover over €750m will fall within CbCR rules and therefore need to consider that filing obligations are required in each territory the group has presence in.

3

Anti-Hybrid rules

These rules apply where there is a mismatch in tax treatment between jurisdictions which has arisen either due to a hybrid instrument or hybrid entity. A company is a hybrid entity where 2 jurisdictions view the entity differently (e.g. treated as a company in the UK but a partnership in a foreign jurisdiction).

A hybrid instrument generally is a type of security which can possess elements of both debt and equity. These types of instruments can create a mismatch for tax purposes where one jurisdiction treats the instrument as debt and allows a tax deduction for interest payments, but the recipient jurisdiction treats the instrument as equity and treats the receipt as a distribution which may not be subject to tax.

The tax legislation seeks to counteract any benefit that may be obtained in these hybrid situations by making an adjustment to the UK tax return.

This is a complex area of tax legislation and advice should always be sought to determine the impact of these rules.

4

Permanent establishments

A company trading overseas may create a permanent establishment and be required to file local tax returns. This is becoming more prevalent post-Covid, as employees are seeking to work remotely from overseas jurisdictions. This can create a multitude of tax considerations from both an employment tax and corporate tax perspective and advice should be sought before agreeing to this type of arrangement.

5

Withholding tax

A company that makes payments of interest or royalties to overseas providers should consider whether UK withholding tax needs to be applied to such payments or if there is a double tax treaty relief available.

6

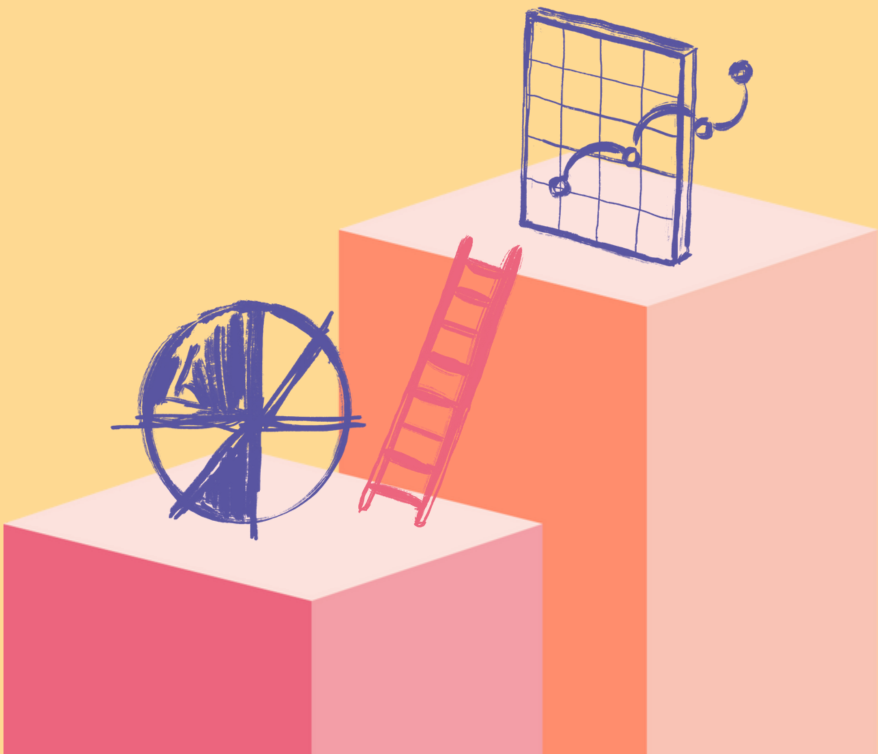
Controlled Foreign Companies (CFC)

If there are any non-UK-resident companies controlled by the UK company, consideration should be given to whether the CFC rules apply.

7

Corporate Criminal Offence

Has the business carried out a risk assessment and reviewed its processes and procedures to ensure it's compliant with the Corporate Criminal Offence rules? These rules were introduced to prevent the facilitation of tax evasion and put the onus on the business to ensure their suppliers are compliant with their tax obligations. These rules apply to corporate entities, as well as partnerships, and the only defence is to have completed a risk assessment and have reasonable procedures in place to prevent such facilitation.



VAT & indirect tax

VAT Registration

The mandatory VAT registration threshold, the level of taxable turnover at which businesses are required to register for VAT in the UK, will continue to be £85,000 in 2024. Businesses should remain aware of this threshold and monitor taxable business activity on a monthly basis to ensure strong compliance.

Energy Saving Materials - VAT Zero Rating

The zero-rate VAT applies to the installation of energy saving materials until 1 April 2027 and will revert to 5% at that date. Initially, the zero-rate only applies to installations in residential accommodation. From 1 February 2024, the scope of zero-rating will be extended to installations in buildings solely used for a relevant charitable purpose (RCP). An RCP building is one where 95% or more of the building is used by a charity for non-business purposes or as a village hall or similar, providing benefits for the local community. Additionally, the scope of the items classed as energy saving materials has been widened to include water-source heat pumps.

DIY Housebuilding/Self-Build Digitisation and extended claim period

DIY housebuilders/self-builders can reclaim VAT when building a new home or constructing a new charity building, for a charitable or relevant residential purpose. Prior to 5 December 2023, a claim must have been submitted via form VAT431NB or VAT431C within 3 months of completion. From 5 December 2023, claims can now be submitted digitally via HMRC's online service upon reaching the relevant points threshold (thresholds vary depending on the frequency of return submissions).

VAT Returns - Late submission and late payment penalties regime

The new penalties regime (replacing the default surcharge regime) went live for all late submissions and late payments for quarters beginning 1 January 2023 or later. Late submission penalties are calculated on a points-based system, a fixed £200 penalty is issued upon reaching the relevant points threshold (thresholds vary depending on the frequency of return submissions).

Late payment penalties are calculated when payments are outstanding after 15 days. On day 16, a 'first' 2% penalty is applied to the balance owed, with a further 2% penalty due on the outstanding balance on day 30. A 'second' penalty is applied at a daily rate of 4% to balances outstanding beyond 30 days until the balance is paid in full. Until 31 December 2023, HMRC did not charge the first late payment penalty provided that payment was made in full within 30 days for a Time to Pay arrangement was agreed. From 1 January 2024, the late payments regime will be in full operation.

Plastic Packing Tax (PPT)

Plastic Packing Tax came into force on 1 April 2022 and requires businesses to register when they manufacture or import 10 metric tonnes or more of finished plastic packaging components (whether they contain less than 30% recycled content or not). Once registered, businesses will need to pay Plastic Packaging Tax on the proportion of manufactured or imported plastic packaging components which contain less than 30% recycled plastic.

Taxpayers should be aware that from 1 April 2024, the rate of tax will increase from £210.82 per metric tonne of non-recycled packaging to £217.85. Furthermore, HMRC have estimated that there is a significant number of businesses that should be registered for PPT but are not, so checks should be undertaken to ensure compliance with the registration requirements.

Get in touch

If you would like to discuss any aspect of your tax affairs and planning, we would be delighted to help.

Just click the button below, fill out the form and we will be in touch with you as soon as we can.

Contact us

Henderson Loggie

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