Tax E-News – Budget 2024

7th March 2024 - Alexander Accountancy

On 6 March 2024, Chancellor Jeremy Hunt presented his Spring Budget to Parliament. In the knowledge that the government must hold a general election before 28 January 2025, this was a Budget designed to restore confidence and win voters. But on the heels of Britain entering a recession and downgraded Office for Budget Responsibility (OBR) forecasts, the Chancellor had his work cut out.

Headlines included further cuts in National Insurance Contributions for workers and the self-employed, a slight increase in the VAT registration threshold and an increase in thresholds to reduce the number of people affected by the high-income child benefit charge. There has also been a cut in capital gains tax for higher earners disposing of residential property. However, income tax rates and thresholds remained static and inheritance tax continues to apply to the largest estates.

Below, we talk more about the Budget and what it means for you.

INCOME TAX

EMPLOYMENT TAXES

For employees

As announced in Autumn Statement 2023 and in effect since 6 January 2024, the main rate of Class 1 National Insurance Contributions (NICs) has already reduced from 12% to 10%.

In the Budget, the Chancellor cut this by a further 2 percentage points to 8%, taking effect from 6 April 2024.

For 2024/25, this combined 4% reduction will apply to your annual earnings between £12,570 and £50,270. The NIC rate on your earnings above £50,270 a year remains at 2%.
So what? This combined NIC reduction means that someone with employment income of, say, £50,000 will pay £1,497 less NICs in 2024/25 than if the rate had remained at 12%. Or, to look at it another way, their monthly pay packet will increase by almost £125.

For employers

There have been no changes to the rate or thresholds for employer's Class 1 NICs, which remains at 13.8% for wages paid in excess of £9,100 a year (£175 per week). For eligible employers, the employment allowance remains at £5,000 per year, reducing their total employer's NIC liability by this sum.

Benefits in kind

Employees are required to pay income tax on certain non-cash benefits. For example, the provision of a company car constitutes a taxable 'benefit in kind'. Employers also pay Class 1A NIC at 13.8% on the value of benefits.

The set percentages used to calculate company car benefits are fixed until 5 April 2026 before slight increases apply to most car types, including electronic and ultra-low emission, from 6 April 2026.

The figures used to calculate benefits-in-kind on employer-provided vans, van fuel (for private journeys in company vans), and car fuel (for private journeys in company cars) remain fixed at their 2023/24 levels in 2024/25. These are:

- Van benefit £3,960
- Van fuel benefit £757
- Car fuel benefit multiplier £27,800

NATIONAL MINIMUM WAGE (NMW)

Employers must pay their employees at least the national living wage (for workers aged over 21) / national minimum wage. The minimum hourly rates change on 1 April each year and depend on the worker's age and if they are an apprentice.

	1 April 2024 – 31 March 2025	**1 April 2023 – 31 March 2024**
Age 23 and over		£10.42
Age 21 and over	£11.44	
21-22 year old rate		£10.18
18-20 year old rate	£8.60	£7.49
16-17 year old rate	£6.40	£5.28
Apprentice rate	£6.40	£5.28

These increases are not insubstantial, and the affordability of the rates will need to be carefully considered by employers when planning their headcount for the year ahead.

NATIONAL INSURANCE FOR THE SELF-EMPLOYED

Self-employed individuals with profits of more than £12,570 a year pay two types of NIC: Class 2 and Class 4. Two key changes come into effect from 6 April 2024, as previously announced in Autumn Statement 2023 and further extended in this Budget:

1. The main rate of Class 4 NICs will be cut from 9% to 6% in 2024/25. Class 4 NICs will continue to be calculated at 2% on profits over £50,270.
2. Class 2 NICs will effectively be abolished, saving £179.40 per annum.

So what? This NIC reduction means that a sole trader with, say, trade profits of £50,000 will pay £1,302 less NICs in 2024/25 than will be due for the 2023/24 tax year. Just be aware that this saving may not be felt until the 2024/25 self-assessment balancing payment is made on or before 31 January 2026.

Entitlement to state benefits including the state pension

If you are self-employed, your Class 2 NIC payments have ensured you accrue entitlement to a range of state benefits, including the state pension. If your profits exceed £6,725 in 2024/25 you will continue to accrue entitlement to state benefits despite not paying Class 2 NICs. If your profits are less than £6,725, or you make a loss, you may need to pay Class 2 NICs on a voluntary basis to maintain your state benefit entitlement.

VAT

From 1 April 2024, the VAT registration threshold and deregistration thresholds will each increase by £5,000 to £90,000 and £88,000 respectively. The thresholds had previously been frozen at £85,000 and £83,000 since 1 April 2017. There have been no changes to the rates of VAT and the standard rate continues to be set at 20%.

CORPORATE TAXES

BUSINESS TAX

Tax relief for expenditure on plant and machinery

By way of a £ 1 million Annual Investment Allowance (AIA) and, for companies only, unlimited 'full expensing', your business is likely to be able to claim 100% tax relief on qualifying equipment purchases.

Conditions may apply and, in some cases, the rate of tax relief in the year of purchase can be 50% or less. In particular, some connected or group businesses need to share their £ 1 million AIA limit between them and this is something that HMRC are currently focusing on so please do talk to us if you have any concerns.

Motor vehicles

While vans and commercial vehicles will often qualify for 100% tax relief when purchased, the rate of tax relief for a car will be less, unless it is both brand-new and electric. The cost of buying other cars is tax relieved by way of an 18% or 6% annual writing down allowance, based on whether the car has carbon dioxide emissions of up to or more than 50g/km respectively.

HMRC had planned to update their guidance so that double-cab pick-ups with a payload of 1 tonne or more were reclassified from commercial goods vehicles to cars from 1 July 2024. This would have significantly hindered the tax reliefs available. However, in February they backtracked and committed to retaining the commercial vehicle tax treatment. Although it was not part of the Budget speech, legislation will soon follow to cement the commercial vehicle approach. This applies for both capital allowances and benefit-in-kind purposes (above).

Making Tax Digital (MTD)

Under the government's MTD initiative, businesses will keep digital records and send a quarterly summary of their business income and expenses to HMRC using MTD-compatible software. These requirements will be phased in from April 2026, starting with income tax paying sole traders and property landlords with gross income over £50,000.

HMRC is re-launching its optional beta testing, with eligible businesses able to opt-in from April 2024. Please talk to us if you'd like to know more.

Using the cash basis to compute business profits

As first announced at last year's Autumn Statement, it should be remembered that most unincorporated businesses will default onto the 'cash basis' of calculating taxable profits for the 2024/25 tax year and onwards. As a simplification measure for some, it will mean that your annual profits are calculated based on when you receive payments from customers and make payments to suppliers. Adjustments for stock and amounts owing by or to you will not be possible.

Some small businesses are already using the cash basis voluntarily and won't be affected by the change.

It is possible to 'opt-out' of the cash basis and instead use traditional 'accruals' accounts (with adjustments for stock etc.) for tax purposes. The decision will affect the timing of your tax liabilities and will ultimately be based on your personal circumstances. Please talk to us for more information and to plan the approach for your business.

Tax relief for training costs

Alongside the Budget, HMRC has published updated guidance on tax deductions available to sole traders and self-employed individuals. Amid the AI revolution, the guidance clarifies that tax relief can be claimed on training costs relating to updating existing skills, maintaining pace with technological advancements, or changes in industry practices.

CAPITAL GAINS TAX

Annual exemption

The capital gains tax (CGT) annual exemption will drop to £3,000 in 2024/25, down from £6,000 in 2023/24. This change will mean that those selling capital assets such as property or shares will pay more tax.

Rates

The main rates of CGT remain at 10% for basic rate taxpayers (or those disposing of a business that qualifies for Business Asset Disposal Relief) and then 20% in most other cases.

However, increased rates apply when the asset being sold is a residential property that is not your private residence. From 6 April 2024, the residential property CGT rate will remain at 18% for basic rate taxpayers but will reduce from 28% to 24% for those with residential property gains falling outside of their basic rate band.

This measure is intended to generate more transactions in the property market, benefitting those looking to move home or get on the property ladder.

Remember, for property disposals that give rise to CGT, tax payment and reporting obligations can arise just 60 days after your completion date so make sure you take advice in good time.

TAX REGIME FOR FURNISHED HOLIDAY LETS

If you let out residential or commercial property, the profits are taxed as part of your ‘other income’. If you sell property that has been rented out, capital gains tax is likely to apply. Generally, rental business activity attracts fewer tax reliefs than trading ventures. However, if a residential property meets the strict definition of a ‘furnished holiday let’ (FHL), enhanced tax relief rules are currently available.

It has been announced in the Budget that, from 6 April 2025, the concept of FHLs and their beneficial tax treatment will be abolished. Going forward, profits from FHLs will be taxed in the same way as any other rental property profits. If you own FHLs this will be disappointing, especially the loss of your possible claim to 'Business Asset Disposal Relief' on any future sale.

While the abolition won't happen until 6 April 2025, it should be noted that there will be measures in place from Budget Day (6 March 2024) to prevent tax planning steps that artificially accelerate the disposal date of an FHL to a date before 6 April 2025. Please get in touch for a more detailed analysis of how the withdrawal of the FHL status will affect you.

INHERITANCE TAX

Rates and thresholds

The main rate of inheritance tax remains at 40%, reduced to 36% for estates where 10% or more is left to charity.

The inheritance tax nil rate band continues to be frozen at £325,000. The residence nil rate band will also remain at £175,000 and the residence nil rate band taper will continue to start at £2million.

Agricultural property and woodlands relief

From 6 April 2024 the scope of agricultural property and woodlands relief will be limited to property in the UK. Property located in the European Economic Area (EEA), the Channel Islands and the Isle of Man will be treated the same as other property located outside the UK.

Payment of inheritance tax before probate

From 1 April 2024, personal representatives of estates will no longer need to have sought commercial loans to pay inheritance tax before applying to obtain a 'grant on credit' from HMRC. This is a welcome relaxation.

UK RESIDENCY AND DOMICILE

Significant tax changes have been announced for individuals resident in the UK but not permanently settled here (known as non-domiciled).

While individuals resident and domiciled in the UK must pay UK taxes on their worldwide income and capital gains, it is possible for UK resident but non-domiciled individuals to claim a 'remittance basis' of taxation for overseas income and capital gains. In return for paying a remittance basis charge of up to £60,000 a year, non-domiciled individuals are able to shelter their overseas income and capital gains from UK taxation, as long as they do not bring (remit) those monies to the UK.

The remittance basis of taxation will be abolished from 6 April 2025. It will be replaced with a simpler residence-based regime and new arrivals to the UK will not pay UK tax on their overseas income and gains for their first 4 years of UK residence.

In addition, inheritance tax rules apply to the worldwide assets of a UK-domiciled individual but, broadly, just to the UK assets of a non UK-domiciled individual. The non-domicile rules for inheritance tax are also likely to move to a residence-based regime from 6 April 2025 but the government plans to consult on options.
If you are not domiciled in the UK, please talk to us about how the new rules and the transition to them will affect you.

STAMP DUTY

England and Northern Ireland – thresholds

The £250,000 0% threshold for Stamp Duty Land Tax (SDLT), applicable in England and Northern Ireland, remains unchanged until 31 March 2025. The same is true of the £425,000 0% threshold for first-time buyers.

These thresholds are set to revert to £125,000 and £300,000 respectively from 1 April 2025 and while there were rumours that the increased thresholds would be extended beyond 2025, no mention was made of this in the Budget.

England and Northern Ireland – Multiple Dwellings Relief

Multiple Dwellings Relief (MDR) is a relief currently available when buying two or more dwellings in a single transaction or series of linked transactions.

MDR is to be abolished for purchases of residential property in England and Northern Ireland with an effective date on or after 1 June 2024.

Transitional rules apply to the abolition, so that MDR can still be claimed in some situations where contracts were exchanged on or before 6 March 2024, regardless of when completion takes place.

First-time Buyers' Relief: leases and nominees

Following the Budget, the definition of a 'First-time Buyer' has been amended. Anyone who leases a residential property via a nominee or bare trust with an effective date (usually the completion date) on or after 6 March 2024 will potentially be eligible for First-time Buyers' Relief, in the same way as any other qualifying first-time buyer. Transitional rules may apply where contracts were exchanged prior to 6 March but completed or substantially performed afterwards.

Scotland and Wales

Property purchasers in Scotland and Wales do not pay SDLT. Rather, if you buy a property in Scotland you pay Land and Buildings Transaction Tax, and in Wales you pay Land Transaction Tax. No amendments to these transaction taxes have been announced.

ALCOHOL AND FUEL DUTIES

In Budget news, the government has confirmed that alcohol duty will remain frozen until 1 February 2025 and that the previous 5p per litre cut in fuel duty will remain in place until March 2025.

CHARITIES AND GIFT AID

In anticipation of enhanced protections for consumers who take out subscription contracts, the government will soon introduce rules to ensure that charities which operate subscription models can continue to claim Gift Aid on those subscriptions.

IN CONCLUSION

As we move into 2024/25, there are a lot of tax changes on the horizon, with more likely to come alongside the general election. Where the government gives with one hand (e.g. NIC cuts for workers) they may take with the other hand (e.g. frozen income tax thresholds) and it can be hard to keep up.

We are here to work alongside you and help you prosper so please do get in touch at any time. Please contact Alexander Accountancy by email info@alexander-accountancy.co.uk or call **01283 743851**

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DIARY OF MAIN TAX EVENTS

MARCH 2024 / APRIL 2024

Date	What's Due
19 March	Employer PAYE & NIC deductions, and CIS return and tax, for the month to 5/3/24 (due 22/3 if you pay electronically)
1 April	Corporation tax payment for the year to 30/6/23 (unless quarterly instalments apply)
5 April	End of the 2023/24 tax year – many tax planning actions need to have been taken by this date
6 April	Start of the 2024/25 tax year
19 April	Employer PAYE & NIC deductions, and CIS return and tax, for the month to 5/4/24 (due 22/4 if you pay electronically)
30 April	Annual Tax on Enveloped Dwellings (ATED) returns and payment for the chargeable period starting on 1 April 2024

Disclaimer: This newsletter covers the key news headlines from Budget 2024. The authors take great care in its production, but it is not exhaustive and should not be read as a full fiscal summary. The content displayed is correct as of 6 March 2024. We cannot take responsibility for any action taken or not taken from this document alone. Please contact us for personalised advice.