MNA News Wire

MARSLAND NASH ASSOCIATES

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Chancellor's speech paving the way to a potentially difficult Autumn budget

The Chancellor of the Exchequer, Rachel Reeves, addressed the House of Commons last week to detail the results of a Treasury spending audit. She has alluded to this in previous comments when referring to making assessments of the public spending inheritance.

She claimed that the audit revealed £22 billion of unfunded pledges that have been inherited from the previous government. These include commitments made to the Rwanda scheme, the Advanced British Standard and the New Hospital Programme. Shortfalls were also found from not increasing Departmental budgets to cover public sector pay settlements.

As a start on dealing with the overspend, the Chancellor announced savings of £5.5 billion for this year, with a further £8.1 billion to come next year. These measures include:

- Cutting winter fuel payments to only those who receive other State support. (Note that winter fuel payments are devolved in Scotland and Northern Ireland.)
- Scrapping the Rwanda migration partnership and retrospection of the Illegal Migration Act.
- Cancelling the Investment Opportunity Fund and other small projects.
- Next year, cancelling the Advanced British Standard and unaffordable road and railway schemes.
- The New Hospital Programme will also be reviewed.

The Chancellor did confirm that the Independent Pay Review Body recommendations for pay uplifts for public sector workers have been accepted. These will average 5.5%.

New plans were outlined for Spending Reviews to be set every two years but cover a three-year period so that there is a one-year overlap with the previous Spending Review. This should allow for a more joined up approach to public finance.

Continued overleaf/.......

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Chancellor's speech paving the way to a potentially difficult Autumn budget

The Chancellor also committed to a single major fiscal event a year, as has been the case for the last few years. This presumably will continue with the recent pattern in which the Budget takes place in the autumn, covering all significant tax and spending announcements. Any spring Statement would simply be in response to the second forecast that the Office for Budget Responsibility makes.

As part of her speech, the Chancellor also outlined tax plans that will be confirmed in the Budget, which is scheduled for 30 October. These include:

- Ending VAT tax breaks for private schools from 1 January 2025.
- Replacing the non-domicile regime with a new residence-based regime (this was already planned under the previous government)
- Extending the Energy Profits Levy for one year to 31 March 2030, tightening its investment allowances and increasing the levy rate to 38% (from 35%) from 1 November 2024.
- Closing the carried-interest loophole used by private equity fund managers to reduce their tax.

These measures have all been discussed in the Labour Party manifesto so there are no great surprises here.

Of course, you don't need a calculator to see that the £22 billion shortfall in public spending will not be covered by the saving measures the Chancellor has already announced. So, it remains to be seen whether there will be any further 'pain' in the October Budget.

Alternatively, the Chancellor may be delivering all the bad news now, while it's expected following the change in government, and she's saving some good news for the budget. We wait to see, but we will keep you posted on all the changes that may affect you. If you are concerned about how any of these measures may affect you, please feel free to get in touch, we will be happy to help you.
See:
https://www.gov.uk/government/speeches/chancellor-statement-on-public-spending-inheritance

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PROPOSED REPEAL OF THE SPECIAL TAX TREATMENT OF FURNISHED HOLIDAY LETTINGS

The government has now issued the draft legislation to abolish the special tax treatment of furnished holiday lettings (FHL) with effect from 6 April 2025 for individuals (1 April 2025 for corporation tax). This change will remove the tax advantages that current FHL landlords have received over other property businesses in 4 key areas by:

- applying the finance cost restriction rules so that loan interest will be restricted to the basic rate of Income Tax;
- removing capital allowances rules for new expenditure and allowing relief when domestic items are replaced;
- withdrawing access to reliefs from taxes on chargeable gains for trading business assets; and
- no longer including this income within relevant UK earnings when calculating maximum pension relief.

After repeal, former furnished holiday let properties will form part of the person's UK or overseas property business and be subject to the same rules as residential property businesses.

Transitional rules

Where an existing FHL business has an ongoing capital allowances pool of expenditure, they can continue to claim writing-down allowances on that pool — any new expenditure incurred on or after the operative date must be considered under the property business rules.

After the changes, former FHL properties will be part of the person's UK or overseas property business as appropriate. That property business will then include the amalgamated profits and losses of all the properties in that business.

Losses generated from a person's FHL business will be permitted to be carried forward and be available for set off against future years' profits of either the UK or overseas property business as appropriate.

Eligibility for CGT roll-over relief, business asset disposal relief, gift relief, relief for loans to traders, and exemptions for disposals by companies with substantial shareholdings will cease with effect from 6 April 2025 (1st April 2025 for Corporates)

In relation to CGT business asset disposal relief, where the FHL conditions are satisfied in relation to a business that ceased prior to 6 April 2025, relief may continue to apply to a disposal that occurs within the normal 3-year period following cessation.

There is also an anti-forestalling rule which is intended to prevent the obtaining of a tax advantage through the use of unconditional contracts to obtain capital gains relief under the current FHL rules, effective from 6 March 2024.

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Beware The 60% Income Tax Trap

It has recently been reported over half a million taxpayers paid a marginal income tax rate of 60% in 2022/23, up by 23% from the number in 2021/22. This marginal rate applies where an individual's adjusted net income falls between £100,000 and £125,140, where every £2 income over £100,000 reduces the £12,570 personal allowance by £1, such that it is fully eroded at £125,140.

Planning to mitigate the problem

The definition of "adjusted net income" is the individual's total taxable income less personal pension payments and charitable payments under Gift Aid. Such payments can effectively save income tax at 60%. For example, an £80 payment to charity under gift aid is grossed up to £100 and the taxpayer's income is reduced by £100, thus saving £60 tax where the individual's income is between £100,000 and £125,140. If an individual's total income is projected to be £105,000 for 2024/25 they could consider making an additional pension contribution of £4,000 before 5 April 2025 as that would reduce their income to £100,000, thereby restoring their £12,570 personal allowance.

Such planning is also effective for those caught by the high income child benefit claw back charge (HICBC). That charge claws back child benefit by 1% for every £200 adjusted net income between £60,000 and £80,000.

Salary sacrifice arrangements can also be effective

Another way to mitigate the effects of the personal allowance restriction and the HICBC would be to agree with your employer to forgo some of your salary, pay rise, or bonus for an additional employer pension contribution or an electric company car. For example, an employee on £96,000 a year might be entitled to a £10,000 bonus. They could agree with their employer to have £6,000 of the bonus paid into their pension (tax-free, provided the £60,000 pension annual allowance isn't exceeded) with the remainder of the bonus just keeping them at £100,000 and retaining their personal allowance.

Sacrificing salary for an electric company car isn't quite as tax efficient, as the employee would currently be taxed on 2% of the list price instead of the salary foregone. On a £50,000 electric car that would just be a £1,000 taxable benefit in kind, which for a 40% taxpayer would mean £400 income tax.

The employing company would obtain a tax deduction for the cost of providing the benefit and would also save on employers national insurance. So, it's win, win.

CHANGES TO VAT ON INDEPENDENT SCHOOL FEES

On 29 July 2024, the Chancellor announced that as of 1 January 2025, all education services and vocational training supplied by a private school, or a connected person, for a charge will be subject to VAT at the standard rate of 20%. Boarding services provided by a private school, or a connected person, will also be subject to VAT at 20%.

Draft legislation issued on 29 July 2024 also provides that fees invoiced or paid on or after 29 July 2024 and before 30 October 2024 are to be treated for the purposes of the charge to VAT as a supply taking place on the later of:

(a) 1 January 2025, and
(b) the first day of that term.

School fees paid before 29 July 2024 will follow the VAT treatment in force at the time of the normal tax point for these supplies, where the fee rate for the relevant term has been set and was known at the time of payment.

If any of the above issues affect you, please speak to us – we may be able to help you plan for some of the potential changes. Of course, more detail will be available after the budget, and we will keep you informed then.

VAT ON THE COSTS OF SELLING OF A SUBSIDIARY

When a holding company sells shares in a subsidiary, the VAT incurred on the professional fees involved would normally be irrecoverable, on the basis that a sale of shares is an exempt supply.

In a recent case a hotel group argued that a subsidiary was sold in order to finance the completion of construction of a new hotel and that there was a direct and immediate link between the raising of the funds and the group's downstream activities of operating hotels. The Tax Tribunals were satisfied the VAT on the professional fees associated with the share sale was a general overhead of the group's business and could be recovered as input tax. Based on the Upper Tribunal decision many other groups were advised to make protective claims for the recovery of input tax.

Unfortunately, the Court of Appeal have now rejected the taxpayers arguments and found in favour of HMRC, thus denying recovery of input tax on the associated professional fees in connection with the share disposal as that is an exempt supply.

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Microsoft Copilot

Artificial Intelligence (AI) assistant for Windows and Microsoft Office.

Microsoft Copilot is an AI-powered tool that is primarily meant to support Microsoft 365 users with automation features for Word, Excel, PowerPoint, Outlook and Teams. It also works with the Bing search engine and Windows operating system.

Copilot leverages the power of Chat GPT-4, enhancing traditional workflows by providing intelligent assistance in real-time. By understanding and processing natural language, Copilot can help users draft documents, generate insights, automate repetitive tasks, and streamline complex processes.

For business users, Microsoft Copilot can enhance productivity by automating routine tasks. For example, in Excel, Copilot can analyse large datasets, generate comprehensive reports, and create visualisations with minimal user input, saving time and reducing errors. This allows users to focus on higher-value activities that require critical thinking and creativity. Copilot has been designed to learn and evolve with use.

Copilot can also help to improve decision-making by offering data-driven insights. By processing vast amounts of information and presenting relevant trends and predictions, Copilot is designed to help businesses to make informed decisions swiftly. For example, in a sales context, Copilot can analyse customer data to forecast trends, identify potential opportunities, and suggest strategies to improve sales performance.

In Microsoft Teams, Copilot can summarise meeting discussions, generate action lists, and even draft responses, ensuring that all team members are aligned and informed. This functionality can really help businesses to drive productivity in remote and hybrid work environments.

There are three versions of Copilot:

Free – which is available to anyone using Windows, Microsoft Edge or Bing.

Pro – aimed at power users with faster response times, image creator and other features. It costs £19 per user, per month.

Copilot 365 –an add-on for Microsoft Office 365 and costs £24.70 per user, per month.

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Choosing passwords: the three random words method

With our personal and work lives now requiring us to have so many passwords, it is difficult to keep coming up with new passwords.

The National Cyber Security Centre (NCSC) have been championing the three random words method as a strategy to help with this problem. This method involves choosing three words at random and combining them to make a password, for example: *paperhumbleconnect*

Weak passwords can be easily cracked, but the longer and more unusual your password is, the more difficult it is for a cybercriminal to crack it.

In recent years much advice has been given about using long, complex passwords that contain random letters, numbers and symbols. However, generating, remembering, and entering this kind of password is impractical for most of us.

So, faced with yet another password to choose we may be tempted to opt for a variation of a familiar word, name or date, or perhaps reuse a password we use elsewhere. Common tactics include substituting numbers for letters.

Of course, the problem then is that tactics are familiar to cyber criminals who adjust their approach to match.

While a random password created by a password manager may be the strongest option, NCSC note that take-up of password managers remains very low, and security that is not usable for people doesn't work.

The three random words method is considered to be long enough and strong enough for most purposes and is easy enough for most people to understand and use.

NCSC also say that if you want to write your password down, that's ok, as long as you keep your written note somewhere safe.

See: https://www.ncsc.gov.uk/collection/top-tips-for-staying-secure-online/three-random-words

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Planning a staff summer BBQ?

Employers may meet the cost of certain social events for staff without creating a tax liability. This used to be a concession but is now a statutory exemption provided certain conditions apply.

The exemption applies to an "annual party or similar function" provided it is available to all employees or available generally to those at a particular location. During the Covid-19 pandemic HMRC confirmed that a 'function' could include a virtual party, where employers were unable to host a traditional party at which employees would have been physically present.

A key condition is that the cost per head of the party or function must not exceed £150, inclusive of VAT. If an event costs more than £150 then it is taxable in full, not just on the excess over £150.

If you have already held a Christmas Party for staff it may be possible to have another event, and for that to also be exempt from tax, provided the combined cost per head is no more than £150 a year. If the combined cost exceeds £150 for the year the employer can designate which ones should be taken into account to make best use of the exemption. If, for example, the cost per head of the Christmas party was £100, and the Summer event was £70, the employer can nominate the Christmas party to be covered by the exemption, but the £70 Summer Event would be taxable (not just the excess £20).

Rather than the employee being taxed on the £70 the employer can deal with the tax and national insurance on the employees' behalf by way of a PAYE settlement agreement.

ADVISORY FUEL RATE FOR COMPANY CARS

The table below sets out the HMRC advisory fuel rates from 1 June 2024. These are the suggested reimbursement rates for employees' private mileage using their company car.

Where the employer does not pay for any fuel for the company car these are the amounts that can be reimbursed in respect of business journeys without the amount being taxable on the employee.

Engine Size	Petrol	Diesel	LPG
1400cc or less	14p (13p)		11p (11p)
1600cc or less		13p (12p)	
1401cc to 2000cc	16p (15p)		13p (13p)
1601 to 2000cc		15p (14p)	
Over 2000cc	26p (24p)	20p (19p)	21p (21p)

Where there has been a change the previous rate is shown in brackets.

You can also continue to use the previous rates for up to 1 month from the date the new rates apply.

Note that for hybrid cars you must use the petrol or diesel rate.
For fully electric vehicles the rate is 8p (9p) per mile.

Employees using their own cars

For employees using their own cars for business purposes the Advisory Mileage Allowance Payment (AMAP) tax-free reimbursement rate continues to be 45 pence per mile (plus 5p per passenger) for the first 10,000 business miles, reducing to 25 pence a mile thereafter. Note that for National Insurance contribution purposes the employer can continue to reimburse at the 45p rate as the 10,000 threshold does not apply.

Input VAT

Within the 45p/25p payments the amounts in the above table represent the fuel element. The employer is able to reclaim 20/120 of the amount as input VAT provided the claim is supported by a VAT invoice from the filling station. For a 2500cc petrol-engine car, 4 pence per mile can be reclaimed as input VAT (24p x 1/6).

Staff News

Many congratulations to Marsland Nash staff members **Joel Marsland and Jimmy Houghton,** Joel passed his advanced taxation ACCA exam and Jimmy passed his ACCA audit and assurance exam. Both are progressing to full ACCA qualification.

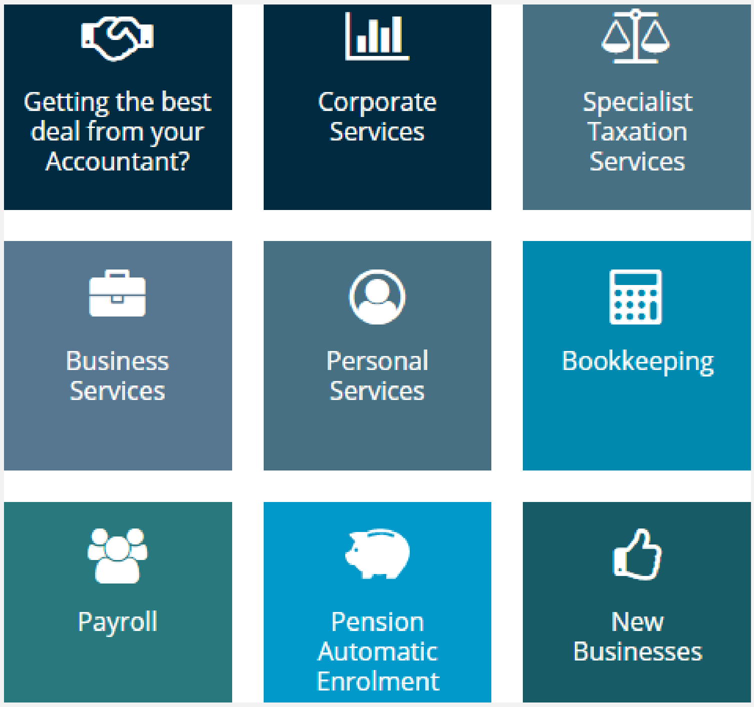
Our colleague **Camilla** keeps us updated on their beautiful baby Florence……the family are doing well, happy and enjoying being parents!

The family enjoying some R&R!

More Staff News.........MNA Summer BBQ

MNA staff and their families got together for an afternoon to enjoy a lovely summer BBQ —the weather was fine and warm and everyone had a lovely afternoon.....thumbs up to Steve and Nathan for not burning the food!

MNA WEBSITE



Remember we have a comprehensive website at https://www.marslandnash.com which contains full details of all of our services, as well as:

⇒ Latest accounts and tax news
⇒ Downloads section which includes all our newsletters
⇒ Filing deadlines pages
⇒ Current tax rates and information pages

Plus much more!

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PAYROLL WEBSITE

We have created a dedicated website at www.mnpay.co.uk
With our payroll clients in mind, so all your payroll resources are in one place

Visit our website or contact Joe Bostock who will be happy to assist you.

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