MNA News Wire

MARSLAND NASH ASSOCIATES

Winter edition: Issue 51
Newsletter date: February 2024

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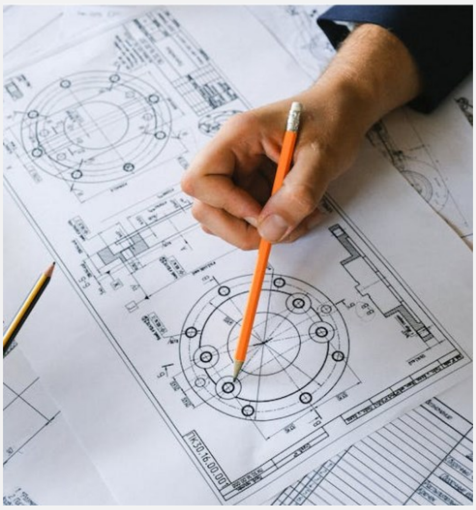
GET READY FOR MORE R&D CHANGES

On top of the major changes to research and development (R&D) tax relief that took effect from 1 April 2023, there are yet more changes that take effect from 1 April 2024.

The main change from 1 April 2024 is that most companies carrying out qualifying R&D will be entitled to a 20% expenditure credit. The 20% is calculated on the amount of qualifying expenditure. Qualifying expenditure is extended to include subsidised expenditure from 1 April 2024, although R&D carried out overseas will no longer qualify unless the work cannot be undertaken in the UK.

"R&D intensive" companies that make trading losses will continue to be entitled to a tax refund instead of the expenditure credit. The definition of "R&D intensive" is reduced from 40% to 30% from 1 April 2024, which means a company that spends at least 30% of total expenditure on qualifying R&D.

R&D tax relief continues to be a complex area and we can work with you to help you prepare a valid claim.



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TAX PLANNING SPECIAL

It is a good time to start planning your tax affairs before the end of the tax year on 5th April.

An obvious tax planning point would be to maximise your ISA allowances for the 2023/24 tax year (currently £20,000 each).

PENSION PLANNING

Under the current rules, the government adds to your pension contributions at the 20% basic rate. For instance, if you save £4,000 in a personal pension, the government tops this up to £5,000. If you are a higher rate taxpayer there is a further £1,000 tax relief when your tax liability is calculated, reducing the net cost to £3,000.

Additional pension contributions can be even more effective if your income is between £100,000 and £125,140 as the gross pension contribution reduces net income for the purposes of the reduction in the personal allowance. Note that for every £2 of income in excess of £100,000, the £12,570 personal allowance is reduced by £1, with reduction to nil where net income is £125,140 or more. This is effectively a 60% tax saving.

We can discuss your possible pension tax savings or can refer you to Molyneux Associates, the IFA we work closely with if you require investment advice.

TIME TO REVIEW, OR MAKE A WILL?

At the top of the New Year to do list for many individuals is to make or update their Will. Many think this is something to leave until later in life, but it is important to get things in place once property is acquired or when children come along.

In the absence of a will there are statutory rules which dictate how your assets are distributed on death. Those statutory intestacy rules may not be tax efficient, and you might to want to make specific provision in your Will for your unmarried partner or for the guardianship of your children.

People often think that if they die without making a Will, their spouse (or civil partner) will automatically inherit everything, but this is not necessarily the case. According to the laws of intestacy in England, for deaths occurring on or after 26 July 2023, the surviving spouse would inherit a statutory legacy of £322,000, all of the personal effects, and half of the remaining estate. The deceased's surviving children (or their descendants) would split the remaining half of the estate equally. If those descendants are under the age of 18, their inheritance is kept back for them until they turn 18. Note that intestacy rules are different in Scotland, Wales and Northern Ireland.

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TAX PLANNING SPECIAL

PASSING ON THE FAMILY HOME

When considering the wording of your Will, you should note that the inheritance tax (IHT) nil rate band continues to be frozen at £325,000, subject to any announcements in the Spring Budget. There is currently an additional nil rate band of up to £175,000 for passing on the family home to direct descendants on death. We can work with your solicitor to make sure your Will is tax efficient.

Where some of the nil bands are unused on the death of the first spouse, the balance is available on the death of the surviving spouse, potentially allowing a married couple (or civil partners) to pass on assets of up to £1 million at today's rates without paying IHT.

The residence nil band is even available when you downsize to a cheaper property. For example, if a married couple currently live in a large house worth £500,000 and downsize to a flat worth £300,000, they could give away some of the proceeds during their lifetime and yet still benefit from inheritance tax relief based on the higher valued property. They could even sell the house and move into a rental property or a care home and still benefit from this nil band.

LEAVING MONEY IN YOUR WILL TO CHARITY

If you leave at least 10% of your estate to charity, the rate of Inheritance tax on the amount chargeable Is reduced from 40% over the nil rate bands to just 36%. This would reduce the amount passing to other beneficiaries and needs to be carefully considered.

YEAR END INHERITANCE TAX PLANNING

Many were expecting an announcement from the Chancellor in the Autumn Statement about cuts to, or the possible abolition of, inheritance tax (IHT). Maybe he is saving that for his Spring Budget, but in the meantime, it may be worth utilising the £3,000 gifts annual exemption for 2023/24 and, if available, the unused amount from 2022/23. Note that £3,000 is the overall exemption for the tax year, not the amount for each done. More generous amounts can be given away by taking advantage of the exemption for regular gifts out of income.

REGULAR GIFTS OUT OF YOUR INCOME CAN SAVE IHT

One tax planning opportunity that many thought the chancellor might restrict was the exemption from inheritance tax for regular gifts out of an individual's surplus income. Inheritance tax is designed to tax transfers of capital, so if the donor can demonstrate that the gifts are made out of surplus income then the transfers are not taken into consideration for IHT. The exemption applies where there is a regularity to the payments, such as a standing order to pay school fees or pension contributions on behalf of children or grandchildren. HMRC will also require proof that the payments are paid out of post-tax income and do not limit the donor's normal lifestyle. Detailed records are required, and we can help you with a suitable spreadsheet.

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TAX PLANNING SPECIAL

PENSION CONTRIBUTIONS ON BEHALF OF OTHERS

Normally an individual's payments into a pension scheme are limited to their relevant earnings in a given tax year. This restriction does not apply where the contributions are less than £3,600 gross, allowing parents and grandparents to make payments on behalf of children and grandchildren with limited income. Payments of £2,880 a year would attract a 25% uplift from the government which could grow to a substantial amount by the time the child reaches retirement age (currently age 55, but increasing to 57 in 2028). The parent or grandparent may be able to justify that the payments qualify for the regular gifts out of income exemption from inheritance tax mentioned above if a standing order was set up for no more than £240 a month.

USE A LIFETIME ISA (LISA) TO SAVE FOR YOUR FIRST HOME

Those aged between 18 and 40 can set up a Lifetime ISA (Individual Savings Account) to buy their first home or save for later life. You can put in up to £4,000 each year until you're 50. The government will add a 25% bonus to your savings, up to a maximum of £1,000 per year. Note that the Lifetime ISA limit of £4,000 counts towards your £20,000 annual ISA limit.

You can withdraw money from your ISA if you're:

- buying your first home,
- aged 60 or over, or
- terminally ill, with less than 12 months to live.

However, you'll pay a withdrawal charge of 25% if you withdraw cash or assets for any other reason (an unauthorised withdrawal). This recovers the government bonus you received on your original savings.

CAPITAL GAINS TAX PLANNING

You might wish to consider bringing forward capital gains to before 6 April 2024 where you haven't used your £6,000 CGT annual exemption. This exempt amount reduces to just £3,000 for gains made in 2024/25.

CAPITAL EXPENDITURE PLANNING

Unless the business year end is 31 March or 5 April, the end of the tax year is not a significant date as far as capital allowances are concerned. In order for new equipment to attract capital allowances, the expenditure must be incurred on or before the end of the accounting period. Limited companies buying new (not second hand) equipment are entitled to fully expense the cost of most acquisitions against business profits. There is no financial limit on expenditure qualifying for this "full expensing" relief.

Unincorporated businesses are entitled to 100% write off for the first £1 million spent on new and used equipment in a 12 month period. This "annual investment allowance" (AIA) is also available to limited companies buying second hand equipment. The AIA does not apply to motor cars but there is a special 100% tax relief if you buy a new zero-emissions motor car.

Where equipment is bought under a hire purchase contract, the capital allowances outlined above are available on the full cost of the asset provided it has been brought into use by the end of the accounting period. This is despite the fact that the payments may be spread over a number of months.

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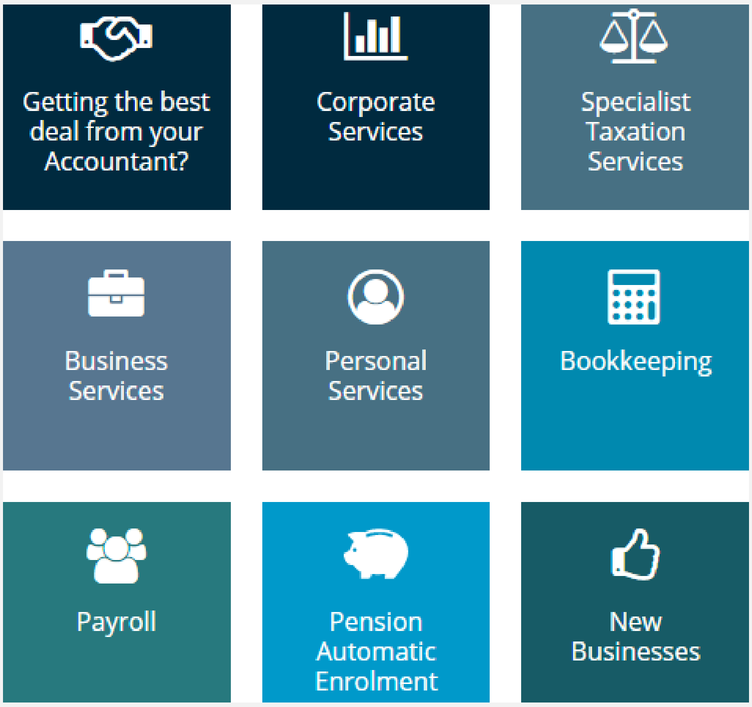
MNA WEBSITE



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.

Direct Line: 01803 698 928

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