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NOVEMBER 2024 NEWSLETTER

2024 BUDGET

On 30 October 2024, the UK's first female Chancellor, Rachel Reeves, delivered the first budget by a Labour Government for 14 years. This Newsletter will focus on the announcements in the Budget and how it will affect our clients for the remainder of the current tax year and from April 2025.

NATIONAL INSURANCE FOR EMPLOYERS

Having committed to not making any increases to the rates of tax and national insurance in respect of 'working people' whilst also looking to raise £40 billion, it was inevitable that the Government would look to employers to bear the brunt of any changes and this proved to be the case. The Chancellor announced the following changes to employer's national insurance: -

- An increase in the rate of employer's national insurance from 13.8% to 15%;
- A decrease to the annual 'secondary threshold' (the level at which an employer starts to pay national insurance) from £9,100 to £5,000 for most employees (other than employees aged under 21 and apprentices aged under 25);
- An increase in the 'Employment Allowance' from £5,000 to £10,500

Ignoring the Employment Allowance, the increase in the rate of employer's national insurance and decrease in the secondary threshold will result in the following additional employer's national insurance: -

Annual salary of employee	Additional national insurance
£10,000	£626
£15,000	£686
£20,000	£746
£25,000	£806
£30,000	£866
£40,000	£986
£50,000	£1,106

The Employment Allowance enables eligible employers to reduce their employer's national insurance contributions. The availability of this allowance means that many clients will not see any change in the employer's national insurance they have to pay. The Employment Allowance is, however, not available in the following circumstances: -

- Employers who derive the majority (i.e. over 50%) of their income from the public sector (Local Authorities, NHS etc);
- Where there are associated companies (companies under the control of the same individual(s)), only one company can claim the Employment Allowance;
- **Single director companies (companies where the only person being paid above the secondary threshold is a director).**

SINGLE DIRECTOR COMPANIES

The changes in the national insurance rules will mean that adjustments will have to be made to the wages paid to directors who are the only employee of their company. According to our calculations, the choices for such clients are: -

i) Pay a wage of £5,000 and incur no employer's national insurance. This will be beneficial where the director has other income (such as rent) to use up their tax-free allowance and already has a full contribution record for state pension purposes;
ii) Pay a wage of £6,500 to obtain the benefit of a year's contribution towards state pension and pay employer's national insurance of £225;
iii) Pay a wage of £12,570 to fully use up the tax-free allowance and pay employer's national insurance of £1,135;
iv) Employ someone else on the company's payroll to ensure that the company qualifies for the Employment Allowance. This would need to be at least one other person paid above the secondary threshold (£5,000 pa) for at least one pay period;
v) Revert back to being self-employed.

These new rules do not come into effect until April 2025. This gives us time to fully understand the new rules (the legislation is not yet in place) and we will be contacting clients before April 2025 with more specific advice for their situations.

NATIONAL INSURANCE FOR EMPLOYEES AND SELF-EMPLOYED

No changes were announced to the rates of national insurance for employees and the self-employed, which remain as follows: -

	Employees	Self-employed
Up to £242 per week (£1,047 per month or £12,570 per annum)	0%	0%
£242 to £967 per week (£1,047 to £4,189 per month or £12,570 to £52,270 per annum)	8%	6%
Earnings above £967 per week (£4,189 per month or £50,270 per annum)	2%	2%

Annual earnings of £6,500 or more are required for employees to qualify for the state pension. For the self-employed, profits of £6,845 will be required. It will be possible for the self-employed with lower earnings to pay voluntary national insurance (of £182.00) to ensure the year qualifies towards their state pension.

PERSONAL ALLOWANCE AND TAX RATES

The personal allowance is the amount that can be earned before tax is payable. The Chancellor plans to keep this at £12,570 until April 2028. The basic rate band will also be frozen at £37,700 meaning that 40% tax will only be payable when income reaches £50,270. The 45% rate of tax will continue to apply to income above £125,140. The personal allowance will be partially withdrawn when income exceeds £100,000, and fully withdrawn once income reaches £125,140.

Child Benefit will continue to be paid in full where the highest earning parent has income below £60,000. No child benefit will be due where the highest earner has income above £80,000 and there is a sliding scale where income is between these two figures. The Chancellor announced that the Government will not proceed with previous plans to use total household income rather than the income of the higher earner as a basis for calculating entitlement to Child Benefit.

CORPORATION TAX

No changes were made to the increases to the current rates of corporation tax, originally announced in the March 2021 budget. The rates applying from 1 April 2025 will remain as follows: -

Profits under £50,000 - 19%
Profits over £250,000 - 25%

These rates mean that any profits between £50,000 and £250,000 will effectively be taxed at a rate of 26.5%.

Associated company rules mean that where an individual controls more than one company, the limits are divided equally between the companies. Setting up two companies would not, therefore, enable you to make a profit of £100,000 and pay tax at 19% on all of the profits.

VAT

No changes were announced to the VAT registration limit, which stays at £90,000. This means that businesses will have to register if their annual turnover reaches £90,000. Clients are reminded that this threshold applies on a rolling 12 months; it is not something to be calculated once a year when the year-end accounts are prepared.

The main VAT rate remains at 20% and the reduced rate remains at 5%.

CAPITAL GAINS TAX

As anticipated, there were some increases to the rates of capital gains tax taking immediate effect as follows: -

	Year ending 5 April 2026	From 30 October 2024	Before October 2024
Annual exempt amount	£3,000	£3,000	£3,000
Rate of CGT on disposal of assets other than residential property and business assets			
Within the basic rate band	18%	18%	10%
Outside the basic rate band	24%	24%	20%
Rate of CGT on residential property disposals			
Within the basic rate band	18%	18%	18%
Outside the basic rate band	24%	24%	24%
Rate of CGT on disposal of business assets			
Business Asset Disposal Relief (BADR) lifetime limit	£1 million	£1 million	£1 million
Rate of CGT on gains qualifying for BADR	14%	10%	10%

The Chancellor also announced that the rate of capital gains tax gains tax on the disposal of business assets will increase to 18% with effect from 6 April 2026.

Clients are reminded that where a taxable gain is made on the sale of a residential property, the gain must be reported to HMRC and the tax paid within 60 days of the sale, otherwise automatic penalties will be charged.

DIVIDENDS

No changes were announced so dividends remain taxed at the following rates: -

Basic rate taxpayers	8.75%
Higher rate taxpayers	33.75%
Additional rate taxpayers	39.35%

There will be no change to the dividend allowance whereby the first £500 of dividends are tax-free.

TAX ON SAVINGS INCOME

The first £1,000 of interest on savings (£500 for higher rate taxpayers) remains tax-free. In the four years to 5 April 2022, an average of 965,000 people paid tax on the interest on their savings. Rising interest rates and frozen tax allowances mean that this is expected to increase to 1.7 million in the year ended 5 April 2023 and 2.7 million in the year ending 5 April 2024.

Clients should ensure they make use of tax-free investments (such as ISA's and premium bonds), their partner's unused allowances and pension contributions (particularly where their income is just over the higher-rate threshold) to minimize their tax liabilities on their savings income.

NATIONAL MINIMUM WAGE

The rates will increase from 1 April 2025. The increases will take effect from the first pay period that starts on or after 1 April 2025. The new hourly rates will be as follows: -

Age	1 April 2024 To 31 March 2025	From 1 April 2025
21 and over	£11.44	£12.21
18 to 20	£8.60	£10.00
16, 17 or apprentice	£6.40	£7.55

The apprentice rate applies to apprentices aged under 19 or those aged 19 or over in their first year of apprenticeship. The significant increases in the rates for younger workers represent a step towards the Government's ambition for the same minimum wage to apply to all adults.

STATUTORY SICK PAY

The Employment Rights Bill, published in October 2024 suggested some changes to Statutory Sick Pay, presumably to come into effect from April 2025.

At the moment an employee qualifies for Statutory Sick Pay (SSP) if they are paid at least £123 per week and have been off sick for more than 3 days (including non-working days). The current rate of SSP is £116.75 per week and can be payable for up to 28 weeks. Smaller employers used to be able to reclaim most of the SSP from HMRC, although this has not been possible for over ten years.

The Government is proposing to abolish the three-day waiting period so that SSP will be payable from the first day of sickness. In addition, the Government is intending to extend SSP to everyone. SSP will be payable at a rate to be decided (possible 60% or 80% of the usual salary according to the Bill).

THE TAXATION OF SMALL COMPANIES

Many of our clients operate their businesses as limited companies. Usually there are three reasons for doing so:

- To enjoy the protection of the limited liability status of a company whereby any personal assets are kept separate from the company;
- To meet the requirements of their clients;
- To pay less tax and national insurance.

It has been possible to make significant savings, over the last 20 years or so, in tax and national insurance by operating a business as a limited company. The usual method of achieving these savings was to pay a small wage to the director with the balance of any profits taken as dividends. The changes to the national insurance and dividend tax rates and allowances over the last two years mean there is no longer a "one size fits all" solution to operating as tax-efficiently as possible as a limited company.

The following table compares the total tax and national insurance that will be payable under the new rules for an individual operating on a self-employed basis with the total payable if the same business were operating as a limited company. We have assumed that the limited company director is able to pay themselves up to the tax-free allowance either by benefitting from the Employment Allowance or paying themselves rent, with the remainder of the profits all taken as dividends.

Net profit	Tax and NI as a sole trader	Tax and NI as a Limited company	SAVING
12,500	0	0	0
15,000	632	590	42
18,000	1,412	1,373	39
20,000	1,932	1,895	37
25,000	3,232	3,199	33
30,000	4,532	4,503	29
40,000	7,132	7,112	20
50,000	9,732	9,721	11
55,000	11,789	11,025	764
60,000	13,889	12,509	1,380
65,000	15,989	14,947	1,042
70,000	18,089	17,512	577
75,000	20,189	20,077	112

As this table shows, there is now little tax and national insurance to be saved by operating as a limited company.

To complicate the calculations further, some tax rules are different for limited companies and the self-employed. There are several other issues that must be considered, which will generally favour the limited company: -

- It is easier to spread the profits of limited companies to keep out of higher rate tax;
- Leaving profits in a company can reduce tax liabilities, whereas the self-employed are taxed on the business profit;
- It is easier to spread the profits of limited companies to fully use your tax-free allowance. For example, a self-employed individual making a net profit of £5,000 in one year and £20,000 in the next year will owe tax and national insurance over the two years of £1,932. As a limited company the tax would be £0;
- Travelling in a van to a permanent workplace is classed as business travel for limited companies, but private travel for the self-employed;
- Companies can claim the cost of an annual event but the self-employed can't;
- Directors can be paid rent from their company but a self-employed trader cannot charge themselves rent;
- Tax is payable by limited companies nine months after their year-end whereas the self-employed have to make payments on account of their tax liability for next year, sometimes before their year-end;
- The Government currently plans to introduce Making Tax Digital for the self-employed from April 2026, whereas there are no such plans (at the moment) for limited companies.

Most of our clients will find that, if they have the choice, the main benefit of operating as a limited company will be to protect personal assets. However, it can be seen from the above calculations that it is important to seek advice specific to your particular circumstances.

DOUBLE CAB PICK-UPS

According to HMRC, a double-cab pickup vehicle has:

- a front passenger cab that contains a second row of seats and is capable of seating about four passengers, plus the driver
- four doors capable of being opened independently, and
- an uncovered pickup area behind the passenger cab.

There are significant differences in the tax treatment of cars and vans, with vans usually attracting a much lower tax and national insurance liability. The distinction between the two has not always been clear and HMRC have previously accepted that a double cab pick-up with a payload of 1 tonne or more is a van.

HMRC announced in February 2024 that they were changing this policy although, within a week, they had reversed this decision. The Chancellor announced that this change in policy will come into effect after all so that, from April 2025, a double cab pick-up will be treated as a car for tax purposes.

The existing, more favourable, treatment of currently-owned double cab pick-ups or those purchased or ordered before April 2025 will continue until April 2029.

STATE PENSION

The state pension is now payable to both men and women from their 66th birthday. From April 2026 this will increase gradually so that anyone born between 6 March 1961 and 5 April 1977 will not get the state pension until they reach 67 years of age.

The current maximum state pension is £221.20 per week and this will increase to £230.25 per week from April 2025.

In order to qualify for any state pension, you will need to have been credited with national insurance contributions for at least 10 years. To qualify for the maximum, you will need to have been credited with national insurance contributions for 35 years. It is possible to obtain a forecast of your state pension by visiting https://www.gov.uk/check-state-pension where you can check online or complete a paper form.

It is possible to pay additional national insurance contributions to cover any shortfall. The usual time limit is such that contributions can only be back-dated for 6 years. At the moment, however, it is possible to fill any gaps in your contribution record since 2006 by making a payment before 5 April 2025.

INTEREST ON LATE PAID TAX

HMRC currently (with effect from 18 November 2024) charge interest on late-paid corporation tax and income tax at an annual rate of 7.25%. Where taxpayers are entitled to a tax refund, HMRC currently add interest to the refund at an annual rate of 3.75%.

The interest charged is calculated as the bank base rate plus 2.5%, whilst the repayment interest is calculated as the bank base rate less 1%.

The Chancellor announced that the base rate plus 2.5% will increase to the bank base rate plus 4% from April 2025. No changes were announced to the rate of the repayment interest.

DON’T FORGET YOUR CHRISTMAS PARTY

The taxman allows a full deduction (tax relief and, if registered, claiming back the VAT) for entertaining staff and their partners – so why not take full advantage this Christmas?

As long as the total cost (including VAT) is less than £150 per head, HMRC will relax their normally strict rules about entertaining and allow tax relief on the full cost. However, it is important to ensure the total cost is under £150 per head, otherwise it becomes taxable on the employees as a benefit in kind.

The £150 covers the full costs of the event so not only food and drink would be covered. Make sure you include taxis to and from the venue, the accommodation if your party includes an overnight stay and even gifts given out at the party. This applies even if your company’s only staff are you and your spouse and the Christmas Party is anything from a table for two in your favourite restaurant to a full weekend away. So – treat yourselves and let the taxman share the cost!

BANK HOLIDAYS

Our office will close for the Christmas break at 2-00pm on Monday 23 December 2024 and will re-open on Thursday 2 January 2025

The easiest way to contact us during this period will be by email

We would like to take this opportunity to thank all clients for their custom during 2024 and wish you a very merry Christmas and a healthy and prosperous New Year.

MATT

‘The wolf was dressed as grandma when the Big Bad Rachel Reeves burst in and stole his winter fuel payment’

Please contact us for further information about any of the issues raised in this Newsletter