THE BIG BUDGET TAX CHANGES

TAX Cafe®

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Taxcafe Tax Guides

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Important Legal Notices:

Published by:
Taxcafe UK Limited
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First Edition, April 2024

ISBN 978-1-911020-93-6

About the Authors & Taxcafe

Carl Bayley is the author of a series of Taxcafe guides designed specifically for the layperson and the non-specialist. Carl's particular speciality is his ability to take the weird, complex and inexplicable world of taxation and set it out in the kind of clear, straightforward language taxpayers themselves can understand. As he often says himself, "My job is to translate 'tax' into English."

In addition to being a recognised author, Carl has often spoken on taxation on radio and television, including the BBC's It's Your Money programme and the Jeremy Vine Show on Radio 2.

A chartered accountant by training, Carl is a former chairman of the Tax Faculty of the Institute of Chartered Accountants in England and Wales. In June 2023, he stepped down after almost twenty years on the institute's governing council.

Nick Braun founded Taxcafe.co.uk in 1999, along with his partner, Aileen Smith. As the driving force behind the company, their aim is to provide affordable plain-English tax information for private individuals and investors, business owners, accountants and other advisers.

Since then Taxcafe has become one of the best-known tax publishers in the UK and has won several business awards.

Nick has been involved in the tax publishing world since 1989 as a writer, editor and publisher. He holds a doctorate in economics from the University of Glasgow, where he was awarded the prestigious William Glen Scholarship and later became a Research Fellow. Prior to that, he graduated with distinction from the University of South Africa, the country's oldest university, earning the highest results in economics in the university's history.

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Introduction

At Taxcafe, we don't think tax in itself is a bad thing. After all, tax is what pays for the public services we all rely on.

However, we do think that paying more than your fair share or being hit by sudden, unjustified tax increases *are* bad things. And this is where our tax guides come in, because using legitimate, reasonable planning techniques to reduce your tax burden, and understanding what you are legitimately entitled to claim will ensure you do not pay more than your fair share.

Another essential step in making sure you do not pay more than your fair share is understanding what has changed, and what is about to change. And that's why we have produced this guide, which is all about just that: change.

Throughout this guide, our aim is to inform you of the key tax changes that have either recently taken place, or are due to take place soon. We will guide you through the implications of these changes, and how you can plan for them.

Where it's a proposed future change we're dealing with, we'll have a look at the action you can take to mitigate its impact and make the most of the current rules while they still apply.

We'll also look beyond the changes, to see what tax planning opportunities will open up in the future, after the change, or during any transitional period.

We start off in Chapter 1, with an update on the current personal tax framework (Income Tax and National Insurance) applying for 2024/25, including some valuable National Insurance reductions and what they mean for individuals with different types of income.

Chapter 2 performs the same role for companies, where we look at the current Corporation Tax framework, which has undergone some radical changes recently.

In Chapter 3, we look at changes to the Child Benefit Charge and examine the impact these will have, as well as a number of strategies available to reduce the charge.

Chapters 4 and 5 examine some key tax planning strategies we might refer to as ‘hardy perennials’: issues that are ever-changing, which we need to examine afresh every year. We look at what the changes discussed so far, particularly the reductions in National Insurance and increases in Corporation Tax, mean for business owners considering whether they should form a company, and existing company owners looking to extract profits from their company as tax efficiently as possible. Chapter 6 supplements the latter by looking at the benefits of borrowing from your own company.

In Chapter 7, we move into the realm of property taxation and look at one of the most fundamental changes to the UK tax system announced in recent months: the abolition of the furnished holiday letting regime. Perhaps, of all the chapters in this guide, this may be the one that most exemplifies the importance of taking action now to make the most of the current regime while it still exists, mitigate the impact of the change that lies ahead, and prepare for the future.

Sticking with property taxation, Chapter 8 looks at the consequences of some forthcoming changes to Stamp Duty Land Tax, particularly the planned abolition of multiple dwellings relief on 1st June 2024. This has important implications for anyone buying multiple properties, or properties comprising more than one dwelling, such as a house divided into flats, or a large house with a separate annex or granny flat. It also has a significant impact on anyone looking to transfer properties into a company and many people transferring properties to other individuals: particularly owners of furnished holiday lets looking to take action before that regime is abolished as well.

Chapters 9 and 10 complete our property taxation section with some key changes to CGT, including reductions in the annual exemption and the CGT rate on residential property, and important changes affecting separated couples. All in all, it’s a real mixed bag of good and bad news, so it’s vital to keep on top of what all the changes mean.

In Chapter 11, we look at some changes to capital allowances, including why some of them matter more than others, particularly when it comes to electric cars. There’s a dazzling array of different capital allowances available now, and we guide you through this maze with some tips on how to get the best out of the capital allowances system.

Chapter 12 looks at a threatened change that didn't happen, but also explains why this is so important, and what is likely to happen next. Yes, it's our old tax-planning favourite, the double cab pick-up, often more tax efficient than an electric car.

We enter a whole different realm in Chapter 13 with a look at the cash basis (also known as cash accounting) and the changes brought into play from the current tax year onwards. There's no doubt the changes have made the cash basis more attractive, and more accessible, for most unincorporated businesses (sole traders and partnerships), but that doesn't mean it is right for everyone and we take a thorough look at all the pros and cons. We also look at the opportunities, and pitfalls, of either joining the cash basis or leaving it. Astonishing savings are available in some cases.

Chapter 14 covers something that isn't really a change as such, but recent developments have shed some welcome light on what has always been a tricky grey area for sole traders and partnerships: their own training costs.

In Chapters 15 and 16, we look at another truly fundamental change to the UK tax system, as the Government plans to eliminate the relevance of domicile status and remove the advantages currently enjoyed by so-called 'non-doms': individuals with non-UK domicile. While that's bad news for many, there is plenty of time to put some critical tax planning steps in place and avoid the worst of the damage, plus there are new tax planning opportunities opening up for some long-term non-UK residents.

Following on from the changes for non-doms, Chapter 17 looks at some other changes to Inheritance Tax, and explains why some people may urgently need to change their Will to save their beneficiaries thousands of pounds in this evil grave-robber's tax. There's also both good and bad news for agricultural property owners.

Looking after your future and your family's is also a key feature of Chapter 18, where we look at a raft of recent changes to the ISA regime.

The statutory residence test has been around since 2013/14. It isn't changing, but it's vitally important to some other issues discussed in this guide, so we take a look at it in Chapter 19.

Finally, in Chapter 20, Bayley & Braun's Newsround provides a brief summary of a few other tax changes we thought you might like to know about.

Forewarned is forearmed, it is said, and, taken as a whole, that's what this guide does: warns you what is happening, tells you what it means, and arms you with the knowledge you need to be ready for change, make the most of the opportunities it provides, and avoid the pitfalls coming your way.

No-one can see into the future, but we can give you a torch to light the way.

Chapter 1

Income Tax and National Insurance

Income Tax and National Insurance combine to provide the basic structure of personal taxation in the UK. For this reason, it makes sense to start this guide by taking a look at what has changed in these two taxes. Unlike the rest of this guide, it's also important to look at what hasn't changed, so that we have a complete picture of the personal tax framework for the current year, 2024/25.

Income Tax

The main Income Tax rates, thresholds, and allowances remain unchanged and are currently expected to apply until 2027/28 (although this could change if we get a change of Government after the general election). The effective Income Tax rates for 2024/25 are as follows:

Up to £12,570	0%	Personal allowance
£12,570 to £50,270	20%	Basic rate
£50,270 to £100,000	40%	Higher rate
£100,000 to £125,140	60%	See below
Over £125,140	45%	Additional rate

The personal allowance is withdrawn at the rate of £1 for every £2 by which the individual's taxable income exceeds £100,000. This creates an effective rate of 60% on income falling into the £100,000 to £125,140 bracket.

The Income Tax rates given above apply to the income falling into the relevant bracket, not the individual's total income. These are what we call 'marginal tax rates', an important concept in tax planning.

An additional Income Tax charge (the Child Benefit Charge) applies to the highest earner in a household where Child Benefit is being claimed and that individual has taxable income in excess of £60,000. We'll take a closer look at this charge, and the changes taking place, in Chapter 3.

Subject to the Child Benefit Charge, the marginal tax rates given above apply to the following types of income received by an individual who is *not* a Scottish taxpayer:

- Rental income
- Pension income
- Employment income received by an individual over state pension age
- Self-employed trading income received by an individual over state pension age

Taxable rental income means rental profits before deducting any interest or finance costs relating to residential rental property. In Chapter 7, we'll look at how this applies to furnished holiday lets.

Taxable pension income excludes the 25% tax-free lump sum available under most private or occupational pension schemes.

The same Income Tax rates also apply to employment income and self-employed trading income received by individuals under state pension age, but these are also subject to National Insurance, so we'll look at the overall effective marginal rates this creates later.

The tax rates given above also apply to interest and savings income received by any individual (including Scottish taxpayers), with the following variations:

- A 0% starting rate band applies to the first £5,000 of interest income not covered by an individual's personal allowance, but this band must be used first by any other income received by the individual (excluding dividends)
- The first £1,000 of interest income received by a basic rate taxpayer and not falling into the starting rate band is tax free
- The first £500 of interest income received by a higher rate taxpayer (but not an additional rate taxpayer) and not falling into the starting rate band is tax free

The £1,000 or £500 exemption is known as the personal savings allowance.

For example, let's suppose an individual has a salary of £15,570, interest income of £4,525, and no other taxable income. The salary will use up their £12,570 personal allowance, with the remaining £3,000 subject to Income Tax at 20%. The salary also uses up

£3,000 of the starting rate band, leaving only £2,000 to cover their interest income. Another £1,000 of interest is tax free thanks to the personal savings allowance. The remaining £1,525 of interest income is subject to Income Tax at 20%.

Dividends

The first £500 of dividend income an individual receives in 2024/25 is tax free under the dividend allowance. The dividend allowance has been reduced from £1,000 in 2023/24 and £2,000 in earlier years.

Subject to the dividend allowance, the following Income Tax rates apply to dividends:

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

Dividend income is treated as the top part of an individual's income. For example, let's suppose an individual has a salary of £55,000, dividend income of £1,250, and no other taxable income. They will pay Income Tax at the main rates given above on their salary, the first £500 of their dividend income will be tax free, and the remaining £750 will be subject to Income Tax at 33.75%.

Income Tax Quirks to Watch Out For

The personal allowance should be allocated to the individual's income in whichever way gives them the lowest Income Tax bill. This usually means allocating it to income other than dividends, interest, or savings income, although there are some rare occasions when a different allocation is preferable (and thus technically correct).

Income covered by either the dividend allowance or the personal savings allowance, while tax free in itself, can still trigger, or increase, the Child Benefit Charge or the withdrawal of the individual's personal allowance, in the same way as other income.

Scottish Taxpayers

Scottish taxpayers pay Income Tax at different rates on most types of income. This does not alter the amount of their taxable income, which is computed in the same way as other UK resident individuals.

An individual is generally a Scottish taxpayer if their main residence (their home) is in Scotland.

Scottish taxpayers are entitled to the same personal allowance as other UK taxpayers and are also subject to the same rule regarding the withdrawal of the allowance where taxable income exceeds £100,000.

Unlike the main UK rates, there have been some changes to Scottish Income Tax rates this year, including the introduction of a new tax rate on income between £75,000 and £125,140. As a result, the effective Scottish Income Tax rates for 2024/25 (incorporating the personal allowance) are as follows:

Up to £12,570	0%	Personal allowance (PA)
£12,570 to £14,876	19%	Starter rate
£14,876 to £26,561	20%	Basic rate
£26,561 to £43,662	21%	Intermediate rate
£43,662 to £75,000	42%	Higher rate
£75,000 to £100,000	45%	Advanced rate
£100,000 to £125,140	67.5%	PA withdrawal
Over £125,140	48%	Top rate

On top of these rates, Scottish taxpayers with young children are subject to the Child Benefit Charge in the same way as other parents.

The rates given above form the effective marginal tax rates on the following types of income received by a Scottish taxpayer:

- Rental income
- Pension income
- Employment income received by an individual over state pension age
- Self-employed trading income received by an individual over state pension age

The same Income Tax rates also apply to employment income and self-employed trading income received by Scottish taxpayers under state pension age, but these are also subject to National Insurance, so we'll look at the effective marginal rates this creates later.

The main UK rates described earlier apply to dividends, interest, and savings income received by Scottish taxpayers, with the main UK thresholds applying.

Let's suppose a Scottish taxpayer has a salary of £45,000, dividend income of £2,000, and no other taxable income. They will pay Income Tax at Scottish rates on their salary, the first £500 of their dividend income will be tax free under the dividend allowance, and the remaining £1,500 will be subject to Income Tax at 8.75%. They are a Scottish higher rate taxpayer on their salary, but remain a UK basic rate taxpayer on their dividend income.

National Insurance

In the March 2024 Budget, the Government reduced National Insurance rates, a tax change that benefits regular salaried employees, company directors, and the self-employed (sole traders and partnership owners).

The latest reduction comes on top of additional National Insurance cuts that were announced in the November 2023 Autumn Statement.

Reducing National Insurance does not help landlords or retirees because there is no National Insurance on rental income or pension income: National Insurance is levied on 'earned' income, which includes salaries, bonuses, and self-employment trading profits.

When you reach state pension age (currently 66) you stop paying National Insurance. So, the cuts also won't benefit those who have reached state pension age but continue working.

In this chapter, we provide a brief overview of the National Insurance cuts and then in Chapters 4 and 5, we examine how they affect two key tax planning decisions:

- Whether you should incorporate (start a company) or remain self-employed (Chapter 4)
- How much salary income company owners should pay themselves this year (Chapter 5)

Self-Employed Business Owners

In the November 2023 Autumn Statement, Chancellor Jeremy Hunt announced that the main rate of Class 4 National Insurance paid by the self-employed would be reduced from 9% to 8% from 6th April 2024. However, before that cut could come into effect, in the March 2024 Budget, he announced a further reduction in the rate, to 6%.

Thus, for 2024/25, National Insurance is payable as follows on self-employment profits:

• 0%	on the first	£12,570	Lower profits limit
• **6%**	on the next	£37,700	
• 2%	above	£50,270	Upper profits limit

From 6th April 2024, self-employed business owners are also no longer required to pay Class 2 National Insurance, an additional saving of £179 this year.

How Much Will the Self Employed Save?

The 6% main rate of National Insurance is payable on up to £37,700 of self-employment income, so the cut from 9% to 6% will save self-employed people up to £1,131 this year (£37,700 x 3%).

Those with smaller profits will enjoy the following savings:

Profits	**NI Saving**
£15,000	£73
£20,000	£223
£25,000	£373
£30,000	£523
£35,000	£673
£40,000	£823
£45,000	£973
£50,000	£1,123
£50,270 or more	£1,131

Plus, an additional saving of £179 because Class 2 National Insurance is no longer payable, producing a maximum saving of £1,310 for those with profits of £50,270 or more.

State Pension Record

The main benefit of paying National Insurance is that it will give you an entitlement to a state pension (eventually!) So, what happens if you're not actually paying any National Insurance?

Self-employed business owners with profits between £6,725 (the 'small profits threshold') and £12,570, get an automatic credit for the purposes of their state pension record, even though they are not subject to any class of National Insurance on this income.

If your profits for the current 2024/25 tax year are less than £6,725, you can voluntarily pay Class 2 in order to continue building your state pension record and qualify for other benefits. Most commentators would agree it is worth paying £179 to add a year to your state pension record.

The position for the purposes of your state pension record can thus be summarised as follows for 2024/25:

Profits over £12,570: Credit obtained by virtue of paying Class 4 National Insurance
Profits between £6,725 and £12,570: Automatic credit
Profits under £6,725: Credit can be obtained by paying voluntary Class 2 National Insurance

Before you pay voluntary Class 2 though, it's worth checking whether you've already clocked up your full quota of qualifying years, or are getting any other credit for state pension purposes (for example when you're claiming Child Benefit for a child under 12). It's obviously also not worth paying voluntary Class 2 if you're already paying Class 1 on employment income (see below).

Longer term, the Government has also committed to abolishing Class 2 National Insurance altogether and says it will consult on this during 2024.

Although National Insurance is not generally compulsory for landlords, some pay Class 2 voluntarily in order to build their state pension entitlement. This includes some furnished holiday let owners.

It will be interesting to see how such individuals will be affected by a total abolition of Class 2 and whether they will be able to continue building their state pension records some other way.

For example, they could be forced to pay the rather more expensive Class 3 National Insurance (which costs £907 per year at present), but it is hoped the Government will find a solution that doesn't involve paying more.

Similar issues may face self-employed people with trading profits below £12,570 in future years.

Marginal Tax Rates for the Self-Employed

Combining Income Tax and National Insurance, the overall effective marginal tax rates suffered by self-employed individuals under state pension age in 2024/25 are as follows:

Up to £12,570	0%
£12,570 to £50,270	26%
£50,270 to £100,000	42%
£100,000 to £125,140	62%
Over £125,140	47%

The position is worse for Scottish taxpayers under state pension age, who pay Income Tax at different rates, but National Insurance at the same rates as everyone else. Their overall effective marginal tax rates for 2024/25 are as follows:

Up to £12,570	0%
£12,570 to £14,876	25%
£14,876 to £26,561	26%
£26,561 to £43,662	27%
£43,662 to £50,270	48%
£50,270 to £75,000	44%
£75,000 to £100,000	47%
£100,000 to £125,140	69.5%
Over £125,140	50%

Additionally, anyone subject to the Child Benefit Charge (Chapter 3) suffers higher marginal tax rates on income between £60,000 and £80,000 in 2024/25.

Regular Salary Earners

In the November 2023 Autumn Statement, the main rate of Class 1 National Insurance paid by employees under state pension age was reduced from 12% to 10%. This change took effect on 6th January 2024.

Then, in the March 2024 Budget, the main rate was reduced again from 10% to 8%. This change took effect from 6th April 2024 (the start of the 2024/25 tax year).

Thus, from 6th April 2024, National Insurance is payable as follows on employment income:

- 0% on the first £12,570 Primary threshold
- **8%** on the next £37,700
- 2% above £50,270 Upper earnings limit

When you become a higher-rate taxpayer, you start paying 40% Income Tax, but the National Insurance rate falls to 2%. No change to this rate has been announced.

Note that the above National Insurance thresholds have all been frozen, along with Income Tax thresholds, until 5th April 2028.

How Much Will Salary Earners Save?

The 8% main rate of National Insurance is payable on up to £37,700 of salary income, so the overall cut from 12% to 8% will save salary earners up to £1,508 this year (£37,700 x 4%).

Those on lower incomes will enjoy the following savings:

Salary	**NI Saving**
£12,570 or less	£0
£15,000	£97
£20,000	£297
£25,000	£497
£30,000	£697
£35,000	£897
£40,000	£1,097
£45,000	£1,297
£50,000	£1,497
£50,270 or more	£1,508

Back in 2021/22, you started paying 12% National Insurance when your salary exceeded £9,568. This year you pay just 8% and only when your salary exceeds £12,570.

Thus, those who earn a salary of £50,270 or more will be paying £1,868 less National Insurance this year (2024/25) compared with 2021/22.

Marginal Tax Rates on Salaries

Combining Income Tax and National Insurance, the overall effective marginal tax rates for salary earners under state pension age in 2024/25 are as follows:

Up to £12,570	0%
£12,570 to £50,270	28%
£50,270 to £100,000	42%
£100,000 to £125,140	62%
Over £125,140	47%

As usual, the position is worse for Scottish taxpayers under state pension age. Their overall effective marginal tax rates on salary income for 2024/25 are as follows:

Up to £12,570	0%
£12,570 to £14,876	27%
£14,876 to £26,561	28%
£26,561 to £43,662	29%
£43,662 to £50,270	50%
Over £50,270	As for self-employed Scottish taxpayers (see above)

Company Owners/Directors

Small company owners typically pay themselves a combination of salary and dividend income.

From 6th April 2024, they will pay National Insurance on their salaries at the same rates as regular salaried employees.

However, the way National Insurance is calculated is different if you're a company director.

For regular salaried employees who are paid monthly, National Insurance is calculated using monthly thresholds. So, although the thresholds for the whole year are £12,570 and £50,270, it is the monthly thresholds of £1,048 and £4,189 that are used to calculate how much National Insurance is payable in any specific month.

For example, if a regular salaried employee received a salary payment of £12,570 at the start of the tax year in April, they would pay 0% on the first £1,048, 8% on the amount between £1,048 and £4,189 and 2% on the amount over £4,189: a total of £419.

By contrast, for company directors, National Insurance is calculated on a *cumulative annual basis*. Thus, a director who receives a salary payment of £12,570 at the start of the tax year in April will pay no National Insurance at all because his or her total pay for the year will not yet exceed the £12,570 primary threshold.

If the director receives any additional salary payments in the months that follow, they will pay 8% National Insurance on the whole amount (up to an additional £37,700). After that they will pay 2%.

How Much Will Company Owners/Directors Save?

Because company directors pay National Insurance on an annual basis, when the main rate was reduced from 12% to 10% on 6th January 2024, the annual rate directors had to pay on all salary income taken in 2023/24 was reduced from 12% to 11.5%.

Thus, following the recent cuts, company directors pay National Insurance as follows:

2023/24	11.5%	between £12,570 and £50,270
2024/25	8%	between £12,570 and £50,270

Any company owner who takes a salary that exceeds the £12,570 primary threshold will be paying less National Insurance this year.

For example, a company owner who takes a salary of £24,000 will pay £400 less National Insurance this year compared with last year:

£24,000 – £12,570 = £11,430 x 3.5% cut = £400

The maximum saving is £1,320 and is enjoyed by those with salaries of £50,270 or more:

£50,270 - £12,570 = £37,700 x 3.5% cut = £1,320

However, in practice it is not tax efficient for many company owners to pay themselves a salary that exceeds the £12,570 primary threshold. It is usually better to pay yourself dividend income instead (if your company has sufficient distributable profits).

In fact, in some cases it may be optimal to pay yourself a salary of less than £12,570!

We will examine this issue further in Chapter 5.

As a result, many company owners do not pay any National Insurance at all and will not benefit from the recent cuts.

One of the main reasons why small salaries are tax efficient is that, when your salary rises above £12,570, **two** types of National Insurance become payable: 8% paid by you the director and 13.8% paid by your company.

Most regular salaried employees don't care about the National Insurance their employer has to pay. But if you are a company owner you will be equally concerned about your company's finances and so this extra tax will be an important consideration.

Employer's National Insurance

For salaries that exceed the £9,100 'secondary threshold', 13.8% employer's National Insurance is payable.

For example, on a salary of £30,000 the employer's National Insurance bill is £2,884:

£30,000 – £9,100 = £20,900 x 13.8% = £2,884

Unfortunately, no cuts were announced to employer's National Insurance in the most recent Autumn Statement or Spring Budget.

Other key points to note about employer's National Insurance are the following:

- Employer's National Insurance is a tax-deductible expense for the company, which reduces the overall net cost.

- There is no employer's National Insurance on salaries of up to £50,270 paid to under 21s or apprentices under 25. National Insurance is then simply payable on the excess.

- Most businesses qualify for the £5,000 employment allowance. This may reduce the cost of the company owners' own salaries, if it is not used up paying salaries to other employees. The allowance is not available to 'one-man band' companies where there is just one director who is the only employee.

Employing Under 21s

Those who employ young people, under 21, currently enjoy two financial benefits:

- No employer's National Insurance is payable
- The minimum wage is lower

From 1st April 2024, the national living wage now applies to employees aged 21 and over (previously 23 and over).

The national living wage is £11.44 per hour, compared with £8.60 for those aged 18 to 20 and £6.40 for those aged 16 to 17. And once an employee turns 21, employer's National Insurance becomes payable at 13.8% on earnings over £9,100 per year.

Example
Owen owns Gelattos Ltd, a popular ice cream shop in a seaside town. He wants to employ a youngster on a full-time basis, working 40 hours per week, and is trying to decide between an 18-year-old and a 21-year-old who both fit the bill.

However much Owen decides to pay his employees, by law he would have to pay the 18-year-old at least £8.60 per hour and the 21-year-old at least £11.44 per hour. On this basis, the total annual wage bill for the 21-year-old would be around £22,880 plus £1,902 employer's National Insurance: £24,782 in total. The total annual wage bill for the 18-year-old would be around £17,200 with no employer's National Insurance payable. In summary, employing a 21-year-old potentially costs 44% more than employing an 18-year-old.