STREETS®

CHARTERED ACCOUNTANTS

Keeping you informed

Newsletter

Winter 2024

INTRODUCTION

The long awaited Budget has been delivered and much of the speculated tax increases have not occurred. For example, capital gains are not to be taxed at Income Tax rates, the higher rate tax relief for pension contributions has not been removed and there is no new mansions tax or wealth tax.

However, Rachel Reeves will be raising £40bn in additional taxes and most of this (£25bn) is coming from increases to Employers' National Insurance.

Our winter quarter newsletter includes details of the National Insurance increase and other significant tax changes.

If you are concerned that any of the copy has a negative impact on your tax affairs, please call so we can consider your options.

BUSINESS

The Negative Effects of Overtrading

Overtrading is a common issue for businesses, especially those experiencing rapid growth or with ambitious expansion plans. It occurs when a business takes on more work or increases stock levels beyond its financial or operational capacity, leading to cash flow problems, quality issues, and even insolvency risks. Here's a look at why overtrading can be detrimental to a business and how to identify warning signs early.

Cash Flow Strain

One of the most immediate effects of overtrading is pressure on cash flow. When a business takes on too many orders or expands stock, it requires additional resources—staff, materials, and often increased credit with suppliers. However, if payments from customers are delayed or there's a gap between expenses and income, cash reserves can quickly be depleted, leaving the business unable to cover operating costs, payroll, or debt obligations.

Increased Debt and Financial Risk

To manage the strain on cash flow, overtrading businesses might turn to borrowing. Short-term loans or increased overdrafts may provide immediate relief but often come with high-interest rates, increasing the cost burden. If the business is unable to keep up with repayments, it risks further financial instability, escalating debt, and potentially jeopardising future borrowing power.

Operational Burnout

Overtrading also places undue stress on employees and infrastructure. Workers may be pushed to work longer hours, take on additional responsibilities, or manage larger workloads. This can result in burnout, lower morale, and increased turnover, disrupting operations and further decreasing the quality of work delivered. Additionally, overburdened infrastructure, such as machinery or office space, may lead to inefficiencies, breakdowns, and added repair costs.

Warning Signs and Preventative Measures

Common warning signs of overtrading include frequent cash flow shortages, rising debt levels, delays in paying suppliers, or an increase in customer complaints.

Preventing overtrading involves planning, keeping a close eye on cash flow forecasts, and maintaining realistic growth expectations. Ensuring strong credit control, managing stock levels efficiently, and investing in gradual, sustainable growth will allow businesses to expand without the risks of overextension.

In summary, while growth is a desirable goal, rapid, unchecked expansion through overtrading can harm a business's financial health, reputation, and workforce. Sustainable growth, combined with careful financial planning, will always outpace the fleeting gains of overtrading.

Government crack-down on late payers

The government has unveiled new measures to support small businesses and the self-employed by tackling the scourge of late payments, which according to the Smart Data Foundry is costing SMEs £22,000 a year on average and according to FSB research, leads to 50,000 business closures a year.

The government will consult on tough new laws which will hold larger firms to account and get cash flowing back into businesses – helping deliver their mission to grow the economy.

In addition, new legislation being brought in the coming weeks will require all large businesses to include payment reporting in their annual reports - putting the onus on them to provide clarity in their annual reports about how they treat small firms. This will mean company boards and international investors will be able to see how firms are operating.

Enforcement will also be stepped up on the existing late payment performance reporting regulations which require large companies to report their payment performance twice yearly on GOV.UK.

Under current laws, responsible directors at non-compliant companies who don't report their payment practices could face criminal prosecutions including potentially unlimited fines and criminal records.

The consultation which will be launched in the coming months, will also consider a range of further policy measures that could help address poor payment practices.

Research shows that every quarter in 2022, 52% of SMEs small firms in the UK suffer from late payments, meaning roughly 2.8 million small firms face this issue, with the Federation of Small Businesses describing it as one of the biggest problems facing SMEs.

Late payments are just one element of the problem, with some SMEs forced to wait months for contracts to be fulfilled and some are even forced to take out loans against their own homes to manage cash flow.

Cracking down on late payments will unlock growth for 5.5 million small firms by enabling them to invest their time hiring more employees, boosting wages, and exporting around the world, rather than chasing down late payments.

The Business Secretary recently held a joint call with the Federation of Small Businesses to outline to SME leaders the work the Department undertook to put in place tough new laws to end bad payment culture. New proposals, subject to consultation, will be bought forward on audit and audit committees, in order to help rebuild small businesses' trust that they will be paid on time.

PERSONAL

Budget update Inheritance Tax

A number of changes to Inheritance Tax (IHT) were announced as part of the Budget measures. We have covered each of the main measures below. It should be noted that these changes are not coming into effect until April 2026 at the earliest.

IHT reliefs

Changes were announced to IHT Business Relief and IHT Agricultural Property Relief. Currently, these reliefs can offer a significant tax benefit for estates with qualifying business and agricultural assets. Under these reliefs, a benefit of either 50% or 100% relief is available from IHT with no cap.

The Chancellor announced that from April 2026, qualifying estates with agricultural or business assets will only be able to claim 100% tax relief on the first £1 million of assets. Any value over £1 million will see tax relief restricted to 50%. A

consultation is expected to be published next year with further details of the intended changes.

Inherited pensions

Most undrawn private pensions are currently excluded from IHT on death. It has been announced that this will change from 6 April 2027 when the value of unused pension funds and death benefits payable will be included in IHT calculations.

This effectively means that the value of the pension pot will be added to other assets to be included in the value of a person's estate and therefore potentially chargeable to IHT. A consultation on the proposed changes has been launched.

As part of these changes, pension scheme administrators will become liable for reporting and paying any IHT due on unused pension funds and death benefits.

IHT nil-rate bands

The IHT nil-rate bands have been frozen for a number of years and had been set to remain at current levels until 5 April 2028. The Chancellor announced that the government will extend this freeze for another 2 years until 5 April 2030.

This means that:

- the nil-rate band will continue at £325,000
- residence nil-rate band will continue at £175,000
- residence nil-rate band taper will continue to start at £2 million.

Budget update Capital Gains Tax

In the Budget it was announced that the rates of Capital Gains Tax (CGT) are to be increased with immediate effect. Rather than align the rates of CGT with Income Tax rates, the main rates of CGT that apply to assets other than residential property and carried interest will increase from 10% to 18% (for Income Tax basic rate payers) and from 20% to 24% (for Income Tax higher rate payers).

Please note, these new rates apply for disposals of chargeable assets made on or after 30 October 2024.

The rate of CGT that applies to trustees and personal representatives also increases from 20% to 24% for disposals made on or after 30 October 2024.

The rates of CGT that apply to residential property disposals (18% and 24%) remain unchanged. The new rates will now mirror these rates as had historically been the case.

The rate of CGT that applies to Business Asset Disposal Relief and Investors' Relief will increase from 10% to 14% for disposals made on or after 6 April 2025. There will be a further increase, from 14% to 18% for disposals made on or after 6 April 2026.

There were no changes announced to the lifetime limit for Business Asset Disposal Relief, which remains at a £1 million. However, the lifetime limit for Investors' Relief (IR) has been reduced from £10 million to £1 million for IR qualifying disposals made on or after 30 October 2024.

There are special provisions for contracts entered into before 30 October 2024 but completed after that date for the main rate changes, and for contracts entered into on or after 30 October 2024 for the phased rate change that applies to Business Asset Disposal Relief and Investors' Relief. There are also special provisions for share reorganisations and exchanges where an election is made.

It was further announced that the normal and higher rates of CGT on carried interest (currently 18% and 28% respectively) will increase to a single unified rate of 32% from 6 April 2025. From April 2026, carried interest will be subject to a wider package of policy changes that will be announced at a later date.

NIC & PENSIONS

Budget update: Employers' NIC

One of the Budget predictions that did come true was the announced increases to the rate of National Insurance contributions (NICs) that are paid by employers. The main rate of secondary Class 1 NICs will increase by 1.2% to 15% (from 13.8%) effective from 6 April 2025. The Class 1A and Class 1B employer rates will also increase in line with this change.

Doubling down on the tax revenue created by this change, the Class 1 NICs secondary threshold, the level at which employers start to pay NICs, will be reduced to £5,000 (from £9,100) per year. Effectively, this will bring more earnings into the Employers' Class 1 charge.

This reduction in the secondary threshold will take effect from 6 April 2025 and last until 5 April 2028. Thereafter, the threshold will be increased annually in line with the Consumer Price Index (CPI).

To help small businesses with these changes, it was announced by the Chancellor, Rachel Reeves, that the Employment Allowance will increase from £5,000 to £10,500. Currently, the allowance is only available to employers that have employer NIC liabilities of under £100,000. The Chancellor confirmed that this threshold will be removed and that all eligible small businesses will benefit from the increased rate. Government figures have confirmed that this results in 865,000 employers paying no NICs next year. These changes will come into effect from April 2025.

Tax relief for pension payments

Following the Budget, we now know that the government does not intend to reduce the present tax relief for UK pension contributions. We have therefore added a short review that explains how the UK tax relief on pension contributions is designed to encourage individuals to save for their

retirement. This is done by reducing the Income Tax they pay on the money they contribute. This system allows people to invest in their future by paying less tax today, with various tax relief levels depending on individual circumstances. Here is a look at how Income Tax relief on pension contributions works in the UK, who benefits, and how to maximize its potential.

How Pension Tax Relief Works

The principle behind pension tax relief is straightforward: contributions made to a pension pot are tax-free up to certain limits. Essentially, for every pound you put into your pension, a portion of it would have been paid in tax otherwise. This means that if you are a basic-rate taxpayer, your contribution immediately benefits from 20% tax relief, as the government tops it up with an additional 20%. For example, a £100 contribution to your pension costs you only £80, with the remaining £20 added by the government.

Those on higher Income Tax bands gain even more tax relief. Higher-rate taxpayers (those paying 40%) and additional-rate taxpayers (those paying 45%) can claim additional tax relief through their annual self-assessment tax return.

Types of Pension Schemes and How They Affect Relief

The two main types of pension schemes in the UK – personal pensions (e.g., Self-Invested Personal Pensions or SIPPs) and workplace pensions – both offer tax relief, but they function slightly differently in terms of how the relief is provided.

- **Personal Pensions**: When contributing to a personal pension, the tax relief is usually applied at the basic rate automatically. This means that, whether you are a basic-rate or higher-rate taxpayer, the provider will automatically add 20% tax relief to your contributions. Higher and additional-rate taxpayers can then claim further relief through their self-assessment.
- **Workplace Pensions**: If you are part of a workplace pension scheme, the method of tax relief depends on whether the scheme uses a "relief at source" or "net pay arrangement." With the net pay arrangement, contributions are deducted before Income Tax is calculated, providing immediate relief. In relief-at-source schemes, like personal pensions, basic-rate relief is applied immediately, and higher-rate taxpayers can claim further relief via self-assessment.

Annual Allowance and Lifetime Allowance

Tax relief on pension contributions is subject to annual limits, designed to prevent high earners from taking excessive advantage of the system.

- **Annual Allowance**: The current annual allowance caps total contributions across all pensions at £60,000, beyond which any further contributions may attract a tax charge. However, those who haven't used their full allowance in the previous three tax years can carry forward unused allowance to top up their contributions.
- **Lifetime Allowance**: While the Lifetime Allowance was previously set at £1,073,100, recent reforms have removed it from the current tax year. Now, individuals can continue to save without a lifetime limit, though lump-sum payments in excess of this amount could still have implications.

Maximising Your Pension Tax Relief

To get the most out of pension tax relief, make full use of your annual allowance. If you are a higher or additional-rate taxpayer, ensure you claim additional relief via self-assessment. Also, explore employer contributions as part of workplace schemes, as many employers match employee contributions, effectively doubling the tax-free amount going into your pension.

In short, Income Tax relief on pension contributions is one of the most effective ways to reduce your tax burden while saving for the future. By understanding the different types of schemes and ensuring you claim any additional relief, you can maximize the benefits this relief provides and enhance your long-term financial security.

To consider your pension planning options please discuss your choices with your pension's advisor.

Calculate your State Pension

The GOV.UK "Check your State Pension forecast" page offers a straightforward tool to estimate your pension amount based on your National Insurance (NI) contributions. This page allows users to:

1. **Estimate Pension Amount**: You can find out how much State Pension you're on track to receive when you reach pension age.
2. **Determine Eligibility**: It checks your NI record to see if you've contributed enough to qualify for a full pension.
3. **View Gaps in Contributions**: If any, it highlights gaps in your NI record that you may wish to fill.

For a full breakdown and guidance on checking your State Pension, visit the GOV.UK State Pension Forecast at www.gov.uk/check-state-pension.

EMPLOYMENT & PAYROLL

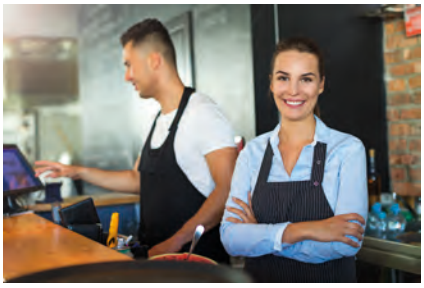
An outline of the Employment Rights Bill

Legislation has been introduced to upgrade UK workers' rights.

The legislation is wide ranging with the intention of tackling poor working conditions and benefitting businesses. A summary of the main changes are:

- The existing two-year qualifying period for protections from unfair dismissal will be removed, delivering on the Labour manifesto commitment to ensure that all workers have a right to these protections from day one on the job.
- The government will also consult on a new statutory probation period for companies' new hires. This will allow for a proper assessment of an employee's suitability to a role as well as reassuring employees that they have rights from day one, enabling businesses to take chances on hires while giving more people confidence to re-enter the job market or change careers, improving their living standards.
- The bill will bring forward 28 individual employment reforms, from ending exploitative zero hours contracts and fire and rehire practices to establishing day one rights for paternity, parental and bereavement leave for millions of workers. Statutory sick pay will also be strengthened, removing the lower earnings limit for all workers and cutting out the waiting period before sick pay kicks in.
- Accompanying this will be measures to help make the workplace more compatible with people's lives, with flexible working made the default where practical. Large employers will also be required to create action plans on addressing gender pay gaps and supporting employees through the menopause, and protections against dismissal will be strengthened for pregnant women and new mothers. This is all with the intention of keeping people in work for longer, reducing recruitment costs for employers by increasing staff retention and helping the economy grow.

A new Fair Work Agency bringing together existing enforcement bodies will also be established to enforce rights such as holiday pay and support employers looking for guidance on how to comply with the law.



Employers and employees who would like more information on the scope of the new legislation can view a Department for Business and Trade press release at https://www.gov.uk/government/news/government-unveils-most-significant-reforms-to-employment-rights.

NMW and NLW rate rises from April 2025

Over 3 million workers will receive a pay boost after the Chancellor confirmed the National Living Wage will increase from £11.44 to £12.21 an hour from April 2025.

The 6.7% increase – which is worth £1,400 a year for an eligible full-time worker – is a significant step towards delivering Labour's manifesto commitment to make sure the minimum wage is a genuine living wage.

The National Minimum Wage for 18 to 20-year-olds will also rise from £8.60 to £10.00 an hour – the largest increase in the rate on record. This £1.40 increase will mean full-time younger workers eligible for the rate will see their pay boosted by £2,500 next year. This marks the first step towards aligning the National Minimum Wage and National Living Wage to create a single adult wage rate, which would take place over time.

Whilst this is welcome news for recipients of the rate increase, businesses that depend on significant use of lower paid labour will have to accommodate an equivalent increase in their costs that they may not be able to pass on to their customers.

Government to promote back to work agenda

The Chancellor has unveiled a £240 million cash-injection to accelerate the rollout of local services to help people back into work and drive down inactivity.

The intervention comes as stark figures show that the UK remains the only G7 country that has higher levels of economic inactivity now than before the pandemic, with 2.8 million people out of work due to

long-term sickness, thus holding back productivity and stunting growth.

The funding is partly set to go towards boosting the rollout of Get Britain Working “trailblazers” in local areas, which will bring together and streamline work, health, and skills support to disabled people and those who are long term sick.

These trailblazers will focus on reaching people who are not normally in touch with the system, by enabling local areas to help them access existing support in skills, education, employment, or health but also testing new early interventions targeted at the specific barriers they are facing to work.

Recognising that poor health is a key driver of economic inactivity, these trailblazers will also ensure work and skills support is better integrated with the health service, to ensure people get the joined-up health and employment support they need to get back into work and stay in work.

The government will also work in close partnership with mayors to develop these trailblazers, to ensure these local services are tailored to meet the unique employment and inactivity challenges in different areas.

Benefit reform is also set to be accelerated this year, with 800,000 people on the old Employment and Support Allowance (ESA) benefit to be moved onto Universal Credit (UC) from this autumn instead of 2028.

This move will bring more people into a modern benefit regime, continuing to ensure they are supported to look for and move back into work.

VAT & DUTIES

The VAT Flat Rate Scheme: Benefits and Eligibility

The VAT Flat Rate Scheme (FRS) is a simplified VAT accounting method that helps small businesses reduce their VAT reporting burden. Designed to streamline tax obligations, the scheme enables eligible businesses to pay a fixed percentage of their turnover rather than accounting for every transaction. Here’s an overview of the benefits and the criteria for joining.

Key Benefits

1. Simplified Record-Keeping. One of the most significant advantages of the FRS is its simplicity. Instead of calculating VAT on each transaction, businesses apply a single flat rate to their gross turnover. This can reduce admin time and makes it easier to stay compliant with VAT requirements.
2. Lower VAT Payments. For some businesses, the FRS can result in lower VAT liabilities. The fixed rate, which varies by industry, is often less than the standard 20% rate. Businesses can retain the difference between the VAT they charge (at the standard rate) and the VAT they pay (at the flat rate).
3. Reduced Complexity. The scheme’s straightforward approach reduces errors. This can lower the risk of costly mistakes in VAT returns and lessen the need for adjustments or corrections.
4. Easier Cash Flow Management. With a predictable VAT payment amount based on a fixed rate, cash flow management becomes easier. Businesses can forecast VAT liabilities more accurately, aiding in budgeting and planning.

Qualifying Joining Conditions

While the scheme offers benefits, there are specific eligibility criteria that businesses must meet:

- Annual Taxable Turnover. When they join the FRS, businesses should expect their annual taxable turnover will be £150,000 or less (excluding VAT) in the next twelve months. This threshold ensures that FRS remains a tool for smaller operations rather than larger firms.
- Limited Input VAT Claims. Businesses using the FRS can’t generally claim back VAT on purchases, except in cases of capital assets worth over £2,000 (including VAT) bought for business use. For many service-based or low-cost businesses, this trade-off is minor, but businesses with high input VAT may find FRS less advantageous.
- Industry-Specific Flat Rates. Each industry has its own flat rate, ranging typically between 4% and 14.5%. Selecting the correct rate is crucial, as it determines the business’s VAT liability under the scheme.

Considerations Before Joining

While the VAT Flat Rate Scheme can be beneficial, it’s not suitable for every business. Those with significant VAT-exempt expenses may pay more under the scheme, and it’s essential to weigh the benefits against the potential limitations, especially if your business regularly reclaims VAT on purchases.

Businesses are classed as a 'limited cost business' if their goods cost less than either, 2% of their turnover or £1,000 a year (if their costs are more than 2%). If this is the case they must use a fixed rate of 16.5% under the scheme. For these types of businesses, it is usually beneficial to opt out of the VAT Flat Rate Scheme and use traditional VAT accounting.

In conclusion, the VAT Flat Rate Scheme offers smaller businesses a simplified way to manage VAT, though careful consideration of industry-specific rates and turnover limits is essential to assess its suitability.

FINANCIAL CALENDAR

January 2025

14 Due date for CT61 return and CT payment for quarter to 31 December 2024.

31 Submit 2023/24 Self Assessment return online. Pay balance of 2023/24 Income Tax and CGT plus first payment on account for 2024/25.

February 2025

2 Submit employer forms P46 (car) for quarter to 5 January 2025.

March 2025

31 Last minute planning for 2024/25 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

April 2025

5 Last day of tax year (6 April 2025, first day of new tax year).

14 Due date for CT61 return and CT payment for quarter to 31 March 2025.

May 2025

3 Submit employer forms P46 (car) for quarter to 5 April 2025.

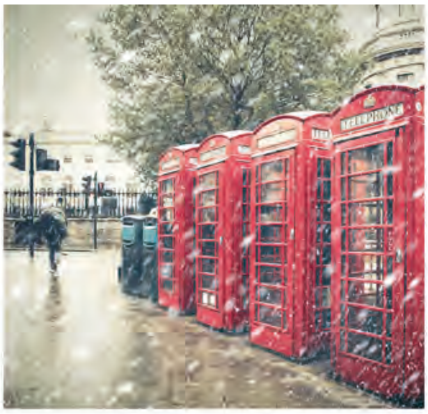
31 Last day to issue 2024/25 P60s to employees.

July 2025

5 Final date to agree 2024/25 PAYE Settlement Agreements (PSA).

6 Last date for returns of expenses and benefits (forms P11D, P9D and P11D(b)) for 2024/25 to reach HMRC. Relevant employees to receive copies of forms P11D and P9D.

6 Last date to submit annual returns for employee share schemes and employment-related securities for 2024/25 (forms 34, 35, 39, 40 and 42).



14 Due date for CT61 return and CT payment for quarter to 30 June 2025.

22 Class 1A NICs for 2024/25 due (19th if paid by cheque).

31 Due date for second payment on account of 2024/25 Income Tax and Class 4 NICs.

31 Last day to pay 2023/24 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).

August 2025

2 Submit employer forms P46 (car) for quarter to 5 July 2025

October 2025

5 Deadline to notify HMRC of chargeability to Income Tax or CGT for 2024/25.

14 Due date for CT61 return and CT payment for quarter to 30 September 2025.

31 Deadline to submit 2024/25 Self Assessment tax return if filed on paper.

November 2025

2 Submit employer forms P46 (car) for quarter to 5 October 2025.

December 2025

30 Last day to submit 2024/25 tax return online to have unpaid tax of up to £17,000 collected through the 2026/27 PAYE code. The amount of debt that can be coded out in a year ranges from £3,000 to £17,000 based on a graduated scale.

Every month:

1 Annual Corporation Tax due for companies with a year ending nine months and a day earlier, e.g. tax due 1 October 2025 for year ending 31 December 2024.

14 Quarterly instalment of Corporation Tax due for large companies (depending on accounting year-end).

19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.

22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.

30/31 Submit CT600 for a year ending 12 months earlier. Last day to amend CT600 for a year ending 24 months earlier.

If the due date for payment falls on a weekend or Bank Holiday, payment must be made by the previous working day. Electronic payments sent using the Faster Payments Service (FPS) are able to clear into HMRC's account on a non-banking day – a Saturday, Sunday and most Bank Holidays.

File accounts with Companies House for private companies with a year ending nine months earlier and for public companies with a year ending six months earlier.

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