David Rice Associates Ltd

making your business our business

Spring Budget 2024

THE BUDGET AND WHAT IT MEANS TO YOU

I AM SELF-EMPLOYED

With the main rates of Class 4 National Insurance Contributions (NICs) being cut by 3% in total in 2024/25 and Class 2 NICs being all but removed (Page 7), self-employed individuals stand to retain more of what they earn in the year ahead. Some will also benefit from an increase in the VAT registration threshold (Page 8).

I AM A PROPERTY LANDLORD

Capital gains tax on residential property disposals has been cut from 6 April 2024, potentially saving tax for those looking to sell all or part of their portfolios (Page 10).

Looking further ahead, the special tax treatment of furnished holiday lets will however come to an end in April 2025 (Page 10).

I HAVE INVESTMENT AND / OR PENSION INCOME

With tax cuts focused on workers' National Insurance, investors and pensioners do not stand to benefit. Income tax rates and thresholds remain frozen at their 2023/24 levels (Page 3), although the 'high-income child benefit charge' will apply to fewer individuals in 2024/25 (Page 5).

THE BUDGET AND WHAT IT MEANS TO YOU

I AM A COMPANY DIRECTOR AND SHAREHOLDER

With main rates of Class 1 National Insurance Contributions (NICs) being cut by an additional 2% in 2024/25 (Page 6), employees and directors should retain more of any salary paid by the company. With tax rates on dividends remaining static and the dividend allowance reducing (Page 4), it is important to consider the most tax-efficient profit extraction strategy for the year ahead.

WHAT ABOUT THE COMPANY?

Corporation tax rates and thresholds remain frozen at their 2023 levels (Page 8). For many companies the changes to the research and development tax regime (Page 8) are a key point to watch.

MY SITUATION IS DIFFERENT…

The UK tax rules are wide-reaching and affect individuals and entities in different ways. The above are just some simple examples. Please keep reading for all of the key Budget headlines and our commentary thereon and, as always, please do reach out if we can help in providing personalised advice to you.

On 6 March 2024, Chancellor Jeremy Hunt presented his Spring Budget to Parliament. In the knowledge that the government must hold a general election before 28 January 2025, this was a Budget designed to restore confidence and win voters. But on the heels of Britain entering a recession and downgraded Office for Budget Responsibility (OBR) forecasts, the Chancellor had his work cut out.

Headlines included further cuts in National Insurance Contributions for workers and the self-employed, a slight increase in the VAT registration threshold and an increase in thresholds to reduce the number of people affected by the high-income child benefit charge. There has also been a cut in capital gains tax for higher earners disposing of residential property. However, income tax rates and thresholds remained static and inheritance tax continues to apply to the largest estates.

INCOME TAX

Please note that 'tax years' run to 5 April each year and that, for example, 2024/25 signifies the year to 5 April 2025.

Your personal allowance

Your tax-free personal allowance will remain at £12,570 in 2024/25. The personal allowance is partially withdrawn if your income is over £100,000 and then fully withdrawn if your income is over £125,140.

Income tax rates and allowances

For 2024/25, income tax rates and thresholds remain frozen at their 2023/24 levels.

After your tax-free 'personal allowance' has been deducted, your remaining income is taxed in bands in 2024/25 as follows.

		'Other income'	Savings income	Dividend income
Basic rate	£1 - £37,700	20%	20%	8.75%
Higher rate	£37,701 - £125,140	40%	40%	33.75%
Additional rate	Over £125,140	45%	45%	39.35%

'Other income' means income other than from savings or dividends. This includes salaries, bonuses, profits made by a sole trader or partner in a business, rental income, pension income and anything else that is not exempt.

So what? Without inflationary increases to the income tax bands, the Chancellor is effectively imposing an income tax increase; as wages and earning rise and a larger proportion falls into higher tax bands. This is known as 'fiscal drag'.

Scottish taxpayers

If your main residence is in Scotland or you are otherwise classed as a 'Scottish taxpayer', the application of income tax rates and bands applies differently where 'other income' is concerned. After the 'personal allowance' has been deducted, your 'other income' is taxed in bands as follows:

	2024/25		2023/24	
Starter rate	£1 - £2,306	19%	£1 - £2,162	19%
Basic rate	£2,307 - £13,991	20%	£2,163 - £13,118	20%
Intermediate rate	£13,992 - £31,092	21%	£13,119 - £31,092	21%
Higher rate	£31,093 - £62,430	42%	£31,093 - £125,140	42%
Advanced rate	£62,431 - £125,140	45%		
Top rate	Over £125,140	48%	Over £125,140	47%

The Scottish Budget was held on 19 December 2023 and made changes including the introduction of the new 'advanced rate' of income tax for 2024/25.

Tax on savings income

A savings allowance determines how much savings income you can receive at 0% taxation, instead of the usual tax rates for savings income as shown above.

This continues to be set at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers.

Further, interest income from an Individual Savings Account (ISA) continues to be exempt from tax.

Tax on dividend income

A dividend allowance determines how much dividend income you can receive at 0% taxation, instead of the usual tax rates for dividend income as shown above.

As expected, this allowance will drop to £500 in 2024/25, down from the £1,000 2023/24 allowance.

However, dividend income from a 'stocks and shares' ISA continues to be exempt from tax.

Individual Savings Accounts (ISAs)

The limit on how much you can save into ISAs (including cash and stocks and shares ISAs) in 2024/25 remains at £20,000 overall.

The Chancellor did announce that the government will introduce a new 'UK ISA' with an additional allowance of £5,000 a year but this is subject to consultation, and we do not yet have a start date.

The high-income child benefit charge

In an effort to reduce unfairness, the thresholds for the high-income child benefit charge (HICBC) will be increased from 2024/25.

You may have to pay the HICBC if you are considered to have 'high income' and child benefit is being paid in relation to a child that lives with you, regardless of whether you are a parent of that child. If you are living with another person in a marriage, civil-partnership or long-term relationship, you will only be liable to HICBC if you are the higher earner of the two of you.

	2024/25	2023/24
Child benefit 'high-income' threshold	£60,000	£50,000
Income level at which child benefit is fully clawed back	£80,000	£60,000

From 2024/25, the HICBC will be calculated at 1% of the child benefit received for every £200 of income above the threshold. This is a slower rate of clawback than in 2023/24 and now means that child benefit is only fully clawed back where income exceeds £80,000, rather than £60,000 in 2023/24.

The HICBC does not apply if the child benefit claimant opts out from receiving the payments.

The Chancellor also announced plans to administer the HICBC on the basis of total household income, rather than the income of the highest earner in the household, by April 2026.

So what? Disregarding for this purpose the other changes announced in the Budget, if we take a couple claiming child benefit in respect of two children and the higher earner earns £70,000, the household will be £1,106 better off than if the threshold had not been increased. If the higher earner instead earns £60,000, the household will be £2,212 better off in 2024/25 and the higher earner will not be required to submit a self-assessment tax return in respect of the HICBC.

EMPLOYMENT TAXES

For employees

As announced in Autumn Statement 2023 and in effect since 6 January 2024, the main rate of Class 1 National Insurance Contributions (NICs) has already reduced from 12% to 10%.

In the Budget, the Chancellor cut this by a further 2 percentage points to 8%, taking effect from 6 April 2024.

For 2024/25, this combined 4% reduction will apply to your annual earnings between £12,570 and £50,270. The NIC rate on your earnings above £50,270 a year remains at 2%.

So what? This combined NIC reduction means that someone with employment income of, say, £50,000 will pay £1,497 less NICs in 2024/25 than if the rate had remained at 12%. Or, to look at it another way, their monthly pay packet will increase by almost £125.

For employers

There have been no changes to the rate or thresholds for employer's Class 1 NICs, which remains at 13.8% for wages paid in excess of £9,100 a year (£175 per week).

For eligible employers, the employment allowance remains at £5,000 per year, reducing their total employer's NIC liability by this sum.

Benefits in kind

Employees are required to pay income tax on certain non-cash benefits. For example, the provision of a company car constitutes a taxable 'benefit in kind'. Employers also pay Class 1A NIC at 13.8% on the value of benefits.

The set percentages used to calculate company car benefits are fixed until 5 April 2026 before slight increases apply to most car types, including electronic and ultra-low emission, from 6 April 2026.

The figures used to calculate benefits-in-kind on employer-provided vans, van fuel (for private journeys in company vans), and car fuel (for private journeys in company cars) remain fixed at their 2023/24 levels in 2024/25. These are:

- Van benefit £3,960
- Van fuel benefit £757
- Car fuel benefit multiplier £27,800

NATIONAL MINIMUM WAGE (NMW)

Employers must pay their employees at least the national living wage (for workers aged over 21) / national minimum wage. The minimum hourly rates change on 1 April each year and depend on the worker's age and if they are an apprentice.

	1 April 2024 – 31 March 2025	1 April 2023 – 31 March 2024
Age 23 and over		£10.42
Age 21 and over	£11.44	
21-22 year old rate		£10.18
18-20 year old rate	£8.60	£7.49
16-17 year old rate	£6.40	£5.28
Apprentice rate	£6.40	£5.28

These increases are not insubstantial, and the affordability of the rates will need to be carefully considered by employers when planning their headcount for the year ahead.

NATIONAL INSURANCE FOR THE SELF-EMPLOYED

Self-employed individuals with profits of more than £12,570 a year pay two types of NIC: Class 2 and Class 4. Two key changes come into effect from 6 April 2024, as previously announced in Autumn Statement 2023 and further extended in this Budget:

1. The main rate of Class 4 NICs will be cut from 9% to 6% in 2024/25. Class 4 NICs will continue to be calculated at 2% on profits over £50,270.
2. Class 2 NICs will effectively be abolished, saving £179.40 per annum.

So what? This NIC reduction means that a sole trader with, say, trade profits of £50,000 will pay £1,302 less NICs in 2024/25 than will be due for the 2023/24 tax year. Just be aware that this saving may not be felt until the 2024/25 self-assessment balancing payment is made on or before 31 January 2026.

Entitlement to state benefits including the state pension

If you are self-employed, your Class 2 NIC payments have ensured you accrue entitlement to a range of state benefits, including the state pension. If your profits exceed £6,725 in 2024/25 you will continue to accrue entitlement to state benefits despite not paying Class 2 NICs. If your profits are less than £6,725, or you make a loss, you may need to pay Class 2 NICs on a voluntary basis to maintain your state benefit entitlement.

VAT

From 1 April 2024, the VAT registration threshold and deregistration thresholds will each increase by £5,000 to £90,000 and £88,000 respectively. The thresholds had previously been frozen at £85,000 and £83,000 since 1 April 2017. There have been no changes to the rates of VAT and the standard rate continues to be set at 20%.

CORPORATE TAXES

Rates from 1 April 2024

Corporation tax rates and thresholds remain at the levels used in the year to 31 March 2024 as follows:

Main rate	25%
Small profits rate	19%
Lower threshold	£50,000
Upper threshold	£250,000
Marginal relief fraction	3/200
Effective marginal relief rate	26.5%

Companies with profits between the lower and upper thresholds will qualify for marginal relief, which means they pay tax at 19% up to the lower threshold and at 26.5% on the remainder of the profits.

The thresholds must be equally shared between companies in a group and those controlled by the same person or persons.

It has been confirmed in the Budget that the same rates and thresholds will also apply in the year to 31 March 2026.

Research & Development (R&D) reliefs

For company accounting periods commencing on or after 1 April 2024, a new R&D scheme will come into effect, merging the current R&D Expenditure Credit (RDEC) scheme (for larger companies) with the Small and Medium Enterprise (SME) scheme. There will also be a second new R&D scheme for 'R&D intensive SMEs' along with other amendments as part of a government campaign to tackle fraud and abuse of the scheme.

These are significant changes and come on top of a raft of changes already seen in 2023.

Any company claiming (or considering claiming) R&D reliefs will need enhanced support to adopt the new rules and framework and make successful claims. Please do get in touch if we can assist you with this.

Annual Tax on Enveloped Dwellings (ATED)

Companies and some other entities may need to file ATED returns or pay ATED if they hold residential property. The rates of ATED will increase from 1 April 2024 so please contact us if you require any support with this.

Tax relief for expenditure on plant and machinery

By way of a £1million Annual Investment Allowance (AIA) and, for companies only, unlimited 'full expensing', your business is likely to be able to claim 100% tax relief on qualifying equipment purchases.

Conditions may apply and, in some cases, the rate of tax relief in the year of purchase can be 50% or less. In particular, some connected or group businesses need to share their £1million AIA limit between them and this is something that HMRC are currently focusing on so please do talk to us if you have any concerns.

Motor vehicles

While vans and commercial vehicles will often qualify for 100% tax relief when purchased, the rate of tax relief for a car will be less, unless it is both brand-new and electric. The cost of buying other cars is tax relieved by way of an 18% or 6% annual writing down allowance, based on whether the car has carbon dioxide emissions of up to or more than 50g/km respectively.

HMRC had planned to update their guidance so that double-cab pick-ups with a payload of 1 tonne or more were reclassified from commercial goods vehicles to cars from 1 July 2024. This would have significantly hindered the tax reliefs available. However, in February they backtracked and committed to retaining the commercial vehicle tax treatment. Although it was not part of the Budget speech, legislation will soon follow to cement the commercial vehicle approach. This applies for both capital allowances and benefit-in-kind purposes (above).

Making Tax Digital (MTD)

Under the government's MTD initiative, businesses will keep digital records and send a quarterly summary of their business income and expenses to HMRC using MTD-compatible software. These requirements will be phased in from April 2026, starting with income tax paying sole traders and property landlords with gross income over £50,000.

HMRC is re-launching its optional beta testing, with eligible businesses able to opt-in from April 2024. Please talk to us if you'd like to know more.

Using the cash basis to compute business profits

As first announced at last year's Autumn Statement, it should be remembered that most unincorporated businesses will default onto the 'cash basis' of calculating taxable profits for the 2024/25 tax year and onwards. As a simplification measure for some, it will mean that your annual profits are calculated based on when you receive payments from customers and make payments to suppliers. Adjustments for stock and amounts owing by or to you will not be possible.

Some small businesses are already using the cash basis voluntarily and won't be affected by the change.

It is possible to 'opt-out' of the cash basis and instead use traditional 'accruals' accounts (with adjustments for stock etc.) for tax purposes. The decision will affect the timing of your tax liabilities and will ultimately be based on your personal circumstances. Please talk to us for more information and to plan the approach for your business.

Tax relief for training costs

Alongside the Budget, HMRC has published updated guidance on tax deductions available to sole traders and self-employed individuals. Amid the AI revolution, the guidance clarifies that tax relief can be claimed on training costs relating to updating existing skills, maintaining pace with technological advancements, or changes in industry practices.

CAPITAL GAINS TAX

Annual exemption

The capital gains tax (CGT) annual exemption will drop to £3,000 in 2024/25, down from £6,000 in 2023/24. This change will mean that those selling capital assets such as property or shares will pay more tax.

Rates

The main rates of CGT remain at 10% for basic rate taxpayers (or those disposing of a business that qualifies for Business Asset Disposal Relief) and then 20% in most other cases.

However, increased rates apply when the asset being sold is a residential property that is not your private residence. From 6 April 2024, the residential property CGT rate will remain at 18% for basic rate taxpayers but will reduce from 28% to 24% for those with residential property gains falling outside of their basic rate band.

This measure is intended to generate more transactions in the property market, benefitting those looking to move home or get on the property ladder.

Remember, for property disposals that give rise to CGT, tax payment and reporting obligations can arise just 60 days after your completion date so make sure you take advice in good time.

TAX REGIME FOR FURNISHED HOLIDAY LETS

If you let out residential or commercial property, the profits are taxed as part of your 'other income'. If you sell property that has been rented out, capital gains tax is likely to apply. Generally, rental business activity attracts fewer tax reliefs than trading ventures. However, if a residential property meets the strict definition of a 'furnished holiday let' (FHL), enhanced tax relief rules are currently available.

It has been announced in the Budget that, from 6 April 2025, the concept of FHLs and their beneficial tax treatment will be abolished. Going forward, profits from FHLs will be taxed in the same way as any other rental property profits. If you own FHLs this will be disappointing, especially the loss of your possible claim to 'Business Asset Disposal Relief' on any future sale.

While the abolition won't happen until 6 April 2025, it should be noted that there will be measures in place from Budget Day (6 March 2024) to prevent tax planning steps that artificially accelerate the disposal date of an FHL to a date before 6 April 2025.

Please get in touch for a more detailed analysis of how the withdrawal of the FHL status will affect you.

INHERITANCE TAX

Rates and thresholds

The main rate of inheritance tax remains at 40%, reduced to 36% for estates where 10% or more is left to charity.

The inheritance tax nil rate band continues to be frozen at £325,000. The residence nil rate band will also remain at £175,000 and the residence nil rate band taper will continue to start at £2million.

Agricultural property and woodlands relief

From 6 April 2024 the scope of agricultural property and woodlands relief will be limited to property in the UK. Property located in the European Economic Area (EEA), the Channel Islands and the Isle of Man will be treated the same as other property located outside the UK.

Payment of inheritance tax before probate

From 1 April 2024, personal representatives of estates will no longer need to have sought commercial loans to pay inheritance tax before applying to obtain a 'grant on credit' from HMRC. This is a welcome relaxation.

UK RESIDENCY AND DOMICILE

Significant tax changes have been announced for individuals resident in the UK but not permanently settled here (known as non-domiciled).

While individuals resident and domiciled in the UK must pay UK taxes on their worldwide income and capital gains, it is possible for UK resident but non-domiciled individuals to claim a 'remittance basis' of taxation for overseas income and capital gains. In return for paying a remittance basis charge of up to £60,000 a year, non-domiciled individuals are able to shelter their overseas income and capital gains from UK taxation, as long as they do not bring (remit) those monies to the UK.

The remittance basis of taxation, will be abolished from 6 April 2025. It will be replaced with a simpler residence-based regime and new arrivals to the UK will not pay UK tax on their overseas income and gains for their first 4 years of UK residence.

In addition, inheritance tax rules apply to the worldwide assets of a UK-domiciled individual but, broadly, just to the UK assets of a non UK-domiciled individual. The non-domicile rules for inheritance tax are also likely to move to a residence-based regime from 6 April 2025 but the government plans to consult on options.

If you are not domiciled in the UK, please talk to us about how the new rules and the transition to them will affect you.

ALCOHOL AND FUEL DUTIES

In Budget news, the government has confirmed that alcohol duty will remain frozen until 1 February 2025 and that the previous 5p per litre cut in fuel duty will remain in place until March 2025.

STAMP DUTY

England and Northern Ireland - thresholds

The £250,000 0% threshold for Stamp Duty Land Tax (SDLT), applicable in England and Northern Ireland, remains unchanged until 31 March 2025. The same is true of the £425,000 0% threshold for first-time buyers.

These thresholds are set to revert to £125,000 and £300,000 respectively from 1 April 2025 and while there were rumours that the increased thresholds would be extended beyond 2025, no mention was made of this in the Budget.

England and Northern Ireland - Multiple Dwellings Relief

Multiple Dwellings Relief (MDR) is a relief currently available when buying two or more dwellings in a single transaction or series of linked transactions.

MDR is to be abolished for purchases of residential property in England and Northern Ireland with an effective date on or after 1 June 2024.

Transitional rules apply to the abolition so that MDR can still be claimed in some situations where contracts were exchanged on or before 6 March 2024, regardless of when completion takes place.

First-time Buyers' Relief: leases and nominees

Following the Budget, the definition of a 'First-time Buyer' has been amended. Anyone who leases a residential property via a nominee or bare trust with an effective date (usually the completion date) on or after 6 March 2024 will potentially be eligible for First-time Buyers' Relief, in the same way as any other qualifying first-time buyer. Transitional rules may apply where contracts were exchanged prior to 6 March but completed or substantially performed afterwards.

Scotland and Wales

Property purchasers in Scotland and Wales do not pay SDLT. Rather, if you buy a property in Scotland you pay Land and Buildings Transaction Tax, and in Wales you pay Land Transaction Tax. No amendments to these transaction taxes have been announced.

CHARITIES AND GIFT AID

In anticipation of enhanced protections for consumers who take out subscription contracts, the government will soon introduce rules to ensure that charities which operate subscription models can continue to claim Gift Aid on those subscriptions.

IN CONCLUSION

As we move into 2024/25, there are a lot of tax changes on the horizon, with more likely to come alongside the general election. Where the government gives with one hand (e.g. NIC cuts for workers) they may take with the other hand (e.g. frozen income tax thresholds) and it can be hard to keep up.

We are here to work alongside you and help you prosper so please do get in touch at any time.

Disclaimer: This newsletter covers the key news headlines from Budget 2024. The authors take great care in its production, but it is not exhaustive and should not be read as a full fiscal summary. The content displayed is correct as of 6 March 2024. We cannot take responsibility for any action taken or not taken from this document alone. Please contact us for personalised advice.

David Rice Associates Ltd

making your business our business

4 Wellington Circus, Nottingham NG1 5AL

P: 0115 924 1211
F: 0845 280 0158
E: info@davidriceassociates.com
W: www.davidriceassociates.com