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CHARTERED ACCOUNTANTS

NEWS UPDATE - 11 April 2024

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The march of the higher rate taxpayer

New calculations issued alongside the Spring Budget show just how higher rate taxpaying status is becoming ever more common.

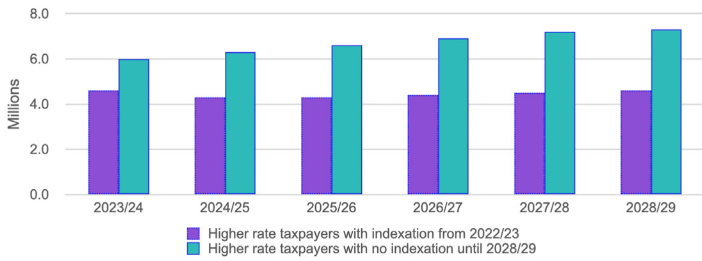
The Office for Budget Responsibility (OBR) received plenty of attention leading up to the Budget. It was widely portrayed in the media as the body that placed constraints on the Chancellor's tax-cutting options ahead of the coming election.

That portrayal of the OBR's powers is an over-simplification. While the OBR does calculate whether the Chancellor can meet his fiscal rules, it neither sets those rules nor, crucially, the assumptions underlying the calculations. For example, in projecting how much tax revenue the government will receive from 2025/26 onwards, the OBR is obliged to follow the Treasury's assumption that the 'temporary' 5p cut in fuel duty will be scrapped and duty itself will rise in line with the Retail Price Index (RPI) inflation. Nobody, least of all the OBR, believes this will happen. Fuel duty rates last rose in 2010.

Despite these limitations, or perhaps because of them, the OBR has paid increasing attention to the impact of planned tax changes (or lack thereof), highlighting facts that the Chancellor might prefer not to discuss.

A good example, which the OBR has regularly highlighted in its reports, is the consequences of freezing the personal allowance and higher rate income tax threshold until April 2028. The impact of this freeze on the population of higher rate taxpayers is demonstrated in the graph below. By 2028/29, the OBR estimates that there will be 7.3 million falling into this category, 2.7 million (59%) more than if indexation had applied to the higher rate threshold.

Higher rate taxpayer numbers



Source: OBR EFO March 2024

That is not the entire story – the near-£25,000 cut to the additional rate threshold in 2023, followed by an indeterminate freeze, will result in 0.6 million more additional rate taxpayers. Overall, the OBR estimates that about two in nine income taxpayers will be paying more than the basic rate by 2028/29.

The freezes generate too much tax revenue to be reversed without a radical overhaul of government policy. This helps explain why Mr Hunt and Mr Sunak have shifted the focus towards reducing national insurance rates.

As the new tax year gets underway, make sure you know what your 2024/25 tax band will be – because you may have been elevated to a higher level.

Tax treatment varies according to individual circumstances and is subject to change.

The Financial Conduct Authority does not regulate tax advice.

The end of multiple dwellings relief

From 1 June 2024, the abolition of multiple dwellings relief under stamp duty land tax (SDLT) will stop disputes about what qualifies as a separate dwelling (e.g. a granny annexe). However, the scrapped tax will impact English and Northern Irish buyers who purchase two or more properties in a single, or linked, transaction.

At the moment, multiple dwellings relief reduces the overall SDLT rate when buying two or more properties in a single, or linked, transaction. The buyer pays SDLT based on the average price of each dwelling and benefits from two or more lower SDLT bands.

Relief abolished

The government has abolished the relief due to questionable claims, particularly relating to granny annexes. Unfortunately, genuine claims will now lose their relief, for example, buyers of a country home with a cottage in the grounds, or a town house with a self-contained basement flat. From 1 June, the amount of SDLT payable on a property costing £750,000 containing a qualifying annexe will double from £12,500 to £25,000.

Many buyers have been contacted by companies offering to help them claim back SDLT for a commission, but these refunds are often based on questionable entitlement to multiple dwellings relief.

While the removal of multiple dwellings relief will not affect the majority of properties, you should be aware that:

- Relief is still available for a contract that was entered into on or before 6 March 2024, regardless of when completion takes place.
- Otherwise, relief will only be available if a purchase is completed (or substantially performed) before 1 June 2024.

Six or more properties

Where six or more properties are purchased in the same transaction, non-residential SDLT rates can be applied. This means a maximum rate of 5% compared to a top residential rate of 12%; or 15% for a buy-to-let purchase. In the absence of multiple dwellings relief in future, buyers using this option will have to take care to structure such transactions to ensure all properties come under a single contract.

You can find out more about HMRC's guide to SDLT from the link below:

https://www.gov.uk/hmrc-internal-manuals/stamp-duty-land-tax-manual

Request flexible working rights from day one

From 6 April, employees now have the right to request flexible working from their first day at work. However, the right is still only to make a request and employers are under no obligation to approve it.

Flexible working is not just limited to working from home. For example, an older employee may request to gradually reduce their hours as they approach retirement, or those with child or elder care responsibilities may request to vary their hours.

What the changes mean:

The changes that have come in from 6 April 2024 include:

- **Day one request:** flexible working can be requested from the first day in a new job (previously 26 weeks employment was required);
- **Two requests:** flexible working requests can be made twice within a 12-month period (previously it was one request a year);
- **Two-month decision:** employers must decide whether or not to approve a request within two months of receiving a request (previously three months); and
- **No employee statement:** employees are no longer required to state the impact of their flexible working request upon the business (previously this was a difficult requirement for new employees).

Unless the employer agrees with the request for flexible working, they must consult with the employee before making a decision. The meeting can be used to explore alternatives or variations to the original request, and maybe consider whether there should be an initial trial period to see how the new arrangements pan out.

Rejecting a request

No changes have been made to the reasons that employers can give to turn down a flexible working request, although a valid business reason is required. Some of those reasons could be, for example:

- unacceptable additional costs due to a request;
- it's not possible to re-organise work among other employees;
- detrimental impact on performance while working from home; or
- insufficient work to accommodate a change in an employee's working pattern.

The latest Acas code of practice on requests for flexible working can be found from the link below:

https://www.acas.org.uk/acas-code-of-practice-on-flexible-working-requests

Buy-to-let owners selling up

While the higher rate of capital gains tax (CGT) on residential property disposals has dropped by 4%, from 28% to 24%, from 6 April 2024, the vast majority of landlords who sell up are facing a higher CGT bill when compared to two years ago.

Buy-to-let landlords may be selling because of the implications of the Renters Reform Bill, while furnished holiday homeowners will see their advantageous tax benefits removed from April 2025.

Higher CGT bills

Landlords will generally be worse off despite the 4% rate cut, because it generally doesn't compensate for the recent reduction of the annual exempt amount from £12,300 to £3,000.

- **Basic rate taxpaying sellers:** will be worse off as the lower rate for gains falling within the basic rate tax band is unchanged at 18%.
- **Higher/additional rate taxpaying sellers:** with a gain of less than £68,000, will be worse off; such as newer landlords who have benefited from less price growth and northern landlords where property values are generally lower.

Only higher and additional rate taxpayers with a gain in excess of £68,000 will find themselves better off.

Already sold up

Landlords who have already sold their property and face a CGT liability at the previous higher rate of 28% could consider a risky strategy of potentially benefiting from the 4% rate reduction – by deferring the gain through an enterprise investment scheme (EIS). The gain will come back into charge when the EIS investment is realised.

There are two main risks associated with this plan:

- **EIS investment risk:** some or all of the investment could be lost; and
- **CGT rate change:** the rate of CGT could go up again by the time the gain comes back into charge.

While not worth it solely for the rate reduction, this is a useful bonus if considering an EIS investment for the 30% income tax relief.

HMRC's guide to tax when you sell property can be found from the link below:

https://www.gov.uk/tax-sell-property

Deductibility of training costs

HMRC has recently published guidance to provide greater clarity about the tax deductibility of training costs for the self-employed. Apart from updating current skills, costs are also deductible if they provide new skills or knowledge to support the business.

What costs count?

Training costs must relate to the existing business, including:

- Keeping pace with technological advances and changes in industry practice; and
- Training which is ancillary to a person's main trade, such as digital skills or bookkeeping.

HMRC has provided various examples, such as a potter who takes courses on e-commerce and website development with the aim of making online sales. Although the courses have nothing to do with pottery, the costs should be deductible as they are helping a move into online selling.

Similarly deductible would be the costs for a writer who takes a course on drawing illustrations with the aim of illustrating his or her own books. Again, the new skills will be used to improve an existing business.

Despite the changes, the training costs deductibility rules for the self-employed are still stricter than they are for employers.

What costs don't count?

There is no deduction for training costs that allow a person to start a new business or to expand into a new, unrelated, area of business. For example:

- A make-up artist takes tattooing courses with the aim of opening their own tattoo studio. The training costs are unrelated to the make-up business, so they are not deductible.
- An unemployed person completes a course to become an approved driving instructor. There is no deduction for the training costs as new skills are being acquired that will help the person start a business which does not already exist.

The changes date back to a 2018 consultation, so don't expect further relaxation of the rules anytime soon.

The full list of examples provided by HMRC can be found from the link below:

https://www.gov.uk/guidance/check-if-the-cost-of-training-could-be-an-allowable-business-expense

Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk