bright grahame murray

CHARTERED ACCOUNTANTS

NEWS UPDATE - 11 December 2023

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NIC reforms for the self-employed

National insurance contribution (NIC) changes for the self-employed announced in the Autumn Statement come in from 6 April 2024 and will be welcome news. But the reforms don't go far enough to offset the continuing cost of frozen tax thresholds.

NICs classes

The self-employed currently pay two classes of NICs:

- Class 2 NICs are at a flat weekly rate, and it is these contributions that give entitlement to contributory benefits, such as the state pension (35 qualifying years being required to receive a full pension). Class 2 NICs are deemed to be paid if profits are between £6,725 and £12,570, and can be paid voluntarily if profits are lower.
- Class 4 NICs are earnings related. The main rate of 9% is paid on profits between £12,570 and £50,270, with an additional rate of 2% on profits in excess of £50,270.

Class 2 voluntary only

From 6 April 2024, any self-employed person with profits of £6,725 or more will be entitled to contributory benefits without having to pay class 2 NICs – an annual saving of £179 for those who would otherwise have had to pay.

However, those with profits below £6,725, will still have to pay voluntarily if they wish to maintain access to contributory benefits.

Anyone with profits just below £6,725 might decide to forego claiming sufficient expenses to meet the income limit, although the overall tax impact of doing so must be considered.

Class 4 reduced

From the same date, the main rate of class 4 NICs will be reduced from 9% to 8%, representing a maximum annual saving of £377. The additional rate of 2% is unchanged.

There are also no changes to the thresholds of £12,570 and £50,270, although this will be beneficial for anyone with profits in excess of £50,270 – it means no increase to the amount of profits charged at the main rate rather than at the lower additional rate.

HMRC's guide to voluntary national insurance can be found from the link below:

https://www.gov.uk/voluntary-national-insurance-contributions

R&D tax relief schemes set to merge, but concerns remain

The two existing research and development (R&D) tax relief schemes are set to merge, although the newly created scheme will be similar to the R&D expenditure credit currently claimed mainly by large companies.

Although the merger will remove the complexities when companies move between schemes, there will invariably be some who significantly lose out as a result of the changes.

The merged scheme and other changes will apply in relation to accounting periods beginning on or after 1 April 2024.

R&D expenditure credit (RDEC)

Along with a deduction for the R&D expenditure itself, the RDEC provides for a 20% standalone credit. Since the credit is taxable, it is worth £15,000 for every £100,000 spent on R&D assuming the main rate of corporation tax applies.

- For loss-making companies, the expenditure credit can lead to a repayment.
- When calculating the repayment, the notional tax rate applied will in future be the profit rate of corporation tax of 19%.

If not used to reduce the current year's corporation tax liability, the expenditure credit – before any alternative use – is capped according to the amount of PAYE and national insurance contributions paid in respect of R&D workers. In future, the more generous cap from the SME scheme will be used.

R&D-intensive SMEs

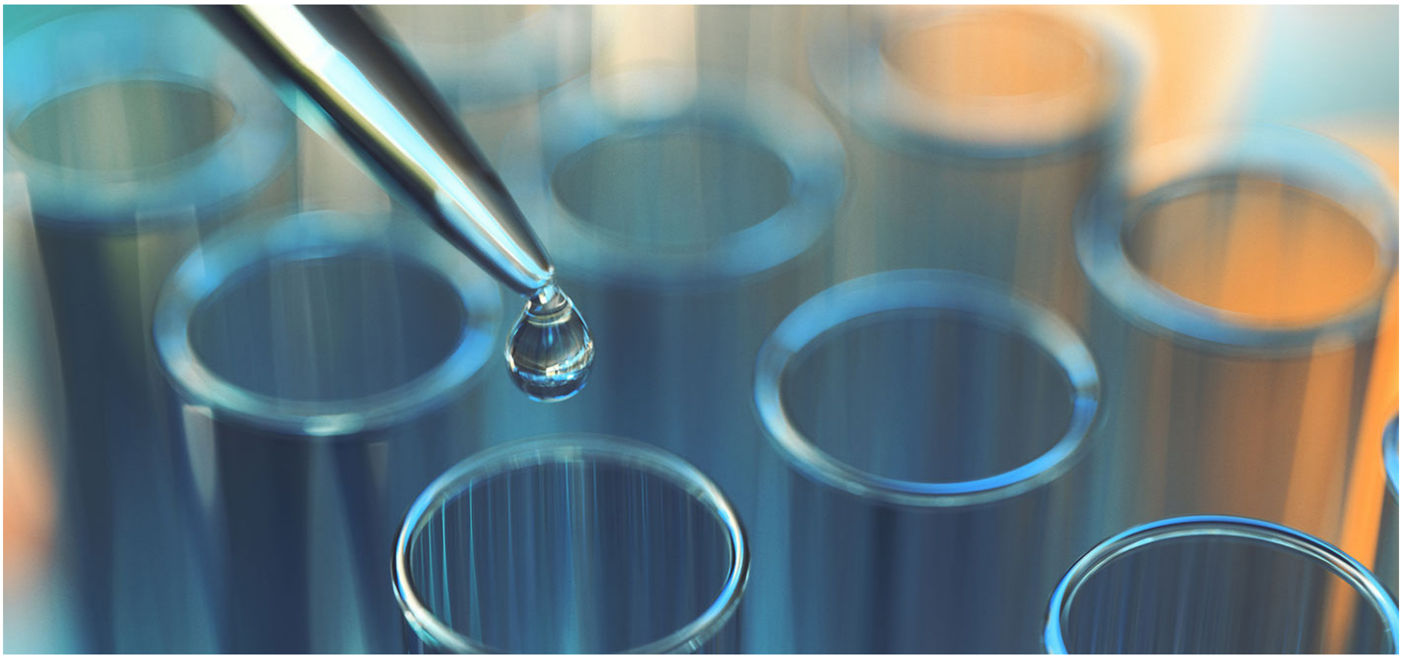
Despite the merger, loss-making R&D-intensive small or medium-sized enterprises (SMEs) will still be able to claim a 14.5% repayable credit under the existing SME scheme.

- Given there is an 86% uplift, this works out to a cash repayment of £26,970 for every £100,000 of qualifying R&D expenditure.
- R&D intensity is calculated as the proportion of an SME's qualifying R&D expenditure compared to total spending. The intensity threshold is to be reduced from 40% to 30%.

Also, a one-year grace period will be introduced for companies that fall below the 30% threshold.

HMRC's guide to the RDEC as it currently applies can be found from the link below.

https://www.gov.uk/guidance/corporation-tax-research-and-development-tax-relief-for-large-companies#how-to-use-the-expenditure-credit



Cash basis to become default

From 2024/25, restrictions to the cash basis will be removed, making it the default method for calculating trading profit for the self-employed and most partnerships.

The accruals basis is currently the default, with a business having to opt in to use the cash basis. In future, a business will need to opt out of the cash basis if it wants to use the accruals basis.

Restrictions removed

A business, regardless of size, will be able to use the cash basis once the £150,000 turnover restriction has been removed. The removal of two other restrictions will mean there are no longer any obstacles to – otherwise qualifying – businesses choosing to use the cash basis:

- Interest costs will in future be fully deductible. Currently, there is a maximum deduction of £500.
- Losses incurred under the cash basis will be relievable in the same way as accruals basis losses. Currently, a cash basis loss cannot be relieved against other income or carried back.

When moving from the accruals basis to the cash basis, a number of adjustments may be necessary to avoid double counting or items being omitted.

Pros and cons

The cash basis removes complexities such as accruals and most capital allowances, though it will be unsuitable for some businesses, especially larger ones.

- The cash basis does mean it is quite easy to calculate trading profit by, for example, extracting information from easily accessible documents, such as bank statements – so there may be less need for a bookkeeper.
- It is also easier to legally manipulate a period's trading profit. For example, paying suppliers early towards the end of a period will reduce profit.

The accruals basis, however, is a more accurate reflection of a period's trading profit, so banks and other financial institutions may insist on this basis being used.

HMRC's guide to calculating trading profits, notably section 3 on moving to the cash basis, can be found from the link below:

https://www.gov.uk/government/publications/how-to-calculate-your-taxable-profits-hs222-self-assessment-helpsheet/hs222-how-to-calculate-your-taxable-profits-2023#allowable-business-expenses-cash-basis-and-traditional-accounting

National Living and Minimum Wages increase

Minimum wage rates will see substantial increases from 1 April 2024 – welcome news for younger workers and apprentices, but not so much for those employers struggling in the current economic climate.

Eligibility for the National Living Wage is to be extended by reducing the age threshold so that 21 and 22-year-olds are included. Current and future rates of National Living/Minimum Wage are:

CURRENT AGE / RATES	FROM 1 APRIL 2024 AGE / RATES	INCREASE %
23 and over / £10.42	23 and over / £11.44	9.8%
21 to 22 / £10.18	23 and over / £11.44	12.4%
18 to 20 / £7.49	18 to 20 / £8.60	14.8%
Under 18 and apprentices / £5.28	Under 18 and apprentices / £6.40	21.2%

Employers can only pay the apprentice rate if the apprentice is aged under 19 or, if older, is in the first year of their apprenticeship. Apprentices over 19 who have completed the first year of their apprenticeship must be paid the rate for their age.

The provision of accommodation is the only benefit counting towards the National Living/Minimum Wage, with the maximum offset from 1 April 2024 set at £9.99 a day (£69.93 a week).

Real Living Wage

Some 14,000 employers – covering over 460,000 employees – now pay the Real Living Wage. This is on a voluntary basis, with the Real Living Wage independently calculated based on actual living costs.

- The current hourly rate of Real Living Wage outside of London is £12, so – with the latest increase – the National Living Wage is not far off parity.
- Where the government's rate falls down, however, is for London-based employees where a Real Living Wage of £13.15 is deemed necessary due to the higher costs of working and living in the capital.

Also, the National Living Wage covers employees aged 21 and over, but the Real Living Wage applies from age 18.

HMRC's National Living and Minimum Wage calculator for employers can be found from the link below:

https://www.gov.uk/minimum-wage-calculator-employers

Getting a head start: retirement planning attitudes in 2023

A survey of 6,000 people, aged 18 to 80, revealed starkly different views on retirement across the generations.

According to the Office for National Statistics, the median age of the UK population in mid-2021 was 40.7 years, up from 39.6 in mid-2011. Perhaps that gradual ageing and the impact of Covid-19 on working patterns explains why there is a steady flow of research reports on attitudes to, and experiences of, retirement. The latest to emerge is Standard Life's Retirement Voice, now in its third annual edition. One of the more interesting topics covered is the extent and benefit of planning ahead of retirement.

The bad news is that only 29% of those questioned said they were doing "a great deal of planning for retirement." Predictably, households with income of more than £100,000 and those who took professional financial advice were the most likely to fall into this category, but even in those instances the proportion was no more than half.

Just over one in five members of Generation X (born between 1965 and 1980, so in their 40s and 50s) said they had done a great deal of planning, a smaller share than either of the two subsequent and thus younger generations (Millennials and Gen Z). The reluctant Gen Xers would do well to consider that over half of today's retirees wish that they had thought about retirement finances at a younger age or started saving earlier. However, Gen X may not be completely head-in-sand, as on average they confessed to a six-year gap between their aspirational retirement age (62) and what they expected to be the reality (68).

The benefits of planning were evident in responses to another survey question: "How do you feel about your current financial situation?" Those who had done the most planning were nearly three times more likely to feel positive about their finances than the non-planners (61% vs. 21%). The group that had done "only a little planning" fell in the middle (40%).

The survey found that on average, age 36 is when people start to take a keener interest in their retirement planning. That average figure hides a big generational difference – the Baby Boomers trigger age was 49, while for Gen Z (currently 18–25) it was 20. In this instance, Gen Z looks the wiser generation…

Find out more about retirement attitudes from the link below:

https://lib.standardlife.com/library/uk/Retirement%20Voice%202023.pdf

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