bright grahame murray
CHARTERED ACCOUNTANTS

NEWS UPDATE - 12 October 2023

Contents

Mitigating rising corporation tax rates

New HMRC statistics have shed some light on how many companies are affected by the recent hike in corporation tax rates. Just over 1.5 million companies paid corporation tax for the financial year to 31 March 2022, but only 7% fell above the £50,000 small profits threshold.

Although fewer than 100,000 companies are likely to be facing the 26.5% marginal rate of corporation tax where profits fall between £50,000 and £250,000, they will be mainly owner-managed companies with owners keen to mitigate the tax increase.

For a company with a 31 March year end and profits of £200,000, this year's corporation tax bill is going to be £11,250 higher than last year.

Director's self-invested personal pension (SIPP)

Even if a director has not previously been in favour of making sizeable pension contributions, there can now be a compelling case for doing so.

- With a marginal tax rate of 26.5%, investing the maximum £60,000 into a SIPP will save corporation tax of £15,900.
- Once the director reaches 55, 25% of the pension fund can be withdrawn tax free, but virtually immediately if a director is already 55.
- There will be an overall tax saving if the tax rate eventually paid on pension withdrawals – taking into account the tax-free element – is less than 26.5%.

Even if there is no overall tax advantage as such, there will still be a timing benefit. The current year's corporation tax bill is cut, but the tax cost does not apply until the director receives their pension income.

Mitigating cost and risk

By choosing a low-cost provider, the annual cost of maintaining a SIPP can be kept to a minimum.

If there are only a few years until retirement, a director might not want to be exposed to stock market volatility. This risk can be avoided by investing in fixed-term cash deposit accounts.

A basic guide to SIPPs can be found from the link below:

https://www.moneyhelper.org.uk/en/pensions-and-retirement/pensions-basics/self-invested-personal-pensions?source=mas

Farewell to inheritance tax?

In July, the government was reported as holding talks on abolishing inheritance tax (IHT). This wasn't given much credence at the time, but there are now reports that the March 2024 Budget will include a reduction to the 40% IHT rate as a prelude to future abolishment.

HT is charged at the rate of 40% on estates worth more than £325,000. However, there is also a further allowance of £175,000 that can be set against the value of a main residence if the property is inherited by descendants. Both allowances are shared between spouses or civil partners, so there is a potential family exemption of £1 million.

Although the combination of frozen allowances and higher property values has brought more estates into the IHT net, the tax is only paid on around 4% of estates.

Argument for change

Given that investments are generally paid for out of taxed income, IHT can be seen as a double charge to tax, preventing people passing on their wealth to children and grandchildren.

- It applies to virtually all assets, without the exemptions given for capital gains tax – such as for a main residence.
- Although IHT is mainly paid by the wealthy, the very rich typically have far more scope for reducing their overall IHT burden by, for example, making lifetime gifts and using trusts.

The moderately wealthy, where a main residence may account for the majority of wealth, may not be able to afford such tax planning measures.

How likely?

Although a rate reduction of a percentage point or two cannot be ruled out, full abolition is almost certainly going to be too costly in the current economic climate – some £7 billion in lost tax revenue annually – especially as HMRC is on course to have a record-breaking year from IHT receipts.

Then there is the forthcoming general election. A Labour government would be more likely to move in the opposite direction by cutting IHT allowances – in particular, the £175,000 main residence allowance.

In the meantime, if your estate may become liable for IHT, there are measures you can take. HMRC's basic guide to IHT, including details of various exemptions, can be found from the link below.

https://www.gov.uk/inheritance-tax

Energy efficiency targets shelved

The government's backtracking over the introduction of energy performance targets for property let out in England and Wales is facing criticism, but it will be welcome news for landlords with older properties deemed too expensive or difficult to upgrade.

Let property must currently have an energy performance certificate (EPC) rated E or above. Without this, the property cannot be legally let regardless of whether the tenancy is an existing one, a renewal or a new let. The government's intention was to raise the EPC requirement to C or above by 2028.

The penalty for not having a valid EPC is £5,000. Under the now scrapped proposals, the penalty was going to be £30,000.

The cost

The cost of moving from a D or E rating to a C would typically be in the region of £10,000 to £20,000. There were reports that the government would have covered anything over £10,000, but that would still leave a significant burden for many landlords. As capital expenditure, most upgrades would not even have qualified for tax relief against rental income.

- Raising energy efficiency to the required standard might have required improving insulation, installing double glazing or replacing old gas boilers.
- However, it would have been very difficult, if not impossible, to bring some older properties up to an EPC C rating.

One concern considered by the government was that costs would have been passed on to tenants by way of higher rents.

The future

Although new EPC rules are off the agenda for now, there is every chance this could change if Labour wins the next election. Regardless of future changes, however, landlords should be aware that a good EPC rating makes a property more attractive to tenants given current high energy costs.

For Scottish landlords, it looks as if the Scottish Government still intends to go ahead with a move to an EPC C rating by 2028.

A useful guide to energy performance certificates can be found from the link below:

https://energysavingtrust.org.uk/advice/guide-to-energy-performance-certificates-epcs/

An uncertain future for the Triple Lock

State pension increases could be outpacing inflation next April, and there's no guarantee of the Triple Lock surviving the next election.

Increases April 2010 to April 2023

Source: IFS.

In mid-September, the Office for National Statistics (ONS) published the latest earnings data, covering the period May to July 2023. Earnings data has been the focus of much attention recently because a fall in the pace of pay growth is seen as a pre-condition for the Bank of England to consider a pause – and eventually cuts – in interest rates. However, the data that emerged in September was doubly important as, in theory, it sets the level of increase for the old and new state pension from April 2024.

Both the old and new state pensions are subject to the Triple Lock, which means they are due to increase by the greater of:

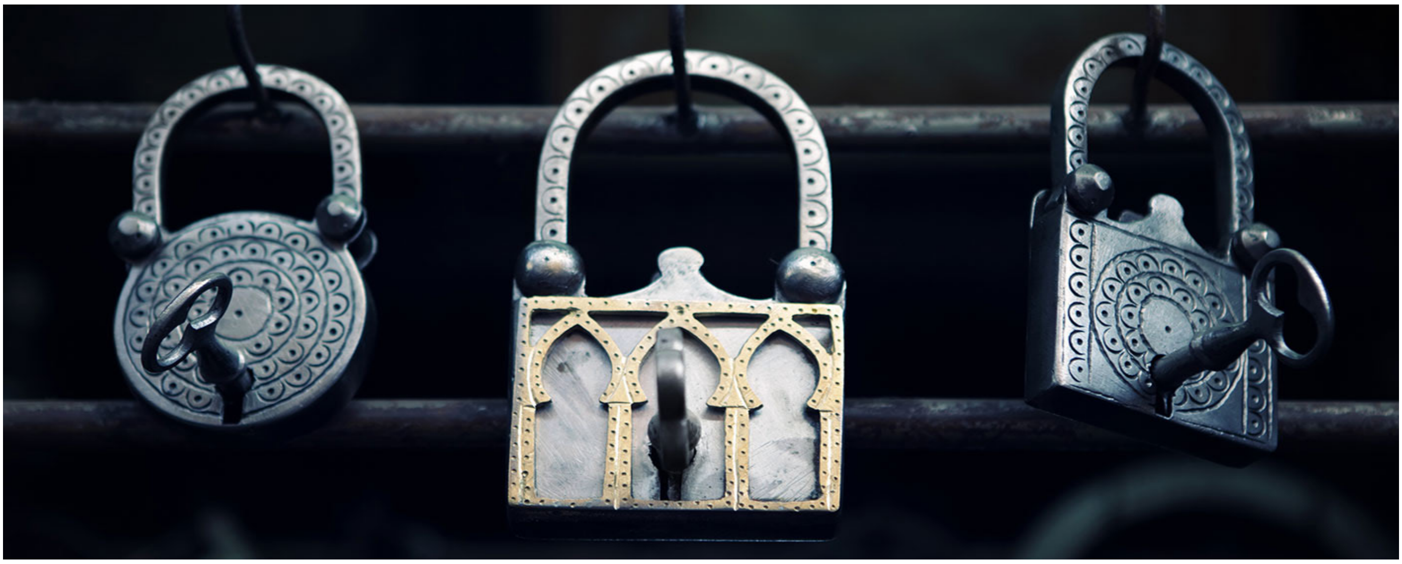
- Annual earnings growth (including bonuses) for the May to July period;
- Annual CPI inflation to September; or
- 2.5%.

Given the publicity it receives, you may be surprised to learn that the Triple Lock is nowhere to be found in pensions legislation. The Triple Lock is a discretionary feature that the government can ignore, although with an election almost certain in 2024, it would be difficult to imagine that it would depart much from its requirement this year.

May to July earnings total earnings growth this year was 8.5%, 0.3% higher than expected, a surprise that the ONS attributed to NHS and civil service one-off payments in June and July. That means from next April the old state pension will rise by £13.30 to £169.50 a week and the new state pension (applying to those who reach state pension age after 5 April 2016) will increase by £17.35 to £221.20 a week, unless the government decides to suspend the Triple Lock. It did so in 2022/23, when Covid-19 distorted earnings data and for 2024/25 it could tweak the earnings definition to exclude those one-off payments.

Whether the Triple Lock will survive beyond the next election is unclear. Shortly before the earnings data was published, the Prime Minister refused to commit to the Triple Lock being in the Conservative manifesto. At about the same time, the Institute for Fiscal Studies published a critical report saying that the Triple Lock created uncertainty both for the government and for individuals planning their retirement.

If you find yourself thinking you could retire on £221 a week, think again. It represents less than two thirds of this year's 35-hour week National Minimum Wage.



Free property alerts for landlords

Landlords in England and Wales might not be aware, but there is a free property alert service that monitors any significant activity on let property.

There is greater risk of a property being fraudulently sold or mortgaged if the landlord lives overseas, the property is empty or if there is no mortgage.

Signing up for a property alert will not automatically block any changes to the property register, but it will act as a warning when something changes, such as a new mortgage being taken out against the property.

Although property fraud is rare, HM Land Registry has prevented more than £100 million of fraud over the past five years.

Set-up process

An important first point is that a property can only be monitored if it is already registered with HM Land Registry, which may not be the case if acquired prior to 1990 and not mortgaged since then. A search of English and Welsh property can be made from the link below:

https://www.gov.uk/search-property-information-land-registry

For registered property, it is simply a matter of:

- Creating a property alert account; and
- Adding the properties to be monitored.

Up to ten properties can be monitored. However, you don't need to own a property to monitor it, so it is easy enough to enlist family members to get around this restriction.

Unregistered properties

There is also more risk if a property is not registered, so it is recommended that an application be made to have such property registered. Although registration can be done by a landlord, many may prefer to use the services of a solicitor or conveyancer.

Restriction on title

Going a step further, putting a restriction on a property's title will prevent a sale or mortgage being registered unless certified by a solicitor or conveyancer. The request itself is free for landlords, although a fee will likely be payable should a certificate be required.

The starting point for setting up a property alert, along with some guidance, can be found from the link below:

https://www.gov.uk/guidance/property-alert#already-registered

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