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Forrester Boyd
CHARTERED ACCOUNTANTS

TAX


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High income child benefit charge

From 6 April 2024, the high income child benefit charge (HICBC) threshold has increased by £10,000 to £60,000, with the rate of withdrawal halved. Longer term, the intention is that the charge will move to a household basis from 6 April 2026.

Previously, the HICBC came into play when an individual – or their partner – received child benefit and their annual income exceeded £50,000. The charge effectively reduced the amount of child benefit that could be claimed to nil once income hit £60,000.

From 6 April 2024

The HICBC does not now apply until income exceeds £60,000.

- A parent earning £60,000, who would previously have lost all of their child benefit claim, now keeps the entire amount.
- With the rate of withdrawal halved, child benefit is not fully withdrawn until an individual's income reaches £80,000.
- Once income reaches £80,000, the charge is 100%. Therefore, the child benefit claim is effectively reduced to nil.

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The charge leads to a high effective marginal rate of tax, especially where child benefit is claimed for several children. Although still high, the reduced rate of withdrawal means the effective marginal rate of tax is now lower, so there is less penalty for getting a pay rise. Anyone who previously opted out of child benefit because their income was over £60,000 should opt back in by 5 July 2024 as claims can only be backdated for three months.

From 6 April 2026

Because the HICBC is based on individual incomes, a working couple each with income of £59,000 retain 100% of their child benefit claim. However, with a sole working parent, child benefit is completely lost once household income is £80,000.

A move to a system based on household income will address this inequality, but could be controversial. Apart from completely breaching the concept of independent taxation, any revenue neutral adjustment will mean a considerable number of households losing out.

BUSINESS

Companies House fees increase

Increases to Companies House fees from 1 May 2024 will make it more expensive to incorporate a company and subsequently maintain it.

Incorporation

The cost of registering a company with Companies House currently ranges from £10 to £40, depending on the channel used.

- The online registration fee will increase from £12 to £50, an uplift of over 300%.
- Cost of same day incorporation has more than doubled, with the fee up from £30 to £78.
- The costs of incorporating a limited liability partnership will see the same increases.

Company formation agents are often used to set up a company, and their fees will see similar increases from 1 May.

When a company is no longer required, voluntary striking off will now incur a fee of £33; it is currently £8.

Confirmation statements

Every company, including a dormant one, must file a confirmation statement at least once a year. The cost is currently £13, and this is going up to £34. This fee does, however, cover a 12-month period. It's paid with the first filing during the period, with no further charge for any subsequent filings during the same period.

Register of overseas entities

In pure monetary terms, the largest increases apply to overseas entities who need to register with Companies House. The registration fee goes up from £100 to £234, with the removal fee increasing to £706 from £400.

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TAX

New tax year planning – time to think ahead

Much tax planning is rightly focused on the end of the tax year with a view to making the most of all available tax reliefs and allowances, but it is also important to be aware of key changes at the start of a new tax year.

National insurance contributions (NICs): The main rate of employee NICs has been cut to 8% and the rate for self-employed people went down to 6%. Self-employed people will no longer have to pay Class 2 NICs. However, those with profits below the small profits threshold of £6,725 may wish to make voluntary contributions to retain access to contributory benefits.

Dividend allowance: Only the first £500 of dividends is now tax free, down from £1,000 in 2023/24. This, alongside the Class 4 NIC reduction, may make self-employment more attractive than working through a limited company.

Capital gains tax (CGT): the annual exempt amount is now just £3,000. However landlords will welcome the cut from 28% to 24% in the CGT higher rate on residential property.

Cash basis: The cash basis is now the default method of calculating business profits for self assessment.

Furnished holiday lettings: The beneficial regime for landlords for short-term letting of furnished accommodation will be abolished from 6 April 2025. Property owners will no longer be able to claim certain business reliefs. The income will no longer count as pensionable earnings, which may affect pension planning.

VAT: The registration threshold has risen to £90,000 and the deregistration threshold is now £88,000. Some businesses will benefit from deregistering.

Non-domicile status: The remittance basis of taxation for individuals not domiciled in the UK will be replaced from 6 April 2025 with an optional Foreign Income and Gains (FIG) regime based on residence, which will be available for up to four years. After that period, all UK residents will be taxed on their worldwide income. Non-doms will need to prepare for these changes and the intended move to a residence-based regime for inheritance tax.

If you may be affected by any of these changes, please get in touch to discuss your planning.

RETIREMENT

Self-employed and pensions

Three quarters of self-employed people are not contributing to a pension at the moment, a survey by an investment platform has found. And half of self-employed people have never even started a pension scheme. The figures emerged from a survey of around 9,000 workers by Interactive Investor.

Most employees are now saving into a pension following the introduction of auto-enrolment but self-employed people are not covered. There are many benefits to paying into a pension and the earlier you start, the less you have to put away each month to build up a sizable fund.

- Tax relief is given on pension contributions of up to £60,000 a year. For every £100 you pay in, HMRC will add £25. If you are a 40% taxpayer, you can in addition claim £25 against your own tax bill. An additional rate taxpayer will get £31.25. Scottish taxpayers may receive slightly more relief because tax rates on earned income are higher.
- Your fund will be broadly free of tax on its investment income and capital gains.
- When you take the benefits, up to a quarter of the fund is normally tax free, although the pension income will be taxable.
- You can draw your funds flexibly from age 55 (rising to 57 in 2028).
- There is no longer any limit to the amount you can hold in a tax-favoured pension scheme without triggering a tax charge. However all tax-free lump sums, including death benefits, are tested against a lifetime limit, currently £1,073,100.

The combination of tax relief on contributions, tax-free growth within the fund and the ability to take a tax-free lump sum on retirement makes a pension plan an attractive and important savings vehicle to factor into self-employed finances. However, there may be benefits in supplementing a pension plan with an individual savings account (ISA) or other investments where possible.

TAX

Stretched HMRC services

The latest report into HMRC performance is bleak reading. The number of taxpayers with a complex tax issue is increasing, yet it has become more difficult to get through to an adviser on a helpline.

Businesses face similar issues, with a particular complaint being the delay in obtaining a VAT registration number.

There are some steps that taxpayers can take to mitigate the problems:

- Don't leave tax matters until the last moment. For example, making a start on the annual tax return in the summer will leave plenty of time to deal with unknowns.
- Explore what additional resources are available. For example, it may be worthwhile buying tax return software. Quite a few things can be done online using a personal tax account or the HMRC app.

Those who do not currently use an accountant should look at the value in employing one – even if it's just to get advice on a one-off matter.