SPRING 2025

Hazlewoods

Talking Tax

All change

INSIDE

Managing the increase to employer's national insurance contributions

The Chancellor announced significant changes to employer's national insurance contributions (NICs) in her Autumn Budget. Although promising not to increase taxes on the 'working people', these changes will undoubtedly have a knock-on effect on future salary increases as employers face a substantial increase to their NIC bill.

With effect from 6 April 2025, the rate of employer NICs rose from 13.8% to 15%. The threshold at which employers become liable to pay NICs, known as the 'secondary threshold', was reduced from £9,100 to £5,000 per employee. This change means that employers will start paying NICs at a lower level of employee earnings and represents an additional cost of £615 per employee for the threshold change alone. An employer with 30 employees each on an average salary of, say, £35,000 per annum will see an annual increase to their NICs bill of almost £28,000.

To try and mitigate the impact on smaller businesses, the Government has increased the employment allowance from the same date. This allowance, which previously provided a £5,000 discount on NIC bills for employers, has now been increased to £10,500. Furthermore, only employers with NIC liabilities of £100,000 or less in the prior year were previously eligible for the allowance but this criteria has now been removed, meaning that more employers will now be able to benefit. Public bodies, businesses carrying out more than half of their work in the public sector and sole director/employee companies will continue to be the few businesses ineligible to claim the allowance.

One option that could be considered to help reduce an employer's NIC bill includes the use of a pension salary sacrifice arrangement. This is where the employee agrees to forego part of their monthly salary in exchange for the employer making a pension contribution on their behalf.

The main benefit for employers is that they will save 15% NIC on the salary sacrificed. Those employers subject to the Apprenticeship Levy will also save an additional 0.5%, which could result in savings of up to £15.50 for every £100 the employee agrees to sacrifice. The main benefit of a salary sacrifice arrangement for employees compared to making an employee pension contribution out of net salary is also the NIC saving (at a rate of 8% for basic rate taxpayers and a more modest 2% for higher/additional rate taxpayers). In some cases, the employer may also choose to share some of their NIC savings with the employee by way of an increased employer pension contribution, making it more attractive to employees as well as the employer still achieving some savings.

A salary sacrifice arrangement will normally require a variation to the employment contract to be effective setting out, in advance, the agreement to forego salary in exchange for an employer pension contribution. Written communication/briefings will be key to ensure your employees are fully equipped to decide whether they would like to participate or not. Another key point to note is that a salary sacrifice arrangement cannot take an employee's pay down below the minimum wage, so those employees close to the threshold will need to continue to make pension contributions out of their net pay.

Tax changes from April 2025

In addition to the employer's NIC changes from April 2025, a number of other key measures have also come into effect from the same date.

Furnished holiday lettings (FHL) scheme abolished

From April 2025, the FHL regime will be abolished and the income arising on holiday lets will form part of an individual's property business. The key changes to how holiday lets will be taxed are:

- **Loan interest** – will no longer be deductible in full with a 20% tax reducer available instead.
- **Capital allowances** – will no longer be available; however, the relief for replacement of domestic items can be claimed. If you have any capital allowance pools, writing down allowances can continue to be claimed until the pool is completely exhausted.
- **Pension relief** – profits no longer included when calculating the individual's relevant earnings.
- **Losses** – any carried forward losses will be available to offset against other rental profits.
- **Capital gains reliefs** – rollover, business asset disposal relief (BADR), or gift holdover, can no longer be claimed. Anti-forestalling arrangements apply to prevent the use of unconditional contracts where entered into after 6 March 2024 but not completed until after April 2025.

Capital gains tax (CGT) rate increases

With effect from 30 October 2024, CGT rates increased to 18%/24% on all asset types. With effect from April 2025, BADR increased from 10% to 14% and is set to increase to 18% from April 2026.

BADR relief will give a tax saving for completions:
Between 30 October 2024 and 5 April 2025 – £140,000
Pre-6 April 2026 – £100,000 Post 6 April 2026 – £60,000

An anti-forestalling rule applies to pre 6 April 2025 unconditional contracts which are not completed until after 5 April 2025. The new rates will apply unless parties can demonstrate wholly commercial reasons.

Investors' relief rates will also increase in line with BADR and the lifetime limit will decrease from £10 million to £1 million.

Non-dom reform

With effect from 6 April 2025, the concept of domicile is no more and, instead, liability to income tax and capital gains tax is now determined by residency. For those previously benefiting from the preferential treatment of non-domiciled status, transitional provisions will apply including a temporary window to repatriate income and gains to the UK at a reduced rate of tax (12% until April 2027 increasing to 15% until April 2028).

Qualifying individuals coming to the UK after 10 years of non-UK residence will be able to claim relief from UK tax on non-UK income and gains for the first four years of their UK residence.

The inheritance tax system has also moved to a residence-based system with effect from the same date.

Double cab pick-ups – changes in the tax treatment

Following a previous U-turn on the matter, double cab pick-up (DCPU) vehicles with a payload of one tonne or more will now be treated as a 'car' for benefit in kind and capital allowances (CAs) purposes taking effect from 1 April 2025 for corporation tax, and 6 April 2025 for income tax. There are no changes to the VAT treatment on purchase.

The existing CAs treatment will apply to purchases before April 2025. Transitional benefit in kind arrangements will apply for employers that have purchased, leased, or ordered a DCPU before 6 April 2025. They will be able to continue to treat it as a van until the earlier of disposal, lease expiry, or 5 April 2029.

The changes will mean a significant increase in the income tax charge for employees provided with a DCPU and an increase in employer's national insurance. In addition, the tax deduction available through CAs will be over a much longer period as the 100% annual investment allowance will no longer apply. Instead, these will be available at 18% or 6% per annum.

Pension changes

In the recent Budget, Labour promised not to increase taxes for working people, but they certainly raised them for former working people, with significant changes announced to pensions and their treatment on an individual's death.

Since the pension freedoms were introduced in 2015, pensions have been a tax efficient way of passing on wealth to future generations. Funds remaining in pensions on death were not deemed part of an individual's estate for inheritance tax (IHT) purposes, though potentially subject to income tax, depending on when death occurs; generally being income tax free pre-75, income taxable post 75. However, in her recent Budget Rachel Reeves confirmed that from April 2027, funds remaining in pensions on death will be included in an individual's estate, and, therefore, potentially liable to IHT. This could be particularly penal as the existing rules surrounding payment of income tax remain, meaning there may be a double tax charge for some i.e., IHT initially, and income tax thereafter.

The table below provides a basic summary of the comparable tax position pre and post April 2027:

Age of Death	Current Tax Rate to April 2027	Tax Rate Post April 2027
<75	0% – Irrespective of income tax position	40% – Irrespective of income tax position
>75	20% – Basic Rate Taxpayer 40% – Higher Rate Taxpayer	52% – Basic Rate Taxpayer 64% – Higher Rate Taxpayer

This is a huge change in direction for pensions and returns us more closely to the rules prior to the 2015 pension reforms. This will certainly lead many into revisiting their retirement plans and overall strategy with their pensions. In recent years many individuals have been funding their retirement using other assets such as savings and investments, assets that are deemed part of an individual's estate for IHT, preserving funds in pensions which can be passed on to future generations tax efficiently. With the changes being introduced, it may result in many viewing their pensions as they were previously: retirement planning accounts.

Whilst the changes are naturally disappointing, we still firmly believe that pensions continue to remain hugely important, tax efficient accounts. Whilst there were rumours around other potential changes to pensions in the Budget, these proved to be unfounded, meaning pensions still benefit from tax relief on contributions in, tax free growth and the ability to draw 25% tax free at retirement. Sadly though, we've lost the cherry on top!

The changes to pensions mean reviewing your position will be sensible for many. Common things to consider will be when to draw tax free cash and what to do with this; whether to begin taking an income; reviewing the pension/s you have in place; potential gifting or considering other IHT efficient investments.

It is important to look holistically and consider the interaction of pensions with the other assets you hold and potential taxes payable. Like many things, there will not be a one size fits all approach, meaning taking advice is important.

Please get in touch if you would like to discuss your pension position with a member of our Financial Planning Team.

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Inheritance tax

Perhaps the tax most impacted by Rachel Reeves' first Budget was inheritance tax (IHT). The most surprising of the proposed changes is the reform of agricultural property relief (APR) and business property relief (BPR), particularly given previous commitments from Labour before the election that APR would not be changed.

Currently where an individual holds APR or BPR qualifying assets, 100% IHT relief is available on the full value. This includes land and buildings and other assets used in the business.

The proposed changes from April 2026 will continue to see 100% relief apply to the first £1 million of combined APR and BPR qualifying assets; however, the relief is restricted to 50% of any value above £1 million, giving an effective tax rate of 20%.

The change will also apply to lifetime transfers made on or after 30 October 2024 if the donor dies after 5 April 2026 and does not survive seven years post-gifting. However, gifts of agricultural or business assets made prior to 30 October 2024 will still qualify for 100% APR or BPR if the donor dies within seven years of the gift, providing the asset is still owned by the recipient and continues to meet the qualifying conditions for the relief in their hands.

The £1 million 100% allowance will not be transferable between spouses and will be lost if not utilised on death. It will be important to ensure that both spouses own at least £1m of qualifying property and that the relief is secured on the first death, either by leaving assets to the next generation or on trust.

The £1 million allowance will also apply to trusts holding APR or BPR qualifying assets. Every trust set up before 30 October 2024 will have its own allowance to apply on both 10-year anniversary and exit charges, even where a settlor has set up multiple trusts; however, the Government's intention is to introduce rules to divide this allowance by the number of trusts created by the same settlor on or after 30 October 2024. A technical consultation was released at the end of February providing a bit more detail on how the rules will operate in relation to trusts.

Assets which only qualify for 50% APR or BPR relief e.g., land owned personally which is used in a trade, will not count towards the £1 million allowance and relief will continue to be available at 50%.

The effect of these changes is that for every £1 million of value above the allowance, there will be £200,000 of inheritance tax payable. The tax can be paid in instalments over ten years and will be interest free providing the instalments are paid on the due date. For many businesses, however, this additional liability could prove unaffordable resulting in a need for assets to be sold to fund the tax. Alternatively business owners will be forced to withdraw income from the business to fund the liability that may have otherwise been used for investment, which will be subject to income tax, effectively creating double taxation.

There's a lot to consider here, and many individuals will need to undertake estate planning to try to mitigate the impact of these new rules. However, with the rules not due to come in for another year, and with continued lobbying from the farming and other sectors it is still possible that the Government could make some amendments to the proposed changes before they are introduced. With the technical consultation providing no concessions to the proposals announced at Budget date, however, it seems increasingly unlikely that they will be dropped completely.

Given the uncertainty we would not advise rushing into immediate action but to be prepared so that informed decisions can be made when the time comes. In particular, this will involve understanding who owns all the assets, what the potential IHT liability could be and reviewing wills. Where family members have died within the last two years there may also be opportunities to minimise the impact of the changes. Everyone's position is slightly different and there is no one size fits all approach. The changes do not come in until April 2026 so in most cases there is time to plan and explore the options available, such as lifetime gifting.

Our Tax team at Hazlewoods are well equipped to advise, so do get in touch if you would like to discuss how the changes impact you.

The IP Advance scheme – have you taken advantage of it yet?

What is it?

Late last summer, the Intellectual Property Office (IPO) introduced a new strategic two-tiered funding programme said to be designed to offer support at each stage of a business' innovation journey.

The scheme aims to help UK-based small and medium sized businesses (SMEs) develop their intellectual property (IP) strategies to maximise their full potential. Businesses can apply for one or both tiers and do not need to have applied and received tier 1 funding to be able to access tier 2. The funds are, however, awarded based on an assessment of each individual business' needs and each applicant should be receiving intensive growth support from an innovation and growth specialist for the funding to be released.

The first tier is the IP Audit Funding. This covers up to £2,250 (including VAT) for an IP audit and the company must contribute a further £750 (including VAT). The purpose of an IP Audit is to identify IP related opportunities for exploitation and/or risks to be managed. IP audits must be undertaken by a qualified IP professional.

The second tier is the IP Access funding which is a contribution towards the professional fees incurred in advancing your IP strategy. The maximum contribution is £2,250 (including VAT) and the company must contribute at least 50% of the cost of the work carried out. Advancing the IP strategy could include, managing and commercialising the IP, licensing or franchising agreements, IP valuation, IP insurance premiums, tax relief advice and the professional fees incurred in the preparation of IP applications. It does not cover litigation, infringement or dispute costs, annual filing fees or other 'business as usual' activities where the company cannot demonstrate how the funding will positively impact growth.

Why should you consider this fund?

Having an IP strategy should be an essential part of the overall strategy of a company. Managing your IP can protect your ideas and products from competitors. It provides opportunities for growth by identifying new markets or opportunities for exploiting the IP such as licensing or franchising. It can also be used to help raise finance. We previously mentioned that there are financing options available which can be secured against IP, but it can also open the door for equity or grant funding.

Having a strong IP portfolio which include patents, can also pave the way for Patent Box opportunities; a tax relief we, at Hazlewoods, specialise in. If you haven't come across Patent Box before, it is not surprising, as it is the younger sibling of the now well-established R&D tax relief and is relatively unknown in comparison. Patent Box rewards a later part of the development cycle by identifying the profits arising from the exploitation of your patents which attract a lower rate of tax at 10% compared to the current 25%. Please do get in touch to find out more.

We can also put you in touch with trusted advisers than can assist you in developing your strategy as well as applying for the funding.

How do I apply?

Although it is funded by the IPO, applications in England are made to Innovate UK Business Growth at **contact@innovateukedge.ukri.org**, or elsewhere around the UK, to the appropriate regional partner. The applicant will then be contacted to discuss the circumstances and prepare the application, to be then assessed by the IPO. Once awarded, the company can then appoint the advisers to carry out the funded activities.

For more information, please get in touch with a member of the Hazlewoods Innovation Team.
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Tax Investigation Service

We receive lots of questions about our Tax Investigation Service and the potential benefits of subscribing. Below are some of our most frequently asked questions about the service.

Am I eligible to join?

Providing Hazlewoods is your compliance tax return agent, and your return has been submitted no more than 90 days after the relevant filing deadline, you should be eligible to join.

What will the service provide?

The TIS provides protection against our professional fees relating to enquiries raised by HMRC. Like any other protection to meet an unexpected cost, everyone hopes that they will not need it but when a costly enquiry starts, clients are glad they have paid the small annual charge.

Will I be covered if I join the service after I have filed my tax return?

Yes. The only requirement is that you are within our TIS at the point an enquiry is raised by HMRC. It is not too late if you have already filed your tax return before you subscribe, providing you have not yet received an enquiry.

What about if there are a number of companies within the group?

Cover is required for each business entity, however, we do offer a discounted group fee for two or more companies where they are under common control. Cover for the director/shareholders personal tax returns may also be available by virtue of the business cover, providing we also act personally for the individuals and subject to certain caps on income.

My company hasn't yet filed its first corporation tax return with HMRC, when should I join?

If the company has employees and/or is VAT registered, there are still advantages of joining the service before the first corporation tax return is filed, for example, in the event of a PAYE or VAT enquiry. Although we need to be your corporation tax compliance agent, we do not necessarily have to file your PAYE or VAT returns in order to assist you with such enquiries under the service

I have not done anything wrong, so might leave it for now and think about taking cover at a later date.

Most tax enquiries are generated by computer 'risk profiling' and many are selected completely at random. Anyone can be picked for an investigation, even if you have done nothing wrong. Protection is only available from the date the subscription payment is received.

If you would like further information on the service, please contact Fiona Isherwood on **01242 680000** or by email: **Fiona.Isherwood@hazlewoods.co.uk**.

Hazlewoods

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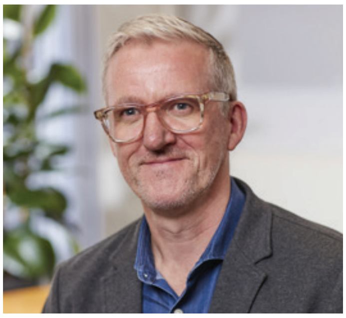

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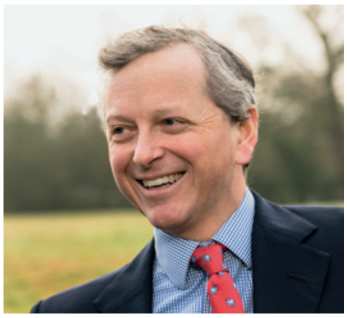

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