

TAXANGLES

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A newsletter for proactive planning...



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NIC for employers to rise



One of the key announcements in the Autumn 2024 Budget was the rise in employer's National Insurance contributions from 6 April 2025. From that date, the rate of secondary Class 1 National Insurance contributions is increased by 1.2 percentage points, from 13.8% to 15%. In a further blow, the secondary threshold – the point above which employer contributions become payable – will fall from £9,100 to £5,000.

On the plus side, the Employment Allowance is to rise from the same date, from its current level of £5,000 to £10,500. This will protect the smallest employers from the impact of the hike. From 6 April 2025, larger employers will once again be able to benefit from the Employment Allowance as the current restriction which limits availability of the allowance to employers whose secondary Class 1 National Insurance bill in the previous tax year was less than £100,000 is lifted. However, personal service companies where the sole employee is also a director remain unable to claim the allowance.

The upper secondary thresholds that apply where the employee is under the age of 21, an apprentice under the age of 25, an armed forces veteran in the first year of their first civilian job since leaving the armed forces or a new employee in the first three years of their employment at a special tax site are unchanged. However, the 15% rate will apply to any earnings in excess of the relevant upper secondary threshold.

The rate increase also extends to Class 1A National Insurance contributions (payable by employers on taxable benefits in kind, taxable termination payments and taxable sporting testimonials) and to Class 1B National Insurance contributions (payable by employers on items within a PAYE Settlement Agreement and on the tax due under the agreement), both of which rise to 15% from 6 April 2025.

Impact

The impact of the changes will depend on the number of employees that an employer has and the amount that they are paid. For example, for an employee on £20,000, before taking account of the Employment Allowance, employer's National Insurance will increase from £1,504.20 for 2024/25 to £2,250

for 2025/26 – an increase of £745.80. However, for an employee on £100,000, the bill will rise from £12,544.20 for 2024/25 to £14,250 for 2025/26 – an increase of £1,705.80

Very small employers with only a handful of employees who are not highly paid may find that their bills fall as the increase in the Employment Allowance outweighs the rise in secondary contributions. For example, an employer with three employees paid £30,000 will pay £3,652.60 for 2024/25 after deducting the Employment Allowance but will only pay £750 in 2025/26 after deducting the Employment Allowance. At the other end of the scale, as press reports attest, the additional cost can be significant. Employers with a workforce comprised predominantly of lower paid part-time workers, as is often the case in the hospitality industry, will be hard hit by the fall in the secondary threshold. Currently, no contributions are payable on earnings below £9,100; from April 2025, employer contributions are due on earnings over £5,000.

Mitigation

Eligible employers should ensure that they claim the Employment Allowance as this is not given automatically. Consideration can also be given to the make-up of their workforce. For example, savings can be made by employing workers under the age of 21 or armed forces veterans looking for their first civilian job, as contributions are only payable where earnings exceed £50,270 rather than £5,000 – potential savings of up to £6,790.50 per employee. Taking on two part-time workers rather than one full-time worker will also cut the bill by accessing a further £5,000 NIC-free band (saving £750).

Employers should also review the taxable benefits that they provide, and consider instead a switch to exempt benefits to save the associated Class 1A National Insurance. Employers should also review existing PAYE Settlement Agreements to check whether they remain affordable.



Tax-efficient Christmas parties and gifts

Employers looking to spread some seasonal cheer can do so in a tax-efficient manner by taking advantage of the exemptions for annual parties and functions and trivial benefits.

Christmas parties

The tax exemption for annual parties and functions will only apply to a Christmas party if the following conditions are met.

1. The event is an annual event – one-off events do not qualify.
2. The event is open to all employees or to all those at a particular location.
3. The cost per head (inclusive of VAT) is not more than £150.

Some points are worthy of note.

While it is permissible to provide an event for employees at a particular location or working within a particular department, all employees at that location or within that department must be invited. Events for staff of a particular grade only, for example, managers, fall outside the terms of the exemption, and as such their provision constitutes a taxable benefit.

The cost per head is the total cost of providing the function, including extras such as transport and accommodation, divided by the number of attendees (employees and guests). The total cost includes VAT, even if this is later recovered.

If the cost per head is more than £150, the whole amount is taxable, not just the excess over £150. Where a tax charge arises and the employee brings a guest, the taxable amount is the cost per head for both the employee and their guest (so £350 for an event where the cost per head is £175).

Where more than one annual event is held in the tax year, all will be tax-free if the total cost per head does not exceed £150. Where the total cost per head is more than this, the exemption can be used to best effect.

Gifts

The trivial benefits exemption allows employers to provide employees with low-cost gifts without triggering a tax charge under the benefits in kind legislation. The exemption will only apply if the following conditions are met.

1. The gift is not cash or a cash voucher.
2. The gift does not cost more than £50.
3. The employee is not contractually entitled to the gift.
4. The gift is not provided under a salary sacrifice arrangement.
5. The gift is not provided in recognition for services performed or to be performed.

The cost of the gift is the cost to the employer of providing it. Where a gift is made available to a number of employees and it is not practicable to determine the cost of each individual's gift, the average cost can be used

instead. Directors and office holders of close companies and members of their family or household can only receive £300 of tax-free trivial benefits a year; for other employees there is no limit.

Care must be taken where the gift comprises a season ticket, voucher or a benefit accessed using an app. Here the cost is the annual cost, rather than the cost each time the season ticket, voucher or app is used. This may bring the gift outside the scope of the trivial benefits exemption, even if the cost of each individual item or use is less than £50.

Consider a PSA

If a taxable benefit does arise in respect of the Christmas party or a gift, consider meeting the liability on behalf of your employees by means of a PAYE Settlement Agreement (PSA). It is the season of goodwill after all.

Dispose of your business sooner rather than later to benefit from the best BADR rates

Business Asset Disposal Relief (BADR) is a valuable relief which reduces the rate of capital gains tax payable on gains made on the disposal of all or part of a business or the sale of shares in a personal trading company. The relief was previously known as Entrepreneurs' Relief.

A sole trader selling all or part of their business must have owned the business for at least two years prior to the date of sale. The same test must be met where the business is being closed and the assets are being sold. Here the assets must be disposed of within three years after the date of cessation to qualify.

The relief is also available in respect of the disposal of shares or securities in a personal company that is either a trading company or the holding company of a trading group. A personal company is one in which the shareholder holds at least 5% of the ordinary share capital and that holding gives the shareholder at least 5% of the voting rights, and entitlement to at least 5% of the profits available for distribution and 5% of the distributable assets on a winding up, or 5% of the proceeds in the event that the company is sold.

Lifetime limit

The favourable capital gains tax rates only apply on gains up to the lifetime limit of £1 million. Spouses and civil partners have their own lifetime limit.



Rate

For 2024/25, gains eligible for BADR are taxed at 10%.

Prior to 30 October 2024, the BADR rate was the same as the capital gains tax rate for gains other than residential property gains and carried interest applying where income and gains fall within the basic rate band. However, the latter was increased to 18% from that date (Budget Day), while the rate of capital gains tax once the basic rate band has been used up was increased from 20% to 24%. This increased the value of BADR – meaning for the remainder of the 2024/25 tax year it is worth 14% where gains would otherwise be taxable at the higher capital gains tax rate – a potential saving of up to £140,000.

However, this is a limited time offer and the disposal must take place before 6 April 2025 to access the 10% rate. From 6 April 2025, gains benefitting from BADR will be taxed at 14% – a saving of up to 10%. From 6 April 2026, the rate rises to 18%, bringing it back into line with the capital gains tax rate applying where income and gains fall within the basic rate band.

Timing

The date of disposal is key to accessing the best rates. Selling a business or shares in a personal trading company on or before 6 April 2025 will access the best rate of 10%. Where a disposal is on the cards, as long as the qualifying conditions have been met for the requisite two-year period, consideration could be given to bringing forward the disposal date to before 6 April 2025. If the business has already ceased, disposing of the business assets before 6 April 2025 will minimise the capital gains tax payable.

If a disposal before 6 April 2025 is not feasible, consider whether the business, business assets or shares can be disposed of before 6 April 2026 so that gains up to the available lifetime limit are taxed at 14% rather than at 18%. Unincorporated landlords thinking of exiting the furnished holiday lettings business when the favourable relief comes to an end may also wish to bring forward the cessation and the disposal of their properties to access the 10% rate.



Mandatory payrolling – what will it look like?

Under payrolling, employers deal with taxable benefits provided to employees through the payroll, treating the taxable amount of the benefit like additional salary and deducting the associated tax from the employee's cash pay. Where a benefit is payrolled, the employer does not need to report it to HMRC via the P11D process after the end of the year. However, the benefit must still be taken into account in calculating the employer's Class 1A National Insurance liability on their P11D(b).

Currently, payrolling is voluntary and employers who wish to payroll must register to do so before the start of the tax year from which they wish to commence payrolling – it is not possible to join in-year. However, this is to change as from 6 April 2026 payrolling will become mandatory for all but a couple of taxable benefits. At the time of the Autumn 2024 Budget, the Government confirmed that mandatory payrolling will go ahead as planned, and provided more details as to what it will look like.

Excluded benefits

Mandatory payrolling will apply to all taxable benefits in kind with the exception of employment-related loans and employer-provided living accommodation.

Currently, it is not possible to payroll these benefits, but voluntarily payrolling will be introduced for both of them from April 2026, meaning that employers providing these benefits can choose either to payroll them voluntarily or report them to HMRC after the end of the tax year via the P11D process. For 2026/27 and later tax years, it will no longer be possible to report other benefits on a P11D. Employment-related loans and living accommodation will be brought within mandatory payrolling from a later date.

Taxable amount

To find out the amount to include in the payroll in respect of the payrolled benefit, employers will need to calculate the cash equivalent of the benefit and divide it by the number of pay periods in the tax year. Where an



employee is paid monthly, 1/12th of the cash equivalent of the benefit will be taxed through the payroll each month. If the cash equivalent value changes during the year, as would be the case, for example, if an employee changed their company car, the employer would need to recalculate the cash equivalent value and revise the payrolled amount accordingly for the remainder of the tax year.

End of year process

Employers will be expected to ensure that the amounts that are reported for taxable benefits in kind are as accurate as possible. Corrections should be made as soon as possible if the value changes in-year. However, an end of year process is to be introduced to provide for amendments to the taxable value of benefits that cannot be determined in-year. Details of this are not yet available and will be provided in due course.

Reporting requirements

Following the move to mandatory payrolling, employers will need to provide more information than they currently need to do so under the voluntary system. From April 2026, Class 1A National Insurance contributions on benefits in kind will also be collected through the payroll, rather than after the end of the year as now, and the reporting requirements will be increased to facilitate this and also to provide a more granular breakdown of payrolled benefits in kind.

Extension of MTD

Under Making Tax Digital for Income Tax Self Assessment (MTD for ITSA), sole traders and unincorporated landlords within its scope will be required to keep digital records of their trading and/or property income and provide quarterly updates to HMRC using MTD-compatible software. Its introduction is being phased in.

Phase 1 – April 2026 start date

From 6 April 2026, MTD for ITSA will apply to sole traders and unincorporated landlords whose combined taxable business and property income exceeds £50,000 a year. It is important to note that the trigger is the total from both sources. For example, a sole trader with business income of £40,000 who also has property income of £12,000 will need to comply with MTD for ITSA from 6 April 2026 regardless of the fact that separately neither business nor property income exceed £50,000.

Phase 2 – April 2027 start date

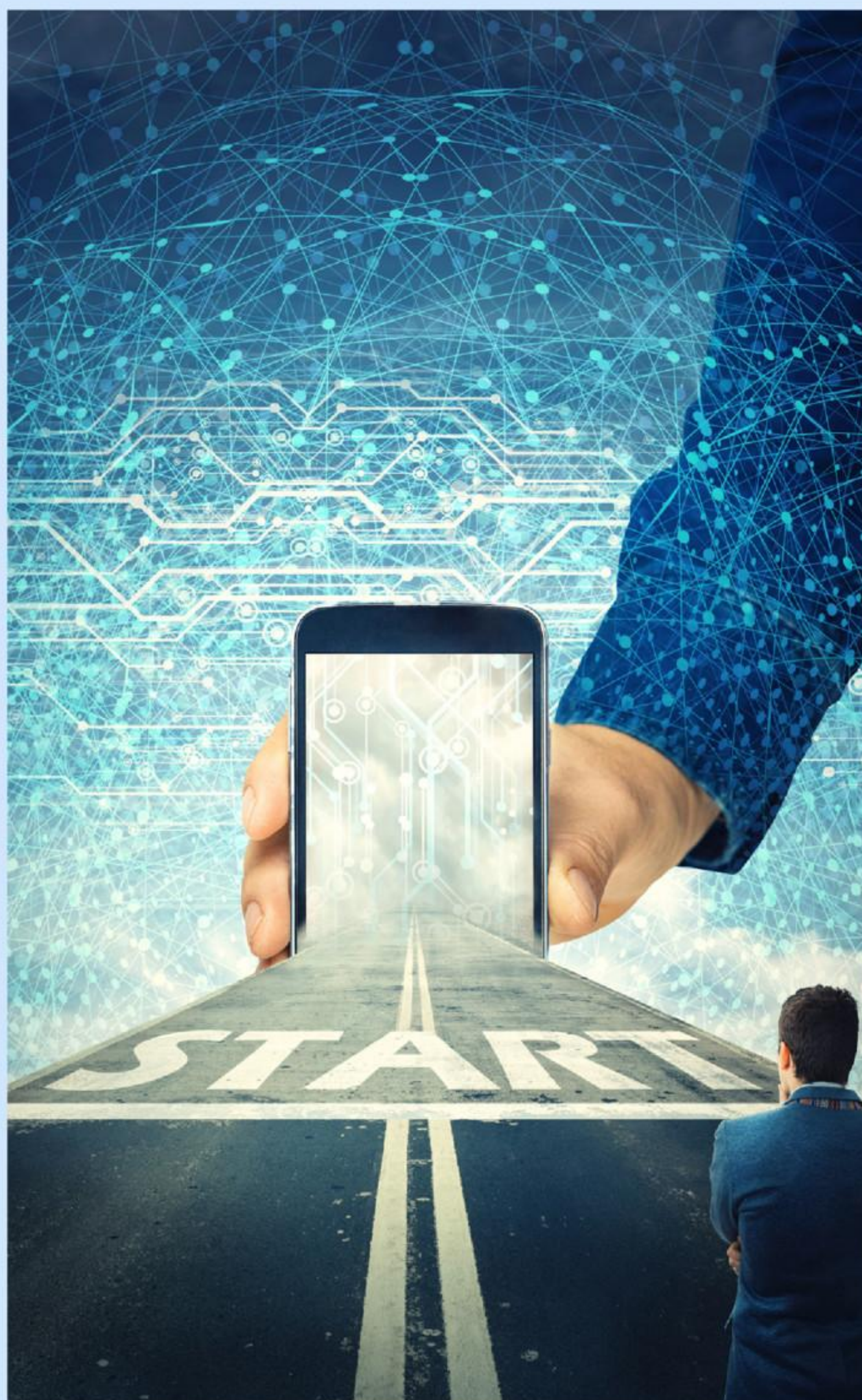
The MTD for ITSA mandation threshold is lowered to £30,000 from 6 April 2027. From that date, sole traders and unincorporated landlords with business and/or property income of more than £30,000 must comply with the requirements of MTD for ITSA.

Phase 3 – by the end of the current Parliament

At the time of the 2024 Autumn Budget, the Government announced that sole traders and unincorporated landlords with business and/or property income of more than £20,000 will be brought within the scope of MTD for ITSA by the end of the current Parliament. The precise date has yet to be announced – this will be done at a future fiscal event.

Plan ahead

It is important that sole traders and unincorporated landlords know their MTD start date and that they are ready to comply with the requirements of MTD for ITSA from that date. To do so, they will need to use MTD-compatible software. Details of software that ticks this box can be found on the Gov.uk website.



TAX DIARY

DECEMBER

- 1st December – For companies with February year ends Corporation Tax is due
- 7th December – Electronic Payments of VAT must have reached HMRC
- 7th December – Electronic Submission of VAT returns deadline
- 19th December – November's PAYE and Class 1 NIC Postal Payment must reach HMRC
- 22nd December – November's PAYE and Class 1 NIC Electronic Payment must be cleared to HMRC
- 31st December – For companies with December year ends Corporation Tax Returns are due

For further information on any of the stories in this month's newsletter, or for any other matter that Compass Accountants can assist you with, please contact us on 01329 844145 or contact@compassaccountants.co.uk

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