TAXANGLES from COMPASS ACCOUNTANTS

A newsletter for proactive planning...

In this edition...

- Employ a worker on a small salary to access the Employment Allowance
- Relief for additional expenses of working from home
- Taxation of savings income in 2025/26
- Should you pay voluntary Class 2 National Insurance?
- Five tax-free health and welfare benefits
- Tax Diary

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Employ a worker on a small salary to access the Employment Allowance

Employer's National Insurance rose considerably from 6 April 2025. Not only did the rate increase from 13.8% to 15%, but the secondary threshold also fell from £9,100 to £5,000. This is the amount that an employer can pay before a liability to secondary Class 1 National Insurance contributions arises. For 2025/26, the secondary threshold is equivalent to only £96 per week and £417 per month.
For employers who are able to benefit from the Employment Allowance, there is an element of relief as this was increased to £10,500 for 2025/26. However, this does not help personal companies where the sole employee is also the director as they are not entitled to the Employment Allowance.

NIC hit on a small salary

For 2025/26, at £96 per week the secondary threshold is now less than the lower earnings limit, which has increased to £125 per week for 2025/26. For a year to be a qualifying year, an individual must receive earnings of at least 52 times the weekly lower earnings limit. For 2025/26, the minimum salary to achieve this is £6,500. In the absence of the Employment Allowance, a secondary liability of £225 will arise on a salary of £6,500. However, there are no employee contributions to pay as where earnings are between the lower earnings limit and the primary threshold, the employee is treated as paying contributions at a zero cost. If the director is paid a salary equal to the personal allowance of £12,570, the associated secondary liability is £1,135.50.

Access the Employment Allowance

By taking on an employee and paying them earnings in excess of the secondary threshold, a personal company is able to access the Employment Allowance, which can be set against their secondary Class 1 National Insurance liability. The eligibility test is simply that the secondary contributor incurs liabilities to pay secondary contributions in respect of the employee – there is no minimum period for which these liabilities need to be incurred; employing another employee for £97 for one week will do the trick. However, a safer option to avoid unwanted attention from HMRC may be to take on, say, a student during the summer holidays to do some work, or to employ a spouse on a part-time basis.

The other way to access the Employment Allowance is to ensure that the sole employee is also not a director. Resigning as director and appointing a spouse as the director instead will access the Employment Allowance without needing to take on another employee.

Accessing the Employment Allowance will shelter the secondary liability that would otherwise arise, allowing the director to be paid a salary of up to £12,570 for 2025/26 free of tax and National Insurance.

Relief for additional expenses of working from home

In a post on X, HMRC recently warned taxpayers 'not to get caught out by ads promising quick refunds for working from home', urging taxpayers to check that they were eligible before making a claim.
So what relief is available to employees who sometimes or always work from home?

The rule

A deduction can be claimed for employment expenses to the extent that they are incurred wholly, exclusively and necessarily in the performance of the duties of the employment. In relation to expenses incurred when working from home, HMRC accept that this test is met in the following circumstances:

- The duties that the employee performs at home are substantive duties of the employment. These are duties that an employee has to carry out that represent all or part of the central duties of the employment.
- The duties cannot be performed without the use of appropriate facilities.
- No such appropriate facilities are available to the employee at the employer's premises or the nature of the job requires the employee to live so far from the employer's premises that it is unreasonable to expect the employee to travel to the employer's premises daily.
- At no time before or after the employment contract is drawn up is the employee able to choose between working at the employer's premises or elsewhere.

Personal choice

The test is not met where an employee works from home through personal choice rather than because they are required to work from home. For example, where an employer operates a flexible working policy whereby employees must work from the employer's premises on certain days and can choose whether to work at the employer's premises or at home on the other days, the employee cannot claim tax relief for additional household costs on the days that they choose to work from home, even if they do the same work on these days that they would have done at the employer's premises. However, where an employee is contractually obliged to work from home, they are able to claim a deduction for additional household expenses incurred as a result.

Making a claim

Where the conditions are met, the employee can claim a fixed deduction of £6 per week for the weeks when they work at home at least some of the time. Alternatively, they can claim the actual additional household costs, such as additional electricity, gas and cleaning costs, that they incur as a result of working from home. A claim based on actual expenses is only worthwhile where the amount claimed is more than £6 per week.

A claim can be made online (where the total claim in respect of employment expenses is not more than £2,500), in a Self Assessment return or by post on form P87. The employee must supply evidence to show that they are required to work from home, such as a copy of their employment contract. Where the claim is based on actual amounts, evidence, such as copies of bills, must be provided in support of the amount claimed.

Taxation of savings income in 2025/26

There are various ways to enjoy savings income without paying tax on it. In addition to the personal allowance, basic and higher rate taxpayers benefit from a personal savings allowance. Taxpayers whose taxable non-savings income is not more than £5,000 can also enjoy a zero rate on savings income in the savings rate band. In addition, savings income held in tax-free accounts such as ISAs can also be enjoyed free of tax.

Personal allowance

If the personal allowance has not been fully used elsewhere, the balance can be set against savings income allowing it to be received tax-free.

Savings allowance

Basic and higher rate taxpayers are entitled to a savings allowance. This is in addition to their personal allowance. For 2025/26 the savings allowance is set at £1,000 for basic rate taxpayers and at £500 for higher rate taxpayers. The allowance is available in addition to the personal allowance and also the dividend allowance.
Rising interest rates in recent years may mean that basic and higher rate taxpayers now receive interest in excess of their savings allowance on which tax is payable and which must be notified to HMRC on their Self Assessment tax return. Consequently, they may need to file a tax return where previously they did not need to.

Taxpayers who pay tax at the additional rate (which applies to taxable income in excess of £125,140) do not benefit from a personal savings allowance and must pay tax on any savings income unless it is otherwise exempt. They do not receive a personal allowance either as the personal allowance is fully abated at this level. Unless savings income is derived from tax-free accounts, additional rate taxpayers will pay tax on it.

Savings starting rate

Savings income which falls within the savings starting rate band is taxed at the savings starting rate of 0%.

CONT ON PAGE 5

Depending on an individual's personal circumstances, they may be able to enjoy up to a further £5,000 of savings income tax-free.

The savings starting rate band is set at £5,000 for 2025/26, but is reduced by any taxable non-savings income. This is other taxable income in excess of the personal allowance (but excluding any dividends). Consequently, the full £5,000 savings starting rate band is available where other taxable income is less than the individual's personal allowance.

The standard personal allowance is £12,570 for 2025/26. The savings starting rate band is eroded once taxable income in excess of the personal allowance reaches £5,000 (income of £17,570 and above).

The savings starting rate is applied before the personal savings allowance.

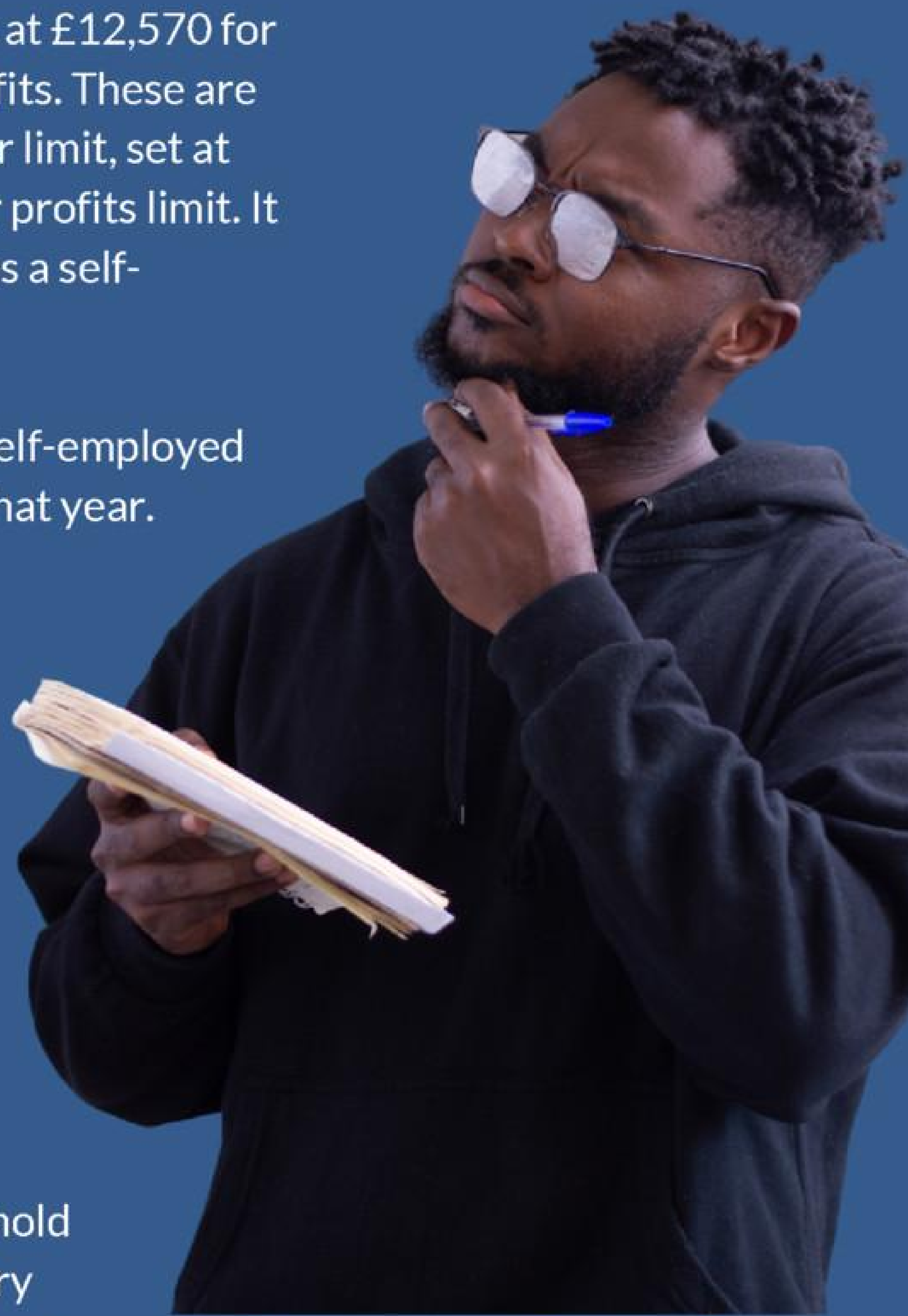
Tax-free savings accounts

If savings are held within a tax-free wrapper such as an Individual Savings Account, the associated savings income is tax-free. A taxpayer can invest up to £20,000 in an ISA in 2025/26. ISAs are attractive to additional rate taxpayers who do not benefit from personal and savings allowances.

Maximum tax-free savings income

Where a person has the personal allowance available in full to set against their savings income, they can enjoy tax-free interest on their savings of £18,570 in 2025/26 (personal allowance of £12,570 plus savings starting rate band of £5,000 plus savings allowance of £1,000), plus that from tax-free savings accounts.

Should you pay voluntary Class 2 National Insurance?



Self-employed earners whose earnings exceed the lower profits limit (set at £12,570 for 2025/26) must pay Class 4 National Insurance contributions on their profits. These are payable at the rate of 6% on profits between the lower limit and the upper limit, set at £50,270 for 2025/26, and at a rate of 2% on profits in excess of the upper profits limit. It is the payment of Class 4 National Insurance contributions which provides a self-employed earner with a qualifying year for state pension purposes.

Where profits from self-employment are below £12,570 for 2025/26, a self-employed earner will not have to pay Class 4 National Insurance contributions for that year. However, if their profits are at least equal to the small profits threshold, which is set at £6,845, the self-employed earner receives a National Insurance credit which provides them with a qualifying year for state pension purposes without them having to pay anything for it. However, self-employed earners whose profits are below £6,845 do not benefit from the credit. This means that unless they receive other credits, for example, because they receive child benefit, or have paid sufficient Class 1 contributions, they will need to pay voluntary contributions for 2025/26 to be a qualifying year.

Voluntary Class 2

Self-employed earners whose profits are less than the small profits threshold can pay voluntary Class 2 contributions instead of paying Class 3 voluntary contributions. This is a much cheaper option – for 2025/26, voluntary Class 2 contributions are payable at a rate of £3.50 a week whereas Class 3 contributions are £17.75 a week. Paying voluntary Class 2 contributions rather than Class 3 contributions for 2025/26 will save the individual £741.

Although paying voluntary Class 2 contributions will only cost £182 for 2025/26, before opting to pay them, it is important to check whether it will be worthwhile. To receive a full state pension, a person needs 35 qualifying years. If they have this already or will do so by the time that they reach state pension age, there is no point in making the contributions. A person can check their state pension forecast by visiting the Gov.uk website at www.gov.uk/check-state-pension.

A person who has less than 35 qualifying years but at least ten will receive a reduced state pension. Paying voluntary contributions is worthwhile if after doing so a person will have a least ten qualifying years. If after making the contributions they will still not have reached ten qualifying years and are unlikely to do so by the time they reach state pension age, making voluntary Class 2 contributions is not worthwhile. Contributions are paid through the Self Assessment system. There is a six-year window in which to pay the contributions.

Five tax-free health and welfare benefits

Employers are able to provide employees with a range of health and welfare benefits without giving rise to a tax charge under the benefits in kind legislation.

1. Health screening and medical check-ups

Employees can benefit from one health screening assessment or medical check-up each tax year free of tax. A health screening assessment is an assessment to identify employees who may be at particular risk of ill health, while a medical check-up is a physical examination of the employee by a health professional for the sole purpose of determining the employee's state of health.

2. Eye tests and corrective appliances

Employees who are required to have an eye test under regulations made under the Health and Safety at Work Act 1974 (which is the case where employees use display screen equipment) must be provided with one by their employer.

The provision of such a test does not constitute a taxable benefit. Similarly, if the test shows that the employee needs glasses or other corrective appliances, these too can be made available by the employer free of tax if they are provided solely for use for display screen work. However, the exemption only applies if the tests and corrective appliances are made available to all the employees who need them.

Where eye tests or glasses are provided or paid for by the employer in other circumstances, a tax liability will arise.

3. Recommended medical treatment

An employer is able to provide recommended medical treatment to an employee or reimburse the cost of such treatment up to the value of £500 without a tax liability arising. Recommended medical treatment is that recommended by a health professional for the purpose of assisting an employee to return to work after a period of absence due to injury or ill health. The treatment must be provided after an employee has been absent from work for at least 28 consecutive days.

4. Overseas medical treatment

While an employee is working abroad, the employer can meet the cost of any medical treatment that arises, and also the cost of medical insurance to cover the cost of overseas medical treatment, without triggering a tax charge under the benefits in kind legislation. However, the provision of medical treatment in the UK and private medical insurance are taxable benefits.

5. Welfare counselling

The provision of certain types of welfare counselling to employees is exempt from tax. Although the exemption is tightly drawn, it covers counselling for problems such as stress, work problems, debt problems, alcohol and drug dependency, career concerns, bereavement, equal opportunities, ill health, sexual abuse, harassment and bullying, conduct and discipline and personal relationship difficulties.

However, advice on finance (other than debt problems), tax, leisure or recreation and legal advice are specifically excluded from the scope of the exemption.

TAX DIARY

JUNE

1 June 2025 – Due date for corporation tax due for the year ended 31 August 2024.

19 June 2025 – PAYE and NIC deductions due for month ended 5 June 2025. (If you pay your tax electronically the due date is 22 June 2025).

19 June 2025 – Filing deadline for the CIS300 monthly return for the month ended 5 June 2025.

19 June 2025 – CIS tax deducted for the month ended 5 June 2025 is payable by today.

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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