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TAX NEWS

JANUARY 2024

Happy New Year and welcome to the January edition of Tax News! We hope that you find this informative. Please contact us if you wish to discuss any matters in more detail.

DIARY OF MAIN TAX EVENTS

DATE	WHAT'S DUE
1 Jan	Corporation tax for year to 31/03/2023, unless quarterly instalments apply
19 Jan	PAYE & NIC deductions, and CIS return and tax, for month to 5/1/23 (due 22/1 if you pay electronically)
31 Jan	Deadline for filing 2022/23 self-assessment tax return online, paying outstanding tax for 2022/23 and first payment on account of 2023/24 tax.
1 Feb	Corporation tax for year to 30/04/2023, unless quarterly instalments apply
19 Feb	PAYE & NIC deductions, and CIS return and tax, for month to 5/2/24 (due 22/2 if you pay electronically)

NEW YEAR RESOLUTIONS TO SAVE TAX

At this time of year, we think about New Year's resolutions and what we can do to put ourselves into the best possible financial position for the months ahead. For many, it is a good time to start planning your tax affairs to be ready before the end of the tax year on 5th April.

An obvious tax planning point would be to maximise your ISA allowances for the 2023/24 tax year (currently £20,000 each). You might also want to consider increasing your pension savings before 5 April 2024, as the unused annual pension allowance from 2020/21 lapses after three years.

Many of us get together with the family at Christmas and that prompts us to think about making or updating our Will.

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TIME TO REVIEW, OR MAKE A WILL?

At the top of the New Year to do list for many individuals is to make or update their Will. Many think this is something to leave until later in life, but it is important to get things in place once property is acquired or when children come along.

In the absence of a will there are statutory rules which dictate how your assets are distributed on death. Those statutory intestacy rules may not be tax efficient, and you might to want to make specific provision in your Will for your unmarried partner or for the guardianship of your children.

People often think that if they die without making a Will, their spouse (or civil partner) will automatically inherit everything, but this is not necessarily the case.

According to the laws of intestacy in England, for deaths occurring on or after 26 July 2023, the surviving spouse would inherit a statutory legacy of £322,000, all of the personal effects, and half of the remaining estate. The deceased's surviving children (or their descendants) would split the remaining half of the estate equally. If those descendants are under the age of 18, their inheritance is kept back for them until they turn 18. Note that intestacy rules are different in Scotland, Wales and Northern Ireland.

PASSING ON THE FAMILY HOME

When considering the wording of your Will, you should note that the inheritance tax (IHT) nil rate band continues to be frozen at £325,000, subject to any announcements in the Spring Budget. There is currently an additional nil rate band of up to £175,000 for passing on the family home to direct descendants on death. We can work with your solicitor to make sure your Will is tax efficient.

Where some of the nil bands are unused on the death of the first spouse, the balance is available on the death of the surviving spouse, potentially allowing a married couple (or civil partners) to pass on assets of up to £1 million at today's rates without paying IHT.

The residence nil band is even available when you downsize to a cheaper property. For example, if a married couple currently live in a large house worth £500,000 and downsize to a flat worth £300,000, they could give away some of the proceeds during their lifetime and yet still benefit from inheritance tax relief based on the higher valued property. They could even sell the house and move into a rental property or a care home and still benefit from this nil band.

If you need any further advice or information regarding passing on the family home, Wellway are here to help you. Please do get in touch.

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LEAVING MONEY IN YOUR WILL TO CHARITY

It is also important to note that If you leave at least 10% of your estate to charity, the rate of Inheritance tax on the amount chargeable Is reduced from 40% over the nil rate bands to just 36%. This would reduce the amount passing to other beneficiaries and needs to be carefully considered. When it comes to your legacy, it may be worthwhile to think about the causes and people close to your heart.

REGULAR GIFTS OUT OF YOUR INCOME CAN SAVE IHT

One tax planning opportunity that many thought the chancellor might restrict was the exemption from inheritance tax for regular gifts out of an individual's surplus income. Inheritance tax is designed to tax transfers of capital, so if the donor can demonstrate that the gifts are made out of surplus income then the transfers are not taken into consideration for IHT. The exemption applies where there is a regularity to the payments, such as a standing order to pay school fees or pension contributions on behalf of children or grandchildren. HMRC will also require proof that the payments are paid out of post-tax income and do not limit the donor's normal lifestyle. Detailed records are required, and we can help you with a suitable spreadsheet.

PENSION CONTRIBUTIONS ON BEHALF OF OTHERS

Normally an individual's payments into a pension scheme are limited to their relevant earnings in a given tax year. This restriction does not apply where the contributions are less than £3,600 gross, allowing parents and grandparents to make payments on behalf of children and grandchildren with limited income. Payments of £2,880 a year would attract a 25% uplift from the government which could grow to a substantial amount by the time the child reaches retirement age (currently age 55, but increasing to 57 in 2028). The parent or grandparent may be able to justify that the payments qualify for the regular gifts out of income exemption from inheritance tax mentioned above if a standing order was set up for no more than £240 a month.

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4,757 FESTIVE TAX RETURN FILERS

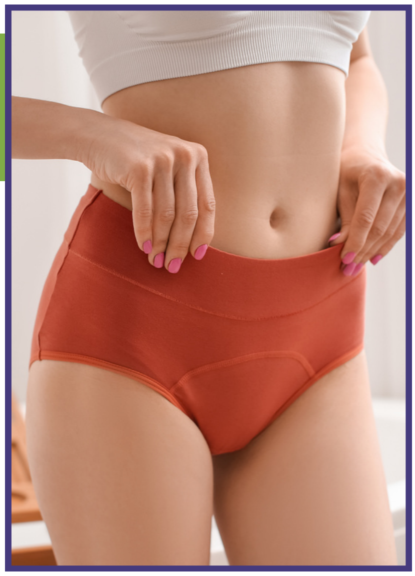
HMRC announced that 4,757 taxpayers filed their Self Assessment tax return on Christmas Day. This added to 8,876 being filed on Christmas Eve and a further 12,136 being filed on Boxing Day. Apparently, the peak time was between 12 and 1pm on Boxing Day when HMRC received 1,121 returns. Myrtle Lloyd, HMRC's Director General for Customer Services, used the opportunity to encourage all to file their return in good time when he said: "Our Christmas Day filers proved that there is no time like the present to get started on Self Assessment. There's no need to delay, getting it done ahead of the 31 January deadline means less stress and longer to work out payment options."

If you need help with your tax return, or haven't let us have your tax return information yet, please don't hesitate to get in touch. We will be happy to help you complete this essential job!

UPDATE PAYROLL SOFTWARE FOR THE JANUARY NIC CUT

The chancellor’s announcement of a 2% cut in national insurance contributions (NICs) for employees applies to payments on or after 6 January 2024. That doesn’t allow much time to update payroll software, particularly with the Christmas holidays in between. Note that for employees other than directors, NIC is not calculated on a cumulative basis so, where over-deductions are made, the error is not automatically corrected in later months.

THE END TO VAT ON PERIOD PANTS



After a successful campaign by retailers, women's groups and environmentalists, period pants will no longer be subject to VAT in shops. Period pants are seen as a greener alternative to single use sanitary towels and tampons, as they can be washed and re-used. While the so-called "tampon tax" was dropped on other period items in 2021, the pants were classed as a garment, meaning they were subject to the VAT rate of 20%, and the cost was deemed as prohibitive for some. After a successful campaign, Chancellor Jeremy Hunt confirmed in his Autumn statement that VAT would be removed from the items in the new year, with the change coming into effect this January.