



# TAX BRIEFING

## WINTER 2023



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## NATIONAL INSURANCE RATES CUT

The Chancellor has announced cuts to national insurance contributions (NIC) for self-employed taxpayers and employees.

The headline news from the Autumn Statement was the reduction of primary Class 1 and Class 4 NIC and the removal of compulsory Class 2 NIC.

The main rate of primary Class 1 NIC paid by employees on earnings between £12,570 and £50,270 per year will be reduced from 12% to 10%. Instead of waiting until the start of the next tax year, this change will be effective from 6.1.24, so you will need to update your payroll software before the January pay run to ensure the correct rate of Class 1 NIC is deducted from employees.

For self-employed taxpayers the main rate of Class 4 NIC will be reduced by 1% from 9% to 8% from 6.4.24.

In addition to this, self-employed traders with profits above £12,570 will no longer pay Class 2 NIC but will continue to receive access to contributory benefits including the state pension. Those with profits between £6,725 and £12,570 will continue on this basis. Those with profits under £6,725 who choose to pay Class 2 NIC voluntarily to protect their entitlement to contributory benefits including the state pension will continue to be able to do so.

According to the Chancellor these NIC reductions will amount to a saving of £350 per year for the average self-employed taxpayer and £450 for the average employee.

## CASH BASIS TO REPLACE ACCRUALS

Cash basis to replace accruals for the self-employed as standard tax reporting method for 2024-25 (first year of tax year accounting).

From April 2024, as part of a move to simplify calculation of taxable profits for Making Tax Digital, all self-employed taxpayers and partnerships will by default report their taxable profits under the cash accounting basis.

**The transition from accruals to cash accounting could be complicated**

partners, with an option to elect for the accruals basis.

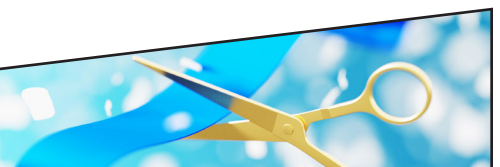
This is a fundamental change with the potential to create very different profits for a lot of businesses currently using the accruals basis. Although the cash basis

Currently, the default position is for businesses to calculate taxable profit using the accruals method (accounting for income and expenses when earned and incurred, not when cash is actually received or paid) but most businesses with total receipts below £150,000 are eligible to elect to use the cash basis.

should in theory result in simpler calculations of taxable profits, the transition from accruals to cash accounting could be complicated.

Contact us to discuss whether switching to the cash basis or opting out would be best for your business.

The new measures will reverse that presumption, making the cash basis the default position for all self-employed taxpayers and





## MTD SIMPLIFICATION

**A** dramatic simplification of the MTD processes to be introduced in 2026 including no EOPS; cumulative submissions each quarter; and restrictions for complex situations.

Taxpayers with turnover over £50,000 will be brought into MTD ITSA from April 2026. The £50,000 threshold applies to gross total self-employment and property income, so we need to include all of your self-employment and property income sources when determining whether MTD ITSA will apply to you.

(EOPS) in addition to the final declaration has been removed. The EOPS will instead be built into the final declaration process, which pulls together the information that would have been reported on the EOPS as well as other data to calculate the final tax position.

Taxpayers with turnover over £30,000 will be brought into MTD ITSA from April 2027.

New MTD ITSA exemptions have been announced for foster carers and those unable to get a national insurance number.

HMRC has confirmed that self-employed taxpayers and landlords with turnover under £30,000 will not be brought into MTD ITSA in April 2027. This decision will be kept under review so affected taxpayers may be brought into MTD ITSA at some point in the future.

Quarterly updates produced under MTD ITSA will be cumulative. This means that any errors in previous quarterly submissions can be corrected in the next quarter, rather than having to go back and resubmit earlier reports.

To simplify year-end reporting, the requirement for taxpayers to file an end of period statement

Finally, the expansion of the cash basis for calculating taxable profits should result in simpler reporting for MTD purposes.

## NLW AND NMW INCREASED

**T**he national living wage (NLW) will increase by 9.8% to £11.44 per hour from April 2024. The higher rate will also apply to 21 and 22-year-olds for the first time.

The NLW currently applies to workers aged 23 and above and stands at £10.42 per hour. Workers under the age of 23 and apprentices are entitled to the national minimum wage (NMW) instead.

The age above which workers qualify to receive the NLW will be lowered as planned from 23 to 21 from 1 April 2024. It was previously lowered from 25 in April 2021.

The NLW will be increased by £1.02 to £11.44 per hour from 1 April 2024, an increase of 9.8%. The NMW is also set to increase by more than £1 per hour.

The NLW and NMW rates effective from 1 April 2024 are shown below:

| Age         | Rate per hour | Increase (£) | Increase (%) |
|-------------|---------------|--------------|--------------|
| 21+ (NLW)   | £11.44        | £1.02        | 9.8%         |
| 18-20 (NMW) | £8.60         | £1.11        | 14.8%        |
| 16-17 (NMW) | £6.40         | £1.12        | 21.2%        |
| Apprentice  | £6.40         | £1.12        | 21.2%        |

This is the largest ever increase to the statutory hourly minimum and is forecast to result in a boost to annual earnings worth over £1,000 for those working under full-time contracts. Since its introduction in April 2015, successive increases to the legal minimum hourly rate mean that a full-time worker on the NMW in 2024 will be over £9,000 better off than they would have been in 2010.

The Government has estimated that there are over 2 million taxpayers currently eligible for the NLW who will benefit from this increase.





## OVERLAP RELIEF ONLINE TOOL

The online form for requesting overlap relief information for basis period reform is now live.

Overlap profits normally arise in the first two tax years of a new trade where the accounting date of the business does not align to the tax year end and – under the old opening year rules – profit for the period of overlap fell into tax twice. Details of overlap relief should be brought forward each year on the self assessment tax return and can be deducted either in the final year of trading, or if the accounting date is changed. Overlap relief will now be used to reduce additional taxable profits in the tax year 2023-24 due to basis period reform.

Under basis period reform, from the year 2023-24 taxpayers are required to report their taxable profits to HMRC in line with the tax year end. Where the accounting year end falls outside the period 31 March to 5 April this will result in additional profits being taxed between the end of the accounting period in 2023-24 and 5 April 2024.

Any overlap relief included on the 2024 tax return will be automatically deducted from the additional profits and the remaining 'transitional

part' spread over the five tax years 2023-24 to 2027-28. You have the option to accelerate the taxation of the transitional part if you prefer and there are various circumstances where this may be beneficial. We can help you decide how best to allocate your additional profits.

**We can help you decide how best to allocate your additional profits**

Details of any overlap relief brought forward should be entered on the 2023-24 tax return. If this information has not been retained, we can obtain it from HMRC using the new online tool.

HMRC can only provide historical information on overlap profits if it was reported on past tax returns. If that data is not available in the system, do not worry. HMRC should be able to provide enough data for us to calculate the overlap relief available.

It usually takes around 3 weeks for HMRC to respond to requests for details of overlap relief, but complex cases can take longer so it is important to get the ball rolling and apply for any missing information now. We can do this for you.

## SUBMIT VAT CLAIMS DIGITALLY FOR DIY HOUSE BUILDS

Individuals who build their own home, or complete part of the build project themselves, are entitled to reclaim the VAT paid on materials under the VAT homebuilders scheme.

When engaging builders and contractors to build your home, their labour and materials are zero-rated, so the VAT homebuilders scheme puts the individual homebuilder in the same position for VAT purposes as if they had contracted the work to a third party.

The current process is that a paper claim must be submitted using a form which asks a series of questions to confirm that the conditions for reclaiming have been met, along with many pages on which to record individual purchase invoice details. Each transaction must be listed and supported by invoices or receipts which also need to be sent to HMRC.

**HMRC will accept claims digitally from 5 December 2023**

requirement to submit invoices with the claim will also be removed from this date.

Only one claim can be made for each house build. Currently the deadline for submitting that claim is three months after the building is completed. HMRC is extending this deadline to six months for claims submitted on or after 5 December 2023. This will give us more time to collate the required information and should lead to fewer claims being rejected due to errors or omissions.

The paper form will still be available for taxpayers who cannot submit claims digitally.

In order to speed up the process and minimise errors, HMRC will accept claims digitally from 5 December 2023. The





## TWO NEW R&D FORMS

HMRC has introduced two new measures to tackle the rise in fraudulent research and development (R&D) claims.

### Claim notification form

For accounting periods beginning on or after 1 April 2023, a digital pre-notification form is required to inform HMRC in advance of R&D claims.

This will be mandatory for all those intending to claim R&D tax reliefs if:

- they are claiming for the first time; or
- their last claim was made more than 3 years before the last date of the claim notification period.

The claim notification window starts on the first day of the accounting period and ends six months after the end of the accounting period.

To complete the claim notification form you will need:

- the company's Unique Taxpayer Reference (UTR);
- the main senior internal R&D contact responsible for the R&D claim;
- the contact details of any agent involved in the R&D claim;
- the accounting period start and end date for

which you are claiming;

- the period of account start and end date; and
- a summary of the high-level planned activities.

### Additional information form

From 8 August 2023 all R&D claims must be accompanied by an additional information form (AIF). This must be submitted online, or in some cases via email, before the company tax return (CT600) is filed. If a CT600 includes a claim for R&D relief and no AIF has been submitted, HMRC will automatically remove the R&D claim from the return.

The information required on the AIF is extensive, including details for each R&D project; what baseline level of science or technology the project plans to advance; and whether you intend to claim R&D relief, expenditure credits or both. Full details of the information required can be found within the guidance on GOV.UK.

If either of these forms is not submitted on time, or is incorrect, HMRC may reject the claim for R&D relief. If you are planning on carrying out any R&D, we can help you comply with these new requirements.

## CHARGING YOUR ELECTRIC COMPANY CAR AT HOME

HMRC has updated its Employment Income Manual to bring the guidance on charging electric company cars at home in line with the legislation.

Until now, the guidance in the Employment Income Manual (EIM23900) has contradicted the legislation in advising that if an employer reimburses an employee for charging their company car at home this would be a taxable benefit.

The taxable benefit on a company car is, broadly speaking, calculated as a percentage, based on the CO2 emissions of the car, applied to the list-price. There is no further taxable benefit in respect of maintenance, insurance or other running costs reimbursed by the employer, with the exception of fuel.

As is widely recognised, electricity, for tax purposes, is not fuel. Therefore the cost of domestic electricity incurred charging the

company car at the employee's home is, in tax law, indistinguishable from these running costs.

HMRC has now updated the guidance in EIM23900 to confirm that home-charging company cars and vans is not a separate taxable benefit as long as the employer ensures that the electricity reimbursed is solely used for charging the company car.

This is a change to the guidance but not the 20-year-old legislation. Taxpayers who have followed the guidance may be entitled to claim overpayment refunds. Check with us if you think you or your employees may have overpaid.