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N E W S L E T T E R

Year-end Wages Procedures

1. Give each employee a P60, which can be printed from payroll software.

2. An employee who has received benefit-in-kind (such as a company car or medical insurance) must be given a P11D, which must also be filed with HMRC by 6 July.

3. After making the final Full Payment Submission (FPS) for 2024/25, the payroll software will need to be updated for the new tax year, 2025/26.

4. Amend code numbers only where a new code has been issued by HMRC, although any week 1/month 1 markings (an x at the end of the code) can be removed. Other employees will see no change in the tax and NI which they pay.

5. Pay Class 1A NIC on benefits-in-kind by 19 July.

Employer's National Insurance

The National Insurance changes announced in the October 2024 budget will come into force on 6 April 2025. The employer's contribution is increased from 13.8% to 15% on earnings over £96.00 a week (previously £175 a week). The Employment Allowance, which currently covers the first £5,000 a year of Employer's NI, will also increase to £10,500.

At one extreme, this is very bad news for businesses with a large number of employees, as the cost of employment will increase significantly. Also badly affected will be labour intensive industries with small profit margins, such as care homes. At the other extreme, businesses with just a few employees on moderate wages could be better off, as the increase in the Employment Allowance could more than offset the higher NI.

A special case is the small limited company where the only person on the payroll is a director, who was customarily paid £175 a week (£9,100 a year) which earned Social Security benefits without any liability for employee's or employer's NI. Such companies are not allowed to claim the Employment Allowance, so will incur an Employer's National Insurance liability of £615 a year if the director wishes to continue earning benefits, in particular the state pension.

Double Cab Pick-ups

I mentioned it in my last newsletter, but it is worth reminding everyone that the treatment of double cab pick-ups will change on 1 April for Corporation Tax and 6 April for Income Tax. From that date, they will no longer be treated as vans, but as cars. That means that the rate of tax allowance will be only 6% instead of 100%. Anyone replacing a double cab pick-up with a similar vehicle will pay tax on the sale price of the old one, while saving very little tax on the new one.

Confusingly, there is no change in the treatment of those vehicles for VAT, so input tax can still be claimed on a double cab pick-up, provided that the load capacity (after allowing for any cover on the load area) is at least 1 tonne.

More confusion arises from the term "qualifying car" for VAT, so here is an explanation of what it means and how it can mislead people. A car becomes exempt from VAT the first time it is purchased by someone who cannot reclaim the VAT on it. That is usually when the dealer sells it to the first owner, but it becomes a "qualifying car" if it is purchased new by a business which can reclaim the VAT. When that business sells the car, it has to charge VAT.

Even though it is a "qualifying car" that does not mean that any business which buys it can reclaim the VAT. Whether a car is new or a second-hand "qualifying car" the VAT can be reclaimed only where the use is entirely business. That is a very strict test, as home to work travel or even just parking at home counts as private use. Therefore, the only businesses which can reclaim the VAT will be those in trades like motor dealers, car hire firms and taxi operators.

Benefits-in-Kind

As mentioned elsewhere in this Newsletter, benefits-in-kind have always been declared to HMRC at the end of the tax year. Tax is collected by an adjustment in the employee's tax code but, as that has to be issued during the year, it has to be estimated and is often wrong, leading to an underpayment or overpayment of tax.

From April 2026, benefits-in-kind will have to be payrolled, meaning that the employer will have to include the actual value of the benefit in the employee's weekly or monthly pay. This should lead to the correct tax being paid during the year in most cases.

State Pension Top-ups

There has been a lot in the media recently about the approaching 5 April 2025 deadline for people born before 1959 to pay National Insurance for 2006 to 2018 to increase state pension entitlement. The first thing to say is that 35 years' contributions are required to earn the full state pension, so anyone who already has that many years cannot do anything to increase pension entitlement.

Anyone can check for gaps in their contribution record by going to the gov.uk website to check their NI record. You will need your NI number and you will then find out if there are any gaps in the contribution record. Normally this can be filled by paying voluntary Class 3 Contributions, which are £17.45 a week (£907.40 a year) but, if you were self-employed, you may be able to pay Class 2 Contributions, which are just £3.45 a week (£179.40 a year).

After 5 April 2025, it will only be possible to fill gaps in your NI records for the previous 6 years.

Limited Companies

Ever since it became possible to form limited companies online, it has been far too easy to do so without proper evidence of the identity of directors and shareholders. Ridiculous names like "Adolf Tooth Fairy Hitler" and "Judas Superadio Iskariot" have been registered as directors of what are often shell companies used by criminals to commit fraud (by not paying taxes for instance). On 25 March 2025 Companies House is introducing new procedures to verify the identity of all company directors, starting with new company registrations. Other directors and major shareholders will be verified over the next year as they file their annual Confirmation Statements. There will be a cost to this, as the check has to be done by a certified ID verifier.

These new checks will not completely eliminate the use of shell companies by criminals, as there will always be people desperate for money and willing to allow their details to be used.

National Minimum Wage

Hourly rates will increase on 1 April 2025:

	Old £	New £
Living wage (21 and over)	11.44	12.21
18 - 20	8.60	10.00
16 - 17	6.40	7.55
Apprentice (under 19 or over 19 in first year)	6.40	7.55

As the change does not coincide with the start of the new tax year, the new rates will apply to most weekly-paid employees for all or part of the final week of 2024/25.

I would also remind everyone that the NMW rules are very strict; work is either completely voluntary or must be paid at the appropriate rate for all hours worked. No-one can opt out of entitlement to the NMW or say that some hours are voluntary and some paid.

MTD for Income Tax

Businesses registered for VAT are already familiar with Making Tax Digital (MTD) which requires the use of computer software to submit VAT returns online. Extending MTD to Income Tax has been planned for many years and postponed several times. It is now planned to come into force in April 2026 for individuals with trading and property income of more than £50,000 a year. The threshold will be reduced to £30,000 in April 2027, then to £20,000 at some unspecified time after that. It will not apply to partnerships, which seems odd, or to companies, which is more logical as they pay Corporation Tax, not Income Tax.

MTD returns will have to be submitted quarterly. For property income, the four quarters will always end on 5 July, 5 October, 5 January and 5 April. For trading income the four quarters will be based on the business accounting year-end. MTD for VAT returns will continue to be submitted for the same quarters as now, so it is possible for someone to have to submit three MTD returns for different dates, for VAT, trading and property income.

MTD for VAT returns declare only a total for expenses, covering only things which are "taxable supplies" for VAT purposes. MTD for Income Tax will require totals for every type of business expense, including things which are exempt from or outside the scope of VAT, such as wages, insurance and business rates. A fifth return will declare year-end adjustments for things like stock, prepayments and accruals; that return will usually be prepared by an accountant, so will also include adjustments for any errors found on the earlier returns.

The idea is that HMRC will then have all of the figures for the year, so there will be no need to submit a tax return.

Year-end letters

Last year's change to the way self-employed people are assessed to tax was an incentive to change to a 31 March or 5 April year-end, so I am now sending out a lot of year-end letters. As usual, <u>every</u> letter will include a paragraph reminding clients of my responsibilities under the Anti-Money Laundering rules. I have to do that because, if I gave that warning only where I have suspicions that a client may be doing something illegal, that could be regarded as "tipping off" which is itself an offence under the Anti-Money Laundering rules.

Pass it on

Please feel free to copy or pass on this newsletter to friends and business acquaintances. Anyone who would like to be added to the mailing list should e-mail me at the address below.

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