

Client Briefing

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Plan ahead for further capital gains tax changes

Changes announced for business asset disposal relief (BADR) and investors' relief in the Autumn Budget will not be enacted until the new financial year, meaning some planning is possible for business owners and investors.

Business assets

The rate of capital gains tax (CGT) where gains qualify for BADR remains at 10% for the current tax year – until 5 April 2025. Relief is available against the first £1 million of qualifying gains realised during a taxpayer's lifetime.

- The 10% rate is now more advantageous than ever given the increase to the main rates of CGT. For example, on £1 million of gains, the tax saving is £140,000 if the 24% rate of CGT would otherwise apply.
- From 6 April 2025, the rate of BADR will increase by 4% to 14%. The amount of tax saving on £1 million of gains will fall back to £100,000.
- There will be a further 4% increase from 6 April 2026 so that the rate of BADR is equalised with the 18% main lower rate. The tax saving will be a relatively modest £60,000.

Given the reduced tax saving and the complexity of the qualifying conditions, BADR is likely to be of less importance in the future.



Investors' relief

Before the Autumn Budget, investors' relief came with a separate lifetime limit of £10 million, but the limit has been reduced to £1 million for disposals made on or after 30 October 2024. The rates of CGT on gains qualifying for investors' relief are the same as those for BADR.

Planning

There is a tax planning opportunity for anyone intending to make a qualifying disposal in the near future. The 5 April 2025 deadline might be too tight for the disposal of a business or investment, but any disposals made during 2025/26 will save 4% in CGT compared to if the disposal doesn't happen until after 5 April 2026.

One potential issue could be the required holding period. For investors' relief, shares must have been held for three years prior to their disposal.

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Basis period reform: changing your accounting date

Businesses that do not draw up their accounts to 31 March or 5 April will experience ongoing additional administrative burdens following the new tax year basis introduced in April 2024.

One way to avoid this is to change year end for 2023/24, although there are some things to think about before making the move. While the end of January 2025 was the due date for your 2023/24 tax return, it can be amended up to a year afterwards.

From April 2024, business profits of a tax year are the profits actually arising in the tax year regardless of the period for which you draw up your accounts. If your accounts run to a date other than 5 April, or 31 March (treated as equivalent to 5 April), you have to calculate the profit each tax year by apportioning the two accounting periods covering that tax year.

However the profits of the later period might not be known in time for the 31 January return submission deadline. Completing future returns using estimated profits and amending them later is an option. It would be simpler to match your accounting period to the tax year.

Transition is ending

The year 2023/24 is a transitional year from the old system of taxing the profits of the accounting period ending in the tax year. Unless your accounting date was already 5 April or 31 March, you will be taxed in 2023/24 on more than 12 months' profits.

You can deduct any brought forward overlap relief from your 'transition profits' (those for the period after the first 12 months) and then spread any remaining transition profits over a period of up to five years. This is a good time to change your accounting date to 31 March and you can amend your 2023/24 return to achieve this. How you do it may affect use of any overlap relief and how much profit you can spread over five years.

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Inheritance tax strategy shifts

The Autumn Budget changed the tax status of unused pension death benefits. Most unused pension funds are now set to be included in estates for inheritance tax (IHT) purposes, leading to an effective tax rate of up to 67% for some. Lifetime IHT planning will therefore be more important than ever, but such planning can easily come unstuck.

Although pension funds will not be included in estates until 6 April 2027, the change will upend the recognised retirement strategy of the retiree drawing on non-pension funds in preference to pension funds.

Pension funds

Currently, pension funds can be passed down to your beneficiaries free of IHT. There is not even any income tax charge when benefits are drawn by the beneficiary if the deceased was under 75.

- The change will see most unused pension death benefits brought into consideration for IHT purposes, so 40% of the fund could be lost.
- If death occurs on or after age 75, there will be a further income tax charge on the beneficiary. The worst-case scenario is if the

beneficiary is an additional-rate taxpayer, meaning a further 45% being lost - leaving just 33% for the beneficiary.

To make matters worse the nil rate band and the residence nil rate band are to remain frozen for a further two years until 5 April 2030, only adding to the challenges faced by wealthier individuals. The inclusion of pension funds in estates will mean there is more risk of losing the residence nil rate band which starts to be withdrawn once the value of an estate exceeds £2 million.

Retirement planning

In future, pensions are more likely to be used to provide retirement income rather than being retained until death. So, anyone in retirement currently drawing income from ISAs and other non-pension assets will possibly want to start giving those assets away and draw income



from pensions instead. Using pension funds to purchase annuities will probably become more attractive, especially as retirement income will then be more certain.

Key considerations

Lifetime gifts: Gifts made to family members before death avoid any IHT implications provided the giftor survives for seven years after making the gift. However, the number of people paying IHT on lifetime gifts has risen sharply, resulting in unexpected tax bills for the recipients. It is therefore important not to leave it too late in life before making gifts. The earlier the better here, and certainly before the giftor’s health begins to deteriorate. Those receiving a gift from an elderly relative should be careful to retain sufficient funds to cover any possible tax bill.

Continued use: Many people’s most valuable asset will be their main residence. Gifting this to children or grandchildren can therefore mean a significant reduction to the amount of IHT payable on death, but such planning will not work if the giftor continues to live in the property rent-free. This is a complex aspect of IHT, although paying full market rent should solve the problem.

Taper relief: A common misconception is that the value of a lifetime gift starts to be cut once the giftor has survived for three years – which is when taper relief kicks in. However, taper relief only reduces the amount of IHT payable, so has no impact if no IHT is due.

Life insurance: Insuring for the potential IHT payable on death is sensible planning, but the policy needs to be put into a trust for this planning to work; otherwise, the policy proceeds will be subject to IHT as part of the deceased’s estate.

Contact us to discuss your options.

News in brief..

HICBC change shelved

Although the way the high income child benefit charge (HICBC) is applied can unfairly favour couples over single parents, the new government has confirmed that it’s not going to go ahead with the proposed move to a household income basis from 2026.

Advisory fuel rates

The latest HMRC advisory fuel rates see all six petrol and diesel rates dropping by 1p per mile. LPG rates are unchanged, as is the fully electric rate which remains at 7p per mile. Changes apply from 1 December 2024.

CGT receipts hike for HMRC

End of the year data has shown that tax receipts climbed for the last quarter of 2024, with capital gains tax (CGT) receipts in particular up by 60% against the same period for 2023. Businesses appear to have increased disposals ahead of the expected changes in the October Budget, while December’s figure alone was double that of the previous year. The overall rise in tax takes across the board shows the benefits to HMRC of frozen thresholds and the effects of fiscal drag. For taxpayers drawn into higher tax bands, effective tax planning measures are increasingly important.

AIM shares

AIM shareholdings, including AIM ISAs, have been a feature of IHT planning given they qualify for 100% business relief. This relief is to be cut to 50% from 6 April 2026, with the £1 million business/agricultural property allowance not available.





Small business upside to employment allowance

Changes to costs for businesses, in particular increases to national insurance contributions (NICs) for employers, have been widely criticised following the Autumn Budget. However, the employment allowance is more than doubling in April, so some smaller businesses will actually be better off in 2025/26.

Example 1 – Owner director

Elena is the sole director and owner of a limited company providing marketing services. She takes £60,000 in director's remuneration each year. The company's only other employee is Elena's son who is paid a monthly salary of £1,000.

- For 2024/25, the company's total employer NICs come to £7,424. After deducting the employment allowance, £2,424 will be paid to HMRC.
- Although the total employer NICs cost for 2025/26 will go up to £9,300, the increased employment allowance means no payment will be due.

The employment allowance is not available to companies where a director is the sole employee. The employment of Elena's son is therefore crucial. If he were not employed, the company would have an employer NICs cost of £7,024 for 2024/25, rising to £8,250 next year.

The increased level of employment allowance means it could be quite beneficial for a one-person company to employ a family member.

EXAMPLE 2 – Self-employed

Enzo is self-employed, running a retail store. He has four employees working 35 hours per week at £12.30 per hour.

- The amount of employer NICs payable for 2024/25 after deducting the employment allowance is £2,334.
- Although the total employer NICs cost for 2025/26 will go up by just over £3,000, Enzo will not have to pay anything to HMRC.

This is, of course, a very simplified example. If Enzo's staff were instead paid the National Living Wage (NLW), he would have benefited from a similar saving in employer NICs. However, the increase to the rate of NLW would mean an overall increased salary cost for 2025/26 of just over £4,100.

Furnished holiday letting guidance

The furnished holiday letting (FHL) tax regime is to be abolished from 6 April 2025 (1 April 2025 for companies). HMRC has recently published guidance on how this will work, although there is still some uncertainty.

From April 2025 FHLs and buy-to-lets will have the same tax treatment, with income and expenses from both pooled together. FHL finance costs will be restricted to a basic-rate tax deduction, although companies avoid this restriction.

takes place by 5 April 2025 (31 March 2025 for a company).

VAT: Despite the end of the FHL regime, rent from holiday accommodation will still be subject to VAT if the registration threshold is breached.

Key changes

Unused FHL losses: These can be carried forward and set against future property income. This is quite generous: under the old regime, losses could only be relieved against future profits of the same FHL business.

Capital allowances:

Where a FHL business has a pool of capital allowance expenditure, writing down allowances can continue to be claimed. Any new expenditure from April 2025 onwards will only be deductible where certain domestic items are being replaced (not the initial purchase cost).

Business asset disposal relief: Relief can still apply for three years after a business has ceased trading. However, the abolition of the FHL regime doesn't count as cessation, so relief will not be available unless cessation actually



Trading activities?

Despite the repeal of the FHL regime, there will be a few letting businesses which continue to qualify as a trade. However, HMRC has declined to introduce a brightline test which would have clearly set out the distinction between property letting and trading activities.

Landlords of jointly let property need to be aware that the rules for sharing income will change. For buy-to-lets, income is split 50:50 for husbands and wives or civil partners, unless the appropriate form is submitted to HMRC.

“ Despite the end of the FHL regime, rent from holiday accommodation will still be subject to VAT if the registration threshold is breached. ”

Company accounts thresholds rise

New company turnover and balance sheet thresholds in annual accounts will reduce the reporting burden for over 130,000 companies.

The changes, which come into effect from 6 April 2025, increase by around 50% the turnover and balance sheet criteria that help determine whether a company is a micro-entity, small, medium-sized or large for the purpose of reporting and audit requirements under the Companies Act 2006. Groups of companies are subject to similar thresholds except that a group cannot be a micro-entity. The new thresholds will also apply to limited liability partnerships (LLPs).

Micro-entities and small companies are not required to have a statutory audit of their annual accounts and do not have to produce a strategic report. They can also adopt simpler accounting requirements. Micro-entities are not required to prepare a directors' report.

From 6 April 2025 a company or LLP will be a micro-entity if it has turnover of not more than £1 million and a balance sheet total of not more than £500,000. The thresholds for being small

will be £15 million turnover and £7.5 million balance sheet total, and for medium-sized, £54 million turnover and £27 million balance sheet total.

A transitional provision will let a company qualify as a particular size by reference to its turnover and balance sheet total of a previous financial year. This will allow companies and LLPs to benefit from the new thresholds as quickly as possible.

The increases account for inflation since 2013 when the thresholds were last set. The government estimates that around 113,000 small companies and LLPs will become micro-entities, 14,000 medium-sized companies will become small and 6,000 large companies will qualify as medium-sized. The changes also remove several reporting requirements from the directors' report that overlap with other reporting requirements or provide little material value to investors and other users of company reporting.

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