eNews
OCT/NOV 2024

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CHARTERED ACCOUNTANTS

TAX

Look out for the cash savings interest tax trap

More people will have to pay tax on their savings interest this year due to increased interest rates coupled with a frozen tax-free savings limit. If you are in this position and do not complete annual tax returns, you need to notify HMRC of your liability to tax or you could face penalties.

A basic-rate taxpayer – with income up to £50,270 – can receive a total of £1,000 of savings interest before having to pay tax; for higher-rate taxpayers that limit is just £500. Additional-rate taxpayers – those with income over £125,140 – have to pay tax on all their interest.

> *You may have the choice of rolling up all the interest until the end of the term. If you receive all the interest on maturity it will all be taxed in the one tax year.*

If you complete a self-assessment tax return each year, you will already be declaring your savings income. Most employees do not complete tax returns so should check whether they have received more interest than their tax-free limit. Banks inform HMRC of all interest paid to savers, but it remains the responsibility of each person to declare any taxable income.

There are ways to minimise your tax. Interest earned in a cash ISA (individual savings account) is free of tax and anyone aged 18 or over can put up to £20,000 a year into an ISA. Couples may be able to save tax by putting savings into the name of the lower earner rather than a joint savings account in which interest is taxed 50-50 between them.

If, to maximise your interest rate, you save into a longer-term, fixed-rate account, you may have the choice of rolling up all the interest until the end of the term or receiving it annually or monthly. If you receive all the interest on maturity, it will all be taxed in the one tax year, meaning more of it is likely to exceed your tax-free limit.

TAX

VAT on private school fees

VAT at 20% will be charged on school fees from the beginning of 2025. While the government has said it does not expect private school fees to go up by the full 20%, some schools, such as Eton College, will be passing on the whole amount.

Impact on parents

Unlike many VAT-registered businesses, schools have a relatively small amount of VAT on costs to set against their output tax as typically around 75% of a school's budget goes on staffing costs. This makes it difficult for schools to absorb much of the increase. The Girls' Day School Trust, however, has said it will only pass on 12% this year although this could change in the future.

Anti-forestalling legislation will block any attempt to avoid VAT by paying fees in advance. Any fees paid after 28 July onwards for terms starting in or after January 2025 will be subject to VAT.

Exemptions in Ireland

Some parents are avoiding the increased fees by enrolling their children in schools in the Republic of Ireland, where school fees remain exempt from VAT.

Government-funded places

Many private schools will also suffer increased costs with the removal of business rates relief from April 2025. Schools in England that have charitable status are currently eligible for rates relief of 80%. The government is considering the impact on pupils with special educational needs where private school provision has been specified in an Education, Health and Care Plan.

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PROPERTY

Managing the rental market shake-up

With property prices hitting a two-year high and rents up by around 8% over the past 12 months, it should be a good time for buy-to-let landlords. However, the new Renters' Rights Bill, which abolishes no-fault evictions in England, is scaring some landlords away.

No-fault evictions

No-fault eviction, known as a section 21 eviction, currently means a landlord can easily obtain possession of their property without giving a specific reason. The change means a landlord will need valid grounds for regaining possession:

- If the tenant is at fault – antisocial behaviour, damaging the property, significant arrears – the landlord can give notice at any point in the tenancy.
- In the case of arrears, the mandatory threshold is to be increased from two to three months of arrears, although there will also be grounds for obtaining possession if a tenant is repeatedly late.

A landlord can gain possession if they want to move in or sell a property, but this right will not be available during the first 12 months of a tenancy.

The new rules will apply to all tenancies from the same date, with existing tenancies immediately converting to the new system.

Periodic tenancies

There are many other proposed changes, but the removal of fixed-term tenancies will be of particular concern to landlords. Currently a tenancy typically runs for six or 12 months after which the contract is either renewed or switched to a periodic tenancy.

The change will mean all tenancies are periodic, running from month to month. This may be a problem for landlords accustomed to the guarantee of six months' rent to cover the outlay on a new tenancy.

Minimum EPC

To complicate matters further for landlords, at the 2024 Labour Party conference the recently scrapped target of all rental property achieving an energy performance certificate rating of 'C' was resuscitated (this time by 2030). Grants for upgrades will be available from 2025 if a property is situated within an eligible postcode or has low-income tenants.

TAX

Dividend tax-take hits record

Nearly 3.6 million taxpayers are expected to be facing a tax charge on dividend income for 2024/25, double the number just three years ago.

Tax liability

The dividend allowance is now only £500. If you have a modest share portfolio of just over £10,000 yielding 5% it will use up that £500 allowance, leaving you with a tax liability which HMRC needs to know about. With a basic rate of 8.75% on dividend income, the amount of tax due will often be frustratingly low given the inconvenience involved.

At the same time as the dividend allowance has been cut, the level of dividend payouts by companies has generally recovered to pre-Covid-19 levels.

Opting for script dividends will make the outcome more onerous, as these are still taxable despite no cash being received. The same goes for accumulation funds where dividends are reinvested automatically.

Mitigation

If dividend income exceeds the £500 allowance, mitigating steps that can be taken might include:

- **Using ISAs** to shelter up to £20,000 of investment each year.
- **Using pensions** to shelter investments – especially SIPPs.
- **Spreading a share portfolio across the family** can make use of unused dividend and ISA allowances. It will also be worthwhile if dividend income will be taxed at a lower rate.
- **Using venture capital trusts** to produce tax-free dividends, although the high level of risk involved here means such an investment will not be suitable for most investors.
- **Investing for capital growth** rather than dividend income. Although this approach will minimise tax on dividend income, it can result in the equally intractable problem of a much higher CGT liability.

Prioritise investment strategy

Investors need to be careful, however, that decisions are not made just to save tax.
Never lose sight of the importance of overall investment return and maintaining a balanced portfolio.

TAX

R&D tax relief denied

HMRC is now investigating half of R&D tax relief claims, making it more important than ever to be proactive and plan in advance.

The huge increase in R&D claims over recent years has unsurprisingly caused HMRC concern that some could be boundary pushing or at worst, abuse. This has led to the introduction of the additional information form, along with increased compliance activity. HMRC is investigating claims with the highest perceived risk.

This approach means some genuine claims are rejected, and concerns have been raised in regard to HMRC's unhelpful attitude, poor communication and use of inexperienced caseworkers. What is worse, HMRC may now challenge a claim in its entirety, rather than just looking at the validity of a particular cost.

Challenging a rejection can be expensive and time consuming, especially for smaller companies. Taking professional advice at an early stage is crucial, but be warned that a successful claim will involve a significant amount of work.