eNews
APR/MAY 2023

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CHARTERED ACCOUNTANTS

RETIREMENT

Top up or lose out

When the new State pension was introduced back in 2016, transitional arrangements meant people could make voluntary national insurance contributions (NICs) to fill gaps from 2006/07 onwards – much further back than the normal six-year time limit. The deadline for making these contributions has recently been extended to 31 July 2023.

To qualify for a full State pension, you need 35 qualifying years on your NI record. For 2023/24, the normal State pension is £10,600, having benefited from a recent 10.1% uplift.

- If you have fewer than 35 years of contributions, each additional year added could boost your annual pension by £303. Each missing year filled between 2006/07 and 2016/17 will cost £824, so that's a very respectable return if you enjoy 20 years of retirement.
- Only full contribution years count, so any years with just a few missing weeks should be topped up first to fill in, those few missing payments costing much less. Prioritise the years with the smallest amounts left to pay; it could cost as little as £15.85 to complete a year.

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Voluntary NI contributions are paid at the current rate, but contributions for the years 2006/07 to 2016/17 paid by 31 July will be at the 2022/23 rate of £15.85 a week even though the rate has now increased to £17.45.

Contribution record

As a matter of urgency, if you think you have any contribution gaps back to 2006/07 you should check your State pension forecast and NI record. This can easily be done online. Voluntary contributions will not always increase your State pension, and the decision can be especially complex for anyone who was contracted out of the State pension before 2016.

Younger people may well have sufficient years remaining until retirement in which to get to 35 qualifying years, although it will still be sensible to fill partial years. After 31 July, the opportunity to fill gaps before 6 April 2017 will be lost for good.

EMPLOYMENT

Childcare support gets a boost

Parents looking to return to work will benefit from a range of measures in the spring Budget to help with childcare.

Childcare costs in the UK are among the highest in the world and a significant barrier to working for parents, especially mothers. The plans are designed to encourage more people back to work to boost economic growth.

Staged improvements over two and a half years

The increase in free childcare will be rolled out in stages to keep pace with the increasing supply of childcare services:

- From April 2024, all working parents of two-year-olds will be entitled to 15 hours a week.
- From September 2024, working parents of children aged 9 months to three years will be able to access 15 hours a week.
- From September 2025, working parents of children aged 9 months to three years will be entitled to 30 hours of free childcare a week.

Spread hours

Free childcare will be provided for 38 weeks a year but where parents need it for more than 38 weeks, they will be able to spread their free hours over a higher number of weeks.

Adjustments for affordability

To increase availability of childcare the government will increase the hourly rate paid to providers for the free hours and reduce staff-to-child ratios for two-year-olds from 1:4 to 1:5.

Credit: Natalia Deriabina/Shutterstock

TAX

Mind your allowances

Reductions to some tax allowances and the freezing of others will hit many individuals and businesses hard. The tax changes for 2023/24 also require a rethink of the strategy for small company owners of drawing income as dividends rather than salary.

Dividends and corporation tax

Until fairly recently, it was usually beneficial for tax for shareholder directors to take dividends instead of bonuses, because dividends are taxed at lower rates than earnings. However, from 1 April 2023:

- the main rate of corporation tax (CT) jumped from 19% to 25%;
- companies with profits up to £50,000 remain subject to 19% CT;
- in effect most companies with profits between £50,000 and £250,000 pay CT at 26.5% on profits between these limits.

For income tax, from 6 April 2023:

- only the first £1,000 of dividends an individual receives is tax free, down from £2,000;
- the 45% additional rate (39.35% on dividends and 47% top rate for Scottish non-dividend, non-savings income) is charged on income over £125,140 (previously £150,000).

For higher rate and additional rate taxpayers these changes largely remove the tax benefit of paying dividends out of company profits above £50,000.

Even at £1,000, the tax-free dividend allowance should not be overlooked. But remember to take into account dividends received from other investments, because these might have used all or part of the allowance.

Capital gains changes

The biggest cut has been to the capital gains tax (CGT) annual exempt amount (AEA), which for individuals is now £6,000 and will fall to £3,000 from April 2024. If you are married or in a civil partnership, spreading investments between you will double up on the exempt amount.

The reductions in the AEA and dividend tax-free allowance increase the attraction of investing in pensions and ISAs, because income and gains within these wrappers are exempt from tax.

The ISA subscription limit for 2023/24 remains at £20,000, but key pensions annual allowances have increased. Remember you need salary or self-employment income to support pension contributions.

EMPLOYMENT

Improving employee happiness

High inflation has led to a cost-of-living crisis and strike action by groups of employees demanding pay rises in line with inflation. Strikes are less common in smaller businesses, but their employees will also be feeling the pinch, and the temptation of higher wages elsewhere. What can you do to help?.

Financial stress often leads to lower job satisfaction, but increasing employee pay in line with inflation may be unaffordable for many businesses. There are, however, steps employers can take to help bridge the gap between an affordable pay rise and inflation pressures.

- Inflation is predicted to fall. A one-off payment could help staff cope with immediate financial pressures without committing a business to higher salary bills in the longer term.
- Linking pay more closely to performance means that a salary rise at least partly pays for itself by increasing business income.
- Education about budgeting and financial decision making helps employees make their money go further and understand the longer-term consequences of potential money-saving moves such as cancelling pension contributions.
- Employers could even provide additional benefits in kind that they can access more cheaply than individual employees, for example gym membership or discounted goods and services.
- Likewise a business may be able to provide medical insurance for employees at a lower cost than employees taking out their own policies.
- Setting up a cycle-to-work scheme gives employees the chance to save public transport costs and may provide a tax advantage depending on how it is set up. It also gives rise to potential health benefits for employees.
- Meals in a staff canteen, a mobile phone and some forms of childcare support are valuable tax-free benefits for employees where it is feasible for these to be provided.

Many employee benefits are taxable, but there are some non-financial benefits that can promote employee wellbeing and retention. Flexible working and home working have grown in popularity especially since the Covid-19 lockdowns. Such practices make it easier for employees to manage childcare and other responsibilities and improve work-life balance. Working at home also reduces commuting costs.

TAX

Capital allowances expanded

The Chancellor may have been proud of his Budget measure to provide full expensing for plant and machinery expenditure, but the vast majority of smaller companies will not benefit.

Any company whose annual expenditure on plant and machinery is less than £1 million will already be able to fully expense this outlay using the annual investment allowance, which also fully expenses special rate expenditure. For larger companies, the temporary nature of the new relief – for three years from 1 April 2023 until 31 March 2026 – is not conducive to longer-term planning.

Along with full expensing (a 100% first-year allowance) for main rate expenditure, the 50% first-year allowance for special rate expenditure will continue to be available until 31 March 2026. Neither allowance covers expenditure on second-hand assets, although the annual investment allowance helps there. The enhanced allowances are not available for unincorporated businesses.

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