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Forrester Boyd
CHARTERED ACCOUNTANTS

EMPLOYMENT


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Self-employed checklist

Self-employment can be an attractive option, with nearly 4.5 million people in the UK now working for themselves. Good preparation is essential: we look at five key areas to keep in focus.

Tax and national insurance contributions (NICs) You will need to pay your own tax and NICs. Register as self-employed with HMRC as soon as you start self-employment and in any case by 5 October following the end of your first tax year. HMRC has declared 2023/24 the transitional year for the self-employed to move from being taxed on *accounting year* profits to profits earned in the *tax year*, so choosing 5 April (or 31 March) as your accounting year end date will save having to apportion your profits in future tax years.

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Class 2 NICs, currently £3.45 a week, count towards your state pension, so even if your self-employment profits are too low to make class 2 NICs compulsory, it may be worth paying voluntarily.

Records and accounts You will have to keep accurate records of your business income and expenditure and draw up regular accounts. You should keep your personal and business finances separate, so it is advisable to open a business bank account. Your accounts will track how your business is doing and help you identify ways to grow. Accounts are also essential for completing your tax return and for securing additional finance.

VAT If your business has reached a turnover of £85,000 or more, or you expect your turnover to exceed £85,000 in the coming 12 months, you will need to register for VAT. If you are near that threshold, monitor your turnover monthly because there is a tight time limit for registration.

Insurance Most self-employed people take out public liability insurance to protect themselves from any claims arising from their business activities. You might also need a professional indemnity policy. If you employ someone, you must have employer's liability insurance. Income protection insurance will help you pay your bills if ill health prevents you working.

Your pension Set aside income to help build up your retirement funds – contributions benefit from tax relief.

EMPLOYMENT

New redundancy protections

Recent legislation will extend the protection from redundancy for parents during or after pregnancy. Carers and parents of sick or premature babies will also benefit from new statutory leave.

Redundancy rights

From 24 July, the redundancy protection period for employees on maternity, adoption, or shared parental leave will be extended to cover any period of pregnancy plus a further period after the employee returns to work.

- Redundancy protection is expected to start from when an employee informs their employer of their pregnancy.
- The further period is likely to be six months.
- During the redundancy protection period employers must give preference to protected employees at risk of redundancy – over other at-risk employees – when offering alternative employment.
- Currently, redundancy protection only applies while an employee is on maternity, adoption or shared parental leave.

Statutory leave

Working carers will be allowed to take up to a week of flexible unpaid leave each year so they can provide or arrange care for a dependent. The dependent must have a long-term care need.

Parents of sick or premature babies will be allowed to take up to 12 weeks of paid neonatal leave in addition to any other statutory entitlement if their baby needs to be in hospital within 28 days of birth.

Carer's leave and neonatal leave are not expected to come into force before April 2024 and April 2025 respectively.


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BUSINESS

Pension contributions and corporation tax

Owner-managed companies with profits in the region of £150,000 to £250,000 are facing a significant tax hike this year. However, the tax increase can be mitigated by the company making pension contributions into a director's self-invested personal pension (SIPP).

A company with a 31 March year end and profits of £150,000 will find that its corporation tax bill for the year ended 31 March 2024 has increased by some £7,500 compared with the previous year. Profits between £50,000 and £250,000 are now taxed at a marginal rate of 26.5%.

Tax planning

Directors who have previously been reluctant to make sizable pension contributions may now find a compelling case for doing so. Take the above example:

- If the company invests the maximum £60,000 into a self-invested personal pension, this will save corporation tax of £15,900 – much more than the additional £7,500.

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- Once the director reaches 55, 25% of the pension fund can be withdrawn tax free. If a director is already 55 the funds are available immediately.
- If the remaining pension fund can be withdrawn so that just 20% basic rate tax is payable by the director, the overall tax rate on the pension income will be 15%. Very roughly, this allows the tax saving on the pension to balance out the additional tax cost faced by the company.
- Although there may not be any overall tax advantage as such, there is a timing benefit. The current year's corporation tax bill is cut, but the tax cost does not come in until the director retires and draws the pension income.

Timing is critical: the pension contribution must be made before the end of the company's accounting period.

Mitigating cost and risk

Low-cost providers allow the annual cost of maintaining a SIPP to be kept to a minimum.

One advantage of SIPPs is that they offer investment freedom. If a director has only a few years until retirement, they might not want to be exposed to stock market volatility. Investing in a fixed-term cash deposit account should avoid this risk.

PROPERTY

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Rental sector shake-up

The Renters (Reform) Bill has finally been introduced into Parliament, almost five years after it was first promised. It will only apply across England, because various reforms have already been introduced in Scotland and Wales.

Scotland

Changes to Scotland's tenancy regime in 2017 did away with fixed-term tenancies and also ended no-fault evictions. More recently, Scotland has introduced a cap on rent increases and a freeze on evictions.

- Although intended to be temporary, these measures have already been extended, with a second extension proposed to 31 March 2024.
- Rent increases are now mostly capped at 3%.

The rent cap has somewhat perversely led to Scotland seeing the UK's highest rent increases, with landlords putting up rents significantly between tenancies.

Wales

Wales has recently put in place various changes for landlords. From this June, the notice period for a no-fault eviction is extended from two to six months. The Welsh government is also consulting on possible rent controls.

England

Similar to Scotland, the Renters (Reform) Bill, if enacted, will do away with fixed-term tenancies and end no-fault evictions.

- **Fixed-term tenancies** normally run for 6 or 12 months, after which the contract is either renewed or switched to a periodic tenancy. The proposal is that all tenancies will be periodic, running from month to month.
- **No-fault eviction,** known as a section 21 eviction, currently means a landlord can easily obtain possession of a rental property once the fixed-term contract has come to an end. The change will leave landlords relying on a section 8 eviction, so a landlord will have to have a legal reason for ending a tenancy.

The grounds for a section 8 eviction will be expanded to include repeated rent arrears, the landlord intending to sell the property, the landlord or a close family member wanting to live in the property, or where the property is to be redeveloped.

Alongside reforms to the taxation of rental income, the bill's provisions could change how attractive buy-to-let remains for landlords.

TAX

Tax returns earnings limit changes

The threshold for PAYE taxpayers to be exempt from having to file a self-assessment tax return has been increased from £100,000 to £150,000 for the current tax year onwards.

The £150,000 threshold applies to total income, so not just gross salary but also any taxable benefits and investment income. Employed taxpayers with income between £100,000 and £150,000 for 2022/23 – and with no other reason for completing a return – should receive a self-assessment exit letter from HMRC so that they do not need to complete a return for 2023/24.

However, as a 60% tax rate applies on income between £100,000 and £125,140, any mistake by HMRC could be expensive. It may therefore be a good idea to still submit a return to ensure correct relief is given for deductions such as professional subscriptions, and always where reliefs such as pension contributions or donations to charity need to be claimed.