MJR
APR/MAY 2025
Update

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Property costs – back to the future on duty

The cost of stamp duty on a residential property in England and Northern Ireland has gone up from 1 April 2025. All property purchases are affected, although landlords and first-time buyers might be able to reduce the charge.

The increased stamp duty cost is a result of the temporary nil-rate threshold of £250,000 reverting back to the pre-23 September 2022 level of £125,000. The first-time buyer discounts have also fallen back to where they previously were.

Landlords

The reduction of the stamp duty threshold from £250,000 to £125,000 means an additional cost of £2,500 for anyone purchasing a property costing £250,000 or more, with the extra £125,000 of the purchase price now brought into charge taxed at 2%.

> *More adventurous landlords can buy mixed-use property or commercial property to convert for residential use as duty will only be charged at the lower non-residential rates.*

Landlords in England and Northern Ireland experience this rise on top of the 2% surcharge increase that came in for purchases from 31 October 2024 onwards. Two ways in which more adventurous landlords can drastically reduce the amount of stamp duty payable are by buying mixed-use property (such as a shop with a flat above it), or commercial property and then obtaining planning permission to convert the property into residential use. In both cases, duty will only be charged at the lower non-residential rates.

First-time buyers

Following the threshold reductions, first-time buyers in England and Northern Ireland now only benefit from complete stamp duty exemption on property purchases costing £300,000 or less (previously £425,000). For purchases costing between £300,000 and £500,000, duty at the rate of 5% is paid only on the excess over £300,000. No relief is available if the purchase price exceeds £500,000 (previously £625,000).

Those purchasing at prices just over £500,000 should try and negotiate a discount. For example, a £1,000 reduction on a purchase originally priced at £501,000 will save £5,050 in stamp duty.

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Making Tax Digital expands

HMRC has been writing to taxpayers likely to be affected by the latest amendment to the Making Tax Digital (MTD) roll out.

Self-employed individuals and landlords with qualifying income – total income from self-employment and property letting – over £50,000 will have to keep their financial records and file quarterly returns to HMRC using MTD from 6 April 2026.

Qualifying income

Qualifying income for 2026/27 will be the amount shown in your 2024/25 tax return, which you have to submit by 31 January 2026. You should keep a check on your income to give you plenty of time to choose the right MTD-compatible software.

If your income is above £30,000 and up to £50,000 you will have to join MTD from 6 April 2027. For people with income above £20,000 and up to £30,000 the joining date will be 6 April 2028. This will leave only a few individuals outside digitisation, at least for now, including:

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- people who receive the married couple's allowance or blind person's allowance;
- Lloyds underwriters;
- ministers of religion;
- non-UK resident foreign entertainers and sportspeople who have no other MTD qualifying income;
- people exercising a power of attorney;
- anyone who finds it impractical to use electronic communications or keep electronic records – they will have to apply to HMRC for exemption.

Most individuals with annual turnover from either self-employment or property below the £90,000 VAT registration threshold will be able to categorise items simply as income or expense.

Additional announcements

Users of MTD for income tax will have to report any other income in their MTD End of Period Statement (EOPS) instead of using HMRC's separate online filing system. Joint property owners will only have to report quarterly a single figure for their share of joint rental income. Total expenses can be left to the EOPS.

If your business accounts run to 31 March, you will be able to start your MTD obligations on 1 April (instead of 6 April) in the first year of operating MTD.

TAX

Residency and estate planning – all change

Liability for inheritance tax (IHT) now depends on a person's long-term residence status. Although the new rules from 6 April 2025 aren't favourable for wealthy individuals moving to the UK, they provide certainty for anyone who is leaving the UK, having lived here all of their life.

It is important to remember that assets situated in the UK will generally be subject to IHT regardless of a person's long-term residence status. There is little point in undertaking IHT planning if no, or only a minimal amount of, IHT is going to be payable anyway due to the availability of reliefs and nil-rate bands.

Before 6 April 2025, the only way to remove overseas assets from the charge to IHT was to acquire a new domicile. Merely living overseas for a long time was not sufficient because it was necessary to show that a person had severed their ties with the UK. This would have included cutting UK social connections and making an overseas will.

- From 6 April 2025, it is simply a matter of being non-resident for the required number of years; known as the IHT tail.
- Between three and ten years of non-residence are required, depending on how long a person has been resident in the UK. However, ten years are necessary for the typical retiree who has always been UK resident.
- Ensuring life assurance is written into trust will shield beneficiaries from the exposure to the potential IHT liability during the IHT tail.

Many retirees who have never acquired a new domicile may now be outside the scope of UK IHT on their overseas assets. If IHT would be payable on UK assets, moving wealth offshore could eliminate this potential liability.

Retirees who need to return to the UK, perhaps for family or medical reasons, will also benefit under the new rules.

BUSINESS

Small employers' relief

The level of compensation paid by HMRC to smaller employers for administering statutory payments has just been nearly tripled from 3% to 8.5%.

Employers can usually reclaim 92% of statutory payments for maternity, paternity, adoption, shared parental, parental bereavement and the latest neonatal care pay (introduced from 6 April 2025). Statutory sick pay is no longer recoverable. However, smaller employers can recover 100% of the cost along with the compensation. The total rate of recovery is therefore now 108.5%.

Smaller employers are those whose total employee and employer class 1 NIC liabilities are £45,000 or less for the tax year prior to the employee's qualifying week. The employment allowance reduction is ignored for this purpose. The main rate of employee class 1 NIC is lower for 2024/25 than it was for 2023/24, so an employer who was previously just outside of the £45,000 threshold might now qualify.

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BUSINESS

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Employment rights changes roll in

Employers need to be on top of the recently introduced statutory entitlement to neonatal care leave and pay, plus increased rates of minimum wage. Looking further ahead, the Employment Rights Bill will have serious implications once enacted.

Neonatal care

The new statutory neonatal care leave and pay entitlement was introduced from 6 April 2025.

Neonatal care leave applies when an employee's baby is admitted into neonatal care up to the age of 28 days, staying for a continuous period of at least seven days. Up to twelve weeks of leave can be taken depending on the length of stay in neonatal care. Employers should be aware that this is a day-one employment right.

Neonatal care pay only applies if the employee has been employed for 26 weeks. The weekly rate is £187.18 (or, if lower, 90% of earnings). Most employers will want to give time off as soon as they are aware of a neonatal care situation, but that will mean managing the seven-day requirement if the employee is not already on leave.

Minimum wage

The new minimum wage rates from 1 April 2025 have brought in substantial increases, especially for younger workers and apprentices. Employees will welcome the uplift, but many employers will struggle with the additional cost; especially those in the hospitality sector. In annual terms, the increase for full-time employees aged 21 and over is £1,400.

Employment Rights Bill provisions

Zero-hours contracts These can be a flexible option for both employer and employee, but there are concerns that this flexibility is too often one-sided in the employer's favour. Under legislation included in the Employment Rights Bill, the employer will have to offer a worker a guaranteed hours contract, based on the hours worked over a reference period – expected to be twelve weeks.

- Workers will have to be paid for any shifts that are cancelled, moved at short notice or curtailed.
- Although the changes are not expected to be implemented until 2026 at the earliest, employers should be reviewing their employment practices and prepare well in advance.

Employers who try to manipulate their employment practices to avoid the zero-hours provisions could leave themselves open to a claim.

Businesses in the hospitality sector – such as a seaside restaurant taking on temporary staff over the summer months to meet increased demand – will have particular issues. There is going to be an exception where there is a genuine temporary work need, but no details have yet been provided.

Employers who try to manipulate their employment practices to avoid the zero-hours provisions could leave themselves open to a claim, and the use of agency workers is not an answer given a recent amendment to the Bill extending the new measures to agency workers.

Day one rights Some employment rights are currently only available after an employee has worked for a qualifying period:

- Protection from unfair dismissal requires two years of continuous employment.
- Paternity leave is only available after 26 weeks of employment, with unpaid parental leave requiring a year.

When the Bill is implemented, such rights will be available from day one of employment. Not surprisingly, employers are concerned that in future they will be unable to easily dismiss those employees whose performance is not up to par. However, the Bill does provide for an initial probationary period during which the rules for fair dismissal will be less onerous.

TAX

Changes to income tax reporting requirements

Reporting requirements for income tax are set to change over the next couple of years.

The biggest change is the rollout of Making Tax Digital for income tax self-assessment (MTD for ITSA) starting on dates from 6 April 2026 to 6 April 2028, depending on level of income.

Some Budget announcements came too late to be incorporated into the 2024/25 tax return. The increase to capital gains tax (CGT) rates – from 10% to 18% basic rate and from 20% to 24% higher rate – applies to disposals from Budget Day, 30 October 2024. Taxpayers who have disposals taxable at the new rates and complete their return online will have to use a separate HMRC calculator to arrive at an 'adjustment figure'.

Further calculations for trustees

For trustees and personal representatives, a new adjustment box will be added to the return pages and a similar calculator will be provided. Until then, HMRC has asked trusts and estates that have non-residential CGT disposals after 30 October 2024 to wait until the new 2024/25 return form is published in April.

More detail on dividends

For the 2025/26 tax return directors who receive dividends from close companies will have to identify the dividends received from each company, giving its name and registered number and the highest percentage of share capital held in the year. And unincorporated businesses will have to give the date of commencement or cessation, if in that tax year.

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TAX

Vehicles updates for new tax year

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Three years of static company car percentages have finally given way to increases, with rates going up over each of the years 2025/26 to 2029/30. The higher costs will particularly hurt drivers of fully electric cars and hybrids.

2025/26 to 2027/28

All company car percentages have increased by one percentage point from 6 April 2025, subject to the overall maximum percentage of 37%.

- The percentage for fully electric cars and hybrids (CO_2 emissions of 1 to 50 g/km) that can do 130 or more fully electric miles is now 3%.
- The maximum percentage of 37% applies where CO_2 emissions are 155 g/km and over.

Diesel cars below the Real Driving Emissions 2 standard are subject to a surcharge of 4%. New cars sold since January 2021 meet the standard. For 2026/27 and 2027/28, percentages for lower emission vehicles will generally increase by one point each year.

2028/29 and 2029/30

Looking further ahead, the changes are somewhat more dramatic:

- There will be a two percentage point increase each year for fully electric cars, meaning a 9% percentage charge for 2029/30. For a higher-rate taxpayer provided with a fully electric company car with a list price of £60,000, the annual tax cost will go up from £720 for 2025/26 to £2,160 for 2029/30.
- The charge for hybrid company cars with CO_2 emissions of 1 to 50 g/km will no longer be based on their electric range. There will instead be a single percentage charge of 18% for 2028/29 (rising to 19% for 2029/30). On 6 April 2028, the drivers of the most efficient hybrids will therefore face an overnight increase from 5% to 18%.

And if that was not enough, the 37% maximum percentage will go up to 38% for 2028/29 and then to 39% for 2029/30. Other percentages, apart from the above, will also have one point increases for each of these two years.

BUSINESS

Off–payroll rules impact of company threshold changes

Medium-sized companies becoming small, as a result of changes in the monetary size thresholds for micro, small and medium-sized enterprises from 6 April 2025, will have to wait two or three years before they are relieved of the burden of reporting under the off-payroll working rules.

From 6 April 2025, a company qualifies as small if it satisfies at least two of the following criteria:

- turnover not more than £15 million (previously £10.2m);
- balance sheet total not more than £7.5m (previously £5.1m);
- not more than 50 employees (no change).

The off-payroll working rules apply to workers who provide their services to a client through a personal service company. If the client is a small company outside the public sector, the worker's own company is responsible for deciding employment status. Otherwise the client must do so.

Consistency required

Where a company that has been medium newly meets the qualifying conditions for being small, it will qualify as small for business reporting purposes only if it meets the conditions in two consecutive financial years. Under a transitional provision a company will be treated as having qualified as a small company in any previous year in which it would have done so under the new criteria.

Delayed qualification

However, for the purposes of off-payroll working a company's size is determined by reference to its previous financial year end and is then set for the duration of a tax year. The effect is that the earliest a previously medium-sized company can qualify as small for off-payroll working is 6 April 2027 in most cases.

So companies that were large or medium until 5 April 2025 must continue to ensure they comply with the off-payroll working rules for medium and large companies until they are no longer considered medium or large. No transitional arrangements have been provided.

NEWS IN BRIEF

News round up

Employee hours

The controversial proposal that employers should report the exact hours worked by each employee as part of their real-time reporting process has been shelved. The government has recognised that the requirement would have been unduly complex, costly and burdensome for businesses.

Late payment fees increase for MTD

The Spring Statement included an announcement on increased late payment penalties for VAT and income tax payers joining Making Tax Digital from April 2025. For outstanding tax still owed after 15 days, the penalty has risen from 2% to 3%. There are additional charges for tax overdue at 30 days and then 31 days or more on a daily basis, which have also increased.

Free joint filing ends

Companies House and HMRC are closing their free joint online filing service on 31 March 2026. Thereafter, any unrepresented companies without an accountant will need to use third-party software to file their company tax returns and accounts with HMRC.

Side hustle threshold

HMRC is planning to raise the self-assessment reporting threshold for side hustles from £1,000 to £3,000. Although the actual £1,000 tax exemption is not changing, those with tax to pay will be able to use a new, simpler online reporting service.

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