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Business News England

Welcome to our round up of the latest business news for our clients. Please contact us if you want to talk about how these updates affect your business. We are here to support you!

Chancellor's speech paving the way to a potentially difficult Autumn budget

The Chancellor of the Exchequer, Rachel Reeves, addressed the House of Commons last week to detail the results of a Treasury spending audit. She has alluded to this in previous comments when referring to making assessments of the public spending inheritance.

She claimed that the audit revealed £22 billion of unfunded pledges that have been inherited from the previous government. These include commitments made to the Rwanda scheme, the Advanced British Standard and the New Hospital Programme. Shortfalls were also found from not increasing Departmental budgets to cover public sector pay settlements.

As a start on dealing with the overspend, the Chancellor announced savings of £5.5 billion for this year, with a further £8.1 billion to come next year. These measures include:

- Cutting winter fuel payments to only those who receive other State support. (Note that winter fuel payments are devolved in Scotland and Northern Ireland.)
- Scrapping the Rwanda migration partnership and retrospection of the Illegal Migration Act.
- Cancelling the Investment Opportunity Fund and other small projects.
- Next year, cancelling the Advanced British Standard and unaffordable road and railway schemes.
- The New Hospital Programme will also be reviewed.

The Chancellor did confirm that the Independent Pay Review Body recommendations for pay uplifts for public sector workers have been accepted. These will average 5.5%.

New plans were outlined for Spending Reviews to be set every two years but cover a three-year period so that there is a one-year overlap with the previous Spending Review. This should allow for a more joined up approach to public finance.

The Chancellor also committed to a single major fiscal event a year, as has been the case for the last few years. This presumably will continue with the recent pattern in which the Budget takes place in the autumn, covering all significant tax and spending announcements. Any spring Statement would simply be in response to the second forecast that the Office for Budget Responsibility makes.

As part of her speech, the Chancellor also outlined tax plans that will be confirmed in the Budget, which is scheduled for 30 October. These include:

- Ending VAT tax breaks for private schools from 1 January 2025.
- Replacing the non-domicile regime with a new residence-based regime (this was already planned under the previous government)
- Extending the Energy Profits Levy for one year to 31 March 2030, tightening its investment allowances and increasing the levy rate to 38% (from 35%) from 1 November 2024.
- Closing the carried-interest loophole used by private equity fund managers to reduce their tax.

These measures have all been discussed in the Labour Party manifesto so there are no great surprises here.

Of course, you don't need a calculator to see that the £22 billion shortfall in public spending will not be covered by the saving measures the Chancellor has already announced. So, it remains to be seen whether there will be any further 'pain' in the October Budget.

Alternatively, the Chancellor may be delivering all the bad news now, while it's expected following the change in government, and she's saving some good news for the budget. We wait to see, but we will keep you posted on all the changes that may affect you. If you are concerned about how any of these measures may affect you, please feel free to get in touch, we will be happy to help you.

See: https://www.gov.uk/government/speeches/chancellor-statement-on-public-spending-inheritance

Bank of England reduces base rate to 5%

As anticipated, the Bank of England reduced their base interest rate on August 1 from 5.25% to 5%. The decision was a close call, with a majority of five to four voting in favour of the cut.

The Monetary Policy Report that accompanies the decision explains that while higher interest rates have helped return inflation to the Bank's target of 2% and allowed them to make this cut, they are expecting a temporary increase to 2.75% later this year.

<u>Why might inflation increase again?</u>

The fall in household energy prices has been helping to bring inflation down, however as energy prices normalise, the downward pull they've been exerting on inflation will end. Prices for services, such as hotels and restaurants, insurance and rents for housing, on the other hand continue to rise at rates well above their past averages.

In addition, demand for goods and services this year have been higher than expected and this may contribute to higher inflation.

However, the Bank consider this to be a temporary situation and expect inflation to fall back to their target level next year.

Is another cut likely?

The Bank are prioritising making sure that inflation stays low and have said that they will not cut rates too much or too quickly. This suggests a further cut when they next meet on 19 September is unlikely.

What should you do about the rate cut?

Regardless of future decisions, the cut to 5% is good news for borrowers, but may not be so good for savers.

Commercial banks typically tend to follow the Bank of England, but not necessarily all to the same degree. If you have loan finance on variable interest rates, check to see that the interest rate reduces. Many loans and overdrafts have a rate that is tied to the Bank of England's base rate so these should reduce automatically.

For savings it may be worth shopping around to make sure that you are getting the best rates on the market.

See: https://www.bankofengland.co.uk/monetary-policy-report/2024/august-2024

Abolishment of Furnished holiday lettings tax regime confirmed

HM Revenue and Customs (HMRC) have published draft legislation and a policy paper outlining the proposal for the abolition of the furnished holiday lettings (FHL) tax regime. This was originally announced by the previous government and any hopes that this may be stalled by the new government are now laid to rest.

The new measures are proposed to take effect on or after 6 April 2025 for income and capital gains tax, and from 1 April 2025 for corporation tax.

The proposed revisions will remove the tax advantages that furnished holiday let landlords have over other property businesses, as follows:

1. Loan interest will be restricted to the basic rate for Income Tax.
2. Capital allowance rules for new expenditure will be removed and replaced with the replacement of domestic items relief available to other property businesses.
3. Capital gains tax reliefs based on disposing a business asset will no longer apply to furnished holiday lets.
4. Furnished holiday let income will no longer be included within relevant UK earnings when calculating maximum pension relief.

There are some specific transitional rules that will apply to these changes.

If you own properties that currently qualify for the FHL tax regime, we recommend that you review the effects that the change in legislation will have on you so that you can determine if you need to take any action. If you need any help with this, please do not hesitate to contact us, we would be pleased to help you.

See: https://www.gov.uk/government/publications/furnished-holiday-lettings-tax-regime-abolition

VAT on Amazon Fees from 1 August 2024

From 1 August 2024, selling fees charged by Amazon to UK vendors will be subject to VAT at 20%.

This is because of a change in the legal entity that charges the fees. Previously, fees were charged by Amazon Service Europe S.a.r.l (ASE), which did not have a UK establishment, so the fees were subject to the VAT reverse charge procedure. From 1 August, fees will be charged by Amazon EU S.a.r.l (AEU), which has a UK branch. This means that AEU must charge VAT at 20% on fees.

Vendors who are VAT-registered will be able to reclaim the VAT, subject to the usual partial exemption rules. Those who are not VAT-registered will see their selling fees increase by 20% because they cannot claim the VAT.

Generally, such increases in VAT are largely borne by the consumer, as vendors pass the increased costs onto their customers.

For more information, see: https://sellercentral.amazon.co.uk/seller-forums/discussions/t/fe8e800e-d95c-42ae-a98b-e6e682547f90

Changes to National Minimum Wage recommendation criteria

The government made changes last week to the remit for the Low Pay Commission (LPC) that will mean it takes the cost of living into account when recommending minimum wage rates.

The LPC have also been instructed to narrow the gap between the minimum wage rate for 18-20 year olds and the National Living Wage. The longer term objective is to remove the age bands altogether and have a single adult rate.

Each October the LPC makes recommendations to the government on the minimum wage rates to apply from the following April. The new remit keeps this process and timeline in place, allowing for businesses to plan for uplifts.

As well as the cost of living, the LPC's remit will continue to look at the impact on business, competitiveness, the labour market and the wider economy.

See: https://www.gov.uk/government/publications/national-minimum-wage-and-national-living-wage-updated-low-pay-commission-remit-2024

Changes to non-domiciled tax status to go ahead

The previous government included plans to end non-domiciled tax status at the Spring Budget and replace it with a 4-year foreign income and gains (FIG) regime. The new government have now announced their intention to continue with these plans, while ending some advantages for existing non-domiciled individuals.

What the change in tax status will mean

Preferential tax treatment based on domicile status will be removed for all new FIG arising from 6 April 2025. This means that foreign income and gains will all be taxable in the UK where you are classed as residing in the UK, not just that included under the remittance basis.

A relief will be available for new arrivals

New arrivals to the UK will have 100% relief in their first four years of tax residence, as long as they have not been a UK tax resident in any of the 10 consecutive years prior to arriving.

Transitional measures

As a transitional measure, it was previously announced that there would be a 50% reduction in foreign income subject to tax for the first year for those losing access to the remittance basis. However, the government has said this will not now happen.

The government has also outlined transitional arrangements to cover FIG that arose before 6 April 2025 and remitted to the UK afterwards – it will be taxed when remitted as per the current rules. A new Temporary Repatriation Facility (TRF) will also be available that allows for paying a reduced tax rate on a remittance for a limited time period after the remittance basis ends.

Changes to inheritance tax included

The government plans to replace the existing domicile-based system for inheritance tax (IHT) with a new residence-based one from 6 April 2025.

The basic test they are proposing for whether non-UK assets are within the scope for IHT will be whether a person has been resident in the UK for 10 years prior to the tax year in which the chargeable event happens. A person will also be kept within scope for 10 years after leaving the UK.

There are also plans to end the use of Excluded Property Trusts that keep assets out of the scope of IHT. Confirmation of how the rules relate to this and how existing trusts are affected will be provided at the Budget on 30 October.

If you are concerned about how these changes will affect you and the tax you pay, please call us at any time and we will be happy to discuss this with you.

See: https://www.gov.uk/government/publications/2024-non-uk-domiciled-individuals-policy-summary

VAT on private school fees: What that means for you

Draft legislation has now been published for the government's plan to end the VAT exemption for private school fees.

The government is also legislating to remove private schools from being eligible for business rates charitable rates relief. Because business rates policy is devolved, the business rates policy change will only affect private schools in England. VAT policy, however, is reserved and so the VAT changes will affect private schools across the UK.

The current situation for VAT

Currently, private schools, as regulated education providers, qualify as exempt from VAT. This means no VAT is currently charged on private school fees. Private schools also cannot recover any VAT they incur on expenditure.

What will change?

From 1 January 2025, all education services and vocational training supplied by a private school, or a "connected person", for a charge will be subject to VAT at the standard rate of 20%. Any boarding services that are closely related to this supply will also be subject to VAT at 20%.

For parents this means a likely increase of 20% in private school fees beginning next year. However, since private schools will now be able to claim back the VAT on expenditure they incur. This might provide some latitude for the school to be able to absorb some of the increase.

What if a pupil is being funded by the Local Authority?

In some cases, pupils are in a private school because their needs cannot be met in a state run school and the Local Authority funds this. Where this is the case the Local Authority will be compensated for the VAT they incur. If this is your situation then you should see no change.

Can I pay fees in advance to save VAT?

Unfortunately not. As an anti-forestalling measure, any fees paid from 29 July 2024 that relate to the term starting in January 2025 and onwards will be subject to VAT.

Does this apply to nurseries?

The intention is that nurseries, whether standalone or attached to a private school will remain exempt from VAT.

It will be the fees for children who turn compulsory school age that will become taxable. So, this means that VAT will start to apply when a child begins their first year of primary school.

How about sixth form?

Education and vocational training provided by standalone private sixth form colleges or ones attached to a private school will also be subject to VAT.

However, further education colleges that are classified as public sector institutions will not be subject to VAT.

Is there any change for state schools and academies?

No, state schools, including academies, will continue to be exempt from VAT for education and boarding.

How about other goods and services supplied by private schools?

Outside of boarding, a private school will also often provide school meals, transport and books and stationery. The government has confirmed that other closely related goods and services other than boarding which are for the direct use of the pupils and necessary for delivering the education to the pupils will remain exempt from VAT.

This opens the possibility that a school might limit the amount of VAT they charge by assigning a high value to these VAT exempt goods and services and a low value to the VATable education and boarding services. However, the government have confirmed their awareness of this, and any such practice will be challenged.

The additional fly in the ointment with having a mixture of taxable and exempt supplies is that it can affect the amount of VAT that can be recovered by the school on its expenditure. Partial exemption calculations are needed, and HM Revenue and Customs (HMRC) have said they will provide specific guidance for schools on how to do this.

It’s also been confirmed that VAT will need to be charged on any education after school hours or during the holidays. However, before or after school childcare, or childcare holiday clubs, that just consist of childcare will remain exempt from VAT.

When will private schools need to register for VAT?

Any private schools that are not already VAT registered will need to register from 1 January 2025.

Schools that don’t already make any taxable supplies will be able to register from 30 October. Schools that do currently make taxable supplies, such as hiring out facilities, can choose to voluntarily register early.

If you are involved in running a private school and would like help on what these VAT changes will mean to you or would like training or advice on how to deal effectively with VAT, please call us and we would be happy to help.

See: https://www.gov.uk/government/publications/vat-on-private-school-fees-removing-the-charitable-rates-relief-for-private-schools

IPO issues warning about misleading invoices

The Intellectual Property Office (IPO) has issued a warning for businesses to beware of unsolicited payment requests.

There has been a recent upsurge in these bogus requests being reported. The unsolicited request may ask for payment for trademarks, designs or patent services. Following payment, the 'services' may not be provided, or may not have any benefit to the payer.

Invoices may also request payment for services at a much-inflated price that are available directly from the IPO at a much lower amount, or even free of charge.

The IPO say that the payment request will usually come from an organisation that you do not recognise and may be accompanied with a copy of a fraudulently signed agreement designed to get accounts departments to automatically approve payment.

Examples of misleading invoices have been released by the IPO and it has also published a list of names that are currently known to be used by these organisations.

If you receive such an invoice, you should not pay it and should report it to the IPO immediately. If you believe you have been a victim of fraud, then you should report this to the police.

For more information and links to example invoices, see: https://www.gov.uk/government/news/ipo-issues-fresh-warning-to-beware-of-misleading-invoices

Cyber Security and Resilience Bill to help the UK's critical systems stay online

The widely reported IT outage in July caused significant disruption worldwide. In this case the fault was essentially due to a bug in a security update rather than a cyber-attack, but it demonstrated the vulnerability of networks.

The government announced its plan during the King's Speech to introduce a Cyber Security and Resilience Bill. The National Cyber Security Centre (NCSC) report that the threat to services we all rely on, such as water, power and healthcare, is under increasing threat. Both ransomware actors and state or state-aligned groups have shown interest in targeting these systems.

NCSC have welcomed the prospect of the new Bill, which they say will make it harder for weak points in the UK's critical national infrastructure to be exploited.

See: https://www.ncsc.gov.uk/blog-post/legislation-help-counter-cyber-threat-cni

New mandatory housing targets for councils

The government have announced an overhaul of the housing planning system, with all councils in England being given new, mandatory housing targets. The targets are being set to allow for achieving the new government's pledge to deliver 1.5 million more homes.

The reforms include making brownfield development much easier to grant. Councils will also need to review their green belt land if necessary and identify and prioritise ‘grey belt’ land. A definition for this has been provided and includes land on the edge of existing settlements or roads, as well as old petrol stations and car parks.

Land that is safeguarded for environmental reasons will continue to be protected. Any land that is released in green belt areas will need to provide 50% affordable homes as part of the development.

These reforms should create opportunities for all construction related businesses.

See: https://www.gov.uk/government/news/housing-targets-increased-to-get-britain-building-again