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Chartered Accountants
Business & Tax Advisers

Issue 40, Spring 2025

Pension planning: how to navigate tax implications

Whilst an individual will be eligible for the state pension if they have paid enough national insurance contributions, many also contribute into an employment or save into a private pension scheme to help build more security and financial resilience for their older age.

The UK pension system offers various ways to encourage retirement savings, which can lead to savings in tax. However, there are some complexities and if this is not planned appropriately unwanted tax charges can arise on excess contributions made.

Let's look at some key points.

What are the potential tax advantages: The gross value of pension contributions made through a personal pension scheme (either privately or through an employer scheme) can create higher rate tax relief. An individual's basic rate tax band for the year is increased by the gross value of the personal pension contributions made. In addition, the gross value of pension contributions made, increases the threshold used to determine if an individual's personal allowance needs to be reduced and if child benefit payments received are refundable.

Employment pension contributions made through a salary sacrifice scheme are not subject to income tax or NIC. This means, unlike payments made into a personal pension scheme, an employee will not pay tax or NIC on their earnings sacrificed to pay into their pension scheme, as the payments come from pre-tax income. These contributions will not attract any further tax relief.

Annual allowance: For most people, the maximum gross amount that can be contributed into their pension scheme is £60,000 per tax year (this includes both personal and employer pension contributions). If an individual has any unused allowance from the previous three tax years, they can carry it forward to increase the level of contributions in the current tax year and potentially create a tax saving. To be able to use the unused allowance, the individual must have been a member of a pension scheme in each of those previous years and have used up their current year's allowance. This is subject to an individual's level of net relevant earnings.

Net Relevant earnings: The level of gross private pension contributions made by an individual that can attract tax relief is on the greater of 1) Relevant earnings or 2) £3,600. Relevant earnings are made up of salary, sole trade and partnership profits. If an individual just has income from properties or investments, the gross contributions that can attract tax relief will likely be capped at £3,600.

Taper effect: The tapered annual allowance limits the amount of tax relief high earners can claim on their pension contributions. It applies when an individual's adjusted income exceeds £260,000 and their threshold income is above £200,000. In short, the main difference between adjusted and threshold income is that adjusted income includes all taxable income plus employer pension contributions. For every £2 of adjusted income above £260,000, the annual allowance is reduced by £1, down to a minimum of £10,000.

Tax-deductible expenses: Employer pension contributions are generally considered tax-deductible expenses if an employer makes contributions to a scheme as part of a standard employment package. HMRC may deem that not all contributions are tax-deductible if they appear excessive in relation to the duties performed by a staff member.

IHT Changes: The IHT treatment on pensions is set to change. The government announced in its 2024 Autumn Budget that from April 2027 any unused pension pots will now form part of an individual's chargeable estate for IHT purposes.

The above is just a summary of the main tax factors that need to be considered when making pension contributions. When deciding to make pension contributions, planning and advice may need to be taken so that the full tax impact is known beforehand.

Contact Joe Wilson, Tax Manager, on 023 8046 1237 or joe.wilson@hwb-accountants.com.

Understanding the implications of Making Tax Digital

Making Tax Digital (MTD) is a key part of the Government's plan to modernise the UK tax system by requiring businesses and individuals to keep digital records, use software that works with MTD and submit updates every quarter, bringing the tax system closer to real-time. It is being phased in over a number of years.

Making Tax Digital for VAT

All VAT-registered businesses (except exempt businesses) have, since 2022, been required to keep digital records and file tax returns using compatible software. Exemptions include businesses below the VAT threshold, those run by digitally-excluded people, particularly on age, disability, religious beliefs, insolvency and poor broadband availability. HMRC looks at applications on a case-by-case basis.

Making Tax Digital for Income Tax

Self-employed people or landlords need to follow the requirements for Making Tax Digital for Income Tax:

- From 6 April 2026 if you have an annual business or property income of more than £50,000.
- From 6 April 2027 if you have an annual business or property income of more than £30,000.
- The Chancellor's Spring Statement in March included the announcement that MTD will be extended to individuals with property or self-employment income of £20,000 or more from 6 April 2028.
- Partnerships will be required to join at a date yet to be announced.

The new MTD for Income Tax regulations necessitate that relevant individuals keep and preserve their tax records electronically and submit quarterly reports to HMRC via approved software.

These reports must include the business's trading or property income, allowable expenditure, and claims for allowances or reliefs against such income for each tax year, with interim cumulative reports submitted quarterly on fixed dates.

HMRC estimates transitional costs to businesses nationally to be around £561 million and a net increase in continuing costs of tax compliance of around £196 million for those businesses mandated to use MTD for Income Tax.

HMRC says it is committed to monitoring and formally evaluating the impact of MTD for Income Tax, including both customer and revenue impacts. The evaluation will take until at least 2029, when all data for the 2027 to 2028 tax year becomes available for analysis.

Key aspects of MTD for Income Tax

- Maintaining Digital Records: Businesses and landlords will be required by law to keep digital records. HMRC-compliant software can streamline processes, cutting down on paperwork and minimising errors. Using a trusted software provider keeps data safe through measures such as two-factor authentication and data encryption.
- Quarterly Submissions: Taxpayers must submit income and expense information every three months through compatible digital platforms.
- Exemptions: If a business cannot go digital, it will not be required to do so. Businesses already exempt from engaging with HMRC through other mandatory digital channels (eg MTD for VAT) will be exempted from MTD for Income Tax requirements. Businesses not already exempt may request an MTD exemption from HMRC.
- Record Keeping Options: These include different specifications regarding jointly let properties, turnovers below the VAT threshold and retail sales.
- HMRC Support: HMRC's customer support model includes agents, third party software support, telephony support, webchat, and HMRC's Extra Support service. Accessible online content will also be available, including recorded webinars, YouTube videos and e-learning.

Take professional advice

Businesses or individuals affected by MTD should take professional advice to clarify their position as timescales may be tight.

Please contact Nick Whitemore on 023 8202 7498 or email nick.whitemore@hwb-accountants.com to discuss your requirements.

Breaking News: The end of P11Ds delayed

It has just been announced that the way Income Tax and Class 1A National Insurance Contributions (NICs) on benefits are reported and paid will undergo a significant shift by HMRC in an effort to modernise systems. This has now been delayed to April 2027.

The requirement to report benefits on P11D forms will cease. Employers will instead need to ensure their payroll software is equipped to handle integrating benefits directly into the process.

Speak to us if you need advice.

Are you using TOMS (Tour Operators' margin Scheme) for VAT?

Please be aware that HMRC have taken recent cases to tribunal. Speak to us if you wish to see how your position could be affected.

DOWNLOAD OUR TAX CARD HERE
https://tinyurl.com/Tax-Card-2025

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How company shareholder directors can mitigate changes in NICs

Recent changes in National Insurance Contributions (NICs) and other tax adjustments can significantly impact how directors manage their own salaries and dividend payments. By leveraging the increased NI employment allowance and taking advantage of lower-taxed dividends, directors, who are shareholders, can manage their income more efficiently while also reducing the company's tax burden.

Impact of NIC changes

- Employer's NICs: have increased, which can affect the overall cost of directors. However, paying dividends instead of salaries can reduce this burden since dividends do not attract NICs.
- The NI employment allowance increased to £10,500 on 6 April 2025. This can make it more efficient for companies with employees, as it reduces the employer's NIC net liability.

Salary and dividend strategies

- Salary Optimisation: For the 2025/26 tax year, paying a salary up to the Employer's NI Secondary Earnings Threshold of £5,000 can be tax-efficient for sole directors, as it avoids employer NICs. However, this annual amount will not give the individual a qualifying year towards State Pension. Therefore, for companies claiming the NI employment allowance, paying either the Lower Earnings limit of £6,500 pa up to £12,570 can be beneficial.
- Dividends: are not subject to NICs and are typically taxed at lower rates than salaries. This makes them more tax-efficient. For 2025/26, director shareholders can take dividends up to £45,270 to remain below the higher rate tax band.
- Tax Efficiency: Balancing salary and dividend payments is crucial. Salaries are tax-deductible for the company, reducing Corporation Tax, but incurring NICs. Dividends do not incur NICs but are subject to income tax.

We can advise what is best for your individual situation, which is dependent on your objectives and personal circumstances – one-size does not fit all. Contact HWB to speak to our tax experts.

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The importance of due diligence in business sales

The best way to achieve the highest price, experience the least obstacles and secure the brightest future when selling a business is to turn to the detail and plan for a sale in the future.

With so many complex legal and financial issues to be taken into consideration, 'grooming' a business for sale is also imperative. It ensures that it is as attractive as possible to potential purchasers.

Grooming is, of course, partly cosmetic, but there are a host of deeper issues which may need to be addressed too. These range from staff and taxation issues to legal and financial ones.

Follow the finances

The financial status of the business will need to be reviewed thoroughly with your adviser – this will be a frank and candid exchange of views, concerns and opportunities. Tax efficiency also needs checking.

Any aspects of the business that are not part of the planned sale need to be separated clearly. All the compliance boxes will need to be ticked at an early stage and you must ensure your accounting policies are similar to other companies in your industry.

Keep details of exceptional/non-recurring expenditure, demonstrate close control over the balance sheets and set realistic budgets you can meet. Reduce gearing, sell off surplus assets and consider whether any key capital expenditure is necessary.

People first

Employees are an enormous asset to any organisation and they need to be tied to the business legally, financially and also in terms of their loyalty.

Succession planning should also be at the forefront of your thinking – as well as delegating responsibility, it is a hugely important factor in reducing staff's dependency if you've been a hands-on manager in the past.

It might also be worth considering a share incentive scheme to encourage the management team to help with the sale process and keep staff motivated.

Dot the Is and cross the Ts

Ensure all contracts are legally binding and transferable. It is vital that trading, employment, agency and other agreements relating to key relationships are all properly formalised – and that any outstanding litigation is settled.

Look at the intellectual property rights of the business and ensure that all patents and trademarks are properly registered.

First impressions count

Look afresh at your processes and premises. Offices need to be tidy and organised and corporate brochures and other material should look smart and professional.

Take a critical look at every aspect of the operation of your business – both literally and metaphorically speaking – and give it all the proverbial coat of paint. You need to be making a statement – that this is a professional, valued and thriving business.

A march on the market

Make sure your business stands out from the crowd as much as possible to ensure you are maximising your market and differentiate yourself from your competitors.

Generate good news about the company. It may be worth looking into a public relations campaign to raise the company's profile and position it well to your proposed successor.

Harsh glare of due diligence

Remember that when preparing a business for sale, any weaknesses or loose ends will be exposed during the period of harsh scrutiny by the purchaser's advisers as part of their due diligence.

You therefore need an adviser who is not only competent and technically sound, but one who is also strategic and commercial. Together you form a partnership, which is the way we work at HWB, helping our clients to achieve their objectives.

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Turning 40

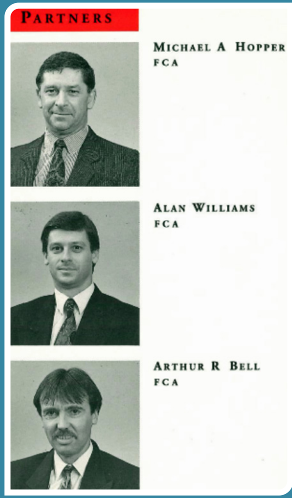
Just like Live Aid and EastEnders, HWB celebrates its 40th anniversary this year.

Since 1985, we have successfully grown from a team of six to a total staff roll of 78, with seven directors and three associate directors.

It all began when Alan Williams teamed up with fellow chartered accountants Mike Hopper and Arthur Bell to form HWB, the name denoting the first letters of their surnames.

In that year, the Sinclair C5 battery-powered tricycle was launched, Back to the Future was the highest grossing film, TV soap EastEnders debuted, Dire Straits' Brothers in Arms became the first CD to sell more than a million copies and Live Aid was held in London and Philadelphia.

Alan, Mike and Arthur had been colleagues at another accountancy practice in Southampton but decided to go out on their own, forming HWB on 15 July 1985 (two days after Live Aid!).



OUR BASE: HWB's office since 2002

In the 1980s, people smoked at their desks, office technology centred on an Olivetti computer and it was a frequent part of a trainee's job to be sent to find an ancient file from a storeroom.
The trio's first office was a sublease of space at Southern Ship Stores, by Dock Gate 4 in the Port of Southampton. The early years also saw premises in the city's Spring Crescent, and in Romsey, ahead of a move in 2002 to a new base in Chandler's Ford where we remain to this day.

With Mike's retirement in 2003, the partnership was converted to company status in 2019. Our ethos and mission continue as ever, to deliver the highest standards of service to our client base.

HWB seminars

We are busy adding to our regular events for the rest of 2025.

Upcoming events include:

June 3: Breakfast Seminar (8-10am) – Update for Financial Professionals with Gary Brown and Alan Davies, Axis Conference Centre, Southampton

June 17: Lunchtime Webinar (12.30-1.30pm) – An Introduction to International VAT Issues with Senior Tax Manager, Alan Rolfe.

July 15: Lunchtime Webinar (12.30-1.30pm) – PAYE / NIC update with Payroll Director, James Alesbury.

To find out more and to register online for these events see **https://www.hwb-accountants.com/events/**

If you've missed any of our previous events, you can catch up via our YouTube channel. It is also home to useful video guides: **https://www.youtube.com/@HWBAccountants**

Baking a difference and donning our denims

Resident bakers among our team went hands-on to create tasty treats in aid of our charity of the year.

We were only too pleased to take part in Dementia Support Hampshire & IOW's Bake a Difference bring-and-buy cake sale.

It was a fantastic turnout with a delightful spread of both sweet and savoury delights that everyone thoroughly enjoyed.
We combined the activity with support for the Alzheimer's Society initiative #DeminforDementia.

We didn't need much persuasion to don our jeans and other denims for the day, giving our office a more informal feel while raising money to complement our baking proceeds.

In total we have raised just over £200, all of which will go towards Dementia Support Hampshire and IOW peer support groups, who provide free support services to those in need.

A big thank-you to all those who took the time to bake, dress down or make generous donations.

If you would like to make a donation to our Charity of the year or sponsor us for the walk in September – use this Just Giving link

https://www.justgiving.com/campaign/hwb-charity-of-the-year-2025

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