



## Tax Briefing – Budget December 2024

# Pensions to lose IHT exemption

**At the Autumn Budget the Chancellor announced plans to remove the exemption which allows unused pension funds to be inherited tax free**

Currently, if a pension holder dies before the age of 75 their beneficiaries can generally inherit the remaining funds tax-free, whether as a lump sum or as income. If the deceased is 75 or older at the time of death, the inherited pension will be taxed at the beneficiary's marginal income tax rate.

From April 2027, HMRC has proposed that most unspent pension pots will be subject to inheritance tax (IHT) at 40% regardless of the age of the deceased, unless the pension is passed to their spouse or civil partner.

Bringing unused pension pots into the scope of IHT will also mean that their value will count towards the IHT threshold, which the Chancellor confirmed will be frozen at £325,000 for a further two years until April 2030. Many more estates will be brought into IHT as a result of this change.

Further, if the pension holder dies aged 75 or older, the inherited pension will (as currently) also attract income tax at the beneficiary's marginal rate. Without careful planning, this could result in a marginal rate of up to 67% if the person receiving the pension is an additional rate taxpayer.

If you have carried out succession planning based on the current inheritance tax and pension rules, we recommend that you seek advice from a pensions expert or independent financial advisor if you think you may need to re-evaluate your options.



## Mind the NIC gap!

**When was the last time you checked your national insurance (NI) record for unexpected gaps or viewed your state pension forecast?**

Missing qualifying years in your NI record, or 'gaps', can reduce the amount of contributory benefits you are entitled to. This includes maternity pay, employment allowance, the state pension and others.

Gaps can occur for many reasons, even where the individual believes they have done everything correctly. In 2023 it came to light that taxpayers who had signed up for child benefit prior to May 2000 and did not provide their NI number on the claim were left with years missing from their NI record due to home responsibilities protection not being applied correctly.

A further issue arose in February 2024 when an HMRC processing delay caused thousands of voluntary Class 2 NI contributions (NIC) to be rejected and refunded in error.

There are many other reasons why Class 2 NIC may be rejected, for example if payment is made after the self assessment deadline; or if the individual was already enrolled in self assessment for another reason before becoming self-employed and the change was not properly registered for NI purposes.

Employed taxpayers can also be left with unexpected NI gaps, for example if the form that employers use to report the pay and tax details of their employees to HMRC is not posted correctly or contains errors.

Usually, voluntary payments can be made to boost your state pension entitlement and other contributory benefits by plugging NI gaps for the previous six tax years. Currently, HMRC is accepting payments to fill any gaps as far back as 6.4.06. The deadline for making extended back payments is 5.4.25, less than six months away, after which the standard six-year limit will apply. It is vital that you check your NI record and state pension forecast while there is still time to replenish any missing years. You can do this online or via the HMRC app.



## Evidence needed to claim employment expenses

### HMRC has tightened up the process for claiming tax deductible employment expenses following a series of high-profile scandals

If you incur job-related expenses of up to £2,500 which are not fully reimbursed by your employer you may be able to claim tax relief. For expenses to be eligible for relief they must have been incurred wholly, exclusively and necessarily in the performance of the duties of your employment.

Historically, the 'pay now check later' process meant that tax refunds were paid out automatically before HMRC had reviewed the legitimacy of the claim. In response to a growing number of fraudulent claims, HMRC suspended the processing of some employment expense claims on 10.6.24 while it considered the best way to proceed.

From 14.10.24 taxpayers are no longer able to submit a PAYE employment expense claim digitally or over the phone.

Instead, claims for employment expenses of up to £2,500 must be made using printed form P87 and accompanied by supporting evidence. This could be receipts, a copy of your mileage log, or any other proof of amounts you have paid. You have four years from the end of the tax year to make a claim, so for the current tax year HMRC must receive your claim by 5.4.29. For claims relating to the 2020-21 tax year, claim forms and evidence must be posted in time to reach HMRC by 5.4.25.

Claims for flat rate 'uniform, work clothing and tools' expenses can be made online from 31.10.24. For employment expenses over £2,500 you need to submit a self assessment tax return to claim the tax relief.

## CGT anti-forestalling rules

### The changes to capital gains tax announced in the Autumn Budget are subject to anti-forestalling rules designed to prevent taxpayers from circumventing the new rates and rules

In the Autumn Budget the Chancellor announced an immediate increase to the main rates of capital gains tax (CGT). From 30.10.24, 'Budget Day', CGT is payable on the disposal of non-residential property at 18% (up from 10%) for gains falling into the taxpayer's basic rate band and 24% (up from 20%) at the higher or additional rate.

To prevent taxpayers from pre-empting the increase by using unconditional contracts to secure the previous rates, a number of anti-forestalling provisions were introduced.

Generally, where a disposal is made under an unconditional contract, CGT is due at the rates prevailing on the date the contract is signed, not when the asset is transferred. However, where an unconditional contract was entered into before Budget Day and completion took place on or after that date, the new CGT rates will apply unless:

- the taxpayer confirms in their return that the transaction was not entered into with the purpose of securing the pre-Budget Day CGT rates; and
- where the parties to the contract are connected, the disposal was wholly for commercial purposes.

If you have made a disposal that straddles 30.10.24 and you wish to apply the old rates of CGT, you might need to provide HMRC with evidence that the above conditions have been met.

Also announced on Budget Day with immediate effect was a reduction in the lifetime limit for investors' relief from £10m to £1m. The same anti-forestalling rules apply in determining whether the old or new lifetime limit applies to a disposal qualifying for the relief.

Although the lifetime limit for business asset disposal relief (BADR) remains at £1m, the Chancellor announced increases to the favourable rates applying to disposals qualifying for BADR and investors' relief which will apply from 6.4.25 and 6.4.26.

Where the 'rollover' of a share reorganisation occurs automatically, this can work against the taxpayer if the old shareholding is eligible for BADR or investors' relief but the new one is not.

In these circumstances the taxpayer is permitted to elect out of rollover relief and crystallise the gain at which the old shares are standing to use up their entitlement to BADR or investors' relief in respect of the shares before it is lost.

This will be relevant for anyone who exchanged shares for other shares, potentially in a buy out or merger, since April 2023.

Anti-forestalling measures will prevent taxpayers from avoiding the new rates and rules by electing to trigger gains on historical share reorganisations or exchanges.



## National minimum wage and salary sacrifice

As announced in the Autumn Budget, the national minimum wage (NMW) and the national living wage (NLW) are set to increase from April 2025

The hourly rate will depend on the worker's age and whether they are an apprentice.

Age of Worker	Hourly rate from 1 April 2025	Hourly rate from 1 April 2024
21 and over (NLW)	£12.21	£11.44
18 to 20 (NLW)	£10.00	£8.60
Under 18	£7.55	£6.40
Apprentice	£7.55	£6.40

The NLW applies to workers aged 21 and over, while workers of school leaving age are entitled to the NMW. The increase for 18–20-year-olds is the largest on record and is the first step towards a single rate for all adults.

Many employers breach the NMW rules inadvertently by making certain deductions from workers that reduce their pay for NMW purposes. Where such deductions take an employee's pay below the NMW, employers must ensure that the worker is not underpaid.

Salary sacrifice schemes are a common cause of underpayment. Even if the employee's hourly rate is above the NMW, if the reduced contractual pay takes it below the NMW, the worker will be underpaid.

If you operate salary sacrifice schemes you need to check that the reduced amount does not take workers' pay below NMW for all time worked in every pay reference period.

## Festive period RTI easement

It is common for some employers to pay their workers earlier than usual in December, for example if the business will be closed during the festive period

While this may make sense for the business, being paid early can have an unwanted impact on an employee's current and future entitlements to income-based benefits.

To help avoid this, HMRC has reminded employers of the permanent easement on Real Time Information (RTI) requirements that applies where a business chooses to pay staff early during this time.

Normally, the PAYE RTI Full Payment Submission (FPS) must be submitted on or before the date employees are paid. However, if you choose to pay your workers earlier than the contractual payment date in December, to protect their

eligibility for benefits such as Universal Credit you should report the normal or contractual payday as the payment date on your FPS.

For example: if your normal payment date is 30 December but you decide to pay your employees on 20 December before your business closes for Christmas, you need to report the payment date as 30 December and submit the FPS on or before that date.





## EIS and VCT sunset clause extended

The sunset clause which was set to end the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) scheme on 5 April 2025 has been extended for a further ten years

The schemes, which offer tax relief for individuals investing in qualifying small and medium-sized companies including start-ups, will now expire on 5.4.35.

Both schemes offer an upfront income tax reduction of up to 30% of the amount invested. Gains from selling EIS or VCT shares are exempt from CGT.

You can invest up to £1m in EIS companies each year. If the shares are in knowledge-intensive companies that focus on R&D this rises to £2m. Individuals must invest in new shares in qualifying companies and comply with the rules for a minimum holding period of three years. Other restrictions apply, including where the investor has a prior connection with the investee company.

CGT payable on the disposal of other assets can be deferred if the proceeds are rolled over into an investment that qualifies

for the EIS and the investment is made between one year before and three years after disposal.

Where an investment is unsuccessful and the EIS shares are sold at a loss, that loss can be set against income tax.

A VCT is a listed company set up to invest in early-stage trading companies. Individuals can invest up to £200,000 each year in new VCT shares and must comply with the rules for a minimum holding period of five years.

Rollover relief for CGT on other assets and parallel loss relief are not available to VCT shares. However dividends received from VCT investments are not taxed. EIS dividends are taxable.

If you are seeking to make an investment that you believe will qualify for the EIS or VCT scheme you should discuss your options and the potential tax implications with an independent financial advisor.

## Making tax digital threshold lowered

Many more sole traders and landlords will be required to comply with making tax digital (MTD) for income tax when the qualifying income threshold is reduced from £30,000 to £20,000

The Budget confirmed that taxpayers with qualifying income of £50,000 or more will be required to join MTD in April 2026 as planned. Those with qualifying income between £30,000 and £50,000 will be brought into MTD from April 2027.

The scope will be expanded to include incomes of £20,000 and above by the end of the current parliament, bringing many more sole traders and landlords within the scope of MTD.

To comply with the requirements, mandated taxpayers will need to use third party MTD-compliant software to keep digital records and file quarterly summaries of their income and expenses with HMRC.

Qualifying income is broadly defined as total gross income from trading and property, as reported on the most recent self assessment tax return. To decide which taxpayers will be mandated to join MTD for income tax in April 2026, HMRC will look at the 2024-25 tax return, i.e. the one for the current tax year.

You will need to use MTD from April 2026 if you:

- are an individual registered for self assessment;
- get income from self-employment or property, or both, before 6.4.25; and
- have a qualifying income of more than £50,000 in the 2024-25 tax year.

You can use HMRC's online eligibility checker at GOV.uk to decide when you will be required to join MTD for income tax.

Where an individual cannot use MTD, for example if they are digitally excluded, they may be able to claim an exemption.

### Argenta Tax & Corporate Services

5th Floor | 70 Gracechurch Street | London | EC3V 0XL  
020 7825 7255 | 020 7825 7231 | [stephen.hopwood@argentagroup.com](mailto:stephen.hopwood@argentagroup.com)

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