JOURNALENTRY

Winter 2024

Welcome to the winter edition of Journal Entry. This year seems to have flown in. We have been kept exceptionally busy, helping clients navigate two Budgets that have resulted in new hurdles, changed plans and fresh opportunities.

There has also been cause for celebration. I am fortunate to take over the helm at Thomson Cooper at a very exciting time. We marked our 10th anniversary in Edinburgh during the summer and, as of November 21st, we are delighted to enter into our 75th year in business.

ALAN MITCHELL
Managing Partner

Thomson Cooper was formed in 1949 in Dunfermline by founder T. Hunter Thomson and his business partner Harold Cooper. We have continued to flourish and now employ 100 staff. The firm remains an independent practice, increasingly rare in our industry as more local firms are absorbed into large corporate groups.

My own journey at TC began back in 1988, when I joined as a trainee chartered accountant following my graduation from Edinburgh University. I was promoted to Partner in 1994 and have a particular interest in strategic tax planning. Many of you may have seen me presenting at our Budget seminars over the years.

As I start my tenure, I reflect on our heritage. The foundation of our success has always been the long-term relationships we've built with our clients and employees. We've evolved to meet the changing needs of clients, harnessing technology to deliver solutions which improve productivity, support decision-making and help achieve their strategic objectives.

I look forward to leading the firm into 2025 knowing that our partner group is supported by a great team of trained professionals. We are all committed to listening, advising and supporting clients to achieve their goals, and look forward to celebrating our anniversary with you over the next 12 months through a series of events and activities.

CHRISTMAS HOLIDAY

The Thomson Cooper offices will be closed from close of business on Tuesday 24th December and will re-open at 8.45am on Monday 6th January 2025.

We wish all our clients, contacts and colleagues a Merry Christmas and a happy, healthy and prosperous New Year.

KEEP THE PARTY GOING

Allowable deductions – what is the £150 threshold?

When it comes to rewarding staff with a Christmas Party, you want everyone to have a great time. And by making effective use of allowable deductions, your budget could go further. Staff entertaining is an allowable deduction for tax purposes under certain conditions.

To be non-taxable, the party must:

- **Be open to all employees**
- **Be an annual event, such as a Christmas party or summer barbecue**
- **Cost £150 or less per person**

This £150 total is for the whole year, so you could not host two annual events costing £150 per head. However, you can host two events, as long as the combined cost of the events is no more than £150 per head.
If your business has more than one location, you can put on separate parties for different departments, as long as all employees can attend one of them.

The £150 is an exemption, not an allowance. This means if your party costs £151 per head, the whole cost of the party will be taxable, not just the £1 per person above the £150 threshold.

While the exemption depends on the Christmas party being primarily for employees, you can extend the invitation for your staff to bring along a partner or a guest; however, the cost of these attendees must be included in the £150 per head limit to avoid being taxable on the staff member.

If the event satisfies the exemption criteria outlined above, then there is no tax or NIC due for the staff member. If the event does not meet the exemption rules, then it will be a taxable benefit reportable on form P11D, which means the employee pays Income Tax on the value while the employer pays Class 1A NIC. Alternatively, the employer can apply to pay the tax and NIC on the employee's behalf via a PAYE settlement agreement.

If you need assistance on this issue, please contact the Tax Team at **tax@thomsoncooper.com**.

POST-BUDGET PAYROLL UPDATE

Following on from the recent Autumn Budget, let's look at some of the impacts in relation to payroll.

National Minimum Wage

The revised minimum wage rates are as follows:

	NMW Rate
National Living Wage (21 and over)	£12.21
18-20 Year Old Rate	£10.00
16-17 Year Old Rate	£7.55
Apprentice Rate	£7.55

The most substantial increase in minimum wages rate was found both in the 16/17 and apprenticeship rates which saw an increase of 18%, with hourly rates of pay going from £6.40 to £7.55.
The 18-20 year old bracket increased by 16.3%, rising from £8.60 to £10.00. Finally, the National Living Wage increased by 6.7%, from £11.44 to £12.21.

One of the main key takeaways from the Budget was the 1.2% increase rate in National Insurance (NI) and this has been summarised in the table below:

Class 1 NIC	2024/25	2025/26
Secondary Threshold	£9,100	£5,000
Rate	13.8%	15%
Employment Allowance	£5,000 per annum	£10,500 per annum

However, what has been somewhat muted is the increase in the Employment Allowance. Employment Allowance has more than doubled, rising from £5,000 to £10,500 per annum. As a result of this, there will actually be some "winners" from this announcement.

In addition to the rise in the allowance itself, the £100,000 cap on contributions has been removed. Ultimately larger employers will incur higher NI costs overall as a result of the rise. If you require any assistance with your payroll, please get in touch with our team at **info@thomsoncooper.com**.

TAX TROUBLE FOR FARMING FAMILIES

Family business owners have formulated long-term succession plans on the overriding understanding that full relief from Inheritance Tax (IHT) would be available to them on the value of that business on death.

APR & BPR

The proposed reforms to Agricultural Property Relief (**"APR"**) and Business Property Relief (**"BPR"**) will, if implemented, prompt considerably different succession plans.

APR and BPR in their current form reduce the value of relevant business or agricultural property when calculating the IHT due, either on death or on transfers into trust, at a rate of 100% or 50%. There is currently no limit on the amount of value which can be reduced.

It is proposed, from April 2026, in addition to existing allowances and exemptions, the 100% rate of relief of APR and BPR will continue only for the first £1 million of combined agricultural and business property held by an individual, and it will be 50% thereafter. In effect, the value of such assets above £1m will be subject to IHT at 20%.

Take action

Family business owners should review the existing capital structure to identify their potential IHT liability under the new rules. Depending on the value of the business and the age and number of shareholders, some family businesses may find considerable value will be sheltered from IHT under the new BPR allowance rules, particularly where shareholdings are diversely held and value in the business is fragmented.

Seven year rule

Otherwise, concentrated shareholdings held by elderly owners now potentially face significant IHT liabilities. Compounding this, businesses may have the majority of its liquidity in assets not readily realisable by beneficiaries on death. In terms of reducing the value of an estate, the seven-year rule for potentially exempt transfers remains in place. This essentially exempts from IHT gifts that are made between individuals more than seven years before death. However, gifts of this nature require careful planning, to ensure the shareholders retain sufficient income and capital to support their needs, and any such gifts do not fall within the gift of reservation of benefit provisions.

Whether recent protests will prompt any Government adjustments remains to be seen. Any key decisions should however await the outcome of the forthcoming consultation process, and eventual legislative detail. That said, older business owners, following years of settled succession plans, may well wish to consider gifting now and start the seven-year clock running.

Pensions

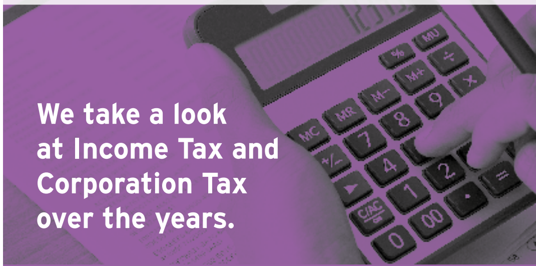
The other significant Budget announcement concerns undrawn pension funds and death benefits – currently (mainly) exempt for IHT purposes. It is proposed that such funds are due to fall within a person's estate from April 2027.

As well as an increase in taxable assets, the inclusion of pensions in the value of an estate could cause tapering of the residence nil rate band (for those estates currently around £2M). There could also be income tax implications to consider for the beneficiary on accessing funds inherited.

The main takeaway from the proposed changes is for individuals to review their succession planning strategy and transfer wealth to future generations as efficiently as possible. Reviewing wills will be essential to reflect any new rules. Professional advice is always recommended to navigate the complexities of the new rules.

Whatever the best options are will be determined by several factors and should be discussed in full before making a decision. Our tax planning team can help. Please get in touch at **info@thomsoncooper.com**.

TAX TIMELINE did you know?



We take a look at Income Tax and Corporation Tax over the years.

INCOME TAX

- Income tax rates in 1948/1949 – nine schillings (20 schillings in a pound) – equates to 45%.
- Any individual with income over £2,000 – Parliament would determine the tax due.
- The highest rate of income tax peaked in WWII at an eye-watering 99.25%!
- In 1971, the top rate of income tax was cut to 75%. In 1974, the top tax rate was increased to 83%.
- In 1979 when Margaret Thatcher came to power, she reduced the top rate of tax from 83% to 60%, and the basic rate from 33% to 30%.
- In the 1988 Budget, the top rate of income tax was cut to 40% and the basic rate cut to 25%.
- Self-assessment for individuals was introduced in 1995/1996.
- The basic rate was cut to 20% in 2007.

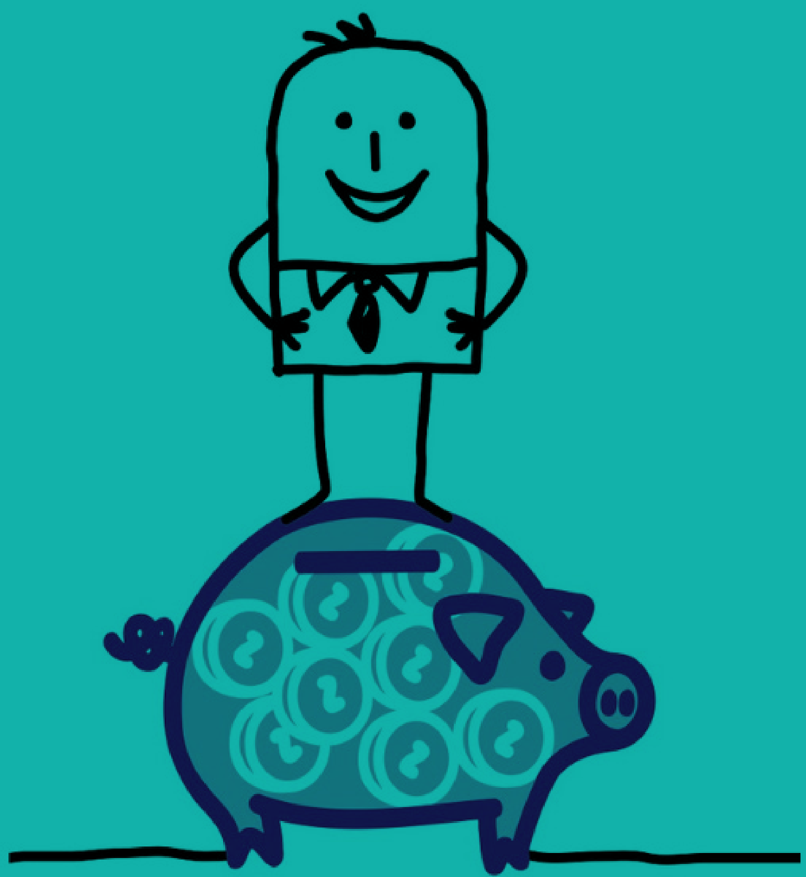
CORPORATION TAX

- Corporation tax was first introduced in 1965 and was 40%.
- In 1969 the corporation tax rate was increased to 45%.
- Then it fell to 43% in 1970...

  then 40% in 1979...

  then 38% in 1982.
- Between 1983 and 1988, the main rate of corporation tax was 35% and the small company rate was 25%. Between 1988 and 2001 these fell to 30% and 19%.
- Up until 1999, no corporation tax was due unless HMRC raised an assessment on a company.
- After 1 July 1999, self-assessment was introduced.

THE POSITIVES OF PENSIONS



The Budget brought changes into the inheritance tax regime, meaning that from 2027 unused pension funds will be taxable to inheritance tax.

This was followed by much press lamenting the demise of pensions as a savings strategy for the longer term.

However, there are still some very compelling reasons for saving for the long term using pensions, despite the headlines.

The key advantages are:

Tax relief

- The government provides tax relief on personal pension contributions, usually at source i.e. your pension provider adds the tax relief immediately and then reclaim from HMRC. In practice, this means that:
    - If you are a basic rate taxpayer, you receive 20% tax relief
    - Higher-rate taxpayers can claim an additional 20%, and additional-rate taxpayers can claim 25% through self-assessment

Scottish rate taxpayers are able to reclaim tax relief at the rates they pay.

Tax-efficient growth: Pension investments grow free of UK income and capital gains tax, which allows your pension to grow in an extremely tax advantageous environment.

Employer contributions

- If you are part of a workplace pension scheme, your employer is required by law to contribute a percentage of your earnings to a workplace pension. Often, employers will match the level of your contribution, giving an incentive to save more

Savings discipline

- Pensions are designed to encourage long-term saving in order to provide income in later life. You can't usually access the funds until you're 55 (rising to 57 in 2028), meaning that you build a long-term savings discipline as the funds will be tied up and in most cases, premature access is not allowed

Compound growth

- Investing early in a pension takes advantage of compound growth, where your returns earn additional returns, leading to substantial growth over decades

Flexibility at retirement

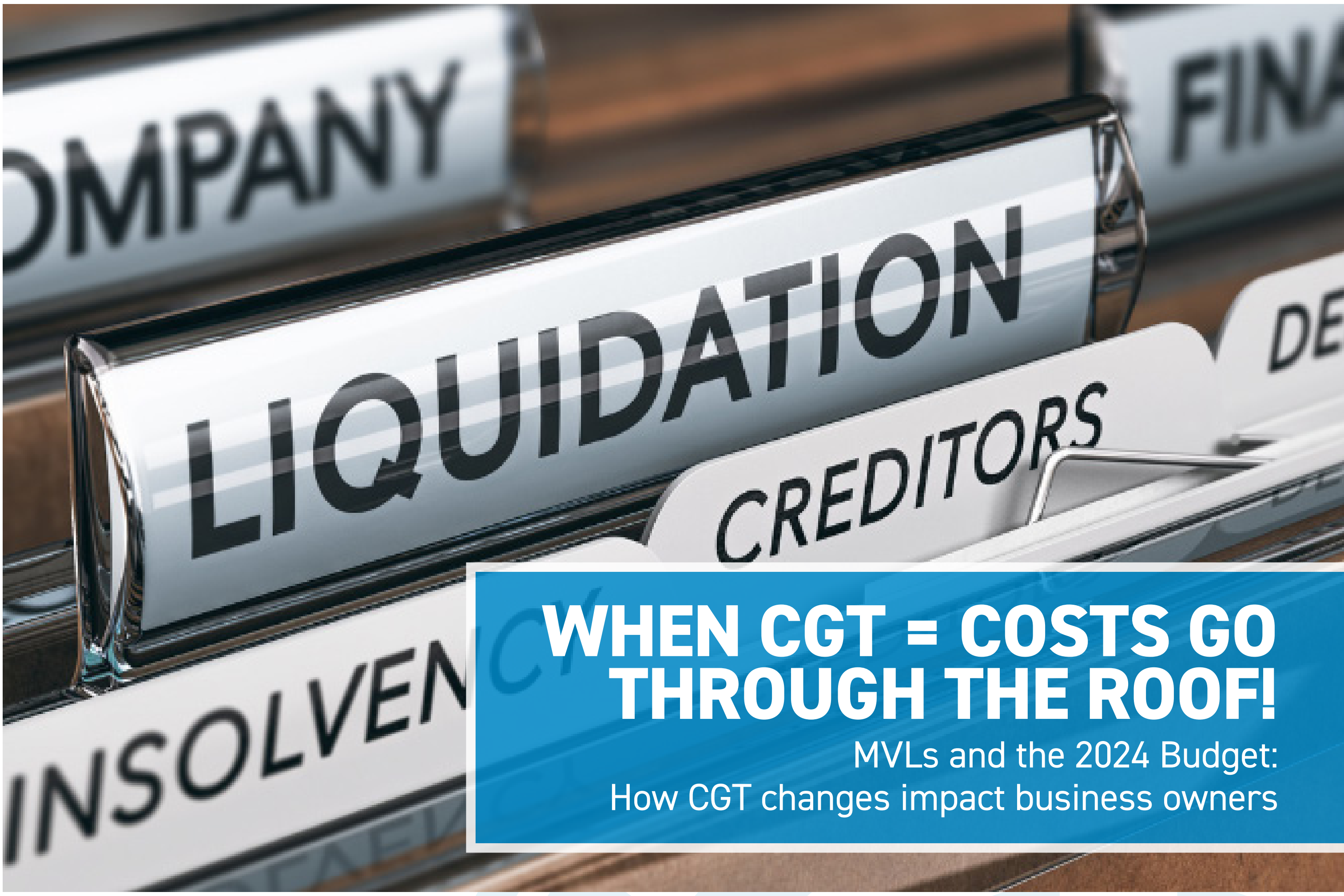
- From age 55 (57 from 2028), you can access your pension flexibly. Options include:
    - Taking a tax-free lump sum, normally 25% of the value of your pension
    - Drawing down an income (taxable beyond the 25% lump sum)
    - Buying an annuity for guaranteed lifetime income
    - Buying a fixed – term annuity, giving a mix of guaranteed and flexible income strategies
    - Taking a series of smaller lump sums

Wide investment choices

- Pensions typically allow you to invest in a range of funds, equities, bonds, and other financial assets, giving you the flexibility to tailor your investment strategy to your retirement goals. Your funds are also pooled with other pensions investors, meaning that you spread your investment risk.

Despite the intended removal of inheritance tax relief from pensions in 2027, saving into pensions will remain a key part of financial wellbeing. Afterall, pensions were originally designed to provide income replacement in retirement and they will continue to perform this function well into the future.

If you need help planning your investment strategy, please contact our Head of Wealth Chartered Financial Planner Richard Libberton at **rlibberton@thomsoncooper.com**.



WHEN CGT = COSTS GO THROUGH THE ROOF!

MVLs and the 2024 Budget: How CGT changes impact business owners

The Autumn 2024 UK Budget introduced significant updates to Capital Gains Tax (CGT), including higher tax rates and adjustments to Business Asset Disposal Relief (BADR).

These changes will affect business owners planning to wind up their companies through Members' Voluntary Liquidations (MVLs).

Key changes to CGT:

1. **Increased CGT rates:**
   - The standard CGT rate will rise from **10% to 18%**
   - The higher rate will increase from **20% to 24%**, effective April 2025
2. **Changes to Business Asset Disposal Relief (BADR):**
   - BADR rates will increase:
     - From **10% to 14%** in April 2025
     - From **14% to 18%** in April 2026
   - BADR still allows qualifying gains to be taxed at reduced rates, but the reduced annual CGT allowance means a larger portion of gains will be taxed at these higher rates
3. **Lower annual allowance:**
   - The CGT allowance has dropped from **£6,000 to £3,000** from 5th April 2024. This means more of your gains will be subject to CGT

What this means for Members' Voluntary Liquidations (MVLs):

MVLs are a popular way for business owners to close solvent companies and distribute assets tax-efficiently. However, these changes will impact their cost-effectiveness.

Implications:

1. **Higher tax bills on distributions:**
   - The reduced allowance and higher rates mean shareholders will face increased CGT liabilities on distributed assets
   - For significant distributions, even with BADR, tax costs will rise, potentially making MVLs less attractive for smaller businesses
2. **Planning becomes crucial:**
   - Timing distributions across multiple tax years can help reduce the tax burden
   - Pre-liquidation strategies, such as retirement contributions or charitable donations, may help offset some tax liabilities
3. **Increased need for professional guidance:**
   - As the rules grow more complex, specialised advice from insolvency practitioners and tax experts will be essential
   - Expert support can help optimise distributions, secure BADR eligibility, and explore alternative tax-efficient strategies

Actions for business owners:

- **Consider timing:** Completing an MVL before April 2025 could help lock in lower CGT and BADR rates
- **Explore alternatives:** Look into tax-efficient uses of funds, such as investments or pension contributions, before liquidation
- **Seek advice:** Consult with professionals to understand how the changes apply to your specific situation and plan accordingly

Final thoughts:

The 2024 Budget's CGT changes represent a significant shift for UK business owners, increasing the costs associated with winding up companies. By planning ahead and seeking expert advice, it's still possible to minimise tax liabilities and make the most of available reliefs.

Take action now to ensure your plans align with the new tax landscape. Get in touch with our MVL specialist Partner Richard Gardiner at **rgardiner@thomsoncooper.com**.

INVOICING IMPROVEMENTS

Two major online accounts software providers - QuickBooks Online and Xero - are changing their in-house invoicing solutions.

Firstly, **QuickBooks** launched a new invoicing experience on **21st November 2024**, with users being phased over to the upgrade automatically. To see if it's been done, users can check in the top right-hand corner of their QuickBooks dashboard for the option to "revert back to old layout".

So what's improved?

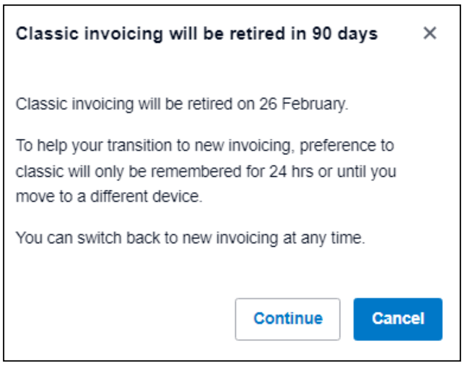
The invoicing upgrade will provide:

- More personalisation including bespoke templates
- Customised quotes and invoices on the spot, no templates needed
- Alerts for quote acceptance and invoices being paid
- Quote tracking
- Autosave feature on the mobile app for quotes and invoices
- Email reminders for customers

The invoice experience will become the **default** setting from **summer 2025**. However, payments via PayPal and GoCardless are not currently available on the new experience. In the meantime, you'll need to switch to the old layout if you wish to add GoCardless or PayPal to an invoice.

Xero

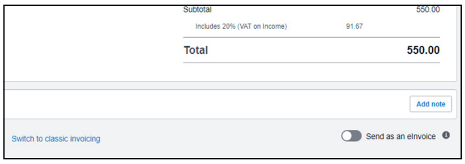
Xero recently announced an extension to the "classic invoicing" layout which was due to be phased out at the end of November 2024.



The extension is a result of performance issues within the system due to a high volume of users adopting the "new invoicing" layout (mainly caused by the autosave function on draft invoices). In addition to this, not all of the features found within "classic" have yet been replicated into the new format. The extension date is now **26 February 2025**.

In order to revert back to "classic" all you have to do is select "switch to classic invoicing" whilst on a draft invoice.

On reverting the invoice settings back to "classic" you will receive a notification informing you that you will receive a message 24 hours prior to the extension date passing.



We'll post any further updates regarding the timeframe of the new invoice layout on our social media channels. If you require any assistance, or further information relating to either invoicing solution, please contact Online Accounts Specialist Arran Anders at **aanders@thomsoncooper.com**.

> **"So, here it is Merry Christmas, everybody's having fun. Look to the future now, it's only just begun."** Noddy Holder

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