ECIA
Engineering Construction Industry Association

April 2024

Tax Newsletter

CIS changes

As you will know, there were minor changes to the CIS scheme from 6th April, in that VAT failures are now counted when looking at whether a firm qualifies for gross payment status.
In line with other taxes, minor failures will not count towards gross payment disqualification. "Minor failures" are:

- 3 late submissions of up to 28 days for VAT returns
- a late payment of less than £100 of VAT
- 3 late payments of up to 14 days of VAT liability (of £100 or more)

The same appeal rights and reasonable excuse provisions apply to VAT failures as to other taxes.

Other changes:

- HMRC is bringing forward the first review of compliance from 12 months after application to 6 months.
- Gross payment status can be immediately removed in cases of fraud.
- Most landlord/tenant construction payments are now outside of CIS.
- Subcontractor registration will (eventually) be moved wholly online except for the digitally excluded.

Carbon border adjustment mechanism

Following the earlier consultation the government have decided to go ahead with introducing a carbon border adjustment mechanism from January 2027: they are now consulting on the design and implementation. If you are involved with the import of aluminium, cement, ceramics, fertilisers, glass, iron & steel or hydrogen you may wish to give the consultation a look. It closes on 13th June.

VAT fuel scale charges

If you need to account for private fuel consumption in a business vehicle, you can find the updated table of VAT road fuel scale charges here.

National Living/Minimum Wage

21 and 22 year olds qualified for the full National Living Wage (NLW) from 1st April and of course the NLW was increased on the same date.
The current and previous rates may be found here.
There is a useful checklist of some of the pitfalls employers can face in calculating the NMW here and the PAYE toolkit has also been updated here.

CIS repayments for limited company subcontractors

Not a legislative but an administrative change: if you are a limited company subcontractor and need to claim a CIS repayment you can no longer do this by phone. You will need to go to this HMRC page and claim online or, if you are unable to claim online, by post.

National Insurance

HMRC published an updated employer guide to Pay As You Earn and National Insurance contributions for current and previous years. The 2024 and 2025 guide includes the new rate of employee NI contributions, that you no longer need to notify HMRC when paying a tax free lump sum to an employee unable to work due to disability, injury or ill health; and new rules about advance salary payments.

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Consultation corner

The Welsh Government are consulting on proposals to amend Land Transaction Tax:

- abolish LTT multiple-dwellings relief
- extend existing LTT relief to Welsh local authorities when buying property for social housing
- views on the rules relating to the purchase of 6 or more dwellings in a single transaction, and other LTT reliefs.

The consultation document may be found here and the consultation runs till 19th May.

Avoidance

HMRC requests publicity for their latest anti avoidance publications. They are:

- The latest list of named tax avoidance schemes and their promoters.
- A briefing on settling disguised remuneration scheme use and/or paying the loan charge.
- A publication aimed at employment agencies using umbrella companies.

Tax administration & maintenance day

As announced at the Budget, there was publication on 18th April of three technical policy proposals, the main one of which was titled Tackling Non-Compliance in the Umbrella Companies Market. The announcement said that there will be new guidance published later this year and will include an "online checker" for umbrella company workers to use to check the deductions from their pay. There is also the suggestion of a "due diligence requirement to drive out bad actors from labour supply chains". All this, of course, may be interrupted by a general election and may not align with the policy priorities of a new government, but any opportunity to engage with HMRC as the policy develops should, of course, be taken.

Company plant and machinery

There is another HMRC toolkit here which can be used to check whether purchases of plant and machinery can be fully expensed (ie whether 100% of the cost can be set against taxable profits) or only qualify for the 50% first year allowance.

Pensions and tax relief 2024

Changes have been introduced to tax relief and pensions by the HMRC in April 2024. There are two ways of paying into pensions. As an employee, you can pay into your pension in two different ways, which will be set by your employer (you won't have a choice as to which type of scheme you're signed into).
One of these reduces your tax and the other reduces your pension contribution. Firstly, you can make payments via a **'relief at source' (RAS) scheme**:

- Your tax and NI will be deducted first.
- 80% of your pension contribution is then deducted from your remaining salary.
- The scheme will then add a 20% top-up amount equal to basic rate tax relief, which it will then claim back from HMRC.

It's important to note that the scheme will make this top-up even if you're not earning enough to actually pay tax.

The benefit of a RAS is that you will have more take home pay if you're a low earner than in the second type of pension scheme, known as a **'net pay arrangement' or NPA**.
You will be registered with a RAS if your plan is a Group Personal Pension Plan or a Group Stakeholder Pension.
If you're registered with a NPA:

- Your pension contributions will be deducted from your gross salary.
- Tax will then be deducted.
- You'll get tax relief automatically on your highest rate of income tax IF you are earning enough to pay tax.

You will be registered with a NPA if your plan is part of

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a Master Trust or has its own board of Trustees.

Let's take a more in-depth look at the NPA. You're an employee whose total taxable income is beneath the personal allowance (currently £12,570). Under a NPA, you won't have been able to claim tax relief on your pension contributions because you're under the personal allowance threshold. If you are a low earner you'll only get tax relief on a RAS scheme. However, if you're a higher earner under a RAS scheme, you will only get the basic rate of tax relief up front and you'll need to reclaim the balance of your full tax relief (40% for higher rate taxpayers and 45% for additional rate taxpayers) by completing a self-assessment tax return.

The government says that the difference between the two scheme is an 'anomaly' which they want to rectify, because people who are earning similar salaries currently get different rates of tax relief. Also payroll errors under NPAs are quite common and could leave you liable to HMRC clawing tax back from you further down the line – an expensive mistake that isn't your fault in the first place. There are also concerns that employees are not claiming all the tax relief that they're actually entitled to receive. So the government is planning to introduce a top up scheme for NPAs.

Under the new rules for NPAs for the tax year 2024-25, logistical responsibility is split between your employer, who has to make sure that the pension scheme is set up properly under payroll so that no errors arise, and HMRC, who now have a responsibility to make top-up payments directly to eligible individuals.

It's also HMRC's duty to decide who is eligible and to notify them over the course of the next tax year, but overall this is estimated to affect over 1 million people.

Payments are to be made as soon as possible after the tax year in which the contribution is paid, and those payments are chargeable to income tax. Tax experts say that this is going to add an additional burden onto the already stretched HMRC, and that it's going to be interesting to see how quickly the system catches up with any top- up payments from the tax office in practice. Details from HMRC can be found here.

There are also questions here relating to salary sacrifice, sometimes known as salary exchange. This is when you agree with your employer to take a reduction in your salary in exchange for another benefit, such as transport costs, childcare costs, or pension contributions. It's the last one that concerns us here. Salary sacrifice can be applied to either a RAS or a NPA pension scheme.

If you sign up for a salary exchange scheme, your employer will then pay a minimum of 3% of your pension contributions. Because you're reducing your salary, you'll pay less in both NI and income tax. Any savings can either be in the form of take-home pay, or be paid directly into your pension pot, thus increasing it. Employers can benefit, meanwhile, by putting any savings from your reduced NI back into the business.

Salary sacrifice is viable as long as it doesn't bring employees' salary below the minimum wage.

If you're an employer, you can set your salary sacrifice scheme up with payroll, but you must have any participating employees' permission first and you must tell HMRC that you're setting up the scheme. You'll need to discuss this with employees anyway because there are some potential pitfalls: lower take home pay can obviously affect borrowing (although mortgage lenders should in theory take this into account) and it can also affect benefits if it reduces an employee's NI contributions.

There's some advice for employers on how to set up a salary sacrifice scheme here.