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CHARTERED ACCOUNTANTS

NEWS UPDATE - 17 JULY 2023

Contents

National insurance gap extension

The normal time limit for a person to fill gaps in their national insurance (NI) record is six years, but transitional arrangements allow gaps to be filled back to 2006/07. The deadline for making such contributions was recently extended to 31 July 2023, but has now been extended to 5 April 2025.

The deadline has been delayed because people have been finding it difficult to get through on pension helplines once the July deadline received a publicity boost. The transitional arrangement will now apply for the years 2006/07 to 2017/18.

Voluntary NI contributions for the years 2006/07 to 2017/18 paid by 5 April 2025 will be at the 2022/23 rate of £15.85 a week, even though the rate is currently £17.45.

Contribution record

The first step is for a person to check their state pension forecast and NI record. This can easily be done online.

- Voluntary contributions will not always increase the amount of state pension. The decision can be especially complex if contracted out of the state pension prior to 2016.
- A person in very poor health or with a short life expectancy will probably not benefit from voluntary contributions.

Personalised advice can be obtained by contacting the Future Pension Centre (if not yet at state pension age) or the Pension Service (if already receiving the state pension).

The benefit

A person needs 35 qualifying years on their NI record to qualify for the full state pension, which is currently £10,600 a year. To add a full year the cost is £824, but this will boost annual pension entitlement by some £303 – a very respectable return for someone who then enjoys at least five years of retirement.

The return will be even better if partially complete years can be filled since these might only require a few missing weeks – at £15.85 per week – to be paid.

A state pension forecast can be obtained from the link below:

https://www.gov.uk/check-state-pension

HMRC offers options on undeclared wealth

HMRC is offering taxpayers named in the leaked Pandora Papers a chance to correct their tax affairs. The October 2021 leak involved almost 12 million documents revealing hidden wealth and tax avoidance.

The papers revealed that many taxpayers had used shell companies to hold luxury items such as property and yachts.

HMRC has reviewed the papers and found UK residents who they believe have untaxed offshore assets. They are now warning those taxpayers that they might face penalties of up to 200% on the tax due, and there is also the possibility of prosecution.

Disclosure

There are two alternatives for taxpayers who wish to disclose tax due on undeclared overseas income or gains:

- The Worldwide Disclosure Facility: This can be used by anyone who wants to disclose a UK tax liability that relates wholly or partly to an offshore issue. With this alternative, there is no protection from prosecution if, for example, there has been tax evasion.
- The Contractual Disclosure Facility: This can only be used to admit to tax fraud, and not other types of disclosure. HMRC will agree not to criminally investigate, so this is the best option where there is dishonesty or fraud.

Voluntary disclosure may help mitigate penalties due, and also provide some measure of control over the process.

Receipt of a letter

Anyone who receives a letter from HMRC should review their tax position, and, if disclosure is required, take immediate steps to correct the situation. Given the complexity of overseas tax matters, professional advice is recommended.

The Pandora Papers is the third major leak of financial information, and with HMRC having 12 years to investigate offshore non-compliance, it should serve as a timely reminder to taxpayers who fail to declare and pay tax on overseas income and gains and think that HMRC will never find out.

HMRC's press release on giving offshore taxpayers a chance to come clean, along with links to disclosure options, can be found from the link below:

https://www.gov.uk/government/news/hmrc-gives-offshore-customers-chance-to-come-clean

Businesses failing to pay minimum wage

Just over 200 businesses – including some of the country's best-known retailers – have failed to pay the minimum wage and will have to repay workers and face penalties of up to £7 million.

The minimum wage rules can be complex, and the fact that some major retailers have been caught out shows just how difficult compliance can be.

Uniforms

One particular area where businesses were not compliant was in regard to uniforms. The rules differ depending on whether uniforms are required as a condition or employment or if they are optional.

- If employees are required to wear specific uniforms, any deduction by the employer to cover the cost reduces pay for minimum wage purposes. Similarly, if an employee has to reimburse their employer or has to purchase the uniform themself.
- If uniforms are optional, pay is only reduced where the employer makes a deduction from the employee's pay.

Working time

The other major problem area was paying correctly for time worked. This is not anywhere as simple as might first appear as illustrated by these examples:

- Being on standby near the workplace counts as working time, but not if the worker is on standby at home nearby.
- Travelling between assignments counts, but from home to the first assignment, and then from the last assignment back home does not – unless the first and last trips are by train and the employee is working on their laptop.

Penalties

A penalty of up to 200% of the unpaid wages can be charged, subject to a maximum penalty of £20,000 for each employee. However, the penalty will be cut in half if the unpaid wages and penalty are paid within 14 days.

Non-compliant employers will also be named and shamed, even where minimum wage underpayment is not intentional.

It is worth taking advice if an employer has any uncertainty over their wage position. A business can check if it is paying the correct amounts of National Living Wage and National Minimum Wage using HMRC's calculator from the link below:

https://www.gov.uk/minimum-wage-calculator-employers

Tax gap at all-time low

The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid. For 2021/22, the gap was at an all-time low of 4.8% (or £35.8 billion), although in monetary terms the gap increased by some £7 billion from 2020/21.

Small businesses

Recently published figures from HMRC show that small businesses now account for the largest share of the tax gap, at 56% of the total or just over £20 billion. This percentage has grown steadily from 40% in 2017/18. By comparison, the share for mid-sized and large businesses has fallen from 18% to 11% over the same period.

There isn't sufficient information to understand what is happening here, but there are a couple of possibilities:

- Having endured the challenges of the Covid-19 pandemic and now facing an equally tough economic climate, small businesses may be under-declaring income or, more likely given most sales are now done electronically, overclaiming on expense deductions.
- At the same time, HMRC now lacks the resources to carry out extensive tax investigations.

And, of course, having an extremely complex tax system doesn't help. The whole concept of the tax gap has been subject to criticism, especially as HMRC does not explain how figures are calculated.

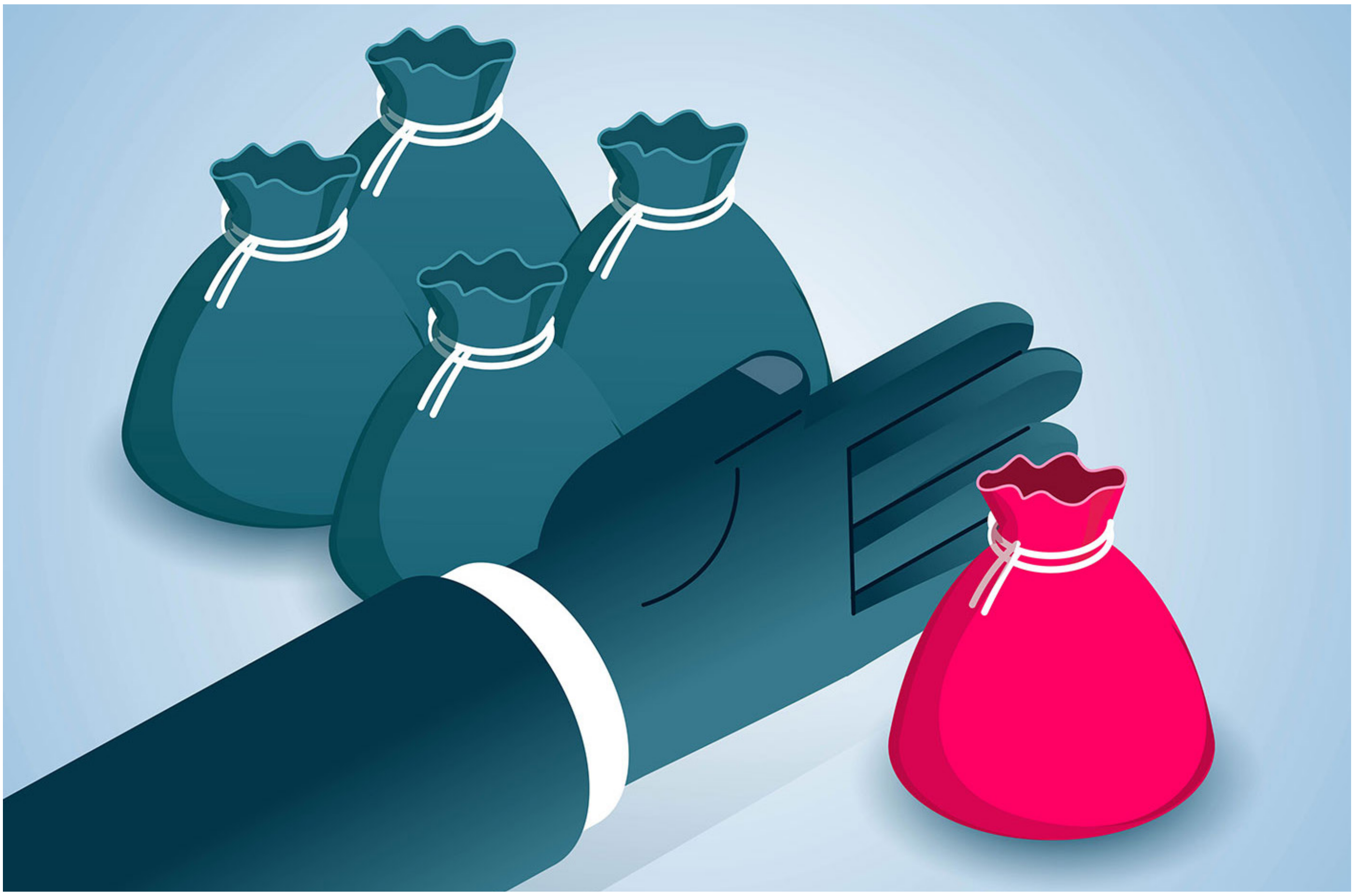
Making Tax Digital (MTD)

HMRC has been accused of using the tax gap to push their own agenda, in particular, making a case for MTD.

MTD for the self-employed and landlords is now not set to start until April 2026. MTD for VAT has been introduced in stages since April 2019, with virtually all VAT-registered business now included. The tax gap for VAT, although showing some improvement since 2018/19, doesn't exactly support the need for MTD – the VAT gap fell from 6.4% in 2018/19 to 5.4% in 2021/22.

HMRC's press release on the latest tax gap figures, along with more detailed information, can be found from the link below:

https://www.gov.uk/government/news/tax-gap-holds-steady-at-48



Wealth tax, take two?

Hard on the heels of the Sunday Times Rich List, will new proposals for a wealth tax gain any traction?

In 2020, a group of economic research bodies set up the Wealth Tax Commission to examine the options for a wealth tax to cover the huge costs then being incurred to handle the Covid-19 pandemic. The Commission produced a comprehensive report at the end of the year that suggested:

- A one-off wealth tax (as opposed to annual);
- A rate of 5%, payable at 1% a year for five years; and
- The tax to be payable on all wealth above £500,000, including pensions and main residences.

The tax would have produced £260 billion in total, almost as much as income tax is projected to raise in 2023/24. While the proposals received considerable attention at the time, they were given the cold shoulder by the government and soon disappeared from view.

About two and a half years later, a new wealth tax proposal has been put forward by a group of three tax-campaigning organisations. Their launch came shortly after the latest Sunday Times Rich List was published, showing that 350 individuals and families together hold combined wealth of £796.5 billion.

The new wealth tax was substantially different from the Commission structure:

- It would be an annual tax;
- The rate would be 2%; and
- It would only be payable on all wealth above £10 million.

The high threshold means that the annual amount raised each year would be less than the previous proposal – the campaigners suggested up to £22 billion, although the Commission's 2020 research suggested a figure of around £17 billion for a similar structure – there are only around 22,000 individuals with wealth of greater than £10 million, according to the Commission.

Polling for one of the three organisations, undertaken by YouGov, showed 74% public support for the 2% wealth tax. Such a result is hardly surprising – most people are in favour of a tax from which they could only benefit.

This latest wealth tax proposal seems destined to suffer the same fate as its predecessor. Were the government to provide a counter argument, it could point out that the freezes it has made to the personal allowance and higher rate threshold alone will raise an extra £21.9 billion in 2023/24, rising to £25.5 billion by 2027/28.

This seems unlikely however…

Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk