Paraplanning

J09 2022–23 edition

Web update 1: 02 November 2022

Please note the following updates to your copy of the **J09** study text (corrections are underlined):

Land taxes

As announced in the Growth Plan 2022, the stamp duty land tax (SDLT) rates for residential property have changed from 23 September 2022 onwards as follows:

- The 0% band threshold has been increased from £125,000 to £250,000.
- The 0% band threshold for first-time buyers has increased from £300,000 to £425,000 and the maximum property value first-time buyers can claim relief on has increased from £500,000 to £625,000.
- The additional property rate is unchanged and remains at 3% over standard rates in line with the new bandings.

The Welsh Government also announced on 27 September 2022 that land transaction tax (LTT) rates for residential property have changed from 10 October 2022 onwards as follows:

- The 0% band threshold has been increased from £180,000 to £225,000.
- A new 6% rate applies from £225,001 to £400,000. Until 9 October 2022, a rate of 3.5% applied between £180,001 and £250,000, with a 5% rate applicable from £250,001 to £400,000.

National Insurance contributions (NICs) & health and social care levy

As announced in the Growth Plan 2022:

- The additional 1.25 percentage points previously added to all 2022/23 class 1, class 1A and 4 NICs rates have been scrapped with effect from 6 November 2022.
- For class 1 NICs, this means employee rates have been cut from 13.25% and 3.25% to 12% and 2% respectively. The employer rate has been cut from 15.05% to 13.8%.
- Directors have an annual earnings period, so hybrid rates will apply for 2022/23. Employee rates will be 12.73% and 2.73%, with an employer rate of 14.53%.
- For class 1A NIC, a hybrid rate of 14.53% will apply for 2022/23.
- For class 4 NIC, hybrid rates of 9.73% and 2.73% will apply for 2022/23.
- The 1.25% health and social care levy, which was due to replace the NICs increase from 2023/24, will be abandoned.

These changes affect the following sections as highlighted:

Chapter 4, Section E1A, page 4/33:

Dividend tax rates have all been increased by 1.25% compared to the rates applicable for 2021/22. This increase <u>was</u> in line with the <u>intended</u> 1.25% health and social care levy that <u>was</u> going to be introduced for employees, employers and the self-employed (see Classes of NICs on page 2/2) <u>from 2023/24 onwards. Even though the levy has been cancelled, dividend tax rates are to remain at their 2022/23 level for future tax years</u>.

Chapter 4, Section F4C, pages 4/51–4/52:

- If the business is set up as a limited company, a spouse or partner could become a shareholder and receive dividends (again, there is virtually no scope for reducing tax if a company is caught by the off-payroll working rules). Long-term planning can be difficult. The increase in corporation tax rates from 1 April 2023 (see Income tax – self-employed people on page 11/9) makes incorporation of a business a much less attractive option. ~~In contrast, the 1.25% health and social care levy can be avoided by simply leaving profits undrawn within a company.~~

Chapter 4, Section F6, page 4/54:

- The taxable benefit resulting from the use of a company car is usually chargeable only for the period for which that car is available to the employee and so, a change in car during the tax year has an immediate effect on the benefit. The same is true for the additional tax charge on fuel provided for private mileage in a company car. Given the low percentage charges that apply to hybrid-electric cars with CO_2 emissions between 1 and 50 g/km, with a 2% percentage charge for cars that can only be driven in zero-emission mode, it is worth seeing whether a company car should be replaced with a more tax beneficial model. Zero-emission new cars qualify for capital allowances at the rate of 100%, so effectively are a deductible expense in the year of purchase for the employer. Cars with CO_2 emissions up to 75 g/km are also treated more beneficially when it comes to salary sacrifice arrangements. ~~The increased rates of NIC from 6 April 2022 make such salary sacrifice arrangements even more attractive.~~

Chapter 4, Section F8, page 4/55:

The introduction of the 1.25% health and social care levy from 6 April to 5 November 2022 has, in particular, increased the cost of paying a salary, because the levy is payable by both the employer and the employee. From 5 November 2023, the levy has been scrapped, and the 2021/22 rates of NICs are applied instead.

Chapter 4, Example 4.24, page 4/57:

Example 4.24

Class 4 NIC: 9.73% on profits between £11,908 and £50,270 = 9.73% × £38,362 = £3,732.62.

Plus 2.73% of the excess over £50,270 = 2.73% × (£60,000 – £50,270) = 2.73% × £9,730 = £265.63.

Total class 2 and class 4 contributions = £163.80 + £3,732.62 + £265.63 = £4,162.05.

Chapter 5, section C3, example 5.6, page 5/14:

Example 5.6

NICs on a company director’s employment earnings of £60,000 at 12.73% of band earnings between £11,908 and £50,270 (£4,883.48) and 2.73% on earnings from employment above £50,270 (£265.63)	5,149.11
Class 4 NICs on freelance earnings above £11,908 (lower profits limit) at 2.73%***	84.41
Total tax and NICs	**31,228.02**
Net income	**68,771.98**

[…]

*** Bernie will have no Class 2 or main rate Class 4 NICs to pay on his freelance earnings as he has already reached the annual maximum as a result of his earnings from employment. He will, however, still have to pay the 2.73% Class 4 NIC additional rate on his freelance earnings in excess of the lower profits limit of £11,908 per annum (i.e. £15,000 − £11,908 = £3,092, at 2.73% = £84.41).

Chapter 5, Case study: John and Margaret Williams – summary and analysis, page 5/64:

John’s earnings

[…]

– NICs would be Class 2 at £163.80 flat rate (i.e. £3.15 a week), plus Class 4 at 9.73% of the excess over £11,908 = £300.85
Total NICs on self-employed income = £464.65.

So, after tax, John’s income from £15,000 self-employed earnings would be £11,535 (rounded down). However, he may be able to claim certain additional expenses, e.g. for running a car.

Margaret's potential earnings
Margaret could decide to return to work at some point:

- She would pay tax at 20% as well as employee NICs.
- For the 2022/23 tax year:
  - from 6 April 2022 to 5 July 2022, this will be at 13.25% on income between £190 and £967 per week, with 3.25% applying above £967 per week; then
  - from 6 July 2022 to 5 November 2022, this will be at 13.25% on income between £242 and £967 per week, with 3.25% applying above £967 per week; and, finally
  - from 6 November 2022 to 5 April 2023, this will be at 12% on income between £242 and £967 per week, with 2% applying above £967 per week.

[…]

Assuming that Margaret returned to work on a part-time basis and was paid, say, £20,000 a year, her net earnings after 20% income tax (£4,000) and employee NICs (around £1,035) would be £14,965.

Chapter 5, case study: John and Margaret Williams – summary and analysis, page 5/69:

- John and Margaret can make savings on their expenditure in a range of areas. They think that they can save about £12,000 on their expenditure before mortgage and insurance costs. For an employee, it takes about £1.47 to generate £1 of net income after basic rate tax and NICs. So, saving £12,000 of costs is the equivalent of earning £17,647 of taxable income. The gross investment and pension income required to meet these expenses is lower as no NICs are payable. For the self-employed, such as John, the maximum blended NICs on earnings for the 2022/23 tax year is 9.73%, making £1 net equate to around £1.42 of earnings at basic rate.

Chapter 5, case study: John and Margaret Williams – summary and analysis, page 5/69:

- John should be able to earn about £11,535 net a year for a few years.
- Margaret should be able to start work at some point. On a part-time basis, she might earn around a net £14,965 a year.

Chapter 6, section C1E, page 6/10:

- The majority of buy-to-let and second home purchases in excess of £40,000 attract a surcharge of an additional 3% stamp duty land tax (SDLT). The impact of this on the purchase of a second property valued at, say, £275,000, is to increase the SDLT payable from £3,750 to £12,000 (if purchased before 23 September 2022) or from £1,250 to £9,000 (if purchased on or after 23 September 2022).

Chapter 6, section H3, page 6/38:

The most advantageous tax position is for a client whose pension contributions are funded by their company and who would otherwise pay tax at 40% or 45% as well as National Insurance contributions (NICs) directly or indirectly on their remuneration. Their income tax relief is therefore effectively at a theoretical maximum of 45% plus 15.05% (pre-6 November 2022) or 13.8% (6 November 2022 onwards) employer's NICs plus employee's NICs of 3.25% (pre-6 November 2022) or 2% (6 November 2022 onwards). This tax efficiency is enhanced further if, on retirement, such a client becomes a basic-rate taxpayer and consequently pays only basic rate tax on taxable pension income.