Personal tax and trust planning

AF1 2022–23 edition

Web update 1: 01 December 2022

Please note the following updates to your copy of the **AF1** case study workbook (corrections are underlined):

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.

Stamp duty land tax (SDLT)

As announced in the Growth Plan 2022, the 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.

Therefore, the following content should be updated as highlighted:

Part 1: Personal tax and trust planning issues

Section A4, page 15:

It is also important to remember when planning that tax rules change from time to time. In theory, tax planning can generally only be carried out on the basis of current law and HMRC practice. However, the Government often announces changes some months (or even years) ahead of any draft legislation emerging. ~~For example, the 1.25% health and social care levy introduced from April 2022 was announced in September 2021. From April 2023, the levy will be extended to people over the State pension age (SPA) who are still employed or self-employed.~~ For example, it has already been announced that there will be a change to the self-employed basis period rules from the 2024/25 tax year.

Section B, page 16:

- If the business is set up as a limited company, a spouse or civil 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 Self-employed people on page 20) 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.~~

Section F, page 21:

~~The introduction of the 1.25% health and social care levy, added to NICs from 6 April 2022, has, in particular, increased the cost of taking a salary, because the levy is payable by both the employer and the employee. From 6 April 2023, the levy will be a separate charge from the normal rates of NIC, and it will then be extended to people over the SPA who are still employed or self-employed~~.

Section S, page 61:

The following bullet point should be removed:

- ~~From 6 April 2023, the 1.25% health and social care levy will be extended to people over the SPA who are still employed or self-employed.~~

The following bullet points should be added in:

- From 6 April 2023, the rates of class 1, class 1A and class 4 NICs will all revert to the rates that were applicable for 2021/22:
  - 12% and 2% for employee rates of class 1 NICs;
  - 13.8% for employer class 1 and 1A NICs; and
  - 9% and 2% for class 4 NICs.
- From 6 April 2023, the SEIS will be improved (in particular, the annual individual investor limit of £100,000 is to be doubled to £200,000).

Case study 1

Questions, question (b)(i), page 1/3:

Calculate Charles's employee Class 1 NICs liability for 2022/23 (you should use an annual basis of calculation along with hybrid NIC rates).

Model answer (b)(i), page 1/9:

(i) Calculate Charles's employee Class 1 NICs liability for 2022/23 (you should use an annual basis of calculation along with hybrid NIC rates).

	£
£11,908 × 0%	0
38,362 (£50,270 − £11,908) × 12.73%	4,883.48
£6,130 (£50,400 + £6,000 − £50,270) × 2.73%	167.35
Total NICs	**5,050.83**

[...]

Reinforce

- Class 1 NICs are paid by both the employee (primary contributions) and the employer (secondary contributions). For 2022/23, the calculation of employee NICs is complicated by a change to the lower earnings threshold from 6 July 2022, with a change to the NIC rates from 6 November 2022. From 6 April to 5 July 2022, the employee does not pay NICs on the first £9,880 of annual earnings. From 6 July 2022, this threshold is increased to match the income tax personal allowance of £12,570. The overall annual equivalent for 2022/23 is a lower earnings threshold of £11,908.
- On 23 September 2022, the Chancellor announced that the additional 1.25 percentage points previously added to all 2022/23 Class 1 NIC rates have been scrapped with effect from 6 November 2022. This means employee rates have been cut from 13.25% and 3.25% to 12% and 2%, respectively. Directors have an annual earnings period so hybrid employee rates of 12.73% and 2.73% apply for 2022/23. For the sake of simplicity, these are the rates used in the case study.
- Charles will pay 13.25% (for seven months) and 12% (for five months) on the amount of his salary between £9,880/£12,570 (the primary threshold) and £50,270 (the upper earnings limit). Earnings above £50,270 will be charged at 3.25% (for seven months) and 2% (for five months). Charles's salary is paid monthly, so strictly his NICs should be calculated monthly. The monthly lower earnings thresholds are £823 (for three months) and £1,048 (for nine months), with a monthly upper earnings limit of £4,189 throughout.
- Calculated on a strict monthly basis, Charles's NICs for 2022/23 would have been:
  - April to June 2022: £445.99 at 13.25%, with a further £0.36 at 3.25% – a monthly total of £446.35.
  - July to October 2022: £416.18 at 13.25%, with a further £0.36 at 3.25% – a monthly total of £416.54.
  - November 2022 to March 2023: £376.92 at 12%, with a further £0.22 at 2% – a monthly total of £377.14.
  - December 2022: An additional £120 (£6,000 at 2%) will be paid on the bonus.

  This results in an annual figure of £5,010.91 ((£446.35 × 3) + (£416.54 × 4) + (£377.14 × 5) + £120). The difference with the annually calculated figure of £5,050.83 is mainly due to the bonus being subject to the hybrid rate of 2.73% rather than the actual rate applicable to December 2002 of 2%.
- Self-employed persons are liable to both Class 2 and Class 4 NICs. Class 2 is charged at a flat rate of £3.15 a week. Class 4 contributions are earnings-related and are charged at 9.73% on profits between £11,908 (the lower profits limit) and £50,270 a year (the upper profits limit). Profits above this amount are charged at 2.73%. Class 4 NICs are always calculated on an annual basis.

Case study 11

Model answer (a), page 11/7:

Reinforce

[...]

- Although not relevant to the question, note that Matthew is not liable to pay Class 4 National Insurance contributions (NICs) on his self-employment income because he is over State pension age (SPA). ~~However, he will have to pay the 1.25% health and social care levy when it becomes a charge separate from National Insurance from 6 April 2023.~~

Case study 14

Model answer (e)(i), page 14/8:

- SDLT will be £7,500 (£250,000 at 3%) + £800 (£10,000 at 8%) = £8,300.

Model answer (e), page 14/9:

Reinforce

[...]

- First-time buyers do not pay SDLT on the first £425,000 (£300,000 for purchases prior to 23 September 2022) of a property purchase. A first-time buyer is defined as someone who has never owned a freehold or leasehold interest in a residential property in the UK or anywhere else in the world, and who intends to occupy the property as their main residence. Where there are joint purchasers, all purchasers need to be first-time buyers for the relief to apply.