2025 AUTUMN NEWS

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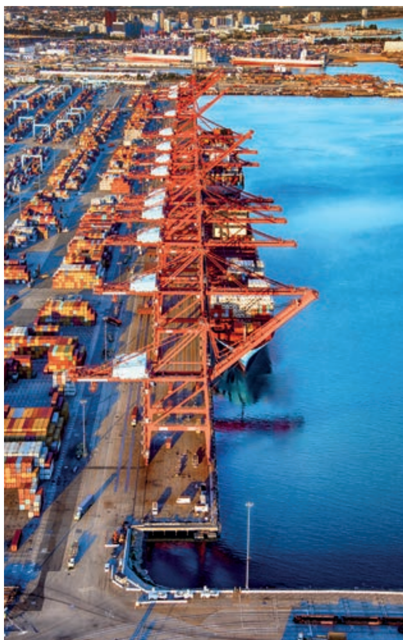

Tariffs, Trade Deals and Tax Rises

It is probably uncontroversial to say that the Government is facing a challenging international landscape at present, with both major wars and President Trump's tariff policies making economic forecasting difficult. These problems, currently at least, seem to be outweighing the good news of the trade deals struck with the EU, India and the United States.

Although this newsletter contains tax developments, we make mention of the Indian trade deal on page 4, where we explain the proposed new National Insurance rules for those employees moving between the UK and India.

With the Government having mounting spending pressures and a difficult budgetary position, most commentators are expecting major tax rises to be announced in the autumn Budget, which is likely to be held in November. In the Labour manifesto at last year's General Election, it committed to not raising the rates of VAT and Corporation Tax, as well as not raising tax on 'working people' (without, of course, properly defining who is in the latter category). Having already raised employers' NICs considerably, the likeliest areas to raise some significant revenue are probably Inheritance Tax (IHT) and Pensions Tax.

Having discussed in the Summer Newsletter the proposals for restricting the IHT reliefs for farms and trading businesses (which, incidentally, are being legislated to come in from April 2026 largely as previously announced), on page 2 of this newsletter we explain the main issues resulting from the government proposal to levy IHT on unused pension funds, where the death benefits have been written into trust. These changes are scheduled to come in a year later, in April 2027. If you are likely to be affected by the new rules, which can mean most of a pension fund being taken in tax, you still have time to take advice and, if necessary, revise your will or your retirement planning. Some might argue that these changes represent a form of wealth tax, for which more than one political party has been lobbying.

The government earlier this summer announced that it would once again make a winter fuel payment available to all pensioner households. However, for the first time, there may be tax implications of receiving a payment. How the system will now work is explained on page 3, where we also discuss some potential changes in the advance clearance procedures for those companies seeking to claim research and development tax relief.

When keeping up to date with tax developments, you should never forget VAT (although many perhaps would like to do so). On page 4, we explain how a recent VAT case has led to a change in HMRC policy on charitable fundraising events. Any reader involved in a charity should make sure that they are aware of the changes.

All in all, there are many tax developments of which to try to keep abreast, in amongst the political and economic news. No doubt as the autumn progresses there will be a lot more too, particularly when we get to the Budget.

We hope that you find plenty in this newsletter to interest you. ***Remember that we are here to help, if you need further advice on any matter that might affect you, your family or your business.***

Pension death benefits to become more taxing!

It is standard inheritance tax (IHT) planning to write death benefits payable from money purchase ('defined contribution') pension schemes into trust for one or more nominated beneficiaries (usually family members). Under current rules, this puts them outside the IHT net if the policyholder dies. Money purchase schemes include all personal pensions and most private sector occupational schemes.

At the 30 October 2024 Budget, the Government announced the intention to remove this IHT exemption from 6 April 2027. This may lead to very high effective tax charges on unused pension funds, as we will show you below, due to the interaction of the proposed rules with the existing pensions tax regime for death benefits.

NB These changes will have no effect on defined benefit (e.g. final salary) pension schemes.

Pension death benefits

Under pension tax rules:

- if the deceased was aged 75 or over, any benefits drawn are fully taxable at the recipient's marginal income tax rate;
- if the deceased was aged under 75, benefits drawn in excess of the Death Benefit Lump Sum Allowance (DBLSA) are taxable at the beneficiary's marginal rate.

The DBLSA caps the amount taken tax-free in aggregate during the individual's lifetime and on death, thus takes account of any tax-free pension commencement lump sums that have been taken. The DBLSA is set at £1,073,100 but may be higher where any of several 'protections' has previously been claimed.

How much IHT is payable?

Example

Jackie, a widow, dies aged 81 in June 2027. She leaves her house (value £900,000) and other assets worth £1,100,000 to her only son. When her husband died, he had left everything (including a half-share of the house) to her as an exempt inter-spousal transfer.

Jackie also has an undrawn defined contribution pension fund worth £800,000. Her nominated beneficiary is her son, who is a top rate taxpayer.

In principle, Jackie is entitled to a total of £1m of nil rate bands (NRBs), as her husband did not use up his NRBs when transferring assets to her. This comprises £650,000 (2 x £325,000) of normal nil rate band and £350,000 (2 x £175,000) of residence nil rate band. The latter is available as she is leaving a home of at least that amount to a direct descendent.

Under the proposed changes, her chargeable estate will include the pension rights, so it will total £2.8 million. One consequence of this is that she will not be entitled to any residence NRB, as her estate is above £2,350,000. [N.B. The residence NRB gets tapered away once an estate (before reliefs and exemptions) goes above £2 million; above £2.35 million, none is available.]

The IHT liability on her estate is calculated as follows:

On first £650,000 @ 0%	–
On next £2,150,000 @ 40%	£860,000

The average IHT rate on the estate is [860,000 / 2,800,000] x 100 = 30.7143%, which will be used to split the IHT proportionately, as follows:

Payable by the executors £2 million @ 30.7143%	£614,286
Payable by the pension scheme administrators £800,000 @ 30.7143%	245,714
	£860,000

Note that, if Jackie instead died before the changes are implemented, her chargeable estate would be £2 million (as the pension fund death benefits would be excluded) and there would therefore be no restriction on the residence NRBs.

The IHT liability would then be:

On first 1,000,000 @ 0%	–
On next 1,000,000 @ 40%	£400,000

Tax on the pension pot

Additional IHT (£860,000-400,000)	£460,000
Income tax on drawdown by son of residual pension (£800,000 – £245,714) = £554,286 @ 45%	249,429
	£709,429

Effective tax rate on the pension pot: 709,429/800,000 = 88.68%!

Note the following:

1. If her son were a basic rate or higher rate taxpayer, the income tax charge on drawing down the residual pension fund would be reduced.
2. If a pension fund is being left to a surviving spouse, the normal inter-spousal IHT exemption will apply (assuming the recipient spouse is a 'long-term resident').
3. If someone dies aged under 75 with pension death benefits under the DBLSA, the pension drawings by the beneficiary are not subject to income tax in their hands.

IHT planning going forward

With death benefits written into trust, it is currently common practice to live off other savings (e.g. shares or cash savings) and let the pension fund pass on death. This policy is likely to be reversed once these changes are implemented, as people will be encouraged to draw pension income to live off (even though it will be taxable income for them) and leave other assets in their death estate, in order to avoid these high tax rates.

Note that taking a 25% tax-free lump sum from a pension pot will become even more valuable once these changes are implemented.

These proposals are very important for anyone with a money purchase pension scheme whose IHT estate is likely to be above their available NRBs. If so, it is important to check whether your will needs updating and to speak to a financial adviser. We can make sure you get appropriate tax and financial advice, so please get in touch.

Off-payroll working

Large and medium-sized companies are responsible for determining the employment status for tax purposes of any worker supplying their services to them through an intermediary such as a personal services company (PSC). This process is called 'off-payroll working'. In such circumstances, there is no IR35 risk for the worker and their PSC, because if the worker is wrongly classified as being effectively self-employed by the engager, it will be the engager that is liable for any payroll taxes that should have been paid.

For accounting periods beginning on or after 6 April 2025, an engager is considered 'small' (and therefore not subject to the off-payroll working rules) if at least two of the three following conditions are met:

- Turnover of not more than £15 million (instead of the previous £10.2 million);
- Balance sheet total of not more than £7.5 million (instead of £5.1million);
- Monthly average number of employees of not more than 50 (unchanged).

The threshold changes will have their first practical impact from 6 April 2026, as a company's size for off-payroll working is determined by reference to the previous year.

Where an engager is 'small', the payroll taxes risk still lies with the worker and their PSC under the IR35 rules. The change in limits mean that, from 6 April 2026, there will be more PSCs in this category, so the worker and PSC must be very clear as to which party is meant to assess employment status for tax purposes when entering into contractual arrangements.

If you operate via a PSC but all your work is for very large clients (e.g. banks), these changes will not affect you. However, if you have any questions in this area, please get in touch.

R&D clearances – changes ahead?

Research and development (R&D) tax reliefs are very valuable; however, HMRC has increased compliance requirements in this area significantly in the recent past. Further changes seem to be on the way, as in March 2025, the government published a consultation on new procedures for companies to receive advance assurance (i.e. agreement, in advance of a project being undertaken or a claim being made, that the work appears to be 'qualifying' R&D).

Advance assurance is restricted to smaller companies that are claiming R&D tax relief for the first time. There were only 80 applications received (out of a possible 11,500) in 2023/24.

The current process

A company planning to conduct R&D can apply to HMRC for advance assurance that it will qualify for R&D tax relief for that project. If it agrees that tax relief is due, HMRC will accept the company's claims for that project for up to three accounting periods, provided the activity remains in line with what was discussed and agreed in the application.

Possible changes

The aim of the consultation was to explore how alternative advance clearance procedures could be designed, with the objectives of:

- reducing errors and fraud; and
- giving companies greater certainty in relation to R&D tax relief.

The government believes that there are three stages at which a form of assurance may be useful:

- when research activity has not started or has only recently begun ('pre-activity');
- when activity is well underway but before a claim is made ('pre-claim'); and
- when a claim has been made but before the relief is paid ('pre-payment').

It is also considering the possibility of:

- charging for voluntary clearances;
- mandating the use of advance assurance in some circumstances; and
- re-introducing a minimum expenditure threshold for R&D tax relief generally.

If your company is involved in R&D, you don't want to miss out on valuable tax relief but, equally, you don't want to end up with penalties (and no tax relief) if you get things wrong. We are here to help you navigate this compliance minefield should you need assistance in this area.

Winter fuel payments

For winter 2025/26 onwards, winter fuel payments will once again be made to all pensioners in England and Wales. (Pensioners in Northern Ireland are eligible for a winter fuel payment from the Northern Ireland Executive; in Scotland, pensioners may be eligible for the pension-age winter heating payment.)

Recent guidance explains who is eligible to receive a payment, how it will be calculated and when it will be paid. This can be found at www.gov.uk/winter-fuel-payment .

How much are the payments?

For 2025/26, winter fuel payments in England and Wales will be:

- £200 for households including someone between state pension age and 79; and
- £300 for households including someone aged 80 or over.

The payment will be shared by pensioners in the household where the household is not in receipt of an income-related benefit.

Those living in a care home

If eligible, they will get either:

- £100 if born between 22 September 1945 and 21 September 1959; or
- £150 if born before 22 September 1945.

You will not be eligible if **both** of the following apply:

1. You get Universal Credit, Pension Credit, Income Support, income-based Jobseeker's Allowance (JSA) or income-related Employment and Support Allowance (ESA); and
2. You lived in a care home for the whole time from 23 June 2025 or earlier.

Recovery through the tax system

The payments to be made in winter 2025/26 will be automatically recovered

in full by HMRC from pensioners with total income of more than £35,000, either:

- through the person's PAYE code for 2026/27; or (if they are within self-assessment)
- by HMRC adding it to their online tax return for 2025/26.

If the person completes a paper tax return, they will need to include the payment on their return.

The payment will be recovered from individuals based on their own personal taxable income, not household income.

Opting out

Pensioners can opt out of receiving the payment. This will mean that they will not have to deal with the possible complications of recovery through the tax system.

In England, Wales and Northern Ireland, this can be done by completing an online opt out form. It is also possible to opt out by calling or writing to HMRC. **This must be done before 15 September 2025.**

The Scottish Government has said that more information on opting out of the winter heating payment will be published in autumn 2025.

If you will be receiving winter fuel payments again and are unsure about how this will impact your tax position, please contact us with any questions you have.

Class 2 NICs – have you been overcharged?

From 2024/25, self-employed individuals with profits above £6,725 receive a credit for Class 2 NICs; they are not required to pay contributions. Those with profits below the threshold can still opt to pay Class 2 voluntarily, thus maintaining their NICs contribution record. Opting to pay Class 2 will be much cheaper than paying Class 3 voluntary contributions.

There have been reports of Class 2 NICs being incorrectly included in the SA302 (self-assessment tax calculation) for 2024/25. Having submitted their tax returns, some individuals who did not need to pay Class 2 NICs have received an SA302 that included a liability for Class 2.

Three types of letters have been sent by HMRC, in each case indicating that Class 2 NICs have been amended 'in accordance with the information we hold'.

1. The Class 2 NICs amount is amended to zero, which aligns with the tax return (in which situation the letter is not in fact needed!).
2. A Class 2 charge of £179.40 has been wrongly added to the computation and needs to be removed.
3. The incorrect charge of £179.40 has been added, and the overall tax liability has been incorrectly increased by double that amount!

HMRC has said that it is investigating the matter urgently.

If you have any concerns over whether you need to pay Class 2 NICs, or you feel you have been charged when you shouldn't have been, please contact us and we can help you make sure your NICs contribution record and payments are correct.

Charity fundraising events

Following a recent tax case at the Upper Tribunal, HMRC has issued 'Revenue & Customs Brief 3: VAT treatment of income received from charity fundraising events'.

Background

Charities may be able to exempt supplies of goods and services that they make as part of an event held to raise funds for their charitable activities; however, not all fundraising events will qualify for exemption.

An 'event' for these purposes is something that is clearly organised and promoted primarily to raise money for the benefit of the charity. Events that are not organised to raise funds, but which incidentally make a profit, do not fall within the exemption. To qualify for exemption, people attending or participating in the event must be aware of its primary fundraising purpose.

Also, an event must be a planned occasion with an outcome or a result. Thus, activities of a semi-regular or continuous nature (for example, the regular operation of a shop) cannot be an event.

The recent tax case clarified which events will qualify for the exemption. The key points from the decision are as follows.

The primary purpose of the event

The primary purpose of the event must be that of fundraising. However, there can be more than one primary purpose. As such, the 'fundraising' primary purpose can be 'a primary purpose' rather than having to be 'the primary purpose'.

This probably sounds very pedantic, but it widens the scope of the relief such that, in certain circumstances, where there are two primary purposes and they cannot be separated in importance, the exemption can still apply, provided one of those primary purposes is fundraising.

Promotion of the event

The law says that the event must be 'promoted as being primarily for the raising of money'. However, the Tribunal found that the word 'primarily' should be ignored. This means that the event must still be promoted as a fundraising one but does not need to emphasise this as a primary purpose.

HMRC's position following the decision

HMRC's policy remains that the primary purpose of the event must be that of fundraising and that the event must be advertised as a fundraising event. Charities must be able to provide objective documentary evidence that the event was organised as a fundraising event, not that there was simply an intention to obtain income from the event.

If a charity considers that an event has more than one primary purpose, they must be able to provide:

- evidence of this; and
- a clear explanation as to why they cannot be separated in terms of importance.

Events that are not organised to raise funds, but which incidentally make a profit, do not fall within the exemption.

There is no change to the limit of how many events of the same kind and in the same location can be held in any fiscal year; this remains at fifteen. If sixteen or more such events are held, all such events become taxable.

If you are involved in the running of a charity, it is very important to make sure that VAT is charged and accounted for properly, as any errors may incur interest and penalties. Please seek help if you have any questions on the fundraising rules or any other aspect of how VAT affects charities.

UK-India social security agreement

For millions of cricket fans in the UK (and hundreds of millions in India), the recent dramatic Test series has dominated the news. However, another (even more important) bilateral matter has also been in the headlines, with the UK and India agreeing a Comprehensive and Economic Trade Agreement (CETA).

Alongside this, the government has published details of the UK-India Double Contributions Convention (DCC), which aims to ensure that employees moving between the countries are only liable to pay social security (SS) contributions in one country at a time.

The DCC:

- does **not** include provisions for access to SS benefits or pension entitlement in the host jurisdiction; but
- **does** allow workers to continue to pay into their home country SS scheme for a specific period.

Current position

Where, as is currently the case with the UK and India, there is no SS agreement between countries, domestic rules apply. This means that:

- UK outbound employees (and their UK employers) remain liable to Class 1 National Insurance Contributions (NICs) on all earnings for the first 52 weeks they are working in India. Thereafter, the UK mandatory contributions cease, but for many workers the option to pay voluntary contributions is available.
- For UK inbound employees of an India-based employer, there is an exemption from UK NICs for the first 52 weeks; thereafter, both employee and employer become liable to UK NICs (provided there is a UK place of business or UK host employer).

How this will change

Under the DCC, employees of India-based employers who come to work temporarily in the UK will remain liable to Indian Provident Fund contributions for a period of up to 36 months, provided they remain employed by the Indian employer. Such staff are referred to as 'detached workers'.

Similarly, UK-based employers sending detached workers to India will remain liable to Class 1 NICs for 36 months (as will the detached worker).

When this agreement comes into force (at the same time as the CETA), the 52-week exemption and liability periods for UK NICs under UK domestic legislation will no longer apply to those who fall within the scope of the DCC.

Note, however, that:

- employees who expect to be working in the UK for more than 36 months from the outset of their secondment should be liable to class 1 NICs from day 1;
- employees from India who are employed locally in the UK by a UK employer will also be liable to UK NICs from day 1;
- the implementation of this DCC will not impact the current UK immigration regime; all the existing immigration criteria will still need to be met.

When the CETA takes effect, there is likely to be an increase in workers moving between the UK and India. In such situations, it will be vital for workers and their employers to understand the social security implications.

Please contact us if you think you may be affected by these changes; we can help to make sure that there are no problems with your NICs compliance.

This newsletter is written for the benefit of our clients. Further advice should be obtained before any action is taken.