Sibbalds
CHARTERED ACCOUNTANTS

PayLessTax
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Where's my state pension?

To build up state pension entitlement you need to accrue national insurance (NI) qualifying years. This can be achieved each year either through NI contributions paid based on your earned income or by making voluntary NI payments or through deemed NI credits, such as claiming child benefit (CB).

In broad terms a man born before 6th April 1951 and a woman born before 6th April 1953 would need 44 and 39 qualifying years respectively, of 'deemed' or actual NI contributions to obtain the full basic state pension (SP). Those born after those dates, as a basic rule, would need a minimum of 10 years and a maximum of 35 years.

For those of you who claimed child benefit (CB) up to May 2000, you may want to check if either:

a) The SP you have been receiving has not been understated or

b) If you are approaching state pensionable age that, where applicable, the years you claimed CB, have been counted as relevant years for SP purposes.

Prior to May 2000 there was no requirement to provide your NI number when applying for CB. This is where the problem surrounding the SP has arisen.

In many thousands of cases, due to the lack of an NI number, the system failed to credit those CB years as qualifying SP ones. For each 'missing' year the cost in lost pension could be as high as £300 on an annual basis. To make matters worse, for data protection purposes, information relating to CB claims is only kept for 5 years.

When in July this year, HMRC and the Department of Work & Pensions jointly made a statement on this matter, they admitted that it was not possible to exactly quantify the number of people who could be affected.

The intention is that HMRC will carry out a phased review of the NI records to date to try to gauge who might be missing out and, where that is the case, they will ask that person to make a claim. If that is successful either the pension arrears will be paid and where applicable will be taxed or if that person has not reached pensionable age their NI records will be updated. The arrears of SP should be taxed in the year it was due not the year it was received.

HMRC and DWP accept that the phased review will take some time to run its course. Sadly some people who would have been entitled to a larger SP have now passed away but their family may be able to claim any arrears due.

If somebody feels that they may possibly be affected by this and want to speed up the process, they could consider filling in form CF411 which can either be completed online or in paper format.

TIP...
If you are concerned about your state pension position please do not hesitate to contact us and we would be happy to carry out a review.

Gifts and the dry tax charge

If you (the donor) make a gift to a loved one (the donee), other than your spouse or civil partner, you could be hit for a capital gains tax (CGT) charge broadly based upon the difference between the market value of the asset at the time of the gift less what you acquired it for.

This is effectively a dry tax charge, where you have a tax bill to pay with no disposal proceeds to meet said liability.

However, if the right conditions apply, you could avoid this by making a gift holdover relief (GHR) claim. If the donee is an individual then you both have to make the election, if the donee is a Trust you make a claim on your own. **By doing so, the potential tax charge is usually held over until the donee subsequently disposes of the asset further on down the line. The liability then rests with the donee, not the donor**.

The type of situations where GHR claims could be made are :

► **The asset has been used in the donor's trade**, profession or vocation or within their personal company.

► **The gift is of shares/securities in an unlisted company or a company which is the donor's personal company** (i.e. they can exercise at least 5% of the voting rights).

► **Any asset which could potentially trigger an immediate inheritance tax (IHT) charge as a result of the gift**. An example of this is settling assets into a trust. An IHT charge might not arise, for example, because the value of the asset is no more than £325,000 but that does not prevent a GHR claim being made.

Example

► In January 2024, Zehan gifts the premises he uses for his trade to Clarissa for no consideration.

► At the date of the gift the premises were worth £750K, which he had originally bought four years earlier for £500K. He has a potential taxable gain of £250K.

► However, he and Clarissa make a joint GHR election. This reduces his taxable gain to nil. Clarissa's deemed acquisition cost is £500K (i.e. £750K less the holdover gain of £250K).

► In May 2026 Clarissa sells the property for £950K. Her taxable gain will be £450K (i.e. £950K - £500K).

The GHR can be restricted where:

► **The asset was not used within the trade throughout the donor's ownership period or where only part of it (for example a property) was applied within the business.**

► **Where shares/securities are concerned, a company has a mixture of chargeable assets, non-business and business** (e.g. business premises and an investment rental property).

TIP... Before you consider gifting an asset away come and speak to us as there may be tax consequences other than CGT such as inheritance tax or land taxes

Savings Bonus Initiative

Are you either:

a) Entitled to working tax credit and receive working/child tax credit? or

b) Receiving Universal Credit (UC) and you (or with your partner, if it is a joint UC claim) have a monthly pay packet, after tax and national insurance of £722.45 or more?

If so, you may want to consider setting up a Government easy access Help to Save account (HSA). You only have to be qualifying, as per a) and b) above, at the time you open the account.

This HSA can be opened, by an individual, at any time between now and 5th April 2025. You can put up to £50 per month into the account but you don't have to save every month if you can't afford to do so.

At the end of the second and fourth year, the government pay a 50% bonus worth up to a maximum of £1,200.

- The bonus for the first 2 years is paid on the highest amount you have in the account during those two years, which is not necessarily the amount that there is at the end.

- The bonus in the second two years is paid on the amount that the highest balance in years 3 and 4 exceeds the highest balance in years 1 and 2.

Example

- Terry opens a HSA and for the first 18 months contributes £40 per month. The account balance at that point is £720.

- In month 19 he withdraws £250 but for the remaining 5 months of the first two year period he continues to pay in £40 per month. The balance at the end of year two is £670.

- The government will pay a 50% bonus on the highest balance of £720 = £360.

- Throughout years 3 and 4 Terry pays in £40 per month leaving a final balance on the account (ignoring the first bonus) of £1,630.

- The second bonus will be 50% of the difference between highest balance in years 1 and 2 (£720) and that in years 3 and 4 (£1,630) = £455.

The bonuses are tax free and therefore do not impact upon any working/child tax credit claims as it is deemed not to be 'income'.

The HSA savings could affect your UC and housing benefit if your total savings, and that of any partner, exceed £6,000. However, the bonuses themselves are not taken into account.

The HSA is run on the National Savings &Investment (NS&I) platform and can be applied for through your Government Gateway portal or by phoning the HMRC helpline 0300 322 7093.

TIP...

Consideration should be given as to whether or not you can afford to save into the account to make it worthwhile, and secondly, whether it is more efficient to pay down any outstanding debt you may have.

Bereavement – Retrospective

Losing a much loved partner is a devastating blow both emotionally and financially.

Up until recently only a spouse or civil partner could possibly claim either the widowed parents allowance (WPA), if their partner died on or before 5th April 2017, or the bereavement support payment (BSP), if their other half has passed away since that date.

BSP is a combined payment of up to £9,500, whilst its predecessor, WPA, is an annual payment which a person can continue to receive until they cease to be entitled to child benefit. The current maximum annual amount is £7,233.

Following a successful Supreme Court challenge, the law has changed in February this year to allow unmarried, co-habiting couples to make a claim in broadly similar circumstances.

The good news is that the surviving co-habitee can potentially make a retrospective claim for either WPA or BSP, depending upon when their partner died, to as far back as 8th April 2001. Assuming the eligibility criteria is met, this could result in many thousands of pounds of retrospective bereavement financial support.

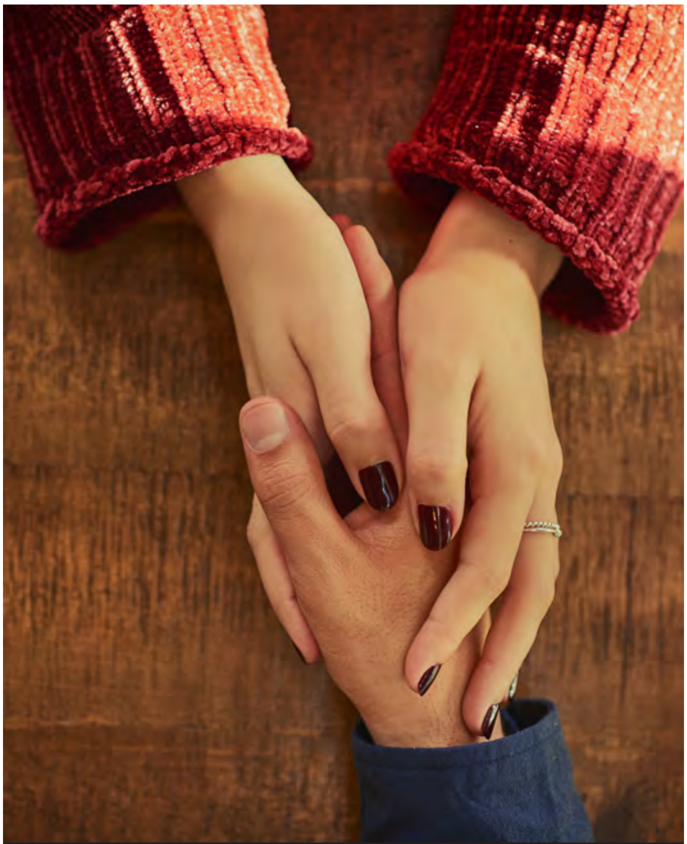
Depending upon the person's total income for each tax year in which the WPA is due, you may find that HMRC could deduct tax from any arrears received. It is possible that HMRC may only go as far back to tax the last four years of WPA and not the period prior to that. WPA may also impact upon certain state benefits you might be receiving such as universal credit.

The combined BSP payment is not liable to tax and does not have any immediate impact on any state benefits that you may be in receipt of.

The bad news is that, if you believe you may be eligible for a retrospective claim, you only have until 8th February 2024 in which to make it.

To make a claim for WPA you need to go online and download the WPA form, complete and send it off to the relevant address stated on the form itself, which will vary dependent upon where you are in the UK or if you are an ex-pat now living abroad.

For a BSP claim you have a choice, you can either do it online or download the BSP form and post it once completed.



TIP...

Don't leave it until the last minute if you think you may be eligible to make a retrospective claim as potentially the bereavement support arrears could be quite significant. **It would be a pity to miss out**. Please do not hesitate to contact us if you would like us to see if you fit the eligibility criteria or need assistance in completing the relevant documents.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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