Finance Act 2024

Relevant to TX-UK

This article looks at the changes made by the Finance (No. 1) Act 2024 and the Finance (No. 2) Act 2024 (which is the legislation as it relates to the tax year 2024-25) and should be read by those of you who are taking TX-UK in an exam in the period 1 June 2025 to 31 March 2026.

The aim of the article is to summarise the changes made by these two Finance Acts and to look at the more important changes in greater detail. The article also includes details of legislation which was enacted prior to 31 May 2024 but has only come into effect from 6 April 2024.

The article does not refer to any amendments to the TX-UK syllabus coverage unless they directly relate to legislative changes and candidates should therefore consult the TX-UK *Syllabus* and *Study Guide* for the period 1 June 2025 to 31 March 2026 for details of such amendments.

Please note that if you are sitting TX-UK in the period 1 June 2024 to 31 March 2025, you will be examined on the Finance Act 2023, which is the legislation as it relates to the tax year 2023-24. Therefore, this article is not relevant to you, and you should instead refer to the Finance Act 2023 article published on the ACCA website (See 'Related links'):

https://www.accaglobal.com/gb/en/student/exam-support-resources/fundamentals-exams-study-resources/f6/technical-articles/finance-act-2023.html

You are reminded that none of the current or impending devolved taxes for Scotland, Wales, and Northern Ireland are, or will be, examinable.

Income tax

Rates of income tax

The dividend income nil rate band has been cut from £1,000 to £500.

The rates of income tax for the tax year 2024-25 are therefore:

		Normal rates	Dividend rates
Basic rate	£1 - £37,700	20%	8.75%
Higher rate	£37,701 to £125,140	40%	33.75%
Additional rate	£125,141 and over	45%	39.35%

Savings income nil rate band	- Basic rate taxpayers	£1,000
	- Higher rate taxpayers	£500
Dividend nil rate band		£500

A starting rate of 0% applies to savings income where it falls within the first £5,000 of taxable income.

Personal allowance

The personal allowance for the tax year 2024-25 is £12,570.

This is gradually reduced to nil where a person's adjusted net income exceeds £100,000. Adjusted net income is net income (total income less deductions for gross pension contributions to an employer's occupational pension scheme, loss relief and deductible interest payments) less the gross amount of personal pension contributions and gift aid donations.

The personal allowance is reduced by £1 for every £2 by which a person's adjusted net income exceeds £100,000. Therefore, a person with adjusted net income of £125,140 or more is not entitled to any personal allowance ((125,140 – 100,000)/2 = £12,570). Where a person has adjusted net income of between £100,000 and £125,140, then the effective marginal rate of income tax is 60%. This is the higher rate of 40% on income plus an additional 20% as a result of the withdrawal of the personal allowance. In this situation, it may be beneficial to make additional personal pension contributions or gift aid donations.

Example 1

For the tax year 2024-25, June has a trading profit of £184,000. Her income tax liability is:

	£
Trading profit	184,000
Personal allowance	0
	_______

Taxable income	184,000
Income tax: 37,700 at 20%	7,540
87,440 at 40%	34,976
58,860 at 45%	26,487
Tax liability	69,003

No personal allowance is available because June's adjusted net income of £184,000 exceeds £125,140.

Example 2

For the tax year 2024-25, May has a trading profit of £159,000. During the year, May made net personal pension contributions of £32,000 and a net gift aid donation of £9,600. Her income tax liability is:

	£
Trading profit	159,000
Personal allowance	(9,070)
Taxable income	149,930
Income tax: 37,700 at 20%	7,540
52,000 at 20%	10,400
60,230 at 40%	24,092
Tax liability	42,032

- May's gross personal pension contributions are £40,000 (32,000 x 100/80) and her gross gift aid donation is £12,000 (9,600 x 100/80).

- May's adjusted net income is therefore £107,000 (159,000 – 40,000 – 12,000), so her personal allowance of £12,570 is reduced to £9,070 (12,570 – 3,500 ((107,000 – 100,000)/2)).

- The basic and higher rate tax bands are both extended by £52,000 (40,000 + 12,000).

Savings income

Interest received from bank and building societies is paid gross without any tax being suffered at source. Certain types of savings income are paid net of basic rate tax, but these **are not examinable.** Therefore, as far as TX-UK is concerned, all savings income is treated as paid gross.

Savings income benefits from a 0% rate. For basic rate taxpayers, the savings income nil rate band for the tax year 2024-25 is £1,000, and for higher rate taxpayers it is £500. Additional rate taxpayers do not benefit from any savings income nil rate band. Savings income in excess of the savings income nil rate band is taxed at the basic rate of 20% if it falls below the basic rate threshold of £37,700, at the higher rate of 40% if it falls between the basic rate threshold of £37,700 and the higher rate threshold of £125,140, and at the additional rate of 45% if it exceeds the higher rate threshold of £125,140.

Example 3

For the tax year 2024-25, Ingrid has a salary of £52,500 and savings income of £1,800. Her income tax liability is:

	Non-savings income	**Savings income**	**Total**
	£	**£**	**£**
Employment income	52,500		52,500
Savings income		1,800	1,800
	52,500	1,800	54,300
Personal allowance	(12,570)		(12,570)
Taxable income	39,930	1,800	41,730

Income tax: 37,700 at 20%	7,540
2,230 (39,930 – 37,700) at 40%	892
500 at 0%	0
1,300 (1,800 – 500) at 40%	520
Tax liability	8,952

Ingrid is a higher rate taxpayer, so her savings income nil rate band is £500.

The savings income nil rate band counts towards the basic rate and higher rate bands.

Example 4

For the tax year 2024-25, Henri has a salary of £46,500 and savings income of £10,000. During the year, he made gross personal pension contributions of £4,000. His income tax liability is:

	Non-savings income	Savings income	Total
	£	£	£
Employment income	46,500		46,500
Savings income		10,000	10,000
	46,500	10,000	56,500
Personal allowance	(12,570)		(12,570)
Taxable income	33,930	10,000	43,930

Income tax:	33,930 at 20%	6,786
	500 at 0%	0
	3,270 (37,700 – 33,930 – 500) at 20%	654
	4,000 at 20%	800
	2,230 (10,000 – 500 – 3,270 – 4,000) at 40%	892
Tax liability		9,132

- Henri is a higher rate taxpayer, so his savings income nil rate band is £500.
- The savings income nil rate band of £500 counts towards the basic rate band of £37,700. This is then extended by £4,000.

Savings income can also benefit from the starting rate of 0%. However, the starting rate only applies where savings income falls within the first £5,000 of taxable income. If non-savings income exceeds £5,000, then the starting rate of 0% for savings does not apply.

Example 5

For the tax year 2024-25, Ali has pension income of £14,200 and savings income of £6,000. His income tax liability is:

	Non-savings income	Savings income	Total
	£	£	£
Pension income	14,200		14,200
Savings income		6,000	6,000
	14,200	6,000	20,200
Personal allowance	(12,570)		(12,570)
Taxable income	1,630	6,000	7,630

Income tax:	1,630 at 20%	326
	3,370 (5,000 – 1,630) at 0%	0
	1,000 at 0%	0
	1,630 (6,000 – 3,370 – 1,000) at 20%	326
Tax liability		652

- Non-savings income is £1,630 (14,200 – 12,570), so £3,370 (5,000 – 1,630) of the savings income benefits from the starting rate of 0%.
- Ali is a basic rate taxpayer, so his savings income nil rate band is £1,000.

When it comes to tax planning for a married couple, or a couple in a civil partnership, the availability of the savings income nil rate band means that transferring income from the partner paying tax at a higher rate to the partner paying tax at a lower rate is not necessarily the most beneficial option.

Example 6

Samuel and Samantha are a married couple. For the tax year 2024-25, Samuel will have a salary of £90,000. Samantha will have a salary of £30,000 and savings income of £1,500.

Samantha is a basic rate taxpayer, so her savings income nil rate band is £1,000. The remaining £500 of her savings income will be taxable at the rate of 20%. Samuel is a higher rate taxpayer, so his savings income nil rate band is £500. Transferring sufficient savings to Samuel so that he receives £500 of the savings income will therefore save income tax of £100 (500 at 20%) for 2024-25.

Dividends

The first £500 of dividend income for the tax year 2024-25 benefits from a 0% rate. This £500 nil rate band is available to all taxpayers, regardless of whether they pay tax at the basic, higher or additional rate. However, the dividend nil rate band counts towards the basic rate and higher rate bands.

Dividend income in excess of the £500 nil rate band is taxed at 8.75% if it falls below the basic rate threshold of £37,700, at 33.75% if it falls between the basic rate threshold of £37,700 and the higher rate threshold of £125,140, and at 39.35% if it exceeds the higher rate threshold of £125,140.

Example 7

For the tax year 2024-25, Ezra has a salary of £62,500 and dividend income of £2,300. Her income tax liability is:

	Non-savings income	Dividend income	Total
	£	£	£
Employment income	62,500		62,500
Dividend income		2,300	2,300
	62,500	2,300	64,800
Personal allowance	(12,570)		(12,570)
Taxable income	49,930	2,300	52,230

Income tax: 37,700 at 20%	7,540
12,230 (49,930 – 37,700) at 40%	4,892
500 at 0%	0
1,800 (2,300 – 500) at 33.75%	608
Tax liability	13,040

Example 8

For the tax year 2024-25, Erica has a salary of £44,000 and dividend income of £8,500. Her income tax liability is:

	Non-savings income	Dividend income	Total
	£	£	£
Employment income	44,000		44,000
Dividend income		8,500	8,500
	44,000	8,500	52,500
Personal allowance	(12,570)		(12,570)
Taxable income	31,430	8,500	39,930

Income tax:	31,430 at 20%	6,286
	500 at 0%	0
	5,770 (37,700 – 31,430 – 500) at 8.75%	505
	2,230 (8,500 – 500 – 5,770) at 33.75%	753
Tax liability		7,544

The £500 dividend nil rate band counts towards the basic rate band of £37,700.

The order in which tax rates are applied to taxable income is firstly non-savings income, then savings income and finally dividend income. Deductible interest, trade losses and the personal allowance should initially be set against non-savings income and then savings income.

Example 9

For the tax year 2024-25, Joe has a salary of £48,200, savings income of £2,000 and dividend income of £6,000. During the year, he paid interest of £300 which was for a qualifying purpose. Joe's employer deducted income tax of £7,126 under PAYE from his earnings. The income tax payable by Joe is:

	Non-savings Income	Savings income	Dividend income	Total
	£	£	£	£
Employment income	48,200			48,200
Savings income		2,000		2,000

Dividend income			6,000	6,000
	48,200	2,000	6,000	56,200
Interest paid	(300)			(300)
Personal allowance	(12,570)			(12,570)
Taxable income	35,330	2,000	6,000	43,330

Income tax: 35,330 at 20%	7,066
500 at 0%	0
1,500 (2,000 – 500) at 20%	300
500 at 0%	0
5,500 (6,000 – 500) at 33.75%	1,856
Tax liability	9,222
PAYE	(7,126)
Income tax payable	2,096

- Joe is a higher rate taxpayer, so his savings income nil rate band is £500.
- The dividend nil rate band uses up the remaining basic rate band of £370 (37,700 – 35,330 – 500 - 1,500).

The savings income and dividend nil rate bands will mean that many taxpayers do not have any tax liability in respect of savings and dividend income.

Example 10

For the tax year 2024-25, Ming has property income of £26,700, savings income of £700 and dividend income of £300. Her income tax liability is:

	Non-savings income	**Savings income**	**Dividend income**	**Total**
	£	**£**	**£**	**£**
Property income	26,700			26,700
Savings income		700		700
Dividend income			300	300
	26,700	700	300	27,700
Personal allowance	(12,570)			(12,570)

Taxable income	14,130	700	300	15,130
	______	___	___	______
Income tax: 14,130 at 20%				2,826
700 at 0%				0
300 at 0%				0
				______
Tax liability				2,826
				______

Ming is a basic rate taxpayer, so her savings income nil rate band is £1,000. This is restricted to the actual savings income of £700. Likewise, all of her dividend income is taxed at 0% because it falls within the £500 dividend nil rate band.

The availability of the dividend nil rate band (together with the savings income nil rate band) may reduce overall tax for married couples and couples in civil partnerships.

Example 11

Nigel and Nook are a married couple. For the tax year 2024-25, Nigel will have a salary of £140,000 and savings income of £400. Nook will have a salary of £60,000 and dividend income of £950.

Nigel is an additional rate taxpayer, so he does not receive any savings income nil rate band. Nook, as a higher rate taxpayer, has an unused savings income nil rate band of £500. Transferring the savings to Nook will therefore save income tax of £180 (400 at 45%) for 2024-25.

Nook has fully utilised her dividend nil rate band of £500, but Nigel's nil rate band is unused. Transferring sufficient investments to Nigel so that he receives £450 of the dividend income will therefore save income tax of £152 (450 at 33.75%) for 2024-25.

Transferable amount of personal allowance

The transferable amount of personal allowance (also known as the marriage allowance or marriage tax allowance) is £1,260 for the tax year 2024-25. This fixed amount can be transferred between spouses (or registered civil partners) provided neither is a higher rate or additional rate taxpayer.

The benefit is given to the recipient as a reduction from their income tax liability at the basic rate of tax, so the tax reduction is therefore £252 (1,260 at 20%). If the recipient's tax liability is less than £252, then the tax reduction is restricted so that the recipient's tax liability is not reduced below zero.

Example 12

Paul and Rai are a married couple. For the tax year 2024-25, Rai has a salary of £38,000 and Paul has a trading profit of £10,000. They have made an election to transfer the fixed amount of personal allowance from Paul to Rai.

Paul's personal allowance is reduced to £11,310 (12,570 – 1,260), and, because this is higher than his trading profit of £10,000, he does not have any tax liability.

Rai's income tax liability is:

	£
Employment income	38,000
Personal allowance	(12,570)
Taxable income	25,430
Income tax: 25,430 at 20%	5,086
Personal allowance tax reduction (1,260 at 20%)	(252)
Tax liability	4,834

Child benefit income tax charge

Child benefit is a tax-free payment that can be claimed in respect of children. The tax charge effectively removes the benefit for those on higher incomes.

The lower income limit has been increased from £50,000 to £60,000, with the higher income limit increased from £60,000 to £80,000. The income tax charge is now 1% of the amount of child benefit received for every £200 of income over £60,000 (previously, it was 1% for every £100 of income).

For people whose adjusted net income exceeds £80,000, the amount of the income tax charge is equivalent to the amount of child benefit received.

Example 13

For the tax year 2024-25, Mavis has a trading profit of £72,000. She received child benefit of £2,213 during the year.

Mavis' adjusted net income of £72,000 is between £60,000 and £80,000. The child benefit income tax charge is therefore £1,328 (2,213 x 60% ((72,000 – 60,000)/200)). The charge will be added to Mavis' income tax liability for 2024-25.

Example 14

For the tax year 2024-25, Cecil has a salary of £84,000. He received child benefit of £1,331 during the year.

Cecil's adjusted net income of £84,000 exceeds £80,000, so the child benefit income tax charge is £1,331, being the amount of child benefit received. The charge will be added to Cecil's income tax liability for 2024-25.

Employment income

Company car benefit

The company car percentages are unchanged for the tax year 2024-25.

- The percentage for electric cars with zero CO_2 emissions is 2%.

- For hybrid-electric cars with CO_2 emissions between 1 and 50 grams per kilometre, the electric range of a car is relevant in determining the car benefit percentage, as follows:

Electric range	
130 miles or more	2%
70 to 129 miles	5%
40 to 69 miles	8%
30 to 39 miles	12%

Less than 30 miles	14%

- For a car with a CO_2 emission rate of between 51 and 54 grams per kilometre, the percentage is 15%.

- A 16% base percentage applies once CO_2 emissions reach a base level of 55 grams per kilometre.

- The base percentage of 16% rises in 1% steps for each 5 grams per kilometre above the base level of 55 grams per kilometre, up to a maximum of 37%.

- There is a 4% surcharge for diesel cars which do not meet the real driving emissions 2 (RDE2) standard. Company diesel cars meeting the RDE2 standard are treated as if they were petrol cars. The percentage rates (including the lower rate of 15%) are increased by 4% for diesel cars which do not meet the standard, but not beyond the maximum percentage rate of 37%.

The company car benefit information which will be given in the tax rates and allowances section of the examination for exams in the period 1 June 2025 to 31 March 2026 is:

Car benefit percentage

The relevant base level of CO_2 emissions is 55 grams per kilometre. The percentage rates applying to petrol cars (and diesel cars meeting the RDE2 standard) with CO_2 emissions up to this level are:

51 grams to 54 grams per kilometre	15%
55 grams per kilometre	16%

The percentage for electric cars with zero CO_2 emissions is 2%.

For hybrid-electric cars with CO_2 emissions between 1 and 50 grams per kilometre, the electric range of a car is relevant:

Electric range	
130 miles or more	2%
70 to 129 miles	5%
40 to 69 miles	8%
30 to 39 miles	12%
Less than 30 miles	14%

Example 15

During the tax year 2024-25, Fashionable plc provided the following employees with company cars:

Amanda was provided with a hybrid-electric company car throughout the tax year 2024-25. The car has a list price of £32,200, an official CO_2 emission rate of 24 grams per kilometre and an electric range of 90 miles.

Betty was provided with a new diesel company car throughout the tax year 2024-25. The car has a list price of £16,400 and an official CO_2 emission rate of 99 grams per kilometre. The car meets the RDE2 standard.

Charles was provided with a new diesel company car on 6 August 2024. The car has a list price of £13,500 and an official CO_2 emission rate of 102 grams per kilometre. The car does not meet the RDE2 standard.

Diana was provided with a new petrol company car throughout the tax year 2024-25. The car has a list price of £84,600 and an official CO_2 emission rate of 178 grams per kilometre. Diana paid Fashionable plc £1,200 during the tax year 2024-25 for the use of the car.

Amanda

With CO_2 emissions between 1 and 50 grams per kilometre, the electric range of the car is relevant. This is between 70 and 129 miles, so the relevant percentage is 5%. The car was available throughout 2024-25, so the benefit is £1,610 (32,200 x 5%).

Betty

The CO_2 emissions are above the base level figure of 55 grams per kilometre. The CO_2 emissions figure of 99 is rounded down to 95 so that it is divisible by five. The minimum percentage of 16% is increased in 1% steps for each five grams per kilometre above the base level, so the relevant percentage is 24% (16% + 8% ((95 – 55)/5)). The 4% surcharge for diesel cars is not applied because the RDE2 standard is met. The car was available throughout 2024-25, so the benefit is £3,936 (16,400 x 24%).

Charles

The CO_2 emissions are above the base level figure of 55 grams per kilometre. The relevant percentage is 29% (16% + 9% ((100 – 55)/5) + 4% (charge for a diesel car not meeting the RDE2 standard)). The car was only available for eight months of 2024-25, so the benefit is £2,610 (13,500 x 29% x 8/12).

Diana

The CO_2 emissions are above the base level figure of 55 grams per kilometre. The relevant percentage is 40% (16% + 24% ((175 – 55)/5)), but this is restricted to the maximum of 37%. The car was available throughout 2024-25, so the benefit is £30,102 ((84,600 x 37%) – 1,200). The contribution by Diana towards the use of the car reduces the benefit.

Company van benefit

The annual scale charge used to calculate the benefit where an employee is provided with a company van is unchanged at £3,960.

Vans producing zero CO_2 emissions (zero emission vans) have a zero-benefit charge.

Company car fuel benefit

The fuel benefit is calculated as a percentage of a base figure which is announced each year. For the tax year 2024-25, the base figure is unchanged at £27,800.

The percentage used in the calculation is exactly the same as that used for calculating the related company car benefit.

Example 16

Continuing with **example 15**.

Amanda was provided with fuel for private use between 6 April 2024 and 5 April 2025.

Betty was provided with fuel for private use between 6 April 2024 and 31 December 2024.

Charles was provided with fuel for private use between 6 August 2024 and 5 April 2025.

Diana was provided with fuel for private use between 6 April 2024 and 5 April 2025. She paid Fashionable plc £600 during the tax year 2024-25 towards the cost of private fuel, although the actual cost of this fuel was £1,000.

Amanda

Amanda was provided with fuel for private use throughout 2024-25, so the benefit is £1,390 (27,800 x 5%).

Betty

Betty was provided with fuel for private use for nine months of 2024-25, so the benefit is £5,004 (27,800 x 24% x 9/12).

Charles

Charles was provided with fuel for private use for eight months of 2024-25, so the benefit is £5,375 (27,800 x 29% x 8/12).

Diana

Diana was provided with fuel for private use throughout 2024-25, so the benefit is £10,286 (27,800 x 37%). There is no reduction for the contribution made by Diana because the cost of private fuel was not fully reimbursed.

Company van fuel benefit

The fuel benefit where private fuel is provided for a company van is unchanged at £757.

There is no fuel benefit for a company van which produces zero CO_2 emissions (a zero-emission van).

Approved mileage allowances

Approved mileage allowances rates are unchanged, with a rate of 45p per mile for the first 10,000 business miles, and 25p per mile for business mileage in excess of 10,000 miles.

Official rate of interest

The official rate of interest is used when calculating the taxable benefit arising from a beneficial loan or from the provision of living accommodation costing in excess of £75,000.

For exams in the period 1 June 2025 to 31 March 2026, the actual official rate of interest of 2.25% for the tax year 2024-25 will be used.

Basis of assessment for unincorporated businesses

From the tax year 2024-25 onwards, sole traders and partners are assessed on a tax year basis; that is, the profits arising in the tax year from 6 April to 5 April (or 1 April to 31 March).

For example, if a business prepares accounts to 5 April (or 31 March), then the trading profit for the year ended 5 April 2025 (or 31 March 2025) will be assessed in the tax year 2024-25.

Trading profits will have to be time apportioned (on a monthly basis) if accounts are not made up to 5 April (or 31 March).

Example 17

Swati makes up her accounts to 30 June each year. Her trading profits are:

	£
Year ended 30 June 2024	61,700
Year ended 30 June 2025 (forecast)	69,500

For the tax year 2024-25, Swati will be assessed on profits for the period 6 April 2024 to 5 April 2025. The assessment is therefore £67,550 ((61,700 x 3/12) + (69,500 x 9/12)).

There are no longer any tax advantages when it comes to the choice of accounting date (for example, 5 April compared to a date early in the tax year such as 30 April), although an accounting date of 5 April (or 31 March) is more straightforward given it ties in with the tax year. It therefore means there is no need to apportion trading profits.

Use of provisional figures

If trading profits need to be time apportioned (where accounts are not prepared to 5 April or 31 March), it is quite possible that figures for the second accounting period will not be finalised (or even prepared) before the related self-assessment tax return needs to be submitted (31 January 2026 being the final deadline for the tax year 2024-25).

In these circumstances, estimated figures will have to be used to establish the trading profit for the second accounting period. Once figures are finalised, the self-assessment tax return will have to be amended. This can be done within 12 months of the filing date (31 January 2027 being the amendment deadline for the tax year 2024-25).

Commencement and cessation

With the tax year basis, assessments on commencement and cessation are quite straightforward.

For a commencement during the tax year 2024-25, the assessment will run from the date of commencement to 5 April 2025. For a cessation during the tax year 2024-25, the assessment will run from 6 April 2024 to the date of cessation.

Example 18

Zyair commenced trading on 1 November 2024. Her trading profit for the year ended 31 October 2025 is £64,800.

Jelani ceased trading on 31 January 2025. Her trading profit for the year ended 31 January 2025 is £23,400.

For the tax year 2024-25, Zyair will be assessed on profits of £27,000 (64,800 x 5/12). This is for the five-month period from 1 November 2024 to 5 April 2025.

Jelani will be assessed on profits of £19,500 (23,400 x 10/12). This is for the ten-month period from 6 April 2024 to 31 January 2025.

Capital allowances

The move to a tax year basis has not changed the way in which capital allowances are treated. They are still deducted in calculating the trading profit figure.

Example 19

Jahzara has a trading profit (before capital allowances) of £89,400 for the year ended 5 April 2025. Her capital allowances for the tax year 2024-25 total £12,300.

Jahzara's assessment for the tax year 2024-25 is £77,100 (89,400 – 12,300).

Partnerships

The move to a tax year basis has not changed the way in which profits are allocated between partners.

Example 20

Absko, Bishara and Gathii are in partnership, with Gathii having joined the partnership on 1 December 2024. Profits are shared equally. The partnership's trading profit for the year ended 31 March 2025 is £180,000.

The partners' assessments for 2024-25 are:

	Absko	**Bishara**	**Gathii**
	£	**£**	**£**
1 April to 30 November 2024			
180,000 x 8/12 x 1/2	60,000	60,000	
1 December 2024 to 31 March 2025			
180,000 x 4/12 x 1/3	20,000	20,000	20,000
Assessments	80,000	80,000	20,000

- A 31 March year end is treated exactly the same as a 5 April year end, despite five days falling into the tax year 2023-24.
- Gathii is treated as commencing on 1 December 2024.

Trading losses

The move to a tax year basis has not changed the way in which trading losses are relieved. If accounts are prepared to 5

April (or 31 March), the treatment of a trading loss is quite straightforward.

Example 21

Mansa made a trading loss of £25,800 for the year ended 5 April 2025.

Mansa's trading loss can be relieved against her total income for the tax year 2024-25 and/or the tax year 2023-24.

Any unrelieved loss will be carried forward and set against Mansa's first available trading profits.

If accounts are not prepared to 5 April (or 31 March), some (or even all) of a trading loss might be utilised against a time apportioned trading profit.

Example 22

Thandie made a trading loss of £22,200 for the year ended 31 December 2024. Her forecast trading profit for the year ended 31 December 2025 is £34,700.

For the tax year 2024-25, Thandie will have an available trading loss of £7,975 ((22,200 x 9/12) - (34,700 x 3/12)).

The available trading loss of £7,975 can be relieved against total income or carried forward.

- If the trading profit for the year ended 31 December 2025 had been £66,600 or greater, then no loss relief would have been available for the tax year 2024-25 (((22,200 x 9/12) - (66,600 x 3/12)) = Nil).

Transition profits

The tax year 2023-24 was the transitional year from the old (current year) basis of assessment to the tax year basis (from the tax year 2024-25 onwards). A sole trader or partner who did not prepare accounts to 5 April (or 31 March) might have had higher profits for 2023-24 compared to if the old basis had continued to apply.

In these circumstances, the sole trader or partner was only assessed on the lower profits calculated under the old basis. The excess profits, called the transition profits, are taxed by spreading them over a period of five years starting with the tax year 2023-24.

For example, the transitional assessment for the tax year 2023-24 was £110,000, but the assessment would have only been £60,000 if the old basis had continued to apply. The transition profits are £50,000, with £10,000 (50,000/5) assessed for each of the tax years 2023-24 to 2027-28.

You are not expected to calculate transition profits, but you do need to know how a given amount of transition profit is subject to tax during any of the tax years 2024-25 to 2027-28.

Transition profits are included in the income tax computation of a sole trader or partner as a separate entry. They can impact on the availability of the personal allowance.

Example 23

For the tax year 2024-25, Nini has a trading profit of £95,000 and a transitional profit of £10,000. Her income tax liability is:

		£
Trading profit		95,000
Transition profit		10,000
		105,000
Personal allowance		(10,070)
Taxable income		94,930
Income tax:	37,700 at 20%	7,540
	57,230 at 40%	22,892
Tax liability		30,432

- Nini’s personal allowance of £12,570 is reduced to £10,070 (12,570 – 2,500 ((105,000 – 100,000)/2)).

The strict calculation of tax on the transitional profits is actually more complicated than shown above. The legislation actually provides that the income tax on the transitional profits is calculated separately and added into the income tax computation in the bottom half of the computation. For the purposes of your TX-UK exam, questions will always be set such that you can use the simpler calculation which is set out above.
It is possible to override the five-year spreading of transition profit, but **this aspect is not examinable.** Transition profits might also interact with the pension annual allowance, the child benefit income tax charge and the cap on income tax reliefs. However, **none of these interactions is examinable.**

Capital allowances

Annual investment allowance

The annual investment allowance (AIA) limit of £1,000,000 has been made permanent.

The AIA provides an allowance of 100% for the first £1,000,000 of expenditure on plant and machinery in a 12-month period. Any expenditure in excess of the £1,000,000 limit qualifies for writing down allowances (WDA) as normal. The AIA applies to all expenditure on plant and machinery with the exception of cars. The £1,000,000 limit is proportionally reduced or increased where a period of account is shorter or longer than 12 months. For example, for the three-month period ended 31 December 2024, the AIA limit would be £250,000 (1,000,000 x 3/12).

Example 24

Ling prepares accounts to 31 March and has elected to use the accruals rather than the cash basis. On 1 April 2024, the tax written down value of plant and machinery in her main pool is £16,700.

The following transactions took place during the year ended 31 March 2025:

		Cost/ (Proceeds) £
8 April 2024	Purchased car (1)	15,600
14 April 2024	Purchased car (2)	10,100

12 August 2024	Purchased equipment	98,750
2 September 2024	Purchased car (3)	28,300
19 November 2024	Purchased car (4)	16,800
12 December 2024	Sold car (2)	(8,300)

- Car (1) purchased on 8 April 2024 has CO_2 emissions of 40 grams per kilometre. This car is used by Ling and 20% of the mileage is for private journeys.

- Car (2) purchased on 14 April 2024 and sold on 12 December 2024 has CO_2 emissions of 75 grams per kilometre.

- Car (3) purchased on 2 September 2024 has CO_2 emissions of 45 grams per kilometre.

- Car (4) purchased on 19 November 2024 is a new electric car with zero CO_2 emissions.

Ling's capital allowance claim for the year ended 31 March 2025 is:

		Main pool	**Car (1)**	**Special rate pool**	**Allowances**
	£	**£**	**£**	**£**	**£**
WDV brought forward		16,700			
Addition qualifying for AIA					
Equipment	98,750				
AIA – 100%	(98,750)				98,750
	______	0			
Other additions					
Car (1)			15,600		
Car (2)				10,100	
Car (3)		28,300			
Proceeds – Car (2)				(8,300)	
		______	______	______	
		45,000	15,600	1,800	
WDA - 18%		(8,100)			8,100
WDA - 18%			(2,808) x 80%		2,246
WDA – 6%				(108)	108
Addition qualifying for FYA					
Car (4)	16,800				
FYA - 100%	(16,800)				16,800
	______	0			
		______	______	______	
WDV carried forward		36,900	12,792	1,692	
		______	______	______	

Total allowances	126,004

- Car (1) is kept separately because there is private use by Ling. This car has CO_2 emissions between 1 and 50 grams per kilometre and therefore qualifies for writing down allowances at the rate of 18%.

- Car (2) had CO_2 emissions over 50 grams per kilometre and therefore qualifies for writing down allowances at the rate of 6%. Even though it is the only asset in the special rate pool, there is no balancing allowance on the disposal of this car because the expenditure is included in a pool.

- Car (3) has CO_2 emissions between 1 and 50 grams per kilometre and therefore qualifies for writing down allowances at the rate of 18% in the main pool.

- Car (4) has zero CO_2 emissions and therefore qualifies for the 100% first year allowance.

Zero-emission cars

New cars with zero CO_2 emissions qualify for the 100% first year allowance, so the cost is effectively deducted as an expense in the year of purchase.

If provided as company cars and the 2% car benefit percentage is available, there are minimal income tax implications for the employee and only a very small amount of class 1A national insurance contributions (NICs) payable for the employer.

Providing low-emission cars as company cars is therefore very beneficial, especially for directors who are also 100% shareholders in their own companies.

Structures and buildings allowance

The annual straight-line allowance is unchanged at 3%, with relief being given over a 33⅓ year period (33 years and four months).

The structures and buildings allowance (SBA) is only available where a building (or structure) has been constructed on or after 29 October 2018 (the date of the 2018 Budget). However, a question **will only be set** where construction is on or after 6 April 2020 (1 April 2020 for limited companies).

Example 25

Hipster Ltd has an accounting reference date of 31 March. On 1 July 2024, the company purchased a newly constructed factory from a builder for £470,000 (including land of £110,000). The factory was brought into use on 1 September 2024.

The qualifying expenditure for SBA is £360,000 (470,000 – 110,000). The factory was brought into use on 1 September 2024, so the SBA for the year ended 31 March 2025 is £6,300 (360,000 at 3% x 7/12).

An allowance of £10,800 (360,000 at 3%) will be given in subsequent years.

Relief is also given for the cost of subsequent improvements, or where a building is renovated or converted.

Example 26

Ballpoint Ltd has an accounting reference date of 31 March. The company renovated a disused warehouse (originally purchased in 2011) at a cost of £82,000, with the warehouse subsequently brought into use on 1 January 2025.

The renovation expenditure qualifies for relief. As the warehouse was brought into use on 1 January 2025, the SBA for the year ended 31 March 2025 is £615 (82,000 at 3% x 3/12).

The original cost of the warehouse does not qualify for the SBA, being purchased prior to 29 October 2018. Even if it had qualified, the SBA for the renovation expenditure would have been kept entirely separate from the SBA on the original cost.

Unlike plant and machinery, there is no balancing charge or balancing allowance when a building (or structure) that has qualified for the SBA is sold. Instead, the purchaser simply continues to claim the 3% allowance for the remainder of the 33⅓ year period based on original cost.

However, on a disposal, the allowances that have been claimed are effectively clawed back by adding them to the sales proceeds in order to determine the chargeable gain or allowable loss arising.

Example 27

Continuing with **example 25**.

Hipster Ltd sold its factory to Gentrified Ltd on 31 March 2025 for £500,000 (including land of £120,000). Gentrified Ltd also has an accounting reference date of 31 March.

The sale of the factory will not affect Hipster Ltd's SBA claim for the year ended 31 March 2025. From the year ended 31 March 2026 onwards, Gentrified Ltd will claim £10,800 (360,000 at 3%) annually based on the original cost to Hipster Ltd. The SBA will run for the remaining 32 years and nine months of the 33⅓ year period that commenced on 1 September 2024.

Hipster Ltd's sale proceeds of £500,000 will be increased by the allowance claimed of £6,300. The chargeable gain on the disposal will therefore be £36,300 (500,000 + 6,300 – 470,000).

You should assume that for any question involving the purchase (as opposed to a new construction) of a building, the SBA is not available unless stated otherwise.

Enhanced capital allowances for companies only, are covered in more detail in the corporation tax section of this article.

The capital allowances information which will be given in the tax rates and allowances section of the examination for exams in the period 1 June 2025 to 31 March 2026 is:

Capital allowances: rates of allowance

Plant and machinery	
Main pool	18%
Special rate pool	6%
Cars	
New cars with zero CO_2 emissions	100%
Second-hand cars with zero CO_2 emissions	18%

CO_2 emissions between 1 and 50 grams per kilometre	18%
CO_2 emissions over 50 grams per kilometre	6%

Annual investment allowance

Rate of allowance	100%
Expenditure limit	£1,000,000

Enhanced capital allowances for companies

Main pool first year allowance	100%
Special rate pool first year allowance	50%

Structures and buildings allowance

Straight line allowance	3%

Cash basis

Sole traders and partnerships (limited companies are excluded) can use the simplified cash basis to calculate their trading profit.

Previously, the cash basis could only be used where annual revenue was below £150,000, but this restriction has been removed – so the cash basis can now be used by all sole traders and partnerships.

Also, the cash basis has been made the default method for calculating trading profit. In any question involving the calculation of trading profit for a sole trader or partnership, **the cash basis is therefore applicable unless the question states otherwise.**

Although a sole trader or partnership can still use the accruals basis to calculate trading profit, they now have to elect if they wish to do so.

Other restrictions have also been removed:

- Interest costs were previously subject to a maximum deduction of £500 – this limit no longer applies, so interest costs are fully deductible.

- Losses incurred under the cash basis are now relievable in exactly the same way as accruals basis losses. Previously, a cash basis loss could not be relieved against total income or carried back.

With the cash basis, receivables, payables and inventory are ignored. Expenditure is generally treated in the same manner regardless of whether it is capital or revenue in nature. So, purchases of equipment are deducted as an expense, whilst the proceeds from any disposals are included with receipts.

However, the cost of cars is not deductible:

- A business can use HM Revenue and Customs (HMRC) approved mileage allowances to calculate the deduction for business mileage. If approved mileage allowances are claimed, the actual running and capital costs of owning a motor car are ignored – so no claim for capital allowances

- If approved mileage allowances are not used, actual running costs and capital allowances are claimed instead.

Previously, for any question involving the cash basis, it was assumed that approved mileage allowances were claimed rather than actual running costs and capital allowances. Given that the cash basis is now the default basis, a question could require the use of either basis for car costs, although the question will state which is to be used.

Trading profit (or loss) under the cash basis is therefore calculated as follows:

	£
Receipts (including the sale of equipment)	xxxx
Expense payments (including the purchase of equipment)	(xxxx)
Capital allowances on cars (if mileage allowances not claimed)	(xxxx)
Trading profit (or loss)	xxxx

Example 28

Winifred commenced self-employment on 6 April 2024. The following information is available for the year ended 5 April 2025:

(1) Revenue was £62,600, of which £3,800 was owed as receivables at 5 April 2025.

(2) On 6 April 2024, office equipment was purchased for £4,700.

(3) On 10 April 2024, a car (with CO_2 emissions of 40 grams per kilometre) was purchased for £15,600. The car is used by Winifred, and 60% of the mileage is for private journeys.

(4) Car expenses were £4,800. During the year ended 5 April 2025 Winifred drove 9,000 business miles. If trading profit is calculated using the cash basis, Winifred will claim HMRC approved mileage allowances.

(5) Other expenses (all allowable) were £13,300, of which £700 was owed as payables at 5 April 2025.

Using the cash basis, Winifred's trading profit for the year ended 5 April 2025 will be £37,450:

	£
Revenue (62,600 – 3,800)	58,800
Expenses	
Office equipment	(4,700)
Car expenses (9,000 miles at 45p)	(4,050)
Other expenses (13,300 – 700)	(12,600)
Trading profit	37,450

If Winifred elects to use the accruals basis, her trading profit for the year ended 5 April 2025 will be £41,557:

	£
Revenue	62,600
Expenses	
Car expenses (4,800 x 40%)	(1,920)
Other expenses	(13,300)
Capital allowances:	
Office equipment (4,700 x 100%)	(4,700)
Car (15,600 x 18% x 40%)	(1,123)
Trading profit	41,557

- The office equipment qualifies for the annual investment allowance.

- The car has CO_2 emissions between 1 and 50 grams per kilometre and therefore qualifies for writing down allowances at the rate of 18%.

Although the cash basis removes complexities such as accruals and most capital allowances, it will be unsuitable for some unincorporated businesses, especially larger ones. The accruals basis is a more accurate reflection of a period's trading profit, so banks and other financial institutions may insist on this basis being used.

Individual savings accounts

The individual savings account (ISA) investment limit for the tax year 2024-25 is unchanged at £20,000. The £20,000 limit is completely flexible, so a person can invest £20,000 in a cash ISA, or they can invest £20,000 in a stocks and shares ISA, or in any combination of the two – such as £10,000 in a cash ISA and £10,000 in a stocks and shares ISA.

The availability of the savings income nil rate band for basic and higher rate taxpayers means that there is no tax benefit to investing in cash ISAs for many individuals. However, cash ISAs are advantageous for additional rate taxpayers and for other individuals where their savings income nil rate band is already utilised.

The availability of the dividend nil rate band means that there is no tax advantage to receiving dividend income within a stocks and shares ISA for individuals with dividend income of £500 or less. However, chargeable gains made within a stocks and shares ISA are exempt from capital gains tax. Stocks and shares ISAs are therefore advantageous where chargeable gains are made in excess of the annual exempt amount.

National insurance contributions (NIC)

Class 1 and class 1A NIC

For the tax year 2024-25, the main rate of employee class 1 NIC has been reduced to 8%. The additional rate is unchanged at 2%. The main rate of 8% will be paid on earnings between £12,570 per year and £50,270 per year, and the additional rate of 2% is paid on all earnings over £50,270 per year.

The rate of employer's class 1 NIC is unchanged at 13.8%, and is paid on all earnings over £9,100 per year. Note that this limit is not aligned with the employee limit.

The rate of class 1A NIC which employers pay on taxable benefits provided to employees is also unchanged at 13.8%.

Employment allowance

The annual employment allowance for the tax year 2024-25 is unchanged at £5,000. This can be used by businesses to reduce the amount of employer's class 1 NIC which is paid to HMRC. For example, if a business's total employer's class 1 NIC for the tax year 2024-25 is £5,600, then only £600 (5,600 – 5,000) will be paid to HMRC. If total employer's class 1 NIC is £5,000 or less, then the liability will be nil. The employment allowance is not available:

- To companies where a director is the sole employee; or
- Where employers' contributions are £100,000 or more for the previous tax year (2023-24).

The class 1 and class 1A NIC information which will be given in the tax rates and allowances section of the examination for exams in the period 1 June 2025 to 31 March 2026 is:

National insurance contributions

Class 1 Employee	£1 - £12,570 per year	Nil
	£12,571 - £50,270 per year	8%
	£50,271 and above per year	2%
Class 1 Employer	£1 - £9,100 per year	Nil
	£9,101 and above per year	13.8%
	Employment allowance	£5,000
Class 1A		13.8%

Example 29

Simone Ltd has three employees who are each paid £60,000 per year. One of the employees was provided with the following taxable benefits during the tax year 2024-25:

£

Company car	6,300
Car fuel	6,950
Living accommodation	1,800

The class 1 and class 1A NIC liabilities are:

	£
Employee class 1 NIC	
37,700 (50,270 – 12,570) at 8%	3,016
9,730 (60,000 – 50,270) at 2%	195
	3,211
Total employee class 1 NIC (3,211 x 3)	9,633
Employer's class 1 NIC	
50,900 (60,000 – 9,100) at 13.8%	7,024
Total employer's class 1 NIC (7,024 x 3)	21,072
Employment allowance	(5,000)
Payable amount	16,072
Employer's class 1A NIC	
15,050 (6,300 + 6,950 + 1,800) at 13.8%	2,077

Class 2 NIC

Class 2 NIC has been removed for most taxpayers and will not be examined.

Class 4 NIC

The main rate of class 4 NIC has been reduced to 6%. The additional rate is unchanged at 2%. The main rate of 6% will be paid on profits between £12,570 and £50,270, and the additional rate of 2% is paid on all profits over £50,270.

For the tax years 2024-25 to 2027-28, the amount of profits subject to class 4 NIC will include any transition profit.

The class 4 NIC information which will be given in the tax rates and allowances section of the examination for exams in the period 1 June 2025 to 31 March 2026 is:

National insurance contributions

Class 4	£1 - £12,570 per year	Nil
	£12,571 - £50,270 per year	6%
	£50,271 and above per year	2%

Example 30

Jimmy and Jenny are both self-employed. Their trading profits for the tax year 2024-25 are respectively £25,000 and £58,000. In addition, Jenny has a transition profit of £2,000. Their class 4 NIC liabilities are:

		£
Jimmy	12,430 (25,000 – 12,570) at 6%	746
Jenny	37,700 (50,270 – 12,570) at 6%	2,262
	9,730 (58,000 + 2,000 – 50,270) at 2%	195
		2,457

Pension schemes

Annual allowance

The annual allowance for the tax years 2023-24 and 2024-25 has been increased from £40,000 to £60,000. The annual allowance was £40,000 for the tax years 2021-22 and 2022-23.

Although the annual allowance was increased for the tax year 2023-24, it was not examinable that year because the relevant legislation did not receive Royal Assent by the exam cut-off date.

For the tax year 2023-24, the annual allowance is reduced by £1 for every £2 by which a person's adjusted income exceeds £260,000, down to a minimum tapered annual allowance of £10,000. Therefore, a person with adjusted income of £360,000 or more, will only be entitled to an annual allowance of £10,000 (60,000 – ((360,000 – 260,000)/2) = £10,000).

A question **will not be set** involving the tapering of the annual allowance for earlier tax years, although a prior-year tapered allowance might be provided within a question.

Tapering applies on a tax year basis, so a taxpayer with variable income might find themselves entitled to the full annual allowance in some years, and a tapered annual allowance in other years.

The definition of adjusted income is net income plus any employee contributions to occupational pension schemes (these will have been deducted in calculating net income) plus any employer contributions to either occupational or personal pension schemes. For the self-employed, adjusted income will simply be net income.

Example 31

For the tax year 2024-25, Juliet has a trading profit of £306,000. She has never previously been a member of a pension scheme.

Juliet's tapered annual allowance for 2024-25 is £37,000 (60,000 – ((306,000 – 260,000)/2)).

Carry forward

If the annual allowance is not fully used in any tax year, then it is possible to carry forward any unused allowance for up to three years.

It is possible to use brought forward unused annual allowances in the tax year 2024-25 if a tapered annual allowance applies for this year. However, it is the tapered annual allowance for 2024-25 which is used to establish whether any carried forward is available from this year to future tax years.

Carry forward is only possible if a person is a member of a pension scheme for a particular tax year. Therefore, for any year in which a person is not a member of a pension scheme the annual allowance is lost.

Example 32

Monica and Nicola have made the following gross personal pension contributions during the tax years 2021-22, 2022-23 and 2023-24:

	Monica	**Nicola**
	£	**£**
2021-22	Nil	40,000
2022-23	32,000	19,000
2023-24	28,000	Nil

Monica was not a member of a pension scheme for the tax year 2021-22. Nicola was a member of a pension scheme for all three tax years. Neither Monica nor Nicola has sufficient income for their annual allowances to be tapered.

Monica

Monica has unused allowances of £8,000 (40,000 – 32,000) from 2022-23 and £32,000 (60,000 – 28,000) from 2023-24, so, with the annual allowance of £60,000 for 2024-25, a total of £100,000 (60,000 + 8,000 + 32,000) is available for 2024-25. She was not a member of a pension scheme for 2021-22, so the annual allowance for that year is lost.

Nicola

Nicola has unused allowances of £21,000 (40,000 – 19,000) from 2022-23 and £60,000 from 2023-24, so, with the annual allowance of £60,000 for 2024-25, a total of £141,000 (60,000 + 21,000 + 60,000) is available for 2024-25. The annual allowance for 2021-22 is fully utilised. Nicola was a member of a pension scheme for 2023-24 so the annual allowance for that year is available in full.

The annual allowance for the tax year 2024-25 is utilised first, then any unused allowances from earlier years with those from the earliest year used first.

Example 33

Perry has made the following gross personal pension contributions:

	£
2021-22	22,000
2022-23	31,000
2023-24	39,000
2024-25	68,000

Perry does not have sufficient income for his annual allowance to be tapered.

The pension contribution of £68,000 for 2024-25 has used all of Perry's annual allowance of £60,000 for 2024-25 and £8,000 (68,000 – 60,000) of the unused allowance of £18,000 (40,000 – 22,000) from 2021-22. Perry therefore has unused allowances of £9,000 (40,000 – 31,000) from 2022-23 and £21,000 (60,000 – 39,000) from 2023-24 to carry forward to 2025-26 - a total of £30,000 (9,000 + 21,000). The remaining unused allowance of £10,000 (18,000 - 8,000) from 2021-22 cannot be carried forward to 2025-26 because this is more than three years ago.

Example 34

Chong has made the following gross personal pension contributions:

	£
2021-22	32,000
2022-23	31,000
2023-24	39,000
2024-25	9,000

Chong's adjusted income for the tax year 2024-25 is £390,000, but for previous tax years he did not have sufficient income for his annual allowance to be tapered.

Chong's tapered annual allowance for 2024-25 is the minimum of £10,000 because his adjusted income exceeds £360,000. Chong therefore has unused allowances of £9,000 (40,000 – 31,000) from 2022-23, £21,000 (60,000 – 39,000) from 2023-24 and £1,000 (10,000 - 9,000) from 2024-25 to carry forward to 2025-26 - a total of £31,000 (9,000 + 21,000 + 1,000).

Although tax relief is available on personal pension contributions up to the amount of earnings for a particular tax year, the annual allowance acts as an effective annual limit. Where tax relieved contributions are paid in excess of the annual allowance (including any brought forward unused allowances), then there will be an annual allowance charge. This charge is subject to income tax at a person's marginal rates.

Example 35

For the tax year 2024-25, Frank has a trading profit of £125,140 and made gross personal pension contributions of £65,000. He does not have any brought forward unused annual allowances. Frank's income tax liability is:

	£
Trading profit	125,140
Personal allowance	(12,570)
Taxable income	112,570
Income tax: 102,700 (37,700 + 65,000) at 20%	20,540
9,870 (112,570 – 102,700) at 40%	3,948
Annual allowance charge	
5,000 (65,000 – 60,000) at 40%	2,000
Tax liability	26,488

- Frank has earnings of £125,140 for 2024-25. All of the pension contributions of £65,000 therefore qualify for tax relief.

- Frank's adjusted income is clearly less than £260,000, so the full annual allowance of £60,000 is available for 2024-25.

- The annual allowance charge of £5,000 is the excess of the pension contributions over the annual allowance.

- Frank will have paid £52,000 (65,000 less 20%) to the personal pension company.

- Higher rate tax relief is given by extending the basic rate tax band to £102,700 (37,700 + 65,000).

Lifetime allowance

The lifetime allowance has been abolished and the maximum tax free lump sum which can be taken on retirement will not be examined.

The pension scheme information which will be given in the tax rates and allowances section of the examination for exams in the period 1 June 2025 to 31 March 2026 is:

Pension scheme limits

Annual allowance	– 2021-22 and 2022-23	£40,000
	- 2023-24 and 2024-25	£60,000
Minimum allowance		£10,000
Income limit		£260,000

The maximum contribution which can qualify for tax relief without any earnings is £3,600.

Capital gains tax

Annual exempt amount

The annual exempt amount for the tax year 2024-25 has been reduced from £6,000 to £3,000.

Rates of capital gains tax

The lower rate and the higher rate of capital gains tax for the tax year 2024-25 are unchanged at 10% and 20%. The higher residential property rate has been reduced from 28% to 24%. The lower residential property rate is unchanged at 18%. These apply where a gain arising from the disposal of residential property is not fully covered by private residence relief.

Taxable gains are taxed at the lower rate of 10% (or 18%) where they fall within the basic rate band of £37,700, and at the higher rate of 20% (or 24%) where they exceed this threshold. The basic rate band is extended if a person pays personal pension contributions or makes a gift aid donation.

Example 36

For the tax year 2024-25, Adam has a salary of £44,000. During the year, he made net personal pension contributions of £4,400. On 15 June 2024, Adam sold an antique table and this resulted in a chargeable gain of £12,500.

For the tax year 2024-25, Bee has a trading profit of £60,000. On 20 August 2024, she sold an antique vase and this resulted in a chargeable gain of £10,800.

For the tax year 2024-25, Chester has a salary of £43,500. On 31 October 2024, he completed the sale of a residential property and this resulted in a chargeable gain of £38,000.

Adam

Adam's taxable income is £31,430 (44,000 less the personal allowance of 12,570). His basic rate tax band is extended to £43,200 (37,700 + 5,500 (4,400 x 100/80)), of which £11,770 (43,200 – 31,430) is unused.

Adam's taxable gain of £9,500 (12,500 less the annual exempt amount of 3,000) is fully within the unused basic rate tax band, so his capital gains tax liability is therefore £950 (9,500 at 10%). This will be due on 31 January 2026.

Bee

Bee's taxable income is £47,430 (60,000 - 12,570), so all of her basic rate tax band has been used. The capital gains tax liability on her taxable gain of £7,800 (10,800 - 3,000) is therefore £1,560 (7,800 at 20%). This will be due on 31 January 2026.

Chester

Chester's taxable income is £30,930 (43,500 - 12,570), so £6,770 (37,700 – 30,930) of his basic rate tax band is unused. The capital gains tax liability on Chester's taxable gain of £35,000 (38,000 - 3,000) is therefore:

	£
6,770 at 18%	1,219
28,230 at 24%	6,775
Tax liability	7,994

Assuming Chester's income for the tax year 2024-25 was correctly estimated at the time of the residential property disposal, his capital gains tax liability of £7,994 will have been paid within 60 days of the completion date (30 December 2024), with no adjustment necessary under the self-assessment system.

Where a person has both residential property gains and other gains, then the annual exempt amount and any capital losses should initially be deducted from the residential property gains. This approach will save capital gains tax at either 18% or 24%, compared to either 10% or 20% if used against the other gains.

However, any unused basic rate tax band should initially be allocated to other gains (non-residential property gains) because there is a differential of 10% between the 10% and 20% rates, compared to a 6% differential (18% to 24%) for residential property gains.

Example 37

For the tax year 2024-25, Douglas does not have any income. On 15 June 2024, he sold an antique vase and this resulted in a chargeable gain of £19,000. On 28 August 2024, he sold a residential property and this resulted in a chargeable gain of £30,500.

Ignoring the payment on account in respect of the residential property gain, Douglas' capital gains tax liability is:

		£
Residential property gain		30,500
Annual exempt amount		(3,000)
		27,500
Other gain		19,000
Capital gains tax:	19,000 at 10%	1,900
	18,700 (37,700 – 19,000) at 18%	3,366
	8,800 (27,500 – 18,700) at 24%	2,112
Tax liability		7,378

- The annual exempt amount is set against the residential property gain.

- The basic rate band is initially allocated to the other gain of £19,000.

- If the basic rate band had initially been allocated to the residential property gain, then the capital gains tax liability would have been higher at £7,730:

	£
27,500 at 18%	4,950
10,200 (37,700 – 27,500) at 10%	1,020
8,800 (19,000 – 10,200) at 20%	1,760
	7,730

Business asset disposal relief

Business asset disposal relief can be claimed when an individual disposes of a business or a part of a business. For the tax year 2024-25, the lifetime qualifying limit is unchanged at £1 million.

Gains qualifying for business asset disposal relief are taxed at a rate of 10% regardless of the level of a person's taxable income.

Example 38

On 25 January 2025, Michael sold a 30% shareholding in Green Ltd, an unquoted trading company. The disposal resulted in a chargeable gain of £800,000. Michael had owned the shares since 1 March 2018 and was an employee of the company from that date until the date of disposal.

He has taxable income of £8,000 for the tax year 2024-25.

Michael's capital gains tax liability is:

	£
Shareholding in Green Ltd	800,000
Annual exempt amount	(3,000)
Taxable gain	797,000
Capital gains tax: 797,000 at 10%	79,700

Although chargeable gains which qualify for business asset disposal relief are always taxed at a rate of 10%, they must be taken into account when establishing the rate which applies to other chargeable gains. Chargeable gains qualifying for business asset disposal relief therefore reduce the amount of any unused basic rate tax band.

The annual exempt amount and any capital losses should initially be deducted from those chargeable gains which do not qualify for business asset disposal relief (giving preference to any residential property gains). This approach could save capital gains tax at 20% (18% or 24% if residential property gains are involved), compared to just 10% if used against chargeable gains which do qualify for relief.

There are several ways of presenting computations involving such a mix of chargeable gains, but the simplest approach is to keep chargeable gains qualifying for business asset disposal relief and other chargeable gains separate.

Example 39

On 30 September 2024, Mika sold a business which she had run as a sole trader since 1 January 2018. The sale resulted in the following chargeable gains:

	£
Goodwill	260,000
Freehold office building	370,000
Freehold warehouse	170,000
	800,000

The warehouse had never been used by Mika for business purposes.

Mika has taxable income of £8,000 for the tax year 2024-25. She has unused capital losses of £31,000 brought forward from the tax year 2023-24.

Mika's capital gains tax liability is:

	£
Gains qualifying for business asset disposal relief	
Goodwill	260,000
Freehold office building	370,000

	630,000
Other gains	
Freehold warehouse	170,000
Annual exempt amount	(3,000)
	167,000
Capital losses brought forward	(31,000)
	136,000
Capital gains tax: 630,000 at 10%	63,000
136,000 at 20%	27,200
Tax liability	90,200

- The annual exempt amount and the capital losses are set against the chargeable gain on the sale of the freehold warehouse because this does not qualify for business asset disposal relief.

- £29,700 (37,700 – 8,000) of Mika's basic rate tax band is unused, but this is set against the gains qualifying for business asset disposal relief.

Where the £1 million lifetime limit is exceeded, gains in excess of the limit will be subject to the normal rates of capital gains tax.

Example 40

On 10 December 2024, Raj sold a 45% shareholding in Splash Ltd, an unquoted trading company. The disposal resulted in a chargeable gain of £1,300,000 which qualifies for business asset disposal relief. Raj is a higher rate taxpayer and has not made any previous disposals qualifying for relief.

Raj's capital gains tax liability is:

	£
Shareholding in Splash Ltd	1,300,000
Annual exempt amount	(3,000)

Taxable gain	1,297,000
Capital gains tax	
1,000,000 at 10%	100,000
297,000 (1,297,000 – 1,000,000) at 20%	59,400
	159,400

Investors' relief

Investors' relief effectively extends business asset disposal relief to external investors in trading companies which are not listed (unquoted) on a stock exchange.

However, investors' relief has its own separate £10 million lifetime limit (compared to the business asset disposal relief lifetime limit of £1 million). Qualifying gains are taxed at a rate of 10%. To qualify for investors' relief, shares must be:

- Newly issued shares acquired by subscription after 17 March 2016; and
- Owned for at least three years after 6 April 2016.

With certain exceptions (such as being an unremunerated director) the investor must not be an employee or a director of the company whilst owning the shares.

Example 41

On 20 June 2021, Winnie subscribed for 150,000 £1 ordinary shares (a 2% shareholding) in Unquote Ltd, an unquoted trading company, at their par value.

She has never been an employee or director of the company. Winnie sold the 150,000 shares in Unquote Ltd for £760,000 on 15 December 2024.

Winnie's shareholding in Unquote Ltd does not qualify for business asset disposal relief because the 5% shareholding condition is not met and she was not an employee or director of the company. However, the conditions for investors' relief are met, including the three-year holding period requirement.

Winnie’s capital gains tax liability is:	
	£
Shareholding in Unquote Ltd (760,000 – 150,000)	610,000
Annual exempt amount	(3,000)
Taxable gain	607,000
Capital gains tax: 607,000 at 10%	60,700

The capital gains tax information which will be given in the tax rates and allowances section of the examination for exams in the period 1 June 2025 to 31 March 2026 is:

Capital gains tax: tax rates

	Normal rates	**Residential property**
Lower rate	10%	18%
Higher rate	20%	24%
Annual exempt amount		£3,000

Capital gains tax: Business asset disposal relief and investors’ relief

Lifetime limit - Business asset disposal relief	£1,000,000
- Investors’ relief	£10,000,000
Rate of tax	10%

Inheritance tax

Rates of inheritance tax

The nil rate band for the tax year 2024-25 is unchanged at £325,000.

A residence nil rate band applies where a main residence is inherited on death by direct descendants (children and grandchildren). For the tax year 2024-25, the residence nil rate band is also unchanged at £175,000.

The residence nil rate band is only relevant where an individual dies on or after 6 April 2017 and their estate includes a main residence. Any other type of property, such as a property which has been let out, does not qualify for the residence nil rate band.

Example 42

Sophie died on 26 May 2024 leaving an estate valued at £850,000. Under the terms of her will, Sophie's estate was left to her children. The estate included a main residence valued at £325,000.

The inheritance tax (IHT) liability is:

		£
Chargeable estate		850,000
		_______
IHT liability	500,000 (175,000 + 325,000) at nil%	0
	350,000 at 40%	140,000
		_______
		140,000
		_______

The residence nil rate band of £175,000 is available because Sophie's estate included a main residence and this was left to her direct descendants.

In the same way in which any unused normal nil rate band can be transferred to a surviving spouse (or registered civil partner), the residence nil rate band is also transferable. It does not matter when the first spouse died.

Example 43

Timothy died on 19 June 2024 leaving an estate valued at £860,000. Under the terms of his will, Timothy's estate was left to his children. The estate included a main residence valued at £450,000.

Timothy's wife had died on 5 May 2013. She used all of her nil rate band.

Timothy's IHT liability is:

	£
Chargeable estate	860,000

IHT liability	675,000 (350,000 + 325,000) at nil%	0
	185,000 at 40%	74,000
		74,000

- Timothy's personal representatives can claim his deceased wife's unused residence nil rate band of £175,000.

- The amount of residence nil rate band is therefore £350,000 (175,000 + 175,000).

The value of the main residence is after deducting any repayment mortgage or interest-only mortgage secured on that property.

If a main residence is valued at less than the available residence nil rate band, then the residence nil rate band is reduced to the value of the residence.

Example 44

Una died on 10 July 2024 leaving an estate valued at £625,000. Under the terms of her will, Una's estate was left to her children. The estate included a main residence valued at £225,000 on which there was an outstanding interest-only mortgage of £130,000.

Una's IHT liability is:

		£
Chargeable estate		625,000
IHT liability	420,000 (95,000 + 325,000) at nil%	0
	205,000 at 40%	82,000
		82,000

The value of Una's main residence is £95,000 (225,000 – 130,000), so the residence nil rate band is restricted to this amount.

The residence nil rate band does not apply to lifetime transfers becoming chargeable as a result of the donor's death within seven years.

Example 45

Maud died on 22 April 2024 leaving an estate valued at £775,000. Under the terms of her will, Maud's estate was left to her grandchildren. The estate included a main residence valued at £435,000.

On 30 April 2022, Maud had made a potentially exempt transfer of £400,000 (after the deduction of annual exemptions) to her son.

IHT liabilities are:

Potentially exempt transfer

		£
Potentially exempt transfer		400,000
		________
IHT liability	325,000 at nil%	0
	75,000 at 40%	30,000
		________
		30,000
		________

Death estate

		£
Chargeable estate		775,000
		________
IHT liability	175,000 at nil%	0
	600,000 at 40%	240,000
		________
		240,000
		________

Given that the residence nil rate band is only available where inheritance is by direct descendants, rearranging the terms of a will can save IHT.

Example 46

Victor has an estate valued at £1,400,000, including a main residence valued at £550,000. He has not made any lifetime gifts. Victor's wife died on 17 May 2014 and all of her estate was left to Victor. Under the terms of his will, Victor has left his main residence to his brother, with the residue of the estate left to his children.

Currently, Victor's estate will benefit from a nil rate band of £650,000 (325,000 + 325,000). The residence nil rate band is not available because the main residence will not be inherited by a direct descendant.

Victor could amend the terms of his will so that his brother inherited £550,000 of other assets, with the main residence being included within the residue. A residence nil rate band of £350,000 (175,000 + 175,000) would then be available, saving IHT of £140,000 (350,000 at 40%).

There is no reason why Victor's brother could not purchase the main residence from the children following Victor's death.

A question will make it clear if the residence nil rate band is available. Therefore, you should assume that the residence nil rate band is not available if there is no mention of a main residence.

The inheritance tax information which will be given in the tax rates and allowances section of the examination for exams in the period 1 June 2025 to 31 March 2026 is:

Inheritance tax: tax rates

Nil rate band		£325,000
Residence nil rate band		£175,000
Rates of tax on excess	- Lifetime rate	20%
	- Death rate	40%

Inheritance tax: taper relief

Years before death	**Percentage reduction**
More than 3 but less than 4 years	20%
More than 4 but less than 5 years	40%

More than 5 but less than 6 years	60%
More than 6 but less than 7 years	80%

Where earlier nil rate bands may be relevant, they will be given to you within the question.

Corporation tax

Rates of corporation tax

For the financial year 2022, the rate of corporation tax was 19%. This single rate applied regardless of the level of a company's profits.

For the financial years 2023 and 2024, there are two rates of corporation tax:

- A small profits rate of 19% which applies where a company's augmented profits do not exceed a lower limit of £50,000; and

- A main rate of 25% which applies where a company's augmented profits are £250,000 or more (the upper limit).

The lower and upper limits are proportionately reduced for short accounting periods and also according to the number of associated companies.

Marginal relief

Marginal relief eases the transition from the small profits rate to the main rate of corporation tax where augmented profits fall between £50,000 and £250,000.

Corporation tax is calculated at the main rate of 25%, with this figure then reduced by marginal relief. The formula for calculating marginal relief is:

$$(\text{Upper limit} - \text{Augmented profits}) \times \text{Standard fraction} \times \frac{\text{Taxable total profits}}{\text{Augmented profits}}$$

The standard fraction for the financial years 2023 and 2024 is 3/200.

If no dividends are received, the final part of the formula (Taxable total profits/Augmented profits) can be omitted since both taxable total profits and augmented profits are the same amount.

Example 47

For the year ended 31 March 2025, Easy Ltd has taxable total profits of £40,000 and dividends from non-group companies of £3,000.

For the year ended 31 March 2025, Moderate Ltd has taxable total profits of £240,000 and dividends from non-group companies of £14,000.

For the year ended 31 March 2025, Difficult Ltd has taxable total profits of £180,000.

For the year ended 31 March 2025, Complicated Ltd has taxable total profits of £180,000 and dividends from non-group companies of £24,000.

Easy Ltd

Corporation tax is £7,600 (40,000 at 19%) as the augmented profits of £43,000 (40,000 + 3,000) are less than the lower limit of £50,000.

Moderate Ltd

The augmented profits of £254,000 (240,000 + 14,000) are more than the upper limit of £250,000. Corporation tax is therefore £60,000 (240,000 at 25%).

Difficult Ltd

Marginal relief applies as the augmented profits of £180,000 are between the lower and upper limits of £50,000 and £250,000 respectively. Difficult Ltd’s corporation tax liability is:

	£
180,000 at 25%	45,000
Marginal relief (250,000 - 180,000) x 3/200	(1,050)
Corporation tax	43,950

If there are no dividends, the effective marginal rate of corporation tax on profits that fall between the £50,000 and £250,000 limits is 26.5%. Therefore, corporation tax could also be calculated as:

	£
50,000 at 19%	9,500
130,000 (180,000 - 50,000) at 26.5%	34,450
Corporation tax	43,950

This high marginal rate of corporation tax is important when it comes to considering loss relief and group relief claims (see later). It should be noted, however, that the overall rate of corporation tax will always be less than 25%. For Difficult Ltd, it is 43,950/180,000 x 100 = 24.42%

Complicated Ltd

Marginal relief applies as the augmented profits of £204,000 (180,000 + 24,000) are between the lower and upper limits. Complicated Ltd's corporation tax liability is:

	£
180,000 at 25%	45,000
Marginal relief (250,000 - 204,000) x 3/200 x 180,000/204,000	(609)
Corporation tax	44,391

The short cut approach which can be used with Difficult Ltd cannot be used here because Complicated Ltd has received dividends. The dividends reduce the amount of available marginal relief.

For Complicated Ltd, the overall rate of corporation tax is 44,391/180,000 x 100 = 24.66%.

Short accounting periods

The lower and upper limits are proportionately reduced if a company's accounting period is less than 12 months in length.

Example 48

For the nine-month period ended 31 March 2025, Shorter Ltd has taxable total profits of £44,000 and dividends from non-group companies of £2,000.

Marginal relief applies as the augmented profits of £46,000 (44,000 + 2,000) are between the lower and upper limits of £37,500 (50,000 x 9/12) and £187,500 (250,000 x 9/12) respectively. Shorter Ltd's corporation tax liability is:

	£
44,000 at 25%	11,000
Marginal relief (187,500 - 46,000) x 3/200 x 44,000/46,000	(2,030)
Corporation tax	8,970

Associated companies

The lower and upper corporation tax limits are effectively shared if a company has associated companies.

Example 49

For the year ended 31 March 2025, Hold Ltd has taxable total profits of £60,000 and has two associated companies.

Hold Ltd has two associated companies, so the lower and upper limits are reduced to £16,667 (50,000/3) and £83,333 (250,000/3) respectively. Marginal relief therefore applies.

Hold Ltd's corporation tax liability is:

	£
60,000 at 25%	15,000
Marginal relief (83,333 - 60,000) x 3/200	(350)
Corporation tax	14,650

Incorporation and profit extraction decisions

Given the increased rates of corporation tax, NIC changes and the tax rates which apply to dividend income, incorporating the business of a sole trader or partnership will not necessarily result in a tax saving. These tax rates also impact on the decision whether to extract profits from a company either as director's remuneration or as dividends.

Example 50

Sam is currently self-employed. If he continues to trade on a self-employed basis, his trading profit for the year ended 5 April 2025 is forecast to be £100,000. Based on this figure, Sam's total income tax liability and NICs for the tax year 2024-25 will be £30,689.

Sam is considering incorporating his business on 6 April 2024. The forecast taxable total profits of the new limited company for the year ended 5 April 2025 will be £100,000. After paying corporation tax, Sam will withdraw all of the profits by paying himself dividends during the tax year 2024-25.

The new company's corporation tax liability (assuming the rates and thresholds of corporation tax for the financial year 2024 continue to apply) will be:

	£
100,000 at 25%	25,000
Marginal relief	
(250,000 - 100,000) x 3/200	(2,250)
Corporation tax	22,750

Sam will therefore be able to withdraw dividends of £77,250 (100,000 – 22,750). His income tax liability will be:

		£
Dividend income		77,250
Personal allowance		(12,570)
Taxable income		64,680
Income tax:	500 at 0%	0
	37,200 (37,700 – 500) at 8.75%	3,255
	26,980 (64,680 – 37,700) at 33.75%	9,106
Tax liability		12,361

The total tax cost if Sam incorporates his business is £35,111 (22,750 + 12,361). This is £4,422 (35,111 – 30,689) more than if Sam continues to trade on a self-employed basis.

Incorporation can, however, provide other tax advantages. For example, the corporation tax rate on profits remaining undrawn within a company is a maximum of 26.5% (the rate will vary slightly if a company has dividends). This compares to the higher and additional rates of 40% and 45% which are payable by a sole trader or partners.

When it comes to deciding whether to extract a bonus as additional director’s remuneration or by taking dividends, the dividend route has traditionally been optimal (due to the lower rates of tax on dividends, the nil rate band and the fact that dividends are not subject to NIC). However, this may no longer be the case.

Example 51

Zoey is a director (she is the sole employee) and 100% shareholder in Zoot Ltd. For the tax year 2024-25, Zoey wants to take a bonus of £10,000 from Zoot Ltd either as additional director's remuneration or as an additional dividend.

For the tax year 2024-25, Zoey is a higher rate taxpayer having already taken gross director’s remuneration of £60,000 and dividends of £20,000 (the dividend nil rate band has therefore already been utilised) from Zoot Ltd.

Director’s remuneration

The director’s remuneration (£10,000) and related employer class 1 NICs (£1,380 being 13.8% of £10,000) are deducted in calculating Zoot Ltd’s trading profit. The amount of corporation tax payable by Zoot Ltd will reduce at either 19% or 25% or 26.5% depending on the amount of augmented profits in Zoot Ltd. Thus the tax saving to Zoot Ltd will be either £782, £1,465 or £1,636 depending on Zoot Ltd’s profit level(£11,380 at 19% or 25% or 26.5% less the cost of £1,380 in NIC).

Zoey will pay income tax at the rate of 40% and employee class 1 NICs at the rate of 2%, so her liability will increase by £4,200 (42% of £10,000).
The net tax cost will be either £3,418, £2,735 or £2,564.

Dividend

If Zoot Ltd pays a dividend of £10,000 to Zoey, there will be no corporation tax or NIC implications to the company.

However, Zoey will pay tax of £3,375 on this extra £10,000 of dividend (33.75% of 10,000). Therefore, whether the dividend alternative is preferable will depend on the rate of corporation tax paid by Zoot Ltd.

The corporation tax information which will be given in the tax rates and allowances section of the examination for exams in the period 1 June 2025 to 31 March 2026 is:

Corporation tax

Financial year	**2022**	**2023**	**2024**
Small profits rate	N/A	19%	19%
Main rate	19%	25%	25%
Lower limit	N/A	£50,000	£50,000
Upper limit	N/A	£250,000	£250,000
Standard fraction	N/A	3/200	3/200

Marginal relief

$$(\text{Upper limit} - \text{Augmented profits}) \times \text{Standard fraction} \times \frac{\text{Taxable total profits}}{\text{Augmented profits}}$$

Quarterly instalments

Profit threshold	£1,500,000

Enhanced capital allowances for companies only

Companies can benefit from enhanced capital allowances when they purchase **new** plant and machinery:

- For expenditure which would fall into the main pool, there is a 100% first year allowance (FYA)(full expensing).

- For expenditure which would fall into the special rate pool, there is a 50% first year allowance.

- The disposal of these assets is treated differently from other assets. The proceeds on sale of those assets on which the 100% FYA had been claimed will result in a balancing charge (instead of going into the main pool). For those assets where the 50% FYA had been claimed the proceeds are split proportionately according to the amounts originally claimed as 50% FYA and AIA (see the example below).

The 50% and 100% first year allowances are not available to sole traders or partnerships. Only expenditure on new plant and machinery qualifies, not expenditure on second-hand assets. Cars do not qualify.

As regards capital allowances planning for companies:

- The 100% annual investment allowance should initially be claimed against second-hand assets – those otherwise qualifying for 6% WDA, and then those otherwise qualifying for 18% WDA.

- The 100% annual investment allowance should then be claimed on new assets falling into the special rate pool in preference to the 50% first year allowance.

- Finally, any remaining annual investment allowance should be claimed against new assets falling into the main pool. Although the amount of relief is initially exactly the same, the treatment of subsequent disposal proceeds will normally be preferable when the annual investment allowance has been claimed (proceeds deducted from the main pool) rather than when the 100% first year allowance is claimed (proceeds result in a balancing charge).

- However, the 50% and 100% first year allowances have no upper limit, so they will come into play after a company has exhausted the annual investment allowance.

Example 52

Laxze Ltd has an accounting reference date of 31 March. On 1 April 2024, the tax written down value of plant and machinery in the company's main pool and special rate pool is £0.

During the year ended 31 March 2025, Laxze Ltd purchased the following equipment:

	£
Second-hand main pool expenditure	260,000
New main pool expenditure	680,000
New special rate pool expenditure	510,000

Laxze Ltd's capital allowance claim for the year ended 31 March 2025 is:

	£
Annual investment allowance	
Second-hand expenditure (260,000 x 100%)	260,000
Special rate pool expenditure (510,000 x 100%)	510,000
Main pool expenditure ((1,000,000 – 260,000 – 510,000) x 100%)	230,000
First year allowance ((680,000 – 230,000) x 100%)	450,000
Total allowances	1,450,000

Disposals of assets where the super deduction of 130% and the SRP 50% FYA capital allowances have been claimed

Prior to the 100% first year allowance (full expensing) being available, companies could claim a super deduction of 130% on purchases of new plant and machinery which would have fallen into the main pool.

- When plant and machinery on which the 130% super deduction has been claimed is subsequently sold, the sale proceeds are not deducted from the main pool. Instead, the proceeds are brought in as a balancing charge.

- When plant and machinery (on which the 50% first year allowance has been claimed) is subsequently sold, 50% of the sale proceeds are deducted from the special rate pool, with the other 50% brought in as a balancing charge. The deduction from the special rate pool could of course also result in a balancing charge.

Example 53

Hance Ltd has an accounting reference date of 31 March. The tax written down value of Hance Ltd's main pool as at 1 April 2024 is £0. The tax written down value of the special rate pool is £28,200.

During the year ended 31 March 2025, Hance Ltd sold:

- Equipment for £42,600 on which the 130% super deduction had been claimed.

- Equipment for £72,000 on which the 50% first year allowance had been claimed.

Hance Ltd's overall balancing charge for the year ended 31 March 2025 is:

	£
Super deduction	(42,600)
First year allowance (72,000 x 50%)	(36,000)
Special rate pool (28,200 - (72,000 x 50%))	(7,800)
Overall balancing charge	(86,400)

There is a further restriction if plant and machinery is sold and enhanced capital allowances were not claimed on the full amount of initial expenditure. This restriction **will not be examined** in regard to the 130% super deduction or the 100% first year allowance (full expensing) as in most cases enhanced capital allowances will have been claimed on the full amount of expenditure.

However, when it comes to plant and machinery qualifying for the 50% first year allowance, it has often been beneficial to claim the 100% annual investment allowance in preference to the 50% first year allowance. A further restriction could therefore apply.

Example 54

Lollipop Ltd has an accounting reference date of 31 March. The tax written down value of Lollipop Ltd's special rate pool as at 1 April 2024 is £425,000.

During the year ended 31 March 2025, Lollipop Ltd sold equipment for £350,000. This equipment was originally purchased for £1,400,000, with Lollipop Ltd claiming the annual investment allowance on £1,000,000 of the expenditure, and the 50% first year allowance on the remaining £400,000.

The sale proceeds proportionate to the original purchase price on which the 50% first year allowance was claimed is:

350,000 x 400,000/1,400,000 = £100,000

Lollipop Ltd's overall balancing charge for the year ended 31 March 2025 is therefore:

	SRP	Allowances
	£	£
TWDV bfwd	425,000	
Disposal		
Part relating to 50% FYA is £100,000 (as above)		
50% of this is balancing charge		(50,000)
50% relates to SR pool	(50,000)	
Part relating to AIA (350,000-100,000)	(250,000)	
	125,000	
WDA at 6%	(7,500)	7,500
TWDV cfwd	117,500	
Overall net balancing charge		(42,500)

Administration

Late payment interest and repayment interest

The assumed rates of late payment interest and repayment interest on underpaid and overpaid income tax, class 4 NIC, capital gains tax and corporation tax are based on the actual rates in force (for income tax purposes) at 6 April 2024. For exams in the period 1 June 2025 to 31 March 2026, the assumed rate of late payment interest will therefore be 7.75% and the assumed rate of repayment interest will be 4.25%. Note that the rate of late payment interest (7.75%) is not the same as the official rate of interest (2.25%).

Value added tax (VAT)

Registration and deregistration limits

The limit of annual turnover above which VAT registration is compulsory has been increased from £85,000 to £90,000. The deregistration limit has been increased from £83,000 to £88,000.

Standard rate of VAT

The standard rate of VAT is unchanged at 20%.

Example 55

Gwen is in the process of completing her VAT return for the quarter ended 31 March 2025. The following information is available:

- Sales invoices totaling £128,000 were issued in respect of standard rated sales.
- Standard rated materials amounted to £32,400.
- Standard rated expenses amounted to £24,800.
- On 15 February 2025, Gwen purchased machinery at a cost of £24,150. This figure is inclusive of VAT.

Unless stated otherwise, all of the above figures are exclusive of VAT.

VAT Return – Quarter ended 31 March 2025

	£
Output VAT	
Sales (128,000 x 20%)	25,600

Input VAT	
Materials (32,400 x 20%)	(6,480)
Expenses (24,800 x 20%)	(4,960)
Machinery (24,150 x 20/120)	(4,025)
	______
VAT payable	10,135
	______

Written by a member of the TX-UK examining team