

February Newsletter

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Government borrowing falls as Chancellor hints at tax cuts in Spring Budget.

Government borrowing fell to £7.8 billion in December 2023 giving Chancellor Jeremy Hunt more scope to make the tax cuts he has hinted at in the Spring Budget.

The Office for National Statistics (ONS) data revealed that government borrowing for last December was around half of that borrowed in December 2022.

It also showed that interest payable on government debt fell to £4 billion in December 2023, down by £14.1 billion when compared to December 2022.

During the World Economic Forum's annual meeting in Davos, Switzerland, Mr Hunt hinted that he wants to cut taxes.

The Chancellor said:

'In terms of the direction of travel we look around the world and we note that the economies growing faster than us in North America and Asia tend to have lower taxes, and I believe fundamentally that low-tax economies are more dynamic, more competitive and generate more money for public services like the NHS.

'That's the direction of travel we would like to go in but it is too early to say what we are going to do.'
The Chancellor will present the Spring Budget on Wednesday 6 March 2024.



Tax cuts may have to be scrapped due to 'economic bind', warns IFS.

Tax cut promises may need to be scrapped as a result of the UK being in an 'unfortunate economic and fiscal bind', the Institute for Fiscal Studies (IFS) has warned.

The next government is likely to face some of the most difficult economic and fiscal choices the UK has faced outside of pandemics, conflicts and financial crises, according to an IFS report.

'The IFS said that a combination of high debt interest payments and low expected growth is forecast to make it more difficult to reduce debt as a fraction of national income than in any parliament since at least the 1950s.

The think tank also warned that whilst tax rises and cuts for public services are built into current government plans, public services are 'showing signs of strain' and are 'performing less well than they were in 2010'.

IFS Director Paul Johnson said:

Now more than ever, as a country, we face some big decisions and trade-offs over what we want the state to do and how we're going to pay for it. Those looking to form the next government should be honest about these trade-offs.

'If they are promising tax cuts, let's hear where the spending cuts will fall. If they are going to raise, or even protect, spending, they should tell us where taxes will rise. Or parties might think that further increases in government debt are justified: in which case they should make the argument for why debt should be rising.

'If to govern is to choose, then to campaign should be to present clear choices and trade-offs to the electorate. If the parties don't do that clearly and honestly over the next year, we at IFS will do what we can to plug that gap.'

HMRC sends warning to cryptoasset users.

As the use of cryptoassets continues to grow HMRC is warning people to check if they need to complete a self-assessment tax return for the 2022/23 tax year to avoid potential penalties. Anyone with cryptoassets should declare any income or gains above the tax-free allowance on a tax return.

Tax may be due when a person:

- Receives cryptoassets from employment, if they are held as part of a trade, or are involved in crypto-related activities that generate an income.
- Sells or exchanges cryptoassets, including:
 - Selling cryptoassets for money
 - Exchanging one type of cryptoasset for another
 - Using cryptoassets to make purchases
 - Gifting cryptoassets to another person
 - Donating cryptoassets to charity



Myrtle Lloyd, HMRC's Director General for Customer Services, said:

'People sometimes forget that information about crypto-related income and gains need to be included in their tax return. Some people affected may not have had to do a tax return before, so it is important people check.'

Raise VAT threshold to £100,000, says FSB.

The government should raise the turnover threshold for VAT from £85,000 to £100,000, according to the Federation of Small Businesses (FSB).

The business group said that this would give firms stepping into the VAT-paying ring crucial breathing space. It would also be an incentive to grow their turnover without fear of having to charge customers an extra 20% overnight, the FSB added.

The FSB also suggested bringing in a smoothing mechanism to ease the transition for small firms, owner-managed companies and some of the self-employed who go just over the threshold.

At the moment, thousands of small firms keep their turnover just below the £85,000 threshold, according to the Office for Budget Responsibility (OBR).

The OBR said that hundreds of millions of pounds of potential economic activity could be lost due to this 'bunching' just below the threshold.

Tina McKenzie, FSB's Policy Chair, said:

'VAT compliance flattens small firms by stifling their growth and emptying their coffers. It's crying out for a modern makeover to match today's economic landscape.'

'We can't let it squash the ambitions of small businesses, strivers, and budding entrepreneurs.'

'The flaws in our current system are glaringly obvious. We are at a breaking point – a drastic overhaul of VAT is needed.'

'Raising the threshold to reflect inflation, introducing a buffer to soften the blow for those just over the limit and demystifying the rules to save small business owners from a VAT-induced headache could unlock hundreds of millions in extra economic activity.'

Artificial Intelligence will affect jobs and worsen inequality, says IMF.

Artificial intelligence (AI) will affect almost 40% of all jobs around the world and deepen inequality, the International Monetary Fund (IMF) has warned.

In a new analysis, IMF researchers examined the potential impact of AI on the global labour market. It found that, in advanced economies, around 60% of jobs may be impacted by AI. In contrast, in emerging markets, exposure to AI is expected to affect 40% of jobs.

The IMF also suggested that AI could affect income and wealth inequality within countries. Workers able to make effective use of AI may see an increase in their wages and productivity, whilst those who cannot risk falling behind.

The IMF says policymakers should review the rise of AI in the workplace in order to prevent it from stoking social tensions. It has called for a careful balance of policies to tap into AI's potential.

Kristalina Georgieva, Managing Director at the IMF, said:

'In most scenarios, AI will likely worsen overall inequality, a troubling trend that policymakers must proactively address to prevent the technology from further stoking social tensions.

'It is crucial for countries to establish comprehensive social safety nets and offer retaining programmes for vulnerable workers. In doing so, we can make the AI transition more inclusive, protecting livelihoods and curbing inequality.'

Only a third of UK adults are confident with Self-Assessment.

Just 35% of UK adults are confident they could complete the self-assessment tax return form correctly, according to research by Standard Life.

Three in ten UK adults admit they do not feel confident they could complete the form correctly. A further 18% said they felt neither confident nor unconfident while 17% were not sure.

The research highlighted a widespread lack of awareness around self-assessment timings, with more than half not knowing when the deadline for filing is.

In addition, among those who are currently, or soon will be, in the higher income tax bracket, 41% are unaware that they might need to fill in a self-assessment tax return to claim all their pension tax relief.



Dean Butler, Managing Director for Retail Direct at Standard Life, said:

'The deadline for filing self-assessment tax returns is fast approaching, with returns needing to be submitted online by midnight on 31 January. So, if you're one of the categories of people who need to send a tax return then now is the time to act.

'Tax returns can be tempting to put off, but it's important to understand what's required and file it on time to avoid any penalties which can be costly. Tackling the forms in advance, rather than leaving it to the last minute, will give you the time to gather the information needed and make the submission as stress-free as possible.'

Over 50s bucking decline in freelance numbers.

Despite a general self-employment decline since 2020, IPSE reports a surge in over-50s starting businesses.

In 2023, their numbers rose to 1.1 million, up by 89,000 from 2020, while the overall solo self-employed fell by 154,000.

Notably, one in six of those over 50 in self-employment began their ventures within three years. Andy Chamberlain, IPSE's Policy Director, underscores that experienced professionals are attracted to the autonomy of self-employment, especially after job loss or dissatisfaction.

He suggests that those over 50, with ample experience, are particularly confident in their entrepreneurial abilities.