Financial planning practice

R06 2022–23 edition

Web update 1: 01 December 2022

Please note the following update to your copy of the **R06** study text (corrections are underlined):

Stamp duty land tax (SDLT)

As a result of the Government's Growth Plan, announced on 23 September 2022, the SDLT rates for residential property have changed from that date onwards as follows:

- The 0% band threshold has been increased from £125,000 to £250,000.
- The 0% band threshold for first-time buyers has increased from £300,000 to £425,000 and the maximum property value first-time buyers can claim relief on has increased from £500,000 to £625,000.
- The additional property rate is unchanged and remains at 3% over standard rates in line with the new bandings.

Therefore, the following content in **chapter 5, section D1E, page 5/9** should be updated as highlighted:

- The majority of buy-to-let and second home purchases in excess of £40,000 attract a surcharge of an additional 3% stamp duty land tax (SDLT). The impact of this on the purchase of a second property valued at, say, £275,000, is to increase the SDLT payable from £3,750 to £12,000 (if purchased before 23 September 2022) or from £1,250 to £9,000 (if purchased on or after 23 September 2022).

National Insurance contributions (NICs) & health and social care levy

As announced in the Growth Plan 2022, the following changes have been announced:

- The additional 1.25 percentage points previously added to all 2022/23 Class 1 and 4 NICs rates have been scrapped with effect from 6 November 2022.
- The 1.25% health and social care levy, which was due to replace the NICs increase from 2023/24, will be abandoned.

Therefore, the following changes have been made to the study text:

Chapter 4, section C3, page 4/8:

eg

Example 4.2

NICs on a company director's employment earnings of £60,000 at 12.73% of band earnings between £11,908 and £50,270 (£4,883.48) and 2.73% on earnings from employment above £50,270 (£265.63)	5,149.11
Class 4 NICs on freelance earnings above £11,908 (lower profits limit) at 2.73%***	84.41
Total tax and NICs	**31,228.02**
Net income	**68,771.98**

[…]

*** Bernie will have no Class 2 or main rate Class 4 NICs to pay on his freelance earnings as he has already reached the annual maximum as a result of his earnings from employment. He will, however, still have to pay the 2.73% Class 4 NIC additional rate on his freelance earnings in excess of the lower profits limit of £11,908 per annum (i.e. £15,000 − £11,908 = £3,092, at 2.73% = £84.41).

Chapter 4, case study: John and Margaret Williams – summary and analysis, page 4/50:

John's earnings

[…]

- NICs would be Class 2 at £163.80 flat rate (i.e. £3.15 a week), plus Class 4 at 9.73% of the excess over £11,908 = £300.85
  Total NICs on self-employed income = £464.65.

So, after tax, John's income from £15,000 self-employed earnings would be £11,535 (rounded down). However, he may be able to claim certain additional expenses, e.g. for running a car.

Margaret's potential earnings

Margaret could decide to return to work at some point:

- She would pay tax at 20% as well as employee NICs.
- For the 2022/23 tax year:
  - from 6 April 2022 to 5 July 2022, this will be at 13.25% on income between £190 and £967 per week, with 3.25% applying above £967 per week; then
  - from 6 July 2022 to 5 November 2022, this will be at 13.25% on income between £242 and £967 per week, with 3.25% applying above £967 per week; and, finally
  - from 6 November 2022 to 5 April 2023, this will be at 12% on income between £242 and £967 per week, with 2% applying above £967 per week.

[…]

Assuming that Margaret returned to work on a part-time basis and was paid, say, £20,000 a year, her net earnings after 20% income tax (£4,000) and employee NICs (around £1,035) would be £14,965.

Chapter 4, case study: John and Margaret Williams – summary and analysis, page 4/55:

- John and Margaret can make savings on their expenditure in a range of areas. They think that they can save about £12,000 on their expenditure before mortgage and insurance costs. For an employee, it takes about £1.47 to generate £1 of net income after basic rate tax and NICs. So, saving £12,000 of costs is the equivalent of earning £17,647 of taxable income. The gross investment and pension income required to meet these expenses is lower as no NICs are payable. For the self-employed, such as John, the maximum blended NICs on earnings for the 2022/23 tax year is 9.73%, making £1 net equate to around £1.42 of earnings at basic rate.
- John should be able to earn about £11,535 net a year for a few years.
- Margaret should be able to start work at some point. On a part-time basis, she might earn around a net £14,965 a year.

Chapter 6, section C3, page 6/18:

The most advantageous tax position is for a client whose pension contributions are funded by their company and who would otherwise pay tax at 40% or 45% as well as National Insurance contributions (NICs) directly or indirectly on their remuneration. Their income tax relief is therefore effectively at a theoretical maximum of 45% plus 15.05% (pre-6 November 2022) or 13.8% (6 November 2022 onwards) employer's NICs plus employee's NICs of 3.25% (pre-6 November 2022) or 2% (6 November 2022 onwards). This tax efficiency is enhanced further if, on retirement, such a client becomes a basic-rate taxpayer and consequently pays only basic rate tax on taxable pension income.

Appendix 3, case study 2, model answer for question 2, page A3/2:

	£
Income from self-employment	20,000.00
Income from dividends	2,000.00
Total taxable income	**22,000.00**
Personal allowance	12,570.00
Taxable income	**9,430.00**
Tax at 20% on £7,430 (£9,430 – £2,000)	1,486.00
Dividends of £2,000 within £2,000 dividend allowance	0.00
Net income after tax	**20,514.00**
Class 2 NICs (£3.15 × 52)	163.80
Class 4 NICs on £8,092 (£20,000 − £11,908 threshold) at 9.73%	787.35
Total NICs	**951.15**
Net income after tax and NICs	**19,562.85**

In addition, she would have children's maintenance of £25,000 a year, making a total of £44,562.85. The child maintenance is not taxable on Jackie as it is paid from Chris's taxed income.

Appendix 4, case study 3, model answer for question 7, page A4/5:

- Tony is a higher-rate taxpayer, so every extra pound he draws from the company as a salary or bonus will be taxed at 40% plus employer's NICs of 15.05% (pre-6 November 2022) or 13.8% (6 November 2022 onwards) and employee's NICs of 3.25% (pre-6 November 2022) or 13.8% (6 November 2022 onwards).
- In contrast, Julia is taxed at nil income tax on the first £12,570 of income and nil NICs up to £9,880 (rising to £12,570 from 6 July 2022). Above £12,570, she pays 20% income tax on the next £37,700. The employee's NICs at 13.25% (pre-6 November 2022) or 12% (6 November 2022 onwards) are charged up to the same threshold. The employer's NICs are charged at 15.05% (pre-6 November 2022) or 13.8% (6 November 2022 onwards) over £9,100. So, paying Julia rather than Tony will result in substantial tax and NIC savings.