No. 03

# NEWSLETTER

January 2025

## INDUSTRY DEVELOPMENTS AND ANNOUNCEMENTS. 2024 REVIEWED

Twelve months ago, we closed 2023 with cautious optimism—optimism that inflationary pressures were beginning to stabilise, providing a brighter outlook for financial markets and global economies after two years of rising prices and high interest rates. Looking back on the year, how did it pan out?

**A steady start…** While it would be an exaggeration to call the first half of 2024 smooth sailing, the easing of inflationary pressures largely materialised. This led to the first interest-rate reductions in June across Europe, the US, and the UK, although the six rate cuts some markets anticipated always seemed overly optimistic to many analysts.

***Welcome*** to our first newsletter of 2025 - we hope you enjoyed the festive season.

As always, we would love to hear your thoughts on additional content to include in the newsletter, as well as any events/thought leadership you would like to see from us.

The abolition of the Pensions Lifetime Allowance (LTA) and additional reductions to basic tax allowances and National Insurance Contributions (NIC) marked the end of the 2023/24 tax year. Then, on a particularly rainy day in May, Prime Minister Rishi Sunak surprised many by calling a General Election for 4 July.

Notably, Sunak's announcement came just one day after the IMF highlighted a £30bn gap in UK public finances, which later became the much-discussed fiscal "black hole" in the second half of the year.

**A changing political landscape...**The 4 July election delivered the widely expected outcome, with Sir Keir Starmer assuming office at No.10 shortly thereafter.

However, the timing of the election delayed the much-anticipated Budget, which was finally delivered by Rachel Reeves after a 118-day wait. Some early policy announcements in late summer included confirmation of VAT being applied to private school fees, effective from 1 January 2025 and a surprise decision to withdraw winter fuel payments for most pensioners.

By September and October, speculation surrounding the upcoming Budget intensified, with significant focus on whether Labour would maintain its manifesto pledge not to alter the four key taxes—Income Tax, NIC, Corporation Tax, and VAT—which collectively account for approximately 76% of the UK's tax revenue.

Many believed that if those core taxes remained untouched, Reeves would need to explore alternative revenue sources to address the now £22bn fiscal shortfall.

**Key announcements from the 30 October Budget...**whilst not full of major surprises, the Budget did include some measures that businesses had been hoping would not be pushed through, in particular the increase of Employer NIC by 1.2% from April 2025 and the associated lowering of the income threshold for NIC, with the latter resulting in an annual cost of £615 for an employee earning over £9,100.

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Other news included an increase to Capital Gains Tax (CGT) rates, the application of Inheritance Tax (IHT) to pension funds from April 2027, and the abolition of the non-dom tax regime from 6 April 2025, replaced by a residency-based system.

**US Election and Market Trends...**A week after the UK Budget, the US election saw a leadership change, which has, so far, been positive for market stability. At the time of writing—and with fingers crossed—the year appears set to conclude with most portfolios achieving double-digit growth over the past 12 months.

There remains a lot of uncertainty about the future, and we continue to monitor developments to determine their impact on our clients. Watch this space!

# CLARIFICATIONS AND QUESTIONS ON VAT FOR PRIVATE SCHOOL FEES

From 1 January 2025, VAT is applicable to private school fees. Questions do however remain on the interpretation of the relevant legal provisions, including the exact definition of "wholly or almost wholly" and what qualifies as a "closely related service."

Whilst there has been further clarity following the Autumn Budget, certain areas remain uncertain, and further guidance would be helpful to avoid a scenario where schools may need to seek individual rulings from HMRC.

The main insights from the Budget, based on the Technical Note published in response to the Government consultation, and the relevant legislation, are outlined below:

<u>What we know</u>

The changes took effect for school terms starting from 1 January 2025 as anticipated, despite numerous requests for a delay.

<u>What's changed?</u>

Further Education Colleges that primarily do not focus on providing education for 16-19-year-olds and do not charge fees for the majority of these students do not qualify as "Private Schools" and thus are not required to charge VAT on their fees.

Higher Education providers, including universities (but not Art Schools), are excluded from the requirement to charge VAT.

The definition of nursery classes has been revised so that nursery fees do not become subject to VAT if just one child in the class reaches compulsory school age. While this clarification was needed, further guidance may still be necessary on how to determine, "wholly (or almost wholly)". The technical note suggests this should mean a majority, but it's unclear if this is in terms of time, number, or more than 50% of all pupils.

Providers of Teaching English as a Foreign Language courses are now excluded from the "Private School" definition, meaning their fees will remain exempt from VAT, aligning with the policy aim to support these services even when profit-making.

Anti-forestalling provisions will not apply to payments made before 29 July 2024, although HMRC still intends to review payments made prior to this date.

Non-maintained special schools are effectively exempt from anti-forestalling rules for any payments made before 30 October 2024.

The connected persons test has been updated to exclude cases where an eligible body and the private school are closely linked by financial, economic, and organisational ties, likely to remove redundancy given the other connected persons criteria.

For guidance on preparing and a roadmap for next steps, please reach out to us.

# VPC PARTNER SPOTLIGHT – VISHAL PATEL

Born and raised in East London, the cricket ground is where I spent most of my days! My passion for numbers and problem-solving led me to excel in mathematics and pursue a degree in Economics at Bristol University. During my studies, an internship with JP Morgan revealed my true interest lay in accounting, not banking.

Upon graduating, I joined Shelley and Partners in Finchley, working under former ICAEW regional president Krutsna Buddhdev, who expanded my technical expertise and business acumen. After qualifying as an ACA, I progressed to Azets (formerly Wilkins Kennedy), specialising in financial services audits. Eight years at Azets were professionally rewarding, where I thrived and honed my skills. However, my fellow named partner, Prashant Chauhan, encouraged me to aim higher.

Together, we founded VPC, a well-established firm with multiple specialisms and a dedicated team. Our firm is known for its commitment to excellence, personalised service, and deep expertise. I cannot speak highly enough of our incredible team, whose hard work and passion drive our success daily.

On a personal note, my wife and I have recently welcomed our second child and moved to North West London, enjoying the green spaces and sense of community. My family's influence, especially my late father's guidance and values, continues to inspire me. We look forward to many joyful years ahead with our little devils, Aarav and Keya.