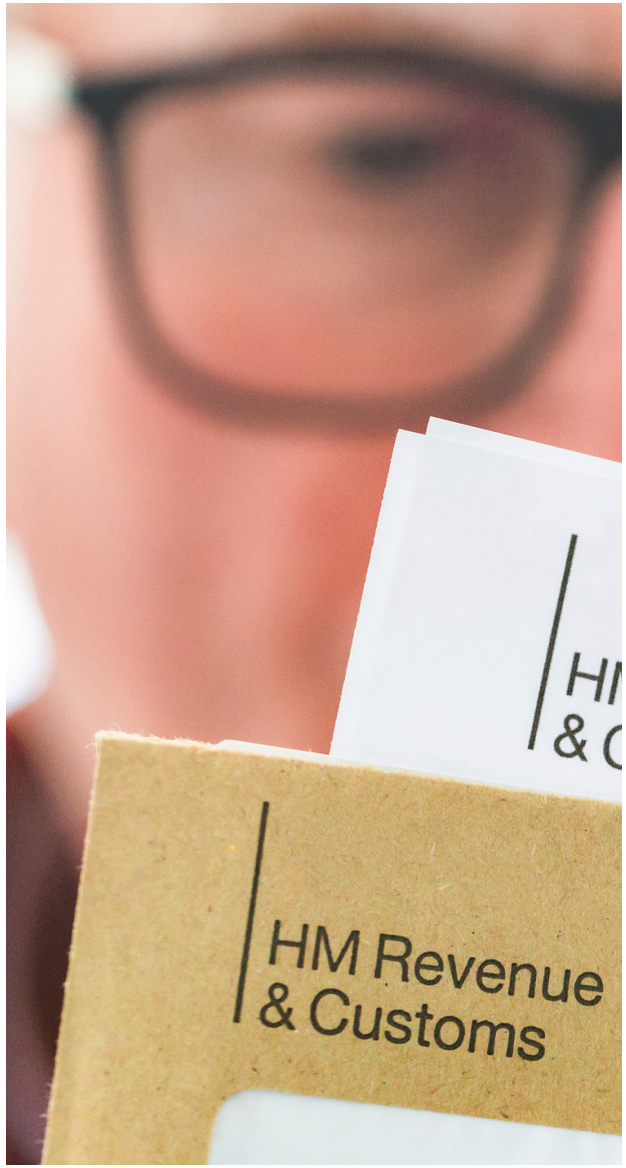


NEWS ROUND-UP

MARCH 2025

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HMRC CUTS LATE PAYMENT INTEREST TO 7%

Following the Bank of England's base rate cut to 4.5% on 6 February, HMRC will lower its late payment and repayment interest rates from 25 February.

The late payment interest rate will drop from 7.25% to 7.0%, while the repayment interest rate will decrease from 3.75% to 3.5%. These changes reflect HMRC's standard approach, where late payment interest is set at the base rate plus 2.5%, and repayment interest is set at the base rate minus 1%, with a minimum floor of 0.5%.

For corporation tax, interest on underpaid quarterly instalments will fall to 5.5% from 5.75% on 17 February – one week earlier than the main rate change. Similarly, interest on overpaid quarterly instalments and early corporation tax payments will drop to 4.25%.

Looking ahead, from 6 April 2025, HMRC will increase its premium on late payment interest, raising the surcharge from 2.5% to 4% over the base rate. Announced in last October's Budget, this move will generate £255 million a year from 2025/26, targeting tax avoidance and late payments.

Despite these adjustments, HMRC continues to pay lower interest on overpayments than on late payments. It has defended this policy by citing international tax authority practices and comparing commercial loan and deposit rates.

Talk to us about your finances.

CHANGES TO INHERITANCE TAX ON PENSIONS FROM 2027

From April 2027, unused pension pots and death benefits will be included in an individual's estate for inheritance tax (IHT) purposes.

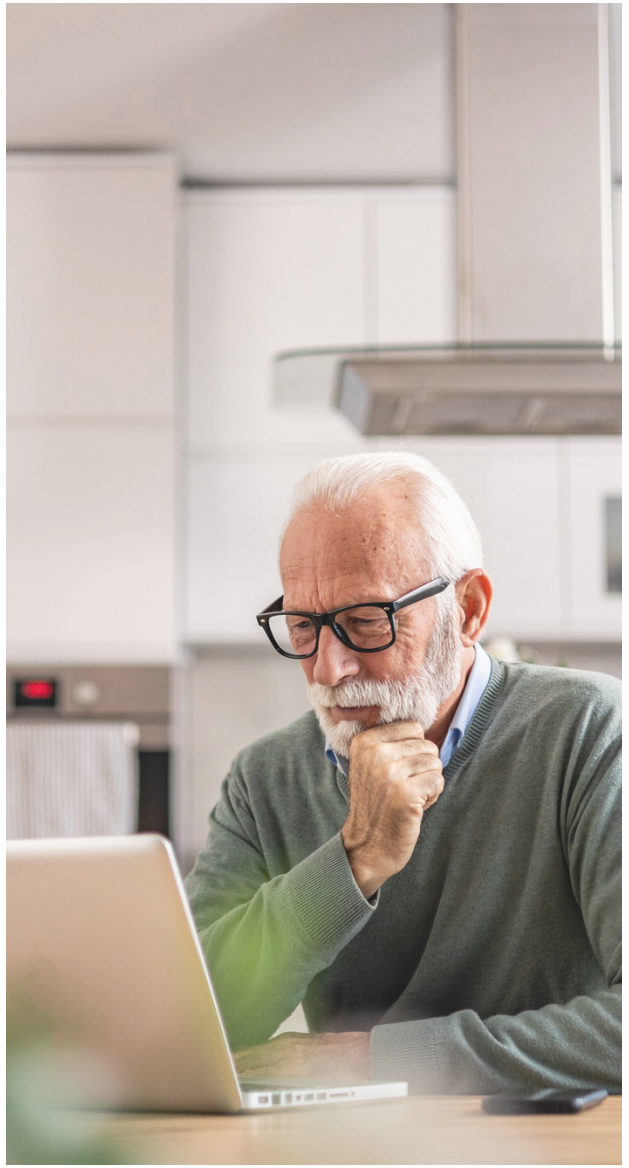
The Association of Taxation Technicians (ATT) has warned that this change, announced in the Autumn Budget, could increase costs and cause delays for around 50,000 families a year.

Pension pots are exempt from IHT rules, making them a popular tool for estate planning. Under the new system, personal representatives handling a deceased person's affairs must work with Pension Scheme Administrators (PSAs) to determine the value of any unspent pension assets and allocate allowances accordingly. Each pension fund will then be responsible for paying its share of IHT before probate can be granted.

The ATT has raised concerns that these additional administrative steps will increase the time and effort required to finalise estates. Delays in obtaining probate could create financial difficulties for beneficiaries, while the added complexity may result in higher costs for professional assistance.

The ATT has called for a separate IHT regime for pensions to reduce the impact on bereaved families. With pensions playing a key role in IHT planning, it may be worth reviewing your arrangements to ensure they remain tax-efficient. While some view tax-free pension pots as a loophole, others argue they provide a vital means of passing on wealth.

Talk to us about your pension.





BANK OF ENGLAND CUTS INTEREST RATES TO 4.5%

The Bank of England (BoE) has cut the base rate by 0.25%, bringing it to its lowest since May 2023.

Seven members of the Monetary Policy Committee (MPC) supported the move, but two pushed for a deeper cut to 4.25%.

Governor Andrew Bailey warned that inflation could climb to 3.7% this year. Despite progress in reducing inflation over the past two years, the Bank emphasised the need to keep rates at a restrictive level. Inflation currently stands at 2.5%, while GDP grew by just 0.1% in November. The Bank does not expect any significant economic growth until mid-2025.

Concerns are mounting over additional pressures on businesses, including an increase in employers' National Insurance contributions and the rise in the minimum wage from April. These changes have dampened business confidence heading into 2025.

The rate cut relieves businesses struggling with rising costs, but the UK is cutting rates slower than major global competitors. There are also fears over the potential impact of US-imposed tariffs on the EU, which could indirectly harm UK trade. Despite forecasting higher inflation, Bailey did not mention the US tariff threat in his remarks.

Talk to us about your finances.

GOVERNMENT AI ROLLOUT REQUIRES BETTER COLLABORATION

The Government's use of artificial intelligence (AI) is expanding, but departments must work together to manage risks effectively.

Cabinet Office officials recently told the Treasury Committee that AI tools are used in customer service across many Government departments. However, HMRC confirmed that its helpline advisers do not currently use AI, though it is trialling a chatbot on its website.

HMRC has used machine learning and natural language processing for over a decade in compliance targeting and debt risk prediction. Its most well-known tool, HMRC Connect, was launched in 2010 to tackle tax evasion.

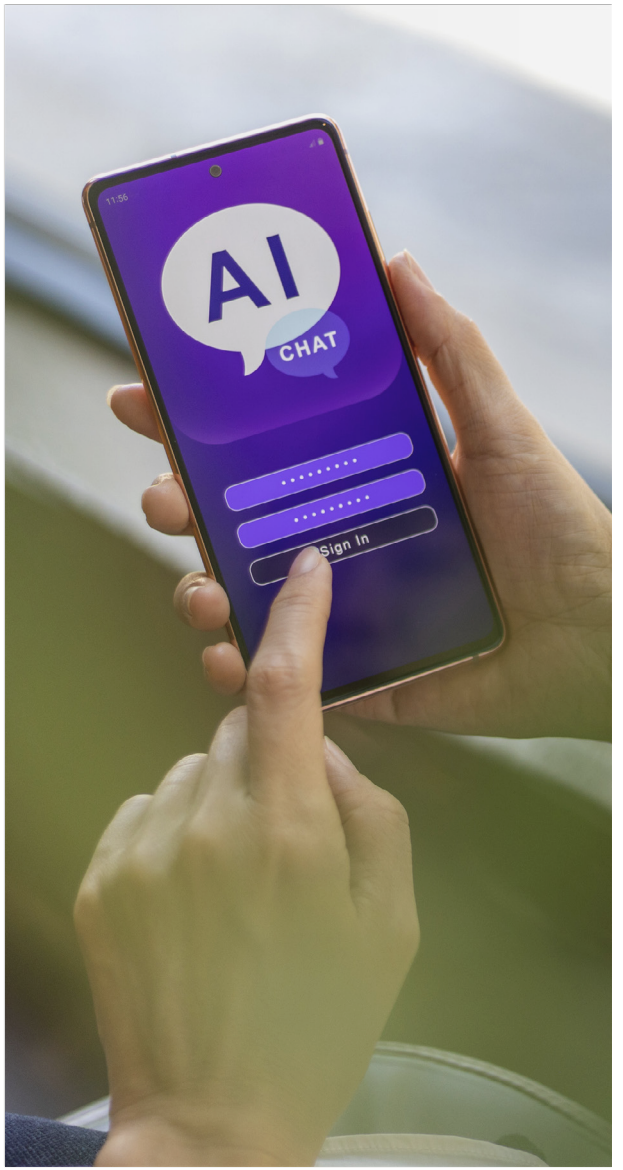
An HMRC insider said all AI initiatives follow an AI assurance, ethics, and risk management framework, which external ethics experts review. HMRC stressed that AI systems impacting taxpayers must be explainable, human-supervised, and compliant with data protection rules.

The professional standards committee, chaired by HMRC's director general for customer strategy, last met in October 2024. Independent advice has recommended forming an AI steering group to collaborate across departments and avoid a siloed approach.

HMRC's chatbot recently underwent second-phase testing with 15,000 business users. While initial feedback was positive, concerns remain over accuracy and AI 'hallucinations'. Users are warned to verify chatbot responses against GOV.UK.

Separately, the Treasury Committee has launched an inquiry into AI use in banking, pensions, and financial services. Submissions are due on 17 March.

Talk to us about your business's experience with AI.



WANT TO TALK TO AN EXPERT?

If you've found the topics covered in this report to be of interest or you would like to delve deeper into any of them, we welcome the opportunity to engage in a more detailed discussion with you. Our team of experts is always keen to share insights, and we're confident that a conversation with us can provide valuable perspective.

We are also well-positioned to update you on the latest trends, opportunities and challenges in the business world. As we all know, staying ahead of the curve is vital in today's fast-paced business landscape, and we're here to help you navigate it successfully.

If you're considering getting extra support, we invite you to explore the comprehensive solutions we offer.

To schedule a meeting or to get more information, please don't hesitate to contact us.



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