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Accountancy, tax and business advice that really makes a difference

Newsletter Summer 2022

INTRODUCTION

We seem to have thrown off the major disruption due to the COVID pandemic, but we now have other challenges to consider. For example, rising inflation and interest rates, continuing supply issues and shortages of commodities from baby food to computer chips.

These economic challenges are unlikely to be fixed anytime soon and will require ingenuity and stamina to ride out any downturn that results.

There is a broad spectrum of information in this newsletter and hopefully you will find something of use to aid your management of business or personal financial challenges.

BUSINESS

Corporation Tax increases April 2023

From 1 April 2023:

- The main Corporation Tax rate will increase to 25% where profits are over the upper profits limit, set at £250,000.
- A small profits rate will apply for companies whose profits are equal or below the lower profits limit, set at £50,000. The small profits rate is set at 19%.
- Companies with profits between the lower and upper limits (£50,000 and £250,000) will pay tax at the main rate of 25%, but this will be reduced by marginal relief. The effect of marginal relief is that the effective rate of Corporation Tax gradually increases from 19% where profits are £50,000 or less to 25% where profits are more than £250,000.

The limits are reduced if you have associated companies or if your accounting period is less than 12 months.

If your company profits are between £50,000 and £250,000, you will pay more Corporation Tax than was the case in the fiscal year ending 31 March 2022.

The amount of tax you pay will be found by multiplying your profits by the main rate of 25% and deducting marginal relief.

Marginal relief is calculated in accordance with the following formula:

F x (U – A) x N/A

Where:

- F is the standard marginal relief fraction
- U is the upper limit
- A is the amount of augmented profits
- N is the amount of the taxable profits.

For the fiscal year 2023, the marginal relief fraction is 3/200.

As you can see, the calculation of Corporation Tax due is no longer a simple 19% of taxable profits for all companies

The upper limit is £250,000. However, this is reduced if your company has associated companies or if your accounting period is less than 12 months.

Augmented profits are total taxable profits plus qualifying exempt distributions that are received from companies that are not 51% subsidiaries or owned through a consortium.

No surprises

Most of the disputes we encounter between businesses and their customers are caused when the customer receives a bill for services or goods at a price that is inconsistent with their expectations.

For example, a houseowner could ask their builder for extra radiators to their new central heating system without the agreement of a price or a formal order/ contract for the additional work.

With no written agreement of terms, it is unlikely the courts will favour the trader as the dispute will basically be one person's word against another.

Further, make sure you have clear terms and conditions regarding your provision of goods or services and ensure your customers agree to those terms and conditions as part of the sales process.

If supplier and customer have evidence that they have agreed terms, then any breach of those terms can be adjudicated by arbitration or the courts.

No surprises…

Money Laundering Supervision

We should point out that the article that follows explains which business sectors are required to be supervised by HMRC, who will ensure they comply with existing anti-money laundering regulations.

These business sectors are:

- money service businesses not supervised by the Financial Conduct Authority (FCA)
- high value dealers
- trust or company service providers not supervised by the FCA or a professional body
- accountancy service providers not supervised by a professional body
- estate agency businesses
- bill payment service providers not supervised by the FCA
- telecommunications, digital and IT payment service providers not supervised by the FCA
- art market participants
- letting agency businesses

You will need to register with HMRC if you carry out activities typically associated with these types of organisations by way of business and you are not already registered.

Stocking issues

If your business processes materials or assembles goods for sale it will need to keep a stock of items to ensure that future sales can be met.

Ideally, stock levels should be kept to a minimum such that hard won cash reserves are not tied up unnecessarily. You will need to manage stocks to cover current production needs and consider supply issues – how long will it take to replace stock.

Innovation can throw a spanner in the best laid stock management plans. You may be left with redundant stock.

When prices are falling – in deflationary times – you will not want to hold excess stocks that could be replaced by lower cost items.

Alternatively, when prices are rising – in inflationary times – the opposite applies. You might benefit from investing in increasing stocks if prices for materials are rising, subject to redundancy issues. For example, if lower cost alternatives enter the market, you may be left with redundant stock or suffer reductions in your profit margins.

Maintaining stock levels is a constant play-off between working capital and profitability issues. Unfortunately, external factors – currently, inflation and supply delays – are playing havoc with stock management. If your business is required to hold significant levels of stock and you are unsure how best to maximise the effective use of resources, please call. We can help you consider your options.

PERSONAL

Personal tax allowance is frozen for five years

Unless the Chancellor reconsiders, the present level of personal allowance – which determines how much of your income is tax-free – is fixed at £12,570 until 2026.

This means that if your income increases between now and 2026, the amount of taxable income will correspondingly increase. If the increases push your gross income above the present £50,270 limit, you may also be required to pay 40% not 20% Income Tax on any excess.

This is unfortunate if you consider the present rate of inflation.

At 10%, or higher, you will need pay increases of this amount to maintain your standard of living. But because your personal tax allowance is frozen, any increase in gross pay will be taxed. And as soon as your income exceeds £50,270 you may be promoted to be a higher rate taxpayer on the top slice – above £50,270 – of your earnings.

Your personal tax account

You can use your personal tax account – accessed via the Government Gateway – to:

- check your Income Tax estimate and tax code
- fill in, send and view a personal tax return
- claim a tax refund
- check your income from work in the previous 5 years
- check how much Income Tax you paid in the previous 5 years
- check and manage your tax credits
- check your State Pension
- track tax forms that you have submitted online
- check or update your Marriage Allowance
- tell HMRC about a change of name or address
- check or update benefits you get from work, for example company car details and medical insurance
- find your National Insurance number

But do take care when placing reliance on the reports you access. You will need to check and see if the information disclosed is based on complete and correct data.

How to pay your tax

You can pay your Self-Assessment bill directly using your online or mobile bank account.

When you are ready to pay, select the ‘pay by bank account’ option. You will then be directed to sign in to your online or mobile banking account to approve your payment.

The payment is usually instant but sometimes it takes up to two hours to show in your account.

You will need to have your online banking details ready to pay in this way.

Or you can pay using certain cards:

- There is a fee if you pay by corporate credit card or corporate debit card. The fee is not refundable.
- There is no fee if you pay by personal debit card.
- You cannot pay by personal credit card.

Use your 11-character payment reference when you pay. This is your 10-digit Unique Taxpayer Reference (UTR) followed by the letter ‘K’. You will find it either:

- in your HMRC online account
- on your paying-in slip if you get paper statements.

HMRC will accept your payment on the date you make it, not the date it reaches their account - including on bank holidays and weekends.

VAT & DUTIES

VAT Annual Accounting Scheme

Usually, VAT-registered businesses submit their VAT Returns and payments to HMRC four times a year.

With the Annual Accounting Scheme, you:

- make advance VAT payments towards

your VAT bill - based on your last return (or estimated if you are new to VAT)
- submit one VAT Return a year.

When you submit your VAT Return you either:

- make a final payment - the difference between your advance payments and actual VAT bill, or
- apply for a refund - if you have overpaid your VAT bill.

The scheme will not suit your business if you regularly reclaim VAT because you will only be able to get one refund a year (when you submit the VAT Return).

You can join the scheme if your estimated VAT taxable turnover is £1.35 million or less.

Although the idea of submitting just one VAT return a year may sound attractive, there can be cash flow downsides to this option. Please call if you would like to consider this option for your business.

What is VAT self-billing

Self-billing is an arrangement between a supplier and a customer. Both customer and supplier must be VAT registered. The customer prepares the supplier's invoice and forwards a copy to the supplier with the payment.

If you want to put a self-billing arrangement in place you do not have to tell HMRC or get approval from them. You do have to:

- get your supplier or customer to agree to the arrangement
- meet certain conditions

If you are the customer, you can set up self-billing arrangements with your suppliers as long as you can meet certain conditions, you will need to:

- enter into an agreement with each supplier
- review agreements with suppliers at regular intervals
- keep records of each of the suppliers who let you self-bill them

- make sure invoices contain the right information and are correctly issued

Your suppliers do not have to be based just in the UK. You can self-bill businesses in other countries.

You must not issue self-billed invoices to a supplier who has changed their VAT registration number until you have prepared a new self-billing agreement for them.

If a supplier stops being registered for VAT, then you can continue to self-bill them, but you cannot issue them with VAT invoices. Your self-billing arrangement with that supplier is no longer covered by the VAT regulations.

You can only have a self-billing arrangement if your supplier agrees to put one in place. If you do not have an agreement with your supplier your self-billed invoices will not be valid VAT invoices – and you will not be able to reclaim the input tax shown on them.

You will both need to sign a formal self-billing agreement. This is a legally binding document. The agreement must contain:

- your supplier's agreement that you, as the self-biller, can issue invoices on your supplier's behalf
- your supplier's confirmation that they will not issue VAT invoices for goods or services covered by the agreement (because you will be issuing the invoices for them)
- an expiry date – usually for 12 months' time but it could be the date that any business contract you have with your supplier ends
- your supplier's agreement that they will let you know if they stop being registered for VAT, get a new VAT registration number or transfer their business as a going concern
- details of any third party you intend to outsource the self-billing process to

You will need to set up a new agreement if your supplier transfers their business as a going concern and both you and the new business owner want to continue with self-billing.

If an HMRC officer wants to see the agreement you must show it to them.

NIC & PENSIONS

Dividends hit by NIC increase

A reminder that dividends are a distribution of company profits to shareholders. Historically, they have been taxed as unearned income – no National Insurance deductions.

This is still the case, but the Treasury have decided that the recent increase of 1.25% in National Insurance rates will also apply to dividends.

Any individual who has dividend income can benefit from the dividend allowance which has been set at £2,000 since April 2018. Dividends within the allowance are not charged to tax and this will remain the case.

For 2021-22, the ordinary rate, upper rate and additional rate were 7.5%, 32.5% and 38.1% respectively. These rates increased by 1.25% to 8.75% 33.75% and 39.35% from April 2022.

The dividend trust rate of Income Tax was 38.1%, 2021-22. This also increased to 39.35% from April 2022 to remain in line with the additional rate.

Although the 1.25% increase sounds fairly insignificant, a basic rate taxpayer with £20,000 of taxable dividend income would pay £1,750 tax in 2022-23. The equivalent tax due for 2021-22 was £1,500. The increase of £250 represents a 17% increase in tax due even though rates have only increased by 1.25 percentage points.

Director/shareholders of small companies who have adopted a high dividend, low salary approach will see continuing benefits from this strategy, but fine-tuning remuneration packages to include the new rates may be beneficial.

EMPLOYMENT & PAYROLL

PAYE and payroll for employers

As an employer, you normally have to operate PAYE as part of your payroll. PAYE is the HMRC system used to collect Income Tax and National Insurance from employment.

You do not need to register for PAYE if none of your employees are paid £123 or more a week, get expenses and benefits, have another job or get a pension.

However, you must keep payroll records.

Payments to your employees include their salary or wages, as well as any tips or bonuses, or statutory sick or maternity pay.

From these payments, you will need to deduct tax and National Insurance for most employees. Other deductions you may need to make include student loan repayments or pension contributions.

If you run payroll yourself, you will need to report your employees' payments and deductions to HMRC on or before each payday.

Your payroll software will work out how much tax and National Insurance you owe, including an employer's National Insurance contribution on each employee's earnings above £175 a week.

You will need to send another report to claim any reduction on what you owe HMRC, for example for statutory pay.

You will be able to view what you owe HMRC, based on your reports. You then have to pay HMRC, usually every month.

If you are a small employer that expects to pay less than £1,500 a month, you can arrange to pay quarterly - contact HMRC's payment enquiry helpline.

As part of your regular reports, you should tell HMRC:

- when a new employee joins
- if an employee's circumstances change, for example they reach State Pension age or become a director

You have to run annual reports at the end of the tax year - including telling HMRC about any expenses or benefits.

And if this entire process is a chore, you would rather not have, we can help you set up and manage a payroll on your behalf.

What are the off-payroll working rules

According to HMRC they are:

The off-payroll working rules can apply if a worker (sometimes known as a contractor) provides their services through their own limited company or another type of intermediary to the client.

An intermediary will usually be the worker's own personal service company, but could also be any of the following:

- a partnership,
- a personal service company,
- an individual.

The rules make sure that workers, who would have been an employee if they were providing their services directly to the client, pay broadly the same Income Tax and National Insurance contributions as employees. These rules are sometimes known as 'IR35'.

- The client is the organisation who is or will be receiving the services of a contractor.
- They may also be known as the engager, hirer or end client.

Since 6 April 2021, all public authorities and medium and large-sized clients outside the public sector are responsible for deciding if the rules apply.

If a worker provides services to a small client outside the public sector, the worker's intermediary is responsible for deciding the worker's employment status and if the rules apply.

MISCELLANEOUS

Late night online shopping

According to government sources a recent poll of 2,000 adults has revealed that over half (54%) hit the buy switch whilst watching TV and/or drinking alcohol.

Consumer protection agencies warn that this apparent lack of focus leaves online shoppers vulnerable to misleading sales tactics.

Four common misleading online tactics are:

- Subscription traps - misleading a customer into signing up to and paying for an unwanted subscription that can be difficult to cancel.
- Hidden charges – unexpected compulsory fees, charges or taxes being added when someone tries to make an online purchase.
- Pressure selling – a tactic used to give a false impression of availability or popularity of a product or service.
- Fake reviews – reviews that do not reflect an actual customer's genuine opinion or experience of a product or service.

Fronted by TV presenter and consumer champion Angellica Bell, the Online Rip-off Tip-Off campaign launched with a film depicting misleading online tactics in a real-life market, with the key message "you wouldn't put up with it offline, so don't do so online." The aim of the campaign is

to make consumers aware of misleading online practices, understand the negative impact they can have and provide tips on how to avoid them.

Heat pump grants from April 2022

Costs to install cleaner, more efficient heating solutions have been slashed by thousands of pounds as consumers can now receive grants through the government's new £450 million Boiler Upgrade Scheme.

Homeowners across England and Wales can now benefit from £5,000 grants to fit clean heating systems when they come to replace their oil and gas boilers. This includes clean heating systems installed from 1 April this year.

Heat pumps are now much cheaper and more competitively priced against gas and oil boilers than ever before and thanks to these grants, it will be significantly cheaper for consumers to install a heat pump and closer to the cost of installing a traditional gas boiler, whilst improving the energy efficiency of their homes, reducing their energy bills and cutting emissions in the long-term.

The scheme will also help kick-start the British heat pump manufacturing industry, helping government and industry to achieve the aim of bringing down the cost of the technology to ensure they are no more expensive to buy and run for consumers than fossil fuel boilers by 2030 when more households will be looking to make the switch.

With the market for electric heat pumps set to rapidly expand in Europe over the coming years, there is also a huge export opportunity for British firms in research and development, production, supply chain and installation over the next decade, creating well-paid jobs across the country.

The funding is installer led. Look for approved installers who can organise these grants for you.

HMRC wins tax avoidance case

According to HMRC, tax avoidance deprives the government of funds to pay for vital public services and is unfair to the majority of taxpayers who willingly pay their tax. HMRC will always take action to tackle tax avoidance, including challenging schemes in court.

An IT contractor used a disguised remuneration tax avoidance scheme, entering into an arrangement whereby he worked through an umbrella company based outside the UK to provide his services to UK-based financial service companies.

He received most of his earnings in the form of loans, organised by the umbrella company, which were initially claimed not to be taxable. HMRC is clear that these schemes do not work, and the loans received are taxable as income.

The contractor eventually accepted that he had received taxable income but further claimed he should not have to pay anything because he was entitled to a notional PAYE credit.

There was no evidence that the UK-based companies that engaged him had any knowledge of the tax avoidance arrangements that he had entered into, nor of any requirement to operate PAYE.

The Court of Appeal's finding that he was not entitled to a PAYE credit confirms HMRC's position in collecting tax from taxpayers in cases where they enter into these types of convoluted arrangements to avoid paying tax.

Paying suppliers

The credit suppliers offer provides your business with short-term and usually cost-free funding for your business. Your supplier bears the cash cost of providing you with the use of their goods and services until you eventually settle their account.

If you can quickly convert and sell their goods to your customers, be paid before you have to pay your suppliers' bills, then any profit you create has no cash-flow cost. i.e., you have money paid to you before paying for the cost of goods sold.

The ideal situation is to negotiate longer payment periods with suppliers than you offer your customers.

However, this cold appraisal of trading terms does ignore the possible advantages of paying suppliers early. For example, pay invoices when goods are delivered instead of within the agreed 30 days.

What are the advantages?

Gaining a reputation as a 'quick-payment' company will create goodwill and you may be able to negotiate a prompt payment discount – thus reducing your costs and improving margins.

You may shorten delivery times as your supplier will know that they will be paid as soon as their goods are delivered.

You would need to factor early payments into your cash-flow planning, to make sure you have sufficient cash resources to fund this early-bird payment approach.

FINANCIAL CALENDAR

Every month:

1 Annual Corporation Tax due for companies with a year ending nine months and a day earlier, e.g. tax due 1 January 2023 for year ending 31 March 2022.

14 Quarterly instalment of Corporation Tax due for large companies (depending on accounting year-end).

19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.

22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.

30/31 Submit CT600 for a year ending 12 months earlier. Last day to amend CT600 for a year ending 24 months earlier.

If the due date for payment falls on a weekend or Bank Holiday, payment must be made by the previous working day. Electronic payments sent using the Faster Payments Service (FPS) are able to clear into HMRC's account on a non-banking day – a Saturday, Sunday and most Bank Holidays.

File accounts with Companies House for private companies with a year ending nine months earlier and for public companies with a year ending six months earlier.

July 2022

5 Final date to agree 2021/22 PAYE Settlement Agreements (PSA).

6 Last date for returns of expenses and benefits (forms P11D, P9D and P11D(b)) for 2021/22 to reach HMRC. Relevant employees to receive copies of forms P11D and P9D.

6 Last date to submit annual returns for employee share schemes and employment-related securities for 2021/22 (forms 34, 35, 39, 40 and 42).

14 Due date for CT61 return and CT payment for quarter to 30 June 2022.

22 Class 1A NICs for 2021/22 due (19th if paid by cheque).

31 Due date for second payment on account of 2021/22 Income Tax and Class 4 NICs.

31 Last day to pay 2020/21 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).

August 2022

2 Submit employer forms P46 (car) for quarter to 5 July 2022

October 2022

5 Deadline to notify HMRC of chargeability to Income Tax or CGT for 2021/22.

14 Due date for CT61 return and CT payment for quarter to 30 September 2022.

31 Deadline to submit 2021/22 Self Assessment tax return if filed on paper.

November 2022

2 Submit employer forms P46 (car) for quarter to 5 October 2022.

December 2022

30 Last day to submit 2021/22 tax return online to have unpaid tax of up to £17,000 collected through the 2023/24 PAYE code. The amount of debt that can be coded out in a year ranges from £3,000 to £17,000 based on a graduated scale.

January 2023

14 Due date for CT61 return and CT payment for quarter to 31 December 2022.

31 Submit 2021/22 Self Assessment return online. Pay balance of 2021/22 Income Tax and CGT plus first payment on account for 2022/23.

February 2023

2 Submit employer forms P46 (car) for quarter to 5 January 2023.

March 2023

31 Last minute planning for 2022/23 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

April 2023

5 Last day of tax year (6 April 2023, first day of new tax year).

14 Due date for CT61 return and CT payment for quarter to 31 March 2023.

May 2023

3 Submit employer forms P46 (car) for quarter to 5 April 2023.

31 Last day to issue 2022/23 P60s to employees.

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