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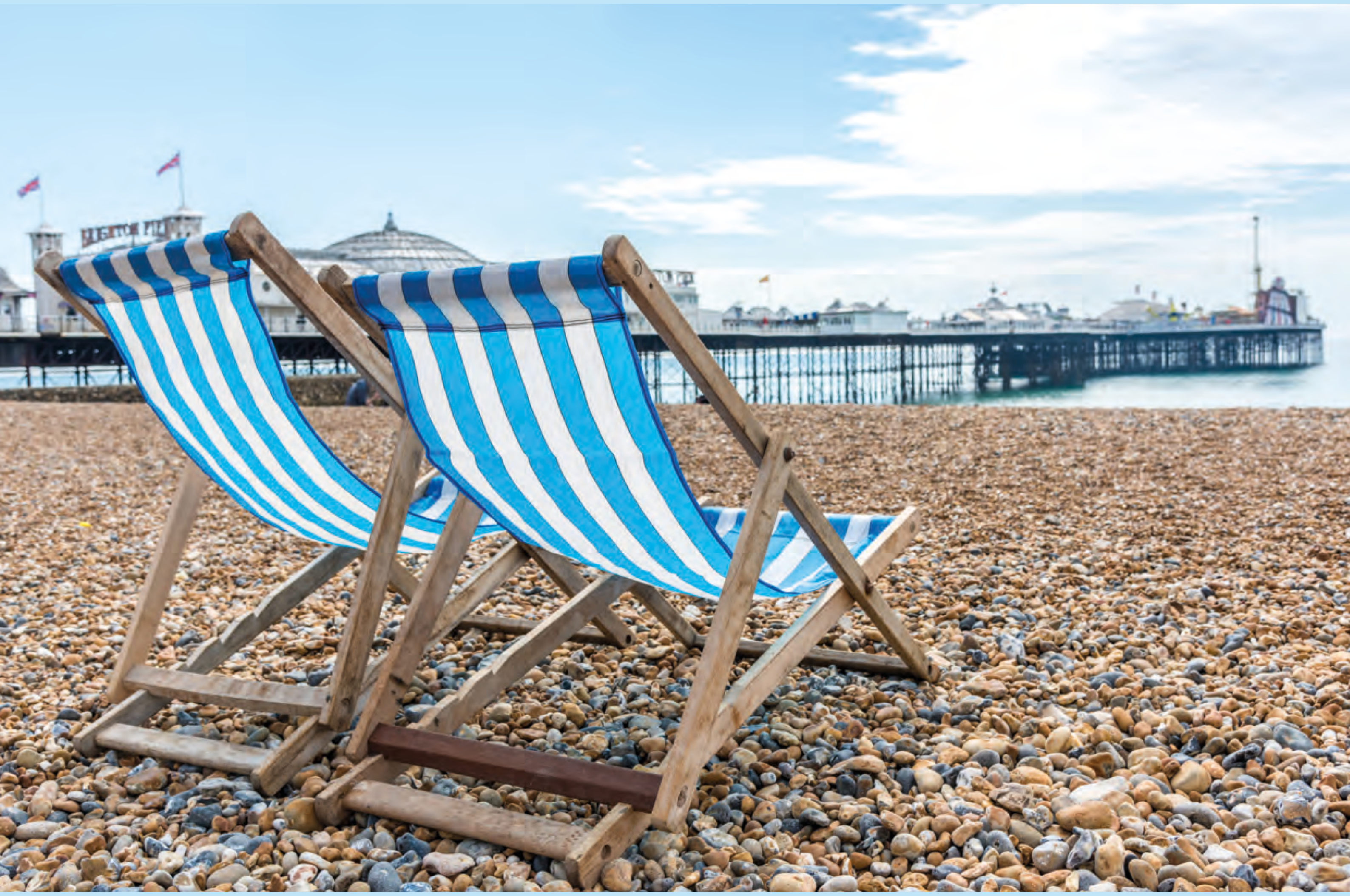
Keeping you informed



Newsletter
Summer 2023

INTRODUCTION

It is looking as if the only respite we will get from ongoing economic challenges this year is warmer weather.

Hopefully, readers of our newsletter will find something of interest that will help ease the burdens of rising fuel, food and other energy prices and provide our business readers with ideas to meet their current challenges.

As always, if you would like more information regarding any of the issues we have flagged in this summer edition, please pick up the phone, we are here to help.

BUSINESS

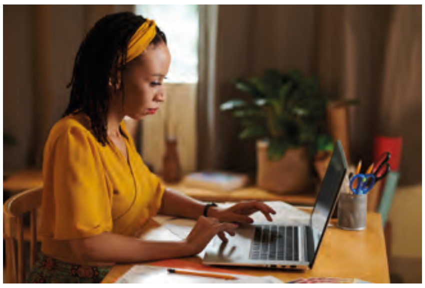
What is full expensing?

Business owners will be used to the principle that it is possible to write-off the purchase of certain assets against tax liabilities. All businesses have had access to the Annual Investment Allowance (AIA) for some years now. Presently, this relief allows business owners to write-off the full cost of qualifying assets in the year of purchase.

As part of the Spring Budget 2023, the government has introduced an expanded version of the AIA for companies. It is called “full expensing”.

Full expensing is a 100% first-year allowance which allows companies to claim a deduction from taxable profits that is equal to 100% of their qualifying expenditure in the year that expenditure is incurred. Expenditure must be incurred on the provision of “main rate” plant or machinery on or after 1 April 2023 but before 1 April 2026.

Full expensing is available to companies subject to Corporation Tax only. Therefore, unincorporated businesses cannot claim, but such businesses are entitled to claim the AIA which offers the same benefits as full expensing for the investments it covers (up to £1 million per year).



The plant and machinery must be new and unused, must not be a car, given to the company as a gift, or bought to lease to someone else.

Expenditure on second-hand assets and those bought to lease to someone else can still qualify for the AIA.

For “special rate” expenditure, which doesn’t qualify for full expensing, a 50% first-year allowance can be claimed instead, subject to the same conditions that apply for full expensing. This means that a company can claim a deduction from taxable profits that is equal to 50% of their qualifying expenditure in the year that expenditure is incurred. Capital allowances can be claimed on the balance of expenditure in subsequent accounting periods at the 6% rate of WDAs for special rate expenditure.

Plant and machinery that may qualify for full expensing includes (but is not limited to):

- machines such as computers, printers, lathes and planers
- office equipment such as desks and chairs
- vehicles such as vans, lorries and tractors (but not cars)
- warehousing equipment such as forklift trucks, pallet trucks, shelving and stackers
- tools such as ladders and drills
- construction equipment such as excavators, compactors, and bulldozers
- some fixtures such as kitchen and bathroom fittings and fire alarm systems in non-residential property.

This new relief will only benefit companies with capital expenditure in excess of £1m, the present limit of the AIA relief.

Red Tape

Red Tape is used to describe excessive complexity which results in delay and inaction. Most business owners would agree that any attempt to reduce regulatory red tape is to be welcomed.

Which is why the package of regulatory reform announced by the Department for Business and Trade (DfBT) during May 2023 should give rise for optimism.

The DfBT confirmed that their package of measures to reduce red tape includes:

- Reducing the business burden. We will reduce time-consuming and disproportionate reporting requirements for specific elements of the Working Time Regulations, while retaining the 48-hour week requirement and upholding our world leading employment standards. This could save employers around £1bn a year. We are also simplifying regulations that apply when a business transfers to a new owner.
- Ensuring regulation is, by default, the last rather than first response of Government by reforming the Better Regulation Framework. The new, smarter framework will ensure future regulation of our changing economy is streamlined, minimises business burdens, and puts forward-looking regulation at the heart of Government decisions.
- Improving regulators’ focus on economic growth by ensuring regulatory action is taken only when it is needed, and any action take is proportionate. Following Professor Dame Angela McLean’s review of the regulators’ Growth Duty, the government intends to consult on refreshed guidance on how regulators deliver their growth duties. The government will also consider the merits of commencing statutory reporting and how best to promote growth with utilities regulators, who are currently not in scope of the Growth Duty.
- Promoting competition and productivity in the workplace by limiting the length of non-compete clauses to three months, providing more flexibility for up to 5 million UK workers to join a competitor

or start up a rival business after they have left a position. The change will also provide a boost to the wider UK economy, supporting employers to grow their businesses and increase productivity by widening the talent pool and improving the quality of candidates they can hire.
- Stimulating innovation, investment and growth by announcing two strategic policy statements to steer our regulators. We are publishing the first of these statements for consultation, on energy policy, which will be followed soon after by the Government's strategic steer to the Competition and Markets Authority (CMA).

Fingers crossed that the changes ease the current volume of regulatory delays.

Selling a business asset

You dispose of an asset if you:

- sell it;
- give it away as a gift or transfer it to someone else;
- swap it for something else;
- get compensation for it - like an insurance pay out if it's been lost or destroyed;
- use it for anything other than your business; or
- close your business.

If you are selling to simply get rid of redundant assets or to replace worn out equipment you probably wrote off the cost of the asset when you first purchased the item. In which case, the asset has no value as far as HMRC is concerned, it's written down value is nil.

Accordingly, when you sell the asset, the difference between the net sales proceeds and the tax written down value, will generally create a balancing charge on which tax will be payable.

Do not forget to factor in this tax charge when you consider the financial implications of replacing assets.

HMRC increases interest rates

HMRC interest rates are set in legislation and are linked to the Bank of England

base rate. There are 2 rates:

- late payment interest, set at base rate plus 2.5%
- repayment interest, set at base rate minus 1%, with a lower limit of 0.5% (known as the 'minimum floor')

The late payment interest rate encourages prompt payment. It ensures fairness for those who pay their tax on time. The repayment interest rate compensates taxpayers fairly, when they overpay or pay early, for loss of use of their money. The current late payment and repayment interest rates applied to the main taxes and duties that HMRC currently charges and pays interest on are:

- late payment interest rate — 7% from 31 May 2023
- repayment interest rate — 3.5% from 31 May 2023

Changing a company's accounting date

An accounting period can be shortened as often as you like but can only be extended once every five years. It is not possible to alter the accounting period if the filing deadline has already passed.

If you want to make your company's financial year shorter or longer than 12 months, you can apply to Companies House to change your accounting reference date (ARD).

To change your ARD, you must complete form AA01 and deliver it to Companies House.

Why change an accounting date

In certain circumstances, it may be possible to save or defer tax liabilities by reducing or extending your accounting date. A decision will depend on your company's financial circumstances.

A change should only be considered as part of a formal tax planning exercise.

Less could be more

Is there mileage in the old adage that it is unwise to keep all your eggs in one basket?

Most businesses build an expanding customer list; each customer a separate income stream for their business.

Compare this with being employed; one employer, one income stream.

The other business dynamic that requires attention is what you sell to your customers. Would it pay dividends to explore what your customers need rather than what it is you want to sell them?

The idea being that it is your customers who ultimately chose to buy what you sell, and therefore checking out ideas for products with customers is not a bad idea.

But how many products or service plates can you keep spinning on sticks and still have time to manage your business effectively? There is mileage in the idea that by reducing your focus to fewer items you may achieve a bigger impact; more sales, more profits.

This process may also help to improve efficiency. For example, with fewer projects on the go you will have fewer key performance indicators to create and monitor.

Perhaps, after all, less could be more…

Which way to turn

Inflation and recession are cruel task-masters.

If you provide goods or services that can be readily sourced from alternative suppliers, and at a lower cost, trying to beef-up your sales prices will likely result in lost income as your customers go elsewhere. If your costs are increasing this can only lead to lower profits.

If you sell luxury goods, there will likely be a reduction in demand as customers concentrate their expenditure on meeting rising fuel and food bills.

Business owners can react by reducing their own costs but there is a limit to the saving that can be made.

There is an argument to mothball business activity. i.e., reduce activity and hibernate until market conditions improve, although this is unlikely to prove a workable strategy for an extended period.

Businesses who supply goods or services with no competition, or for goods that have no ready substitutes, are in the best position as they can increase their prices to cover cost increases with little or no impact on sales.

During this period, all businesses would be wise to take control of cashflow and scale down or at least reconsider investment activity until market conditions become more buoyant.

If you are in business and really don't know which way to turn, please call so we can talk over your options.

EMPLOYMENT & PAYROLL

New law on Tipping

Millions of UK workers will take home an estimated £200 million more of their hard-earned cash, as employers are banned from withholding tips under the Employment (Allocation of Tips) Act 2023. The act received Royal Assent 2 May 2023. Many hospitality workers rely on tips to top up their pay and are often left powerless if businesses don't pass on service charges from customers to their staff.

This Bill makes it unlawful for businesses to hold back service charges from their employees, ensuring staff receive the tips they have earned. The measures are expected to come into force in 2024, following a consultation and secondary legislation.

This overhaul of tipping practices is set to benefit more than 2 million UK workers across the hospitality, leisure and services sectors helping to ease cost of living pressures and give them peace of mind that they will keep their hard-earned money.

Employed or self-employed

You can use HMRC's Check Employment Status for Tax (CEST) tool to find out if you, or a worker on a specific engagement, should be classed as employed or self-employed for tax purposes. CEST gives you HMRC's view of a worker's employment status, based on the information you provide. It can also be used to check if changes to contractual terms or working arrangements may alter a worker's employment status.

You do not have to use the tool to make employment status decisions, but it can help you decide:

- the employment status of a worker or an individual you engage or represent;
- if the off-payroll working (IR35) rules apply to a contract; and
- if HMRC will consider you as employed or self-employed for tax and National Insurance contributions purposes if you have (or expect to have) a work contract.

There must be a contract in place to see whether the engagement is classed as employment or self-employment. The tool assumes there is, or will be, a contract in place. HMRC will stand by all determinations given by the tool, as long as the information you give remains accurate. You can use the tool again if:

- there has been a change to an existing contract or service agreement; or
- the information you originally provided is no longer accurate.

You do not need to know who the worker is to use the tool – you will still get a result. You can use the tool again when a worker's identity is known. This may enable the tool to provide a determination where the result was 'unable to determine'.

Off-payroll working rules

The off-payroll working rules make sure that a worker (sometimes known as a contractor) pays broadly the same Income Tax and National Insurance as an employee would.

The rules apply if the worker who provides services to a client through their own intermediary would have been an employee if they were providing their services directly to that client.

The rules are sometimes known as 'IR35'.

Who the rules apply to

You may be affected by these rules if you are:

- a worker who provides their services through their own intermediary to a client
- a client who receives services from a worker through their intermediary
- an agency or other supplier providing workers' services through their intermediary

There are different rules that apply to those working for a small business and those working for mid or large-sized businesses.

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

A worker affected by the rules may provide their services through:

- a limited company, usually known as a personal service company (PSC)

- a partnership
- another individual

A PSC is not defined in law but typically is a limited company that a worker controls and has some interest in, through which the worker provides their services.

When the rules apply

The off-payroll working rules apply if a worker provides their services through their own intermediary (usually a limited company, often known as a PSC).

The person responsible for determining whether the worker is employed for tax purposes, depends on if the client is:

- in the public sector
- in the private and voluntary sectors
- is a small business

In most cases, the client will be responsible for determining the employment status of the worker. However, 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.

The rules about size only apply to clients. All agencies, regardless of size, will have some responsibilities where the off-payroll working rules apply, particularly where the agency is the deemed employer.

NIC & PENSIONS

Update to NIC credits

The government also wants to address the fact that some parents who have not claimed Child Benefit could miss out on building their state pension. Those affected will in future be able to claim National Insurance credit retrospectively as ministers move to tackle this issue.

When parents claim Child Benefit, they can also receive a National Insurance credit which helps them build their state pension. This is aimed at those who, due to caring responsibilities, are out of work or not earning enough to pay towards National Insurance, to ensure they are still able to do that.

The Government wants to ensure that parents who have not claimed Child Benefit are not disadvantaged when they start claiming their State Pension and is announcing a resolution for affected parents.

Parents do not need to take any action immediately.

The government intends to legislate to allow eligible individuals to retrospectively claim National Insurance credit, and the next steps to be taken will be published in due course.

Pension draw-down options

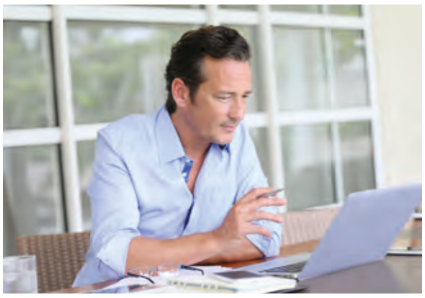
The government offers general advice on the options you could consider when you want to draw funds from your pension pot. This advice is summarised below:

Most personal pensions set an age when you can start taking money from them. It's not normally before 55. Contact your pension provider if you're not sure when you can take your pension.

You can usually accept up to 25% of the amount built up in any pension as a tax-free lump sum. This is limited to a maximum of 25% of your available lifetime allowance. For most individuals, the standard, maximum lifetime allowance applies. This is currently £1,073,100.

You will then have 6 months to start taking the remaining 75%, which is generally taxable.

If you hold lifetime allowance protection, this may increase the amount of tax-free lump sum you can take from your pensions.



The options you have for taking the rest of your pension pot include:

- taking all or some of it as cash;
- buying a product that gives you a guaranteed income (sometimes known as an 'annuity') for life; or
- investing it to get a regular, adjustable income (sometimes known as 'flexi-access drawdown').

Ask your pension provider which options they offer (they may not offer all of them). If you do not want to take any of their options, you can transfer your pension pot to a different provider.

NIC credits for home responsibilities

Carers and parents that are required to give up work in order to care for children or dependent relatives can still apply for NIC credits to cover time spent away from work.

You may be entitled to credits if you are:

- Registered for Child Benefit for a child under 12.
- A registered foster carer.
- Or caring for one or more sick people with disabilities, for at least 20 hours a week.

Normally, no action on your part is required if you are already claiming:

- Carer's Allowance
- Child Benefit for child under 12 years
- Income Support and you are regularly engaging in significant caring.

If not covered by the above you will need to apply for NIC credits.

VAT & DUTIES

Insolvency and VAT

If you or your business becomes bankrupt or insolvent, your insolvency practitioner will usually cancel your VAT registration and organise payment of your VAT.

HMRC will work out your final VAT bill based on what you owe up to the day before insolvency.

They will send a paper version of the VAT Return - this can't be completed using your online VAT account. It must not be signed, instead you or the insolvency practitioner should write:

'Completed from the books and records of [name of the company/trader].'

You are still responsible for your VAT if you:

- are declared bankrupt and continue to trade; or
- set up a voluntary arrangement to pay off your debts (sometimes known as a 'trust deed' in Scotland).

If you set up a voluntary arrangement, HMRC will send you 2 paper VAT Returns.
These are for the following periods:

- your current VAT period up to the day before the arrangement; and
- the date of the arrangement up to the end of your next VAT period.

After this, you can continue to use your online VAT account to send your VAT Returns.

Check a UK VAT number

There is an online service where you can check to see if a supplier's VAT number is valid.

It is important to ensure any VAT invoice you have received is valid otherwise HMRC may disallow a deduction for VAT charged. If you are in doubt, use this facility to check.

https://www.gov.uk/check-uk-vat-number

Use this service to check:

- if a UK VAT registration number is valid; and
- the name and address of the business the number is registered to.

This service is also available in Welsh (Cymraeg).

If you are a UK VAT-registered business, you can also use this service to prove when you checked a UK VAT number. You will need your own VAT number to do this.

You cannot use this service if you have already applied to register for VAT and you are waiting to hear back from HMRC.

PERSONAL

Help to Save scheme improved

The Help to Save scheme - for working people on low incomes who are claiming certain benefits – could be made simpler by:

- reforms to how its bonus is calculated;
- the length of time an account can be open for; and
- eligibility requirements, all with the aim of enhancing long-term savings habits.

Help to Save was launched in 2018 and allows certain people entitled to Working Tax Credit or receiving Universal Credit to get a bonus of 50p for every £1 they save.

Accounts can be open for a maximum of four years and savers can put a maximum of £50 into their accounts every month.

The government wants to encourage more people to open accounts, since the scheme began more than £255 million has been saved through it.

These moves to simplify tax form part of 2023's Tax Administration and Maintenance Day (TAMD), where 23 technical documents in total have been published.

Tax by stealth

There is a plausible link between a rise in tax payments if tax rates increase, or if tax allowances and reliefs fall. But what happens if there is no change in tax rates or allowances?

In this case, there would be an assumption that taxes would not increase; why would they if rates and allowances remain stable?

However, whilst tax rates and allowances may not increase, your earnings may increase and create a larger tax bill.

Unfortunately, many of the tax rates and reliefs are frozen, remaining at the same level for a number of years. For example, the Income Tax personal allowance and the higher-rate threshold – at which point taxpayers will pay 40% Income Tax on income - will remain at the 2021-22 levels until 2025-26.

Inflation adds its own spike to this process. With inflation running at the present 10% rate, the value of your Income Tax personal allowance – presently £12,570 – would drop to just over £8,000 in real terms after 4 years.

If you have managed to secure pay increases to maintain the value of your earnings, your income subject to tax will increase. In some circumstances this may push your earnings into the 40% Income Tax bracket.

This is unfortunate and means that your efforts to maintain your earnings in real terms will be reduced by increased tax and possibly NIC deductions.

Let's hope that the Treasury will relieve its tax by stealth choke-hold on tax allowances in the next budget, and inflation proof taxes such that additional earnings to cover inflation will not be taxed unduly.

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 October 2023 for year ending 31 December 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 2023

5 Final date to agree 2022/23 PAYE Settlement Agreements (PSA).

6 Last date for returns of expenses and benefits (forms P11D, P9D and P11D(b)) for 2022/23 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 2022/23 (forms 34, 35, 39, 40 and 42).

14 Due date for CT61 return and CT payment for quarter to 30 June 2023.

22 Class 1A NICs for 2022/23 due (19th if paid by cheque).

31 Due date for second payment on account of 2022/23 Income Tax and Class 4 NICs.

31 Last day to pay 2021/22 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).

August 2023

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

October 2023

5 Deadline to notify HMRC of chargeability to Income Tax or CGT for 2022/23.

14 Due date for CT61 return and CT payment for quarter to 30 September 2023.

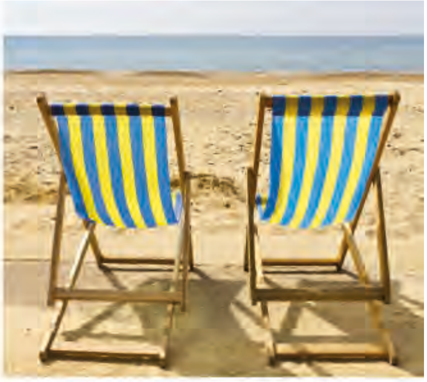
31 Deadline to submit 2022/23 Self Assessment tax return if filed on paper.

November 2023

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

December 2023

30 Last day to submit 2022/23 tax return online to have unpaid tax of up to £17,000 collected through the 2024/25 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 2024

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

31 Submit 2022/23 Self Assessment return online. Pay balance of 2022/23 Income Tax and CGT plus first payment on account for 2023/24.

February 2024

2 Submit employer forms P46 (car) for quarter to 5 January 2024.

March 2024

31 Last minute planning for 2023/24 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

April 2024

5 Last day of tax year (6 April 2024, first day of new tax year).

14 Due date for CT61 return and CT payment for quarter to 31 March 2024.

May 2024

3 Submit employer forms P46 (car) for quarter to 5 April 2024.

31 Last day to issue 2023/24 P60s to employees.

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