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Newsletter Spring 2022

INTRODUCTION

Even though the majority of coronavirus restrictions have been relaxed, many of us have suffered personal and business set-backs during the last two years and it may take some time to heal or repair the damage.

Businesses badly affected by past COVID-19 lockdowns and other measures will need time to replace lost reserves and repay loans taken on to see them through. We have included a few tax tips and business advisory pointers in this newsletter. Hopefully, they will be of some assistance.

If you require any further information regarding issues raised in this newsletter, please call.

BUSINESS

Support grants still available

The Department for Business released the following reminder February 2022.

£850 million worth of COVID-19 support grants are still available and firms in England have been encouraged to apply.

The funding has been made available by government to councils in England for them to provide to businesses in need in their local area. Businesses are encouraged to apply to their local council for the funding.

The funding is made up of £556 million available through the £635 million Omicron Hospitality and Leisure Grant (OHLG) scheme, which launched in January 2022 and a further £294 million through the Additional Restrictions Grant (ARG) scheme which has been paying out funding since November 2020.

The OHLG scheme provides businesses in the hospitality, leisure and accommodation sectors with one-off grants of up to £6,000 per premise, supporting those that have been most impacted by the Omicron variant. To provide further support to other businesses, the ARG scheme provides councils with funding they can allocate at their discretion to businesses most in need, such as personal care businesses and supply firms.

The government encourages councils to provide the funding to businesses as quickly as possible.

Information about all these schemes can be accessed and in many cases, applied for, online.

Last call for tax planning options 2021-22

With rare exceptions, once the end of the tax year has passed, tax planning options to reduce liability are no longer possible.

For Income Tax and Capital Gains Tax purposes, this means that the majority of the tax reduction options will cease unless actioned before 6 April 2022, the start of the next tax year.

Which means individuals and the self-employed have just a matter of days to consider their options (this newsletter was published mid-March 2022).

If you fall into any of the following categories, please contact us asap so we can discuss your options:

- Your annual income is approaching £100,000, perhaps for the first time.
- You claim Child Benefit and the income of either parent is likely to exceed £50,000 for the first time during 2021-22.

- You have not yet considered topping-up pension contributions for 2021-22.
- You are self-employed with a 31 March 2022 year-end.
- You are self-employed and considering a significant purchase of equipment including commercial vehicles.
- You are the director/shareholder of a limited company and have not yet considered voting final dividends or bonuses for 2021-22.
- You have experienced, or are contemplating, a change in your personal status (single, married, separating, joining, or dissolving a civil partnership).

This list is by no means complete. If your tax affairs are complex please pick up the phone.

Deferring capital expenditure

If you are considering an imminent and significant investment in capital equipment and your accounting year end is the end of March or during the following quarter, you may want to factor in your likely annual profits – in the current and following year.

If your profits are increasing it may be beneficial to delay your investment until the new account's year. If your profits are reducing, the opposite strategy may apply.

All businesses can write off up to £1m of qualifying additions using the Annual Investment Allowance.

Companies have an even more attractive option, the so-called Super-deduction. This allowance, which is available until March 2023, would allow you to write-off 130% of the cost against your taxable profits.

Company owners could also take this generous tax allowance into account in their longer-term capital expenditure budgeting. It would seem to make sense to bring forward any qualifying expenditure in 2023 to the first quarter and make the most of the Super-deduction before it is withdrawn.

Restoring solvency

When business owners spend money, the expenditure can be classified in two ways: as an expense of running the business or the acquisition of an asset.

Expenses are also described as revenue expenditure and as long as sales or income exceeds these costs, your business will be making a profit.

If you don't withdraw all the profits you make, any surplus will manifest as a reduction in business liabilities or an increase in assets, cash balances for example. A business that is able to retain profits and achieve a surplus of net assets (assets less liabilities) would be described as solvent.

Alternatively, a business that is unprofitable for an extended period will force a reduction in its available assets until they are exhausted and business liabilities exceed assets. The business would become insolvent.

The COVID-19 pandemic and the various government controls on activity (due to lockdowns etc) whilst necessary to manage infection have proved disastrous for many firms who have been forced into a net loss position and possible insolvency.

All businesses, but particularly those badly affected by COVID-19 disruption, need to plan how to restore value to their balance sheets.

In a nut-shell this will involve careful planning. If your business is struggling and you would like help in considering your options during this difficult time, please call. We can help.

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 order 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…

EMPLOYMENT & PAYROLL

Employing young people

Many business owners, with energetic children, may want to offer their offspring a chance to gain some work experience and shift the funding of their children's expenses from after-taxed income to a business expense.

You can employ young people aged 13 or over, but only part-time. Once they reach the school leaving age, they can work up to a maximum 40 hours a week. National Minimum Wage rates will also have to be considered for those of at least school leaving age.

From age 16 you may need to consider PAYE regulations and from age 18 adult employment rights and rules will apply.

To secure tax relief and avoid complications if you employ young family members you must:

- avoid special treatment in terms of pay, promotion and working conditions,
- make sure tax and National Insurance contributions are still paid
- follow working time regulations for younger family members,
- have employer's liability insurance that covers any young family members,
- check if you need to provide them with a workplace pension scheme.

The first item on this list is critical. If challenged by HMRC, you will need to be able to demonstrate that wages paid reflect time worked and at a rate that is commercially justified.

Payroll year end chores

Following the end of the current tax year, 2021-22, employers will need to deal with the usual filing obligations that relate to payroll matters.

Here's a quick summary of what needs to be done:

1. You will need to process any leavers during 2021-22 before you submit your Full Payment Submission (FPS) and Employer Payment Summary (EPS).
2. Once processing for April 2022 is completed you can use your payroll software to process year end reports – this needs to be done on or before 19 April 2022.

Payroll chores listed in date order that will need to be completed, including reporting deadlines, are:

- 31 May 2022 – distribute P60s to staff for 2021-22
- 6 July 2022 – if you provide any taxable benefits to staff this is the deadline to submit forms P11D and P11D(b) to HMRC.
- 19 July 2022 – this is the date to pay any Class 1A NIC to HMRC based on reported benefits in kind provided for 2021-22. This can be extended to 22 July 2022 if payment is made electronically.

And if we look after your payroll, all of these matters will be attended to in consultation with you to ensure returns are sent in a timely fashion.

7-point check list for new employees

There are 7 things you need to do when employing staff for the first time.

- Decide how much to pay someone - you must pay your employee at least the National Minimum Wage.
- Check if someone has the legal right to work in the UK. You may have to do other employment checks as well.
- Check if you need to apply for a DBS check (formerly known as a CRB check) if you work in a field that requires one, e.g., with vulnerable people or security.
- Get employment insurance - you need employers' liability insurance as soon as you become an employer.
- Send details of the job (including terms and conditions) in writing to your employee. You need to give your employee a written statement of employment if you're employing someone for more than 1 month.
- Tell HM Revenue and Customs (HMRC) by registering as an employer - you can do this up to 4 weeks before you pay your new staff.
- Check if you need to automatically enrol your staff into a workplace pension scheme.

We can help with setting up or manging your payroll software.

NIC & PENSIONS

Reminder that NIC increases April 2022

A reminder that to help fund social care National Insurance Contributions are increasing from April 22 by 1.25 percentage points.

This NIC increase will only apply for one tax year, 2022-23. From April 2023, this increase will be stripped from NIC rates and replaced by a new Social Care Levy.

In which case employees will face an

additional deduction, PAYE, NIC, the Social Care Levy and any other deductions – pensions for example.

Utilising pension pots

Do you have a self-invested personal pension plan (SIPP) that allows you a certain amount of flexibility on how your fund is invested? You may find that your fund could invest in commercial property.

Do you rent your present business premises?

If the answer to both these questions is yes, you might like to consider purchasing business premises from your SIPP.

This would shelter any future gains on the eventual sale of the property from Capital Gains Tax and any rents paid by your business to the SIPP would be received tax-free.

In certain circumstances, you may also be able to use your pension pot to lend monies to your business. This has the added attraction that interest paid will accumulate tax-free in your fund.

Readers who find either of these options attractive should discuss their options with their pension's adviser.

How can you take your pension?

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

You can take up to 25% of the money built up in your pension as a tax-free lump sum. You will then have six months to start taking the remaining 75%. You will normally pay tax when you draw on this residual 75%.

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
- 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 don't want to take any of their options, you can transfer your pension pot to a different provider.

Depending on the options you choose, variable amounts of tax may be deducted. When you have discussed the details of your pension drawdown options with your pension's adviser, we can provide advice on the tax consequences.

Self-employed NIC contributions

A sizeable chunk of a self-employed person's Self-Assessment bill will be Class 4 NIC in addition to Income Tax.

For the tax year 2021-22, the rates of Class 4 NIC are:

- Class 4 NICs are due on your profits that fall between the lower profits' limits and upper profits limit. For 2021-22, this is between £9,568 and £50,270.
- The rate of Class 4 NICs is 9% of your profits between the lower and upper limits. On any profits over the upper profits' threshold, you need to pay an extra 2%.

As taxable profits up to £50,270 – before deduction of any personal allowance – are subject to 20% Income Tax, this means that self-employed earnings between the lower and upper limits are subject to a combined 29% deduction (of tax and Class 4 NIC).

Affected taxpayers may want to take this into account if they are saving part of their earnings to fund future demands from

HMRC.

PERSONAL

Only one home is tax-free

If you live in, as your home, two or more houses, you can only have one main residence at a time for Private Residence Relief.

You can nominate which residence is to be treated as your main residence for any period. Your nomination must be made within two years of the date you first have a particular combination of residences. If there's a change in your combination of residences, a new two-year period begins. If you do not make a nomination, the question of which is your main residence will be determined on the facts.

Marriage considerations

If you are married or in a civil partnership and you are not separated from your spouse or civil partner, you can only have one main residence between you. If, when you married or registered as civil partners, you each owned a residence and you have continued to use both residences, you can nominate jointly which is to be the main residence and the 2-year period for doing so begins on the date of marriage or registration as civil partners.

If you are separated, each of you may have a different main residence and each may be entitled to relief on any gains arising on the disposal of the residences. You are treated as living together unless you are separated under a court order by Deed of Separation or are otherwise separated in such circumstances that the separation is likely to become permanent.

Dividend traps

From April 2022, the tax payable on dividend income is increasing by 1.25%. The increase mirrors the general increase in National Insurance Contributions to fund social care.

Director/shareholders of smaller companies might feel tempted to increase their dividends drawn before 6 April 2022 to maximise any benefits from the lower rates of dividend tax that apply up to 5 April 2022.

If so, please consider the following issues:

- If dividends planned to be taken during 2021-22 maximise the amount of combined income subject to Income Tax below the basic or higher rate thresholds, then increasing dividends may push taxable dividends into the next banding. For example, if additional dividends increase total taxable income beyond the basic rate band, this will increase tax on these dividends from 7.5% to 32.5% (2021-22 rates).
- In order to pay dividends, there must be surplus distributable reserves on your balance sheet. Many businesses whose reserves have been depleted by extended coronavirus disruption should prepare management accounts to confirm their company has the reserves to cover any additional dividends.

If you are contemplating additional dividends for 2021-22 and would like to know how this will be taxed, please call.

Would you qualify for the Marriage Allowance?

The Marriage Allowance lets you transfer £1,260 of your Personal Allowance to your husband, wife, or civil partner. It's free to apply for Marriage Allowance.

This can reduce their tax by up to £252 every tax year (6 April to 5 April the next year).

To benefit as a couple, you need to earn less than your partner and have an income of £12,570 or less. Your partner's income must be between £12,571 and £50,270 (£43,662 in Scotland) for you to be eligible.

You can backdate your claim to include any tax year since 5 April 2017 that you were eligible for Marriage Allowance. If your partner has since died you can still claim - phone the Income Tax helpline for advice.

Before you apply you will need both partners' National Insurance numbers.

If you have come to the UK and you do not plan to work or study, you cannot get a National Insurance number. Phone the Income Tax helpline to apply for Marriage Allowance.

You also need a way to prove your identity. You can use any two of the following:

- your P60
- one of your 3 most recent payslips
- your UK passport details
- information held on your credit file (such as loans, credit cards or mortgages)
- details from your Self-Assessment tax return (in the last 3 years)
- your Northern Ireland driving licence

The quickest way to apply for Marriage Allowance is online. You will get an email confirming your application within 24 hours.

Pay back private fuel

If your employer provides you with the use of a company car and pays for all your fuel costs, including those for private use, you will not only be taxed as a benefit for the use of the car but will also pay an additional car fuel benefit charge.

The fuel related tax charge is expensive. If you have a detailed record of the private journeys you have made in the current tax year, 2021-22, it might pay you to refund the private fuel costs and therefore avoid the car fuel benefit charge.

HMRC publish a rate per mile for fuel only costs that they will accept as part of the calculation.

If the cash cost of refunding private fuel costs to your employer is less than the tax

cost of the benefit in kind, then you have your answer.

If you need help working through the number crunching, please pick up the phone.

VAT & DUTIES

VAT cash accounting scheme

Unless you opt to use the VAT cash accounting scheme, your quarterly VAT return will be a summary of the VAT output tax you have added to your sales or other taxable outputs, less any VAT added to the purchase of goods or services.

What the cash accounting scheme allows you to do is pay VAT on sales when your customers pay you and reclaim VAT on purchases when you have paid your suppliers.

This is beneficial if your debtors (the amounts owed to you by customers) are higher than your creditors (the amounts you owe to suppliers).

It avoids the cash flow downside of paying the VAT added to your invoices before the invoices are settled.

To join the scheme your VAT taxable turnover must be £1.35m or less.

Smaller VAT businesses – filing change

Businesses registered for VAT on a voluntary basis, with annual turnover under the £85,000 registration limit, will be drawn into HMRC's Making Tax Digital (MTD) filing protocol from 1 April 2022.

According to HMRC, about a quarter of VAT registered businesses below the VAT threshold have voluntarily chosen to join MTD, demonstrating that a modern, digital approach to managing tax can work for businesses of every size. The three-quarters that have not yet opted for the MTD approach will need to do so from 1 April 2022.

Those affected, will need to file their VAT returns electronically using the MTD interface, which means keeping records electronically using an approved accounting software.

If you are going to be affected by this change and still keep manual records or basic spreadsheets, you will need to adapt and quickly.

We recommend a cloud-based accounting software that is MTD approved and working for the majority of our VAT registered clients. Please call if you have not considered your options, we can help.

Recovering VAT on self-build projects

The HMRC application form has guidance on what building projects and materials qualify for a VAT refund. The basics are listed below.

New homes

The home must:

- be separate and self-contained
- be for you or your family to live or holiday in
- not be for business purposes (you can use one room as a work from home office)

Builders working on new buildings should be zero-rated anyway and you will not pay any VAT on their services.

Conversions

The building being converted must usually be a non-residential building. Residential buildings qualify if they have not been lived in for at least 10 years. You may claim a refund for builders' work on a conversion of a non-residential building into a home.

For other conversions builders can charge a reduced VAT rate.

Communal and charity buildings

You may get a VAT refund if the building is for one of the following purposes:

- non-business - you cannot charge a fee for the use of the building
- charitable, for example a hospice
- residential, for example a children's home

Building materials

You may claim a VAT refund for building materials that are incorporated into the building and cannot be removed without tools or damaging the building.

What does not qualify

You cannot get a VAT refund for:

- building projects in the Channel Islands
- materials or services that do not have any VAT - for example, they were zero-rated or exempt
- professional or supervisory fees - for example, architects or surveyors
- hiring machinery or equipment
- buildings for business purposes
- buildings that cannot be sold or used separately from another property because of a planning permission condition
- building materials that are not permanently attached to or part of the building itself
- fitted furniture, some electrical and gas appliances, carpets, or garden ornaments.

We can help you organise an application to recover VAT on a self-build and if required record the necessary transactions and file claims.

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.

March 2022

31 Last minute planning for 2021/22 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

April 2022

5 Last day of tax year (6 April 2022, first day of new tax year).

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

May 2022

3 Submit employer forms P46 (car) for quarter to 5 April 2022.

31 Last day to issue 2021/22 P60s to employees.

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.

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