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Newsletter
Autumn 2022

INTRODUCTION

Now that we have some certainty regarding political leadership at number 10, it will be interesting to see how this change will affect fiscal policy in the coming autumn budget statement.

Our Autumn newsletter pre-dates these announcements, but hopefully you will find some useful tips and information in the topics we have selected.

As always, if you need more information or advice on any of the topics raised, please call.

BUSINESS

Why solvency is important

During periods when demand for your goods and services drop – for example, if the economy moves into recession – your sales and incoming cash receipts tend to drop at a faster rate than you are able to reduce your outgoings.

These outgoings or expenses tend to fall into one of the following groups:

- Those that tend to vary in direct proportion to your sales: buying raw material or stock for resale.
- Fixed overheads: rents, rates, wages, and other recurring costs.
- Repayment of loans or other debts.
- Adjusting your personal drawings from your business.

Variable costs can be reduced quickly once a downward sales trend is confirmed. Fixed costs can also be reduced but over a longer time period. Debt repayments may be fixed and therefore inflexible. And it will no doubt take time to make any reductions in your own fixed spending to facilitate reducing drawings.

During a time when costs overtake income, losses occur. If losses are significant, they may exhaust any reserves you have built up in your business. When this happens, you are in danger of becoming insolvent (liabilities exceeding assets).

Consequently, if your business is experiencing a downturn, keeping your accounts up-to-date is of paramount importance. Most accounting software will produce a balance sheet and we can show you how to monitor this report to warn you of approaching insolvency.

Please call if you need help to organise your record keeping and we will provide you with the information you require.

Super-deductions

From 1 April 2021 until 31 March 2023, companies investing in qualifying new plant and machinery can claim:

- a 130% super-deduction capital allowance; and
- a 50% first-year allowance for qualifying special rate assets.

The super-deduction allows companies to cut their tax bill by up to 25p for every £1 they invest.

Unfortunately, this largesse does not extend to self-employed business owners.

These two allowances are in addition to the existing Annual Investment Allowance (AIA) that allows 100% of the capital cost of qualifying assets to be written off in the year of purchase.

The AIA is available to all businesses, incorporated or self-employed. There is a cap on the amount that can be claimed. Until 31 March 2023, this cap is £1m.

Business owners contemplating significant capital purchases that may qualify for these reliefs would be advised to consider the commercial justification for their investment before looking at the tax benefits. We can help if you need advice in this area.

What is goodwill?

In a business context, goodwill could be defined as the amount that a buyer would be prepared to pay for your business over and above the valuation of the business net assets.

Very often, it is the relationships that you have built with your customer base that is the most valuable asset. Buyers will be keen to acquire these relationships and will place greater reliance on this “asset” than any equipment or other on-balance sheet item you may be selling.

How is goodwill valued

There is no fixed formula for valuing goodwill. Its value is finalised by negotiation between buyers and sellers.

There are formulaic methods for including goodwill based on the ability of the buyer to recover their investment, from the business purchased, over a fixed term, say three to five years. Unsurprisingly, buyers of higher risk businesses will want a faster pay-back.

Annual valuations

Although your valuation of your business may be higher or lower than the amount a buyer is prepared to pay there is value in using a consistent process to produce an annual valuation. In this way you can monitor the growth of your business and work at developing those characteristics that will secure a higher price when you come to sell, for example, building an independent management team.

Holiday lets – occupancy and tax benefits

A reminder that there are a number of tax incentives if you own and let a furnished holiday lets property (FHL). They include:

- Claiming Capital Gains Tax reliefs for traders (Business Asset Rollover Relief, Business Asset Disposal Relief, relief for gifts of business assets and relief for loans to traders).

- Entitlement to claim capital allowance deductions for items such as furniture, equipment and fixtures.
- Profits earned from holiday lets count as earnings for pension purposes.

You will need to account for your holiday lets properties separately from any other rental properties and you will need to comply with the various FHL rules. They include:

- The property must be in the UK or in the European Economic Area (EEA) - the EEA includes Iceland, Liechtenstein and Norway.
- The property must be furnished. This means that there must be sufficient furniture provided for normal occupation and your visitors must be entitled to use the furniture provided.
- The property must be commercially let (you must intend to make a profit). If you let the property out of season to cover costs, but did not make a profit, the letting will still be treated as commercial.
- All your FHLs in the UK are taxed as a single UK FHL business and all FHLs in other EEA states are taxed as a single EEA FHL business. You will need to keep separate records for each FHL business because the losses from one FHL business cannot be set off against profits of the other.

There are also strict rules on occupancy. To secure the FHL tax benefits you will need to let your FHL for a certain minimum number of days each year. The occupancy rules, set on a tax year basis, are:

- Your property must be available for letting as furnished holiday accommodation letting for at least 210 days in the year.
- You must let the property commercially as furnished holiday accommodation to the public for at least 105 days in the year.

Do not count any days when you let the property to friends or relatives at zero or reduced rates as this is not a commercial let.

Do not count longer-term lets of more than 31 days, unless the 31 days is exceeded

because something unforeseen happens. For example, if the holidaymaker either falls ill or has an accident and cannot leave on time or has to extend their holiday due to a delayed flight.

If you do not let your property for at least 105 days, you have two options (known as elections) that can help you reach the occupancy threshold.

As you can see, there are a few hoops to climb through to achieve FHL status, but the tax rewards for doing so are significant.

VAT & DUTIES

Reclaiming VAT on business expenses

You can reclaim VAT on items you buy for use in your business. If those items are also for personal use, you can only claim the business proportion of the VAT.

For example:

If half of your mobile phone calls are personal, you can reclaim 50% of the VAT on the purchase price and the service plan.

If you work from home and your office takes up 20% of the floor space in your house, you can reclaim 20% of the VAT on your utility bills.

You must keep records to support your claim and show how you arrived at the business proportion for a purchase. You must also have valid VAT invoices.

If you reclaim VAT on goods or services which you have not paid for, you must repay HMRC. This is called ‘clawback’.

Purchases before registration

You can reclaim VAT paid on goods or services bought before you registered for VAT if you bought them within:

- 4 years for goods you still have or goods that were used to make other goods you still have,
- 6 months for services.

You can only reclaim VAT on purchases for the business now registered for VAT. They must relate to your ‘business purpose’. This means they must relate to VAT taxable goods or services that you supply.

When not to charge VAT

The following notes set out when VAT should not be added to your charges once your business is registered for VAT. There are two basic areas to consider, exempt supplies and goods and services outside the scope of VAT.

VAT exempt supplies

These include:

- financial services, investments and insurance
- garages, parking spaces and houseboat moorings
- property, land and buildings
- education and training
- healthcare and medical treatment
- funeral plans, burial or cremation services
- charity events
- antiques
- gambling or lottery tickets
- sports activities

VAT supplies outside the scope of VAT

These include:

- goods or services you buy and use outside the UK;
- statutory fees, like the London congestion charge;
- goods you sell as part of a hobby, like stamps from a collection; and

- donations to a charity, if given without getting anything in return.

Additionally, there are certain supplies of construction services and supplies to charities that may qualify for supply at zero rate VAT or VAT at the reduced 5% rate.

Do not add VAT to your invoices if you have not registered for VAT

There are severe penalties for charging VAT if your business has not formally registered with HMRC.

If you need help with registration for VAT, which scheme to use or what rates to charge, please call. We can help.

Reclaiming VAT on purchase or hire of a car

You might be able to reclaim all the VAT on the purchase of a new car or commercial vehicle if you only use it for business purposes. You must be able to demonstrate that it is not used for personal purposes. One way to evidence this is if no personal use is specifically mentioned in your contract of employment.

'Personal use' includes travelling between home and work unless it is a temporary place of work.

You might also be able to claim all the VAT on a new car if it is mainly used:

- as a taxi,
- for driving instruction,
- for self-drive hire.

If you buy a used car for business use, the sales invoice must show the VAT.

If you hire a car to replace a company car that is off the road, you can usually claim 50% of the VAT on the hire charge.

If you hire a car for business use only, you can reclaim all the VAT if you hire it for no more than 10 days.

EMPLOYMENT & PAYROLL

Staff to keep tips

Millions of UK workers will be able take home more of their hard-earned cash under new legislation, backed by the government and banning employers from withholding tips from their staff.

Despite most hospitality workers – many of whom are earning the National Minimum Wage - relying on tips to top up their pay, government reports there are still too many businesses who shamefully fail to pass on service charges from customers to their staff.

The Employment (Allocation of Tips) Bill, introduced by Dean Russell MP and backed by the government, will ensure that all tips go to staff by making it unlawful for businesses to hold back well-earned service charges from their employees.

This overhaul of tipping practices is set to benefit more than 2 million UK workers across the hospitality, leisure and services sectors – who tend to reply on tips the most – and will help to ease pressures caused by global inflation and an increase to the cost of living.

Time off for jury service

Jury service is a civic duty and usually lasts up to ten days, but can be longer.

You must allow an employee time off if they are called up to serve on a jury.

You cannot discriminate against your employee for attending jury service.

If you dismiss your employee for going on jury service, they could take you to an employment tribunal.

You can ask your employee to try to delay their jury service if their absence would seriously harm your business. They will need a letter from you explaining why.

They can only delay jury service once in a 12-month period and must say on the jury summons when they will be available.

Employing someone for the first time

If you are employing someone in your business for the first time HMRC and other legislators have determined certain rules and regulations that you will need to consider.

For example:

- You will need to set up a way to record and report periodic figures to HMRC using suitable payroll software.
- Using HMRC's Real Time links you will need to send Full Payment Submissions when you process each weekly or monthly payroll.
- You will need to ensure that you comply with the National Minimum Wage and National Living Wage legislation.
- Make sure you are covered for Employers Liability Insurance.
- Abide by any appropriate Health & Safety legislation.
- Prepare and issue formal contracts of employment.

As you can see there is a wealth of red tape to consider. Please call if you need any additional help with setting up and managing your payroll.

Tax relief for travel and subsistence

Employers paying their employees' travel costs have certain tax, National Insurance and reporting obligations.

This includes costs for:

- providing travel;
- reimbursing travel;

- accommodation (if your employee needs to stay away overnight);
- meals and other 'subsistence' while travelling.

Subsistence includes meals and any other necessary costs of travelling, for example parking charges, tolls, congestion charges or business phone calls.

What's exempt

You will be exempt from reporting or paying anything if the cost is for:

- a works bus service;
- an employee with a disability (but only in certain circumstances);
- a taxi home after occasional and irregular late-night working;
- a taxi home if a car-sharing system is temporarily unavailable;
- bicycles or cycle safety equipment;
- travelling to work because public transport has been disrupted by industrial action.

Salary sacrifice arrangements

You do have to report the value of travel and subsistence benefits if you provide them as part of a salary sacrifice arrangement.

Reimbursing more than the necessary costs

If you reimburse your employee with more than the necessary costs of their business travel, the extra amount counts as earnings, so:

- add it to your employee's other earnings; and
- deduct and pay PAYE tax and Class 1 National Insurance through payroll.

Private travel

All non-business travel is counted as private. This includes the journey between an employee's home and permanent workplace.

NIC & PENSIONS

Your annual pension contribution allowance

Your annual allowance is the most you can save in your pension pots in a tax year (6 April to 5 April) before you have to pay tax.

You will only pay tax if you go above the annual allowance. This is £40,000 for the current tax year.

What counts towards the annual allowance?

Your annual allowance applies to all of your private pensions if you have more than one. This includes:

- the total amount paid in to a defined contribution scheme in a tax year by you or anyone else (for example, your employer); and
- any increase in a defined benefit scheme in a tax year.

If you use all of your annual allowance for the current tax year you might be able to carry over any annual allowance you did not use from the previous three tax years.

Your annual allowance might be lower than £40,000 if you have:

- flexibly accessed your pension pot; and
- a high income.

Flexibly access your pension could include taking:

- cash or a short-term annuity from a flexi-access drawdown fund; and

- cash from a pension pot ('uncrystallised funds pension lump sums').

The lower allowance is called the 'money purchase annual allowance'.

If you have a high income, you will have a reduced ('tapered') annual allowance in the current tax year if both:

- your 'threshold income' is over £200,000; and
- your 'adjusted income' is over £240,000.

The threshold income and adjusted income limits are different for tax years ending 2019-20 and earlier.

We can help

If you want to discuss the opportunities you may have for saving tax by making pension contributions, please call. As you can see from the above notes, HMRC do not make our pension choices easy to calculate.

National Insurance for company directors

Directors are classed as employees and pay National Insurance on annual income from salary and bonuses over £11,908 in the current tax year. Contributions are worked out on their annual earnings rather than what they earn in each pay period.

There are different rules for tax on dividends.

Companies also pay employer's National Insurance on directors' salaries. This applies even if you are the director of your own company and the only employee. Use payroll software to work out the National Insurance due.

There are two different ways of doing this. You may be able to change your method during the tax year depending on your payroll software.

Standard annual earnings period method

This method is common for directors who are paid irregularly.

1. Each time you pay a director, work out their National Insurance for their total pay over the tax year so far, including bonuses.
2. To work out what contributions they now owe, take off the total employee National Insurance they have paid so far this year.

The alternative method

This method is common for directors who are paid regularly.

1. Each time you pay a director, work out their National Insurance only on their pay for that period, including bonuses.
2. At the end of the tax year, use payroll software to work out whether more employee National Insurance is due and deduct it from their last payment.

What to report to HMRC

Report directors' pay and deductions in your Full Payment Submission (FPS).

Place one of the following into the 'Director's NIC calculation method' field on your FPS:

- 'AN' if you are using the 'standard annual earnings period method'
- 'AL' for the 'alternative method'

Fill in the 'Week of director's appointment' field.

Contributions are calculated on annual earnings, but they are still paid to HMRC after you run your usual payroll (for example, weekly, monthly or quarterly).

Pensions Lifetime Allowance

If you pay contributions into your pension funds that exceed a limit set by HMRC, called the lifetime allowance, you will pay tax on the excess.

The current allowance is £1,073,100.

Your pension provider(s) will normally send you a statement telling how much tax you owe if you exceed this allowance. They will also let you know how much of your allowance you have used.

If you are in more than one scheme you must include all funds when making your assessment of current pension pot values.

PERSONAL

Energy Bills Support Scheme

As part of this Scheme, domestic electricity customers in Great Britain will receive a £400 grant which will appear as a credit from energy suppliers from October 2022 onwards. This will not need to be repaid.

All households with a domestic electricity connection will be automatically eligible for the £400 grant. There is no need to contact energy suppliers.

The payment through energy bills will apply across England, Scotland and Wales. Energy policy is devolved in Northern Ireland. The Northern Ireland Executive will be funded to provide comparable support with around £150 million through the Barnett formula in financial year 2022-23.

Money Helper

The government has created a new website – https://moneyhelper.org.uk – that offers advice on coping with business and personal financial problems created by the current cost of living crisis.

You may find useful advice on this site if you, your business or family have been affected.

Tax when selling personal possessions

There are certain circumstances when you will pay Capital Gains Tax when selling personal possessions.

You may have to pay Capital Gains Tax if you make a profit ('gain') when you sell (or 'dispose of') a personal possession for £6,000 or more.

For example, you may need to pay tax on sale of personally owned jewellery, paintings, antiques, coins and stamps, or sets of things, e.g., matching vases or chessmen.

You will need to work out your gain to find out whether you need to pay tax.

In most cases, you do not need to pay tax on gifts to your husband, wife, civil partner or a charity.

Also, you do not pay Capital Gains Tax when you sell your car - unless you have used it for business, or anything with a limited lifespan, e.g., clocks - unless used for business purposes.

You are also exempt from paying tax on the first £6,000 of your share if you own a possession with other people.

FINANCIAL CALENDAR

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.

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

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.

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