Winter 2021

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CHARTERED ACCOUNTANTS

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Financial news that's relevant to you.

INTRODUCTION

The Autumn Budget from October 2021, contained few surprises and basically underlined announcements that had previously been 'leaked' to the press. A selection of the issues, that will have a positive impact for businesses are included in this newsletter.

Even with an increasing number of COVID infections, the industry is still free from the more disruptive effects of lockdown and associated measures. Whilst the government must obviously keep a weather eye on stretched NHS resources, let us hope that COVID counter measures continue to keep the economy open for business.

As this is the last printed news copy we will be distributing this year, may we take this opportunity to wish one and all a very merry Christmas and a healthy and happy new year.

BUSINESS

Christmas cheer

If you can organise a Christmas get-together for staff this year, we have reproduced below a brief outline of the tax incentives available.

1. The event must be open to all employees at a specific location.
2. An annual Christmas party or other annual event offered to staff generally is not taxable on those attending, provided that the average cost per head of the function does not exceed £150 p.a. (including VAT). The guests of staff attending are included in the head count when computing the cost per head attending.
3. All costs must be considered, including the costs of transport to and from the event, accommodation provided, and VAT. The total cost of the event is divided by the number attending to find the average cost. If the limit is exceeded then individual members of staff will be taxable on their average cost, plus the cost for any guests they were permitted to bring.
4. VAT input tax can be recovered on staff entertaining expenditure. If guests of staff are also invited to the event the input tax should be apportioned, as the VAT applicable to non-staff is not recoverable. However, if non-staff attendees pay a reasonable contribution to the event, all the VAT can be reclaimed and of course output tax should be accounted for on the amount of the contribution.

And do not forget to make appropriate use of the £50 trivial benefits allowance.

Tax break extended

One of the few tax breaks extended in the October Budget was the expected reduction in the Annual Investment Allowance (AIA) on 1st January 2022.

From this date the AIA was due to reduce to an annual limit of £200,000 from its current limit of £1m.

The AIA £1m limit has now been extended to 31 March 2023.

The AIA allows purchases of qualifying equipment - including commercial vehicles - to be fully written off against taxable profits. The relief can be claimed by companies and self-employed sole-traders or partnerships.

However, companies could claim the new super-deduction for purchases of qualifying equipment up to 31 March 2023. As this relief effectively provides a 130% deduction, this would be the better option.

Unfortunately, this super-deduction is not available to self-employed traders.

Business Rates reliefs

Many small business owners would have been delighted that the Chancellor had reduced their future rates bills in his recent budget.

But the changes announced were anything but easy to understand.

Here is what was promised:

The business rates multipliers are frozen for a second year until 31 March 2023. The small business multiplier is set at 49.9p and the standard multiplier at 51.2p. Different rates apply in City of London and in Wales. The freezing of the multipliers will mean that your business rates will not increase in 2022-23.

Eligible retail, hospitality and leisure properties will benefit from a 50% relief in their business rates for 2022-23, subject to a cap of £110,000 per business.

A relief is also being introduced for improvements to business properties which will delay the start date of higher business rates triggered by the improvements for 12 months. The government are to consult on how to implement the relief, which will take effect from 2023 and will be reviewed in 2028. If you are planning improvements to your business premises, this may benefit you.

From 1 April 2023 until 31 March 2035 a targeted business rates exemption will apply for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief will be available for eligible heat networks. This is to support the decarbonisation of non-domestic buildings.

From 2023, business rate revaluations will take place every three years rather than every five years.

Transitional relief for small and medium-sized businesses is extended for one year, which will restrict bill increases to 15% for small properties (i.e., those with a rateable value of up to £20,000 or up to £28,000 in Greater London), and to 25% for medium properties (i.e., those with a rateable value of up to £100,000).

Readers who expect to benefit from these changes will need to contact their local authority to see how the new reliefs will be incorporated into their rates bill.

Business gifts

The following notes are paraphrased from HMRC's published internal manuals.

Business gifts are not allowed as a deduction against profits. The legislation treats gifts in the same way as business entertaining expenditure.

A gift is something that is given to a person without receiving anything in exchange. It is offered voluntarily and without any expectation of a return. An example of this would be gifts provided for potential customers who take a test drive in a new car - there is no obligation to buy the car and so nothing has been given to the trader in return for the gift.

Gifts may also arise where goods or services are supplied at less than the cost to the trader. For instance, a hotel might offer meals to its suppliers at a nominal charge. Here the difference between the cost of the meal and the price paid is a non-allowable gift. By contrast, if a baker reduces the price of fresh bread at the end of the day, this is a normal commercial transaction (as the bread will be worthless by the next day) and the cost is allowed in full.

Even if the recipient of the gift has provided a service to the trader, no deduction should be allowed unless it can be shown that the trader was under some contractual obligation to offer the gift. It is not unusual, for instance, for organisers of meetings or conferences to send small gifts, such as hampers or vouchers, to speakers after the event. However, if the provision of a gift was not one of the conditions upon which the speaker agreed to attend, then the gift is treated as business entertainment expenditure, and the cost disallowed.

Grants to purchase low-emission vehicles

Many low-emission vehicles now qualify for a 'plug-in' grant. The grant will be administered (and claimed for) by the dealer selling you the vehicle.

Not all low-emission vehicles will get a grant. Only vehicles that have been approved by the government are eligible for a grant. The full list of qualifying vehicles can be seen on the GOV.UK website at gov.uk/plug-in-car-van-grants.

Cars

To be eligible for the grant, cars must cost less than £35,000. This is the recommended retail price (RRP) and includes VAT and delivery fees. The grant will pay for 35% of the purchase price for these vehicles, up to a maximum of £2,500.

Motorcycles

These vehicles have no CO_2 emissions and can travel at least 50km (31 miles) between charges. The grant will pay for 20% of the purchase price for these vehicles, up to a maximum of £1,500.

Mopeds

These vehicles have no CO_2 emissions and can travel at least 30km (19 miles) between charges. The grant will pay for 20% of the purchase price for these vehicles, up to a maximum of £1,500.

Small vans

These vehicles are less than 2,500 kilograms (kg) gross vehicle weight, have CO_2 emissions of less than 50g/km and can travel at least 96km (60 miles) without any emissions at all. The grant will pay for 35% of the purchase price for small vans, up to a maximum of £3,000.

Large vans

These vehicles are between 2,500kg and 3,500kg gross vehicle weight, have CO_2 emissions of less than 50g/km and can travel at least 96km (60 miles) without any emissions at all. The grant will pay for 35% of the purchase price, up to a maximum of £6,000.

Taxis

These vehicles are purpose-built taxis and have CO_2 emissions of less than 50g/km and can travel at least 112km (70 miles) without any emissions at all. The grant will pay for 20% of the purchase price for these vehicles, up to a maximum of £7,500.

Trucks

These vehicles are between 3,500kg and 12,000kg gross vehicle weight, have CO_2 emissions of at least 50% less than the equivalent conventional Euro VI vehicle that can carry the same capacity. They can travel at least 96km (60 miles) without any emissions at all. You can get a grant that covers 20% of the purchase price, up to a maximum of £16,000. This grant is available for the first 250 orders placed. Grants at the £16,000 rate are limited to 10 per customer. After the 250 order limit is reached, a maximum grant rate of £6,000 will apply.

Grant for a vehicle charger

You can also get up to £350 (including VAT) off the cost of installing a charger at home through the Electric Vehicle Homecharge Scheme.

PERSONAL

60 is better than 30

Since April 2021, it has been necessary to report any disposals of residential property subject to Capital Gains Tax - for example second homes or buy to let property - within 30-days of completing the sale.

It was also required that any tax payable was settled within the same 30-day period.

As this involved the super-quick calculation of gains following a sale and having to cope with HMRC's online portal to make the required returns, many facing this trial by reporting will have been relieved when this deadline was extended to 60-days (following a chargeable disposal) in the October Budget announcements.

Personal tax allowance on ice

In the March 2021 Budget, the Chancellor froze the Income Tax personal allowance - presently £12,570 - until April 2026. He also froze the various Income Tax bands. Which means that up to April 2026, the amount of income subject to basic rate Income Tax is limited to £37,700.

With the personal allowance set at £12,570 this means that any income you

earn above £50,270 (£37,700 + £12,570) will be subject to Income Tax at the higher 40% or 45% rates.

If we are entering into a period of higher inflation, there will be upward pressure on earnings.

As the personal allowance and bandings are frozen until April 2026, this will mean that any pay rises you receive up to 2026 will be fully taxable.

Many commentators have observed that this is a form of stealth tax. No direct increase in tax rates, but the overall tax take will likely increase.

Dividend tax increases

If you have been keeping up with announcements from Downing Street, you will know that from April 2022 the hybrid rates of Income Tax on dividend income are increasing by 1.25 percentage points.

The changes from April 2022 are:

- The first £2,000 of dividends received are free of any additional tax charge. No change here.
- If you are a basic rate tax payer, your dividend income in excess of £2,000 will be taxed at 8.75% (presently 7.5%).
- If you are a higher rate tax payer, any dividend income that falls into the higher rate band will be taxed at 33.75% (presently 32.5%).
- If you are an additional rate tax payer, any dividend income that falls into the additional rate band will be taxed at 39.35% (presently 38.1%).

Even with these increases, it is likely that directosr/shareholders adopting the high dividend, low salary strategy will still save on NIC costs.

Savers who have their funds in tax-exempt wrappers, ISAs for example, will be unaffected.

Other savers would need to have significant portfolios outside tax exempt investments to pay any dividend tax. With average dividend yields running at

approximately 3.5%, you would need to have a portfolio more than £57,000 to breach the £2,000 tax-free limit.

Working from home

You may be able to claim tax relief for additional household costs if you are required to work at home on a regular basis; either for all or part of the week. This includes if you must work from home because of COVID-19.

You cannot claim tax relief if you choose to work from home. You may be able to claim tax relief for:

- gas and electricity;
- metered water;
- business phone calls, including dial-up internet access.

You cannot claim for the whole bill, just the part that relates to your work. You can either claim tax relief on:

- £6 a week from 6 April 2020 (for previous tax years the rate is £4 a week) - you will not need to keep evidence of your extra costs;
- the exact amount of extra costs you have incurred above the weekly amount - you will need evidence such as receipts, bills, or contracts.

You will get tax relief based on the rate at which you pay tax. For example, if you pay the 20% basic rate of tax and claim tax relief on £6 a week, you would get £1.20 per week in tax relief (20% of £6).

EMPLOYMENT & PAYROLL

Students are warned of tax scams

University students taking part-time jobs are at increased risk of falling victim to scams, HMRC is warning.

Higher numbers of students going to university this year means more young people may choose to take on part-time work. Being new to interacting with HMRC and unfamiliar with genuine contact from the department could make them vulnerable to scams.

In the past year almost one million people reported scams to HMRC.

Nearly half of all tax scams offer fake tax refunds, which HMRC does not offer by SMS or email. The criminals involved are usually trying to steal money or personal information to sell on to others. HMRC is a familiar brand, which scammers abuse to add credibility to their scams.

Links or files in emails or texts can also download dangerous software onto a computer or phone. This can then gather personal data or lock the recipient's machine until they pay a ransom.

Between April and May this year, 18- to 24-year-olds reported more than 5,000 phone scams to HMRC.

Off-payroll working rules

Off payroll working rules (IR35) 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.

From 6 April 2017, public authorities became responsible for deciding if the rules applied where they contracted workers who provide services through their own intermediary.

From 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.

You may be affected by these rules if you are:

• a worker who provides their services through their intermediary;
• a client who receives services from a worker through their intermediary;
• an agency providing workers' services through their intermediary.

If the rules apply, Income Tax and employee NI contributions must be deducted from fees and paid to HMRC. In addition, employer NI contributions and Apprenticeship Levy, if applicable, must be paid to HMRC by the person who pays the worker's intermediary.

You can use the HMRC 'Check Employment Status for Tax' service to help you decide if the off payroll working rules apply.

NIC & PENSIONS

Annual limits for pension payments

From 6 April 2014, the annual allowance for tax relief on pension savings in a registered pension scheme was reduced to £40,000. This includes contributions made by anyone else into your pension such as your employer. If your pension savings exceed this amount you may have to pay a tax charge and give details of this on a self-assessment tax return.

You will have a reduced ('tapered') annual allowance in the current tax year if both:

• your 'threshold income' is over £200,000
• your 'adjusted income' is over £240,000

The tapered annual allowance was introduced from 6 April 2016. For the taper to apply, the limits on threshold income and adjusted income must both be exceeded.

The £40,000 annual allowance will be reduced by £1 for every £2 of adjusted income over £240,000. The minimum annual allowance reduced in this way will be £4,000.

Prior to the 2020-21 tax year lower limits applied and for every £2 of adjusted income over £150,000, an individual's annual allowance was reduced by £1. With the minimum annual allowance being £10,000.

NIC increase – now you see it, now you don't

From April 2022, in line with announcements made earlier this year, National Insurance Class 1 contributions (that will affect employed persons and their employers) and Class 4 contributions (that will affect the self-employed), are increasing by 1.25%.

These increases will affect all employed and self-employed workers that presently pay National Insurance.

This increase will only apply to NIC rates for one year. From April 2023, the 1.25% increase will be removed from Class 1 and Class 4 NIC rates and a new tax is being created to be known as the Health and Social Care Levy (HSCL).

The HSCL will appear as a separate item on payslips and tax statements for the self-employed. The Levy is the closest the UK will have to a hypothecated tax - a tax levied and applied to a specific funding objective, i.e., funds for the NHS and social care budgets.

Whilst payroll software providers will already be making changes to their code to accommodate this new tax, it will be interesting to see if HMRC can adapt their systems in time for the April 2023 launch date.

Many smaller company employers, those that can claim the £4,000 employment allowance, will likely escape payment of the 1.25% increase in employers' Class 1 contributions. However, the increase will also apply to Class 1A NIC employer contributions and these are not covered by the employment allowance.

Note: Class 1A NIC is payable on the value of taxable benefits provided by employers and is levied at the end of each tax year.

VAT & DUTIES

Changes in VAT rates for hospitality traders

The temporary reduced rate of VAT (5%), introduced to assist qualifying hospitality trades disrupted by COVID lockdown measures, was increased to 12.5% on 1 October 2021. Based on present information, from 31 March 2022, this 12.5% rate will revert to the

20% standard rate.

Businesses that manage their own accounts software will need to have changed the VAT settings to include the new 12.5% rate, and make sure that this new rate is applied to all relevant taxable sales since 1 October 2021, in place of the temporary 5% rate.

Affected businesses will also need to consider the effects of this change on their selling prices to customers.

If you decide to maintain the VAT inclusive price that you charged when the 5% VAT rate applied, the increase in VAT to 12.5% will lower your profit margin.

If you decide to pass on the VAT increase to your customers, you may experience a drop in demand for your services.

If you are unsure which way to proceed, please call. We can help you consider your options and, if required, change your accounts software to include the new 12.5% rate.

Registering for VAT

You must register your business for VAT with HMRC if the VAT taxable turnover is more than £85,000.

When you register, you will be sent a VAT registration certificate. This confirms:

- your VAT number,
- when to submit your first VAT Return and payment,
- your 'effective date of registration' - this depends on the date you went over the threshold or is the date you asked to register if it was voluntary.

You can register voluntarily if your turnover is less than £85,000 unless everything you sell is exempt.

You can reclaim the VAT you may have paid on certain purchases made before you registered.

VAT Flat Rate Scheme

The amount of VAT a business pays or claims back from HMRC is usually the difference between the VAT charged by the business to customers and the VAT the business pays on their own purchases.

With the Flat Rate Scheme:

- you pay a fixed rate of VAT to HMRC;
- you keep the difference between what you charge your customers and pay to HMRC;
- you cannot reclaim the VAT on your purchases - except for certain capital assets over £2,000.

To join the scheme your VAT turnover must be £150,000 or less (excluding VAT), and you must apply to HMRC.

If you think this may be a better choice than the standard scheme, please call so we can consider your options.

MISCELLANEOUS

Check your State Pension forecast

You can use the online service at *gov.uk/check-state-pension* to see the progress you are making - based on past contributions - towards your eventual entitlement to a State Pension.

Use this service to find out how much State Pension you could get, when you can get it and how to increase it, if this is possible.

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 2022 for year ending 31 December 2021.
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.

December 2021

30 Last day to submit 2020/21 tax return online to have unpaid tax of up to £17,000 collected through the 2022/23 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 2022

14 Due date for CT61 return and CT payment for quarter to 31 December 2021.
31 Submit 2020/21 Self Assessment return online. Pay balance of 2020/21 Income Tax and CGT plus first payment on account for 2021/22.

February 2022

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

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.

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