Business Development & Tax Planning Handbook 2022/23

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Introduction

In this handbook we have drawn together a series of updates on topics that business owners and taxpayers can use to support their efforts to re-establish their financial affairs after the dire effects of COVID-19 disruption for the last two years.

This publication was written February 2022, when COVID-19 restrictions have been eased. However, rising interest rates, inflation, Brexit and other international concerns indicate that a return to pre-2019 economic certainties may be some time away.

Much of what we suggest is that you consider your options carefully and plan accordingly.

Disclaimer:

We have used reasonable care and skill in assembling the information in this handbook. However, the information presented cannot be tailored to personal circumstances or particular situations. There may also be factors relevant to you which fall outside the scope of the content of this publication. Accordingly, the material included in this booklet does not constitute personal or business advice. You should not rely solely on any material in this handbook to make (or refrain from making) any decision or take (or refrain from taking) any action.

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Chapter 1:

Pension contributions tax breaks 2022-23

Read this update if you want to review your pension provisions and plan your pension contributions for the 2022/23 tax year.

Is there a limit on the tax relief you can claim?

Yes -- tax relief is only available on contributions to registered pension schemes up to certain limits.

Individuals can make contributions to the higher of £3,600 and 100% of their earnings, if they have sufficient annual allowance available to shelter the contributions.

Contributions can be made by (or on behalf of) non-taxpayers up to £3,600 a year. Net of basic rate relief at 20%, this will cost £2,880.

How much is the annual allowance?

The annual allowance is set at £40,000 for 2022/23. However, a taper applies which reduces your annual allowance if you have:

- adjusted net income of £240,000 or more (broadly income including pension contributions); and
- threshold income of £200,000 or more (broadly income excluding pension contributions).

Where both apply, the annual allowance is reduced by £2 for every £1 by which adjusted net income exceeds £240,000 until the minimum level of the annual allowance is reached. This is set at £4,000 for 2022/23.

The impact of the taper means that if your adjusted net income is £312,000 or more and your threshold income is at least £200,000, you will only receive the minimum annual allowance of £4,000 for 2022/23.

A reduced annual allowance – the money purchase annual allowance (MPAA) -- also applies if you have flexibly accessed a money purchase pension pot having reached the age of 55. This is also set at £4,000 for 2022/23.

What about employer contributions?

Contributions made by your employer count towards the annual allowance. They are also considered when working out adjusted net income for the purposes of determining whether the annual allowance taper applies.

What about unused allowances from earlier years?

Where the annual allowance is not fully utilised in a tax year, the unused portion can be carried forward for up to three years.

This means that when working out the total tax relieved pension contributions that you can make in 2022/23, you need to consider not only the available annual allowance for the current tax year, but also any unused allowances brought forward from:

- 2021/22
- 2020/21; and
- 2019/20.

Allowances brought forward from a previous year can only be used once the current year's annual allowance has been used up.

Once this has been done, brought forward allowances from an earlier year are used before those of a later year.

Any allowances brought forward from 2019/20 will be lost if they are not used by 5 April 2023. However, contributions cannot exceed 100% of your earnings (or £3,600 if higher).

Limit on lifetime pension savings

The lifetime allowance places a cap on the value of tax-relieved pension savings. The lifetime allowance is set at £1,073,100 for 2022/23, unchanged from 2021/22. At the time of the 2021 Budget, the Chancellor announced that it would remain at this level for tax years up to and including 2025/26.

If you think that your pension savings may be approaching this level, it is important that you review them before making any further contributions. Where pension savings exceed the lifetime allowance, tax relief on the excess contributions is recovered at the rate of 25% if the excess is taken as a pension and at a rate of 55% if it is taken as a lump sum.

Why make additional pension contributions?

Making pension contributions is tax efficient as relief is given at your marginal rate of tax. This means that a contribution of £100 will only cost you £60 if you are a higher rate taxpayer, and £55 if you are an additional rate taxpayer.

If you have some or all the 2019/20 annual allowance available, making extra contributions more than the 2022/23 allowance to mop it up will prevent it from being lost.

Making pension contributions can also be useful if you want to reduce your income, for example to preserve all or part of your personal allowance for 2022/23; or to move into a lower tax bracket. The personal allowance, set at £12,570 for 2022/23, is reduced by £2 for every £1 by which adjusted net income (in this instance, income before personal allowances and less trading losses, charitable donations, and pension contributions) exceeds £100,000. For 2022/23, this means that the personal allowance is lost once adjusted net income reaches £125,140.

Due to this taper, the marginal rate of tax between £100,000 and £125,140 is 60%.

Where making additional pension contributions is an option, this can be valuable, whether to prevent losing any of the personal allowance, or to preserve some of it or more of it.

And finally, using these generous tax breaks to create a fund for your retirement is a worthwhile endeavour.

We can help

For example, you may be unsure:

- How much to pay each month to fund a reasonable pension?
- How do you claim tax relief on contributions made?
- Is it better to pay personally or for your employer to pay contributions?

Please call if you need more information regarding any of the issues raised in this update.

Chapter 2:

Working from home tax breaks 2022-23

If you are choosing, or required to work from home, you may be able to benefit from a number of tax breaks. The nature of the available tax breaks varies depending on whether you are an employee, self-employed or operate your own limited company.

Separate considerations also arise if you have a home office.

Employees working from home

The tax breaks available to employees working from home fall into two camps:

1. tax-free benefits and expenses provided by their employer and
2. deductions that they can claim for expenses that they incur because of working from home.

A few temporary concessions are also available for employees who are, or have, worked from home as a result of the COVID-19 pandemic.

1.Tax-free benefits and expenses

Employers can provide the equipment and supplies that the employee needs to work from home, such as office furniture, stationery, or a computer without a taxable benefit arising. This applies as long as ownership of the equipment remains with the employer and private use is not significant.

Employers can also pay employees a tax-free allowance of £6 per week (£26 per month) to cover the cost of additional household expenses incurred because of working from home.

2.Tax relief for expenses

Generally, employees are only able to claim tax relief for expenses incurred wholly, exclusively, and necessarily in the performance of the duties of their employment. This is a hard test to meet, and where expenses tick this box, a deduction is allowed.

Self-employed and working from home

If you are self-employed and working from home, expenses are deductible if they are wholly and exclusively incurred for the purposes of the business. This will apply to costs incurred in running a home office, such as cleaning, heat and light, Wi-Fi costs etc. Where there is both business and private use, a deduction is allowed for the business element, if this can be separated out.

Keeping a track of actual expenses can be time consuming. To save time, if you are self-employed you can opt to use simplified expenses and claim a flat rate deduction for the expenses of working from home, based on the total number of hours worked in the home in the month by anyone who works in the business. The following table shows the monthly flat rate deduction that can be claimed.

Hours of business use per month	Flat rate per month
25 to 50 hours	£10
51 to 100 hours	£18
More than 100 hours	£26

The flat rate expenses do not include telephone and internet expenses and a separate deduction can be claimed for these.

Running a personal or family company from home

Where your company is based at home, the company can deduct expenses wholly and exclusively incurred for the purposes of the business. If the company meets household costs these can be deducted, but any private expenses met by the company will trigger a benefit in kind charge on the director. If the director pays the household expenses, the proportion relating to the business can be recharged to the company.

The company can also rent a home office from the director, paying rent at a commercial rate. This may be a useful way of extracting funds from the company and has the advantage that no National Insurance is payable. The company can deduct the rent paid when working out their profits chargeable to corporation tax.

On the other side of the equation, the rent is taxable in the hands of the director.

Building a home office

Having a separate office in the garden, or converting the garage, can be attractive. The extent to which any tax relief is available will depend on who meets the costs.

If you operate through a limited company, the company can meet the cost of building a home office. As this is capital expenditure, the building costs cannot be deducted, although capital allowances may be claimed for items such as office furniture. If the company is VAT-registered and not using the flat rate scheme, the VAT on the building costs can be reclaimed. The rules are more complicated where the flat rate scheme is used.

If you are a director or your family use the home office for personal use, a benefit in kind charge will arise.

A benefit in kind charge will also arise if an employer meets the costs of converting an employee's loft or garage to an office, and the room is also available for private use.

Capital gains tax implications

If part of a home is used exclusively for business, that part will not benefit from the main residence exemption for capital gains tax.

Thus, when selling the property, it is necessary to apportion the gain to ascertain that part attributable to the home office.

However, in most cases, any gain pertaining to a home office will be covered by the annual exempt amount (currently, this exempt amount is £12,300).

Retaining some private use of the room – for example, using it for the business in the day and homework in the evening, alleviates the potential capital gains problem and preserves the main residence relief.

Where a separate home office in the garden is owned by a limited company, any gain on sale would be chargeable to corporation tax.

We can help

If you are considering or have been obliged to work from home, we can help you consider your options.

For example, you may have been involved in:

- Setting up a home office.
- Claiming for additional costs if you work from home.
- Clarifying capital gains tax risks.
- Will working from home affect your rates?

If you are working from home and want to ensure that you do not miss out on valuable tax breaks, please call.

Chapter 3:

Off-payroll working

New off-payroll working rules came into effect from 6 April 2021, and you may already have some experience of applying these rules. The rules may affect you if you if you are a private sector organisation that engages workers who provide their services through an intermediary, such as a personal service company, or if you are a worker who provides your services in this way.

Private sector engagers

You will fall within the ambit of the off-payroll working rules if you are a medium or large private sector organisation that engages workers who provide their services through an intermediary, such as a personal limited company. You will be classed as a medium or large private sector organisation if at least two of the following apply to you:

- your annual turnover is more than £10.2 million.
- your balance sheet total is more than £5.1 million.
- you have more than 50 employees.

If one or none of the above apply to you, you are classed as a 'small' organisation and do not need to comply with the rules. Instead, the intermediary will need to determine whether they fall within the scope of IR35.

Medium and large private sector organisations

If you are classified as a medium or large private sector organisation by applying the above tests, you will need to comply with the off-payroll working rules whenever you engage a worker who provides their services through a personal service company or other intermediary. The rules impose a number of obligations on you.

For all engagements of this nature, you must:

- determine whether the worker would be an employee if they provided their services directly to you. (HMRC's Check Employment Status for Tax (CEST) tool, available on the GOV.UK website, can be used for this purpose).
- give a copy of the determination and the reasons for reaching the decision that you arrived at to the worker, and to any other parties in the chain.
- if the determination is that the worker would be an employee, calculate the deemed direct payment by excluding VAT and the cost of materials from the amount billed by the worker.
- calculate tax and employee's National Insurance on the deemed direct payment and deduct this from the payment that you make to the worker's personal service company.
- account for employer's National Insurance on the deemed direct payment and pay this together with the tax and employee's National Insurance deducted from the payment over to HMRC; and
- report the pay and deductions to HMRC under Real Time Information, making it clear that the worker is an off-payroll worker.

It is important that you apply the rules as you may be penalised if you fail to do so.

Where the worker falls within the scope of the off-payroll working rules you will need to pay employer's National Insurance contributions on payment made to the worker's intermediary. You should budget for this cost, particularly as the rate of secondary employer's Class 1 National Insurance is increased to 15.05% for 2022/23.

Small private sector organisations

If you are classified as a small organisation by applying the above tests, you do not need to consider the off-payroll working rules, and there is no need for you to undertake a status determination. Instead, you will pay the worker's personal service company gross. There is no need to deduct tax and National Insurance from payments made to the worker's personal service company, or to account for employer's National Insurance. Instead, the worker's intermediary is responsible for determining whether the engagement falls within IR35 and complying with the IR35 rules if it does.

Workers providing services through a personal service company

If you are a worker and you provide your services to a private sector organisation, you should ask the client to confirm their size when agreeing the engagement. If the client is a medium or large private sector organisation or a public body, they will need to determine whether the off-payroll working rules apply, whereas if the client is a small private sector organisation, you will need to consider whether the engagement falls within the scope of the IR35 rules.

If the end client is a medium or large private sector organisation or a public sector body, they will determine your status and give you a status determination. If you do not agree with the determination (for example, if the end client determines that you would be an employee if you provided your services directly and you think you would be self-employed), you should tell the client.

The client must either confirm that their original determination stands or issue a new determination within 45 days.

If you are assessed as an employee and fall within the off-payroll working rules, the client will deduct tax and National Insurance from payments that they make to your personal service company. You will receive credit for this tax and National Insurance against payments that your personal service company makes to you personally.

The off-payroll working rules do not apply to services provided to an end client that is classed as 'small'. Consequently, if you provide services through an intermediary to a small private sector organisation, you will need to consider the IR35 rules and determine whether you would be an employee if you provided your services directly. Where this is the case, the IR35 rules apply and you will need to calculate the deemed employment payment on 5 April at the end of the tax year, and account for tax and National Insurance on that payment direct to HMRC.

If you fall within the scope of the off-payroll working rules, you may wish to consider whether it is worthwhile to operate through a personal service company or whether it would be preferable to be 'on payroll' as an employee if this option is available.

We can help

We can help you decide whether you fall within the scope of the off-payroll working rules, and if you do, what you need to do in order to comply.

Chapter 4:

Tax-free perks 2022-23

Providing non-cash benefit to your employees can promote a feeling of goodwill, particularly where they can be provided without triggering a tax or National Insurance liability. The trivial benefits exemption is a handy exemption if you want to provide low-cost benefits to your employees. However, there are traps that you need to avoid.

Nature of the exemption

The exemption allows you to provide trivial benefits to employees without your employee suffering a tax charge on the benefit. Likewise, there is no Class 1A National Insurance for you, the employer, to pay.

To count as 'trivial' for the purposes of the exemption, the benefit must meet all of the following conditions:

- the cost of providing the benefit is £50 or less.
- the benefit is not cash or a cash voucher.
- your employee is not contractually entitled to the benefit.
- the benefit is not provided in recognition of particular services.

Unless your company is a close company (generally a small company) and trivial benefits are provided to a director or other office holder, there is no limit on the number of trivial benefits that you can give to a particular employee in the tax year.

However, the cumulative provision of trivial benefits to directors or other office holders of close companies is capped at £300 for each tax year.

If you provide the benefit to a number of your employees and it is impracticable to work out the actual cost of each individual benefit provided to each individual employee, you can work out the average cost instead. As long as this does not exceed £50 the cost condition will be met.

Trap1: Contractual entitlement

If your employees are contractually entitled to receive a benefit, or you have an agreement with them that you will provide them with the benefit, the trivial benefits exemption does not apply, even if the benefit costs less than £50. Problems can arise if you have an established practice of providing a particular benefit to employees such that the employee has a reasonable expectation that they will receive the benefit. However, HMRC have confirmed that they will accept that small Christmas and birthday gifts can be provided within the scope of the exemption. When using the exemption for other benefits, it is advisable that these are made on an ad hoc basis.

Trap 2: Salary sacrifice

The exemption will not apply if you use a salary sacrifice arrangement to provide trivial benefits to your employees – the existence of the arrangement will create a contractual entitlement to the benefit, and this will take it outside the scope of the exemption.

Trap 3: Reward for services

The trivial benefits exemption does not apply if you provide benefits to your employees as a reward for services. An example of this may be giving a store voucher to an employee for hitting a sales target, providing a taxi home where an employee works late (outside the separate exemption for taxis home for employees working beyond 9pm) or providing lunch to employees for working through their lunch break.

Trap 4: Season ticket trap

To count as a trivial benefit, the cost of the benefit must not exceed £50. However, problems can arise with benefits such as a season ticket. If an employee is given a season ticket costing £300 allowing the employee to attend 12 theatre performances in a year, the cost of the benefit is £300, despite the fact that each individual performance only costs £25. As a result, the benefit is not trivial, and the exemption does not apply. However, if an employee is given access to the season ticket on certain occasions and the cost does not exceed £50. This would be treated as a trivial benefit.

Trap 5: Top-up gifts cards

You may also fall foul of the £50 limit if you use a top-up gift card to provide an employee with a gift on their birthday and at Christmas. For example, if you give an employee a store card with £40 credit for Christmas and add a further £30 top-up on the employee's birthday. The cost of the benefit is the annual cost of £70 and consequently, the exemption does not apply. To avoid falling foul of this trap, give the employee a separate non-cash voucher for each event.

Tips

Despite the traps, the trivial benefits exemption remains a useful benefit. You can use it to provide free tea and coffee to employees, and also to give employees Christmas and birthday gifts. It can also be used for gifts to an employee who gets married, is unwell or has a baby.

If a benefit is caught by one of the above traps, you can use a PAYE Settlement Agreement to meet the tax liability on the employee's behalf so that they do not receive a tax bill as well as a benefit.

We can help

Correct use of the trivial benefits concession does provide you with a useful means to incentivise staff, and even though the individual gifts are small, repeated use during the tax year will add-up to a sizeable tax-free benefit.

If you are unsure how to take advantage of this concession, please call so we can consider your options.

Chapter 5:

Extracting company profits - 2022-23

If you run a family or personal company, you will need to consider how best to extract profits from your company. There are various ways in which you can do this. A traditional tax-efficient approach is to take a small salary and to extract any further profits as dividends. However, you can also extract profits in other ways.

Salary

If you pay a salary that is at least equal to the lower earnings limit for National Insurance purposes (set at £6,396 for 2022/23), the year will count as a qualifying year for state pension and contributory benefit purposes. To be eligible for the full single tier state pension when you reach state pension age, you will need 35 qualifying years. If you do not have 35 qualifying years when you reach state pension age, but you have at least 10 qualifying years, you will receive a reduced state pension.

The optimal salary for 2022/23 will depend on whether your company is entitled to the National Insurance employment allowance. If you run a personal company and are the only employee and director, you will not qualify for the employment allowance as it is not available where the sole employee is also a director.

If the employment allowance is not available, and assuming you are a director, your optimal salary is equal to the annual primary threshold of £11,908, if sufficient of your personal allowance remains available to shelter the salary. At this level, no tax or employee's National Insurance will be payable. However, a small amount of employer's National Insurance will be payable on earnings between the secondary threshold of £9,100 and the annual primary threshold of £11,908 at the rate of 15.05%. However, as this is deductible for corporation tax purposes, paying a salary equal to the higher primary threshold rather than one equal to the secondary threshold (so no National Insurance liability arises) is worthwhile. Once the salary level reaches the primary threshold, employee contributions (at 13.25% for 2022/23) are also payable. At this level, it is preferable to switch to dividends.

Where the employment allowance is available, for example, if your company is a family company with more than one employee, your optimal salary level is one equal to the personal allowance, set at £12,570 for 2022/23. You can pay a salary to other family members who work for the company too. A salary paid at this level will be free of employer's National Insurance. However, a director will pay employee's National Insurance at 13.25% to the extent that the salary exceeds the primary threshold of £11,908.

Dividends

Once you have paid yourself the optimal salary, it is tax-efficient to extract further profits in the form of dividends rather than paying yourself a higher salary. However, you can only pay dividends out of retained profits and, therefore, you must have sufficient retained profits to cover the dividends that you wish to pay.

Dividends must be paid in proportion to shareholdings. However, if you use an alphabet share structure whereby each shareholder has their own class of share (e.g., A ordinary shares, B ordinary shares, etc.) you can tailor dividend payments by declaring different dividends for different classes of shares.

All taxpayers, regardless of the rate at which they pay tax, have a dividend allowance. This is set at £2,000 for 2022/23. Dividends covered by the allowance are tax-free. If shareholders have their dividend allowance available, paying a dividend to use up the allowance enables profits to be extracted from the company without paying further tax.

The dividend tax rates have been increased by 1.25% for 2022/23. Once the dividend allowance has been used up, dividends (which are taxed as the top slice of income) are taxed at 8.75% where they fall within the basic rate band, at 33.75% where they fall within the higher rate band and at 39.35% where they fall within the additional rate band. As dividends are paid out of retained profits, they have already suffered corporation tax at 19%.

Rent

If you run your company from home, you can consider renting your home office to the company. The rent, which should be at a commercial rate, is deductible in computing the company's taxable profits. However, you must pay income tax on it and declare it on your self-assessment tax return. On the plus side, there is no National Insurance to pay.

Benefits in kind

There are a selection of tax exemptions for benefits in kind, such as those for mobile phones and trivial benefits, which enable you to extract profits as a benefit in kind without an associated tax or National Insurance liability,

Pension contributions

You can also extract profits in the form of pension contributions as your company can pay contributions into a pension plan for you (if your available annual allowance has not been used up).

Directors' loans

If your need money for a short time, taking a director's loan can be tax efficient. You can borrow up to £10,000 for up to 21 months tax-free. However, there are tax consequences if the balance exceeds £10,000 at any point in the tax year, or if you do not repay the loan within nine months and one day of the end of your accounting period.

Leave profits in your company

Extracting profits from your company may trigger tax and National Insurance charges. If you do not need the profits for personal use, consider leaving them in the company to extract later when this can be done more tax efficiently.

We can help

We can help you formulate a tax-efficient strategy for extracting profits from your personal or family company.

Chapter 6:

Considering self-employment?

If you are self-employed and operate as a sole trader or run an unincorporated business, you will need to register as self-employed with HMRC.

Unlike a company (which is a separate legal entity), if you are self-employed, you do not benefit from limited liability (unless you are operating a limited liability partnership). Further, you are taxed personally on any profits that you make from running your business.

Taxation of profits

If you make a profit, you will pay income tax if your total income for the tax year (from all sources) exceeds your personal allowance. The exception to this is if your income from self-employment is £1,000 or less for the tax year, in which case it is covered by the trading allowance, and you do not need to report it to HMRC or pay tax on it.

Where income from self-employment is more than £1,000, you must work out your profit for the tax year. Special rules apply in the first three years of the business, but once your business is established, your profits for the tax year are those for the accounting period that ends in that tax year. So, if you prepare your accounts to 31 March each year, for 2022/23, you will be taxed on your profits for the year to 31 March 2023.

You can choose to work out your profits by reference to money received less money paid out. This is known as the cash basis; however, if you want to use this basis you must elect to do so. Otherwise, you must use the traditional accruals basis.

In working out your profit you can deduct expenses wholly and exclusively incurred for the purposes of the business. If expenses are less than £1,000, you can deduct the £1,000 trading allowance instead.

It is important to note that you are taxed on the profit made by your business, not on the drawings that you take for your own personal use.

Your tax liability for the year is worked out on your total income for that year from all sources, not just on any profits from your self-employment. You will pay tax to the extent that your income exceeds your personal allowance, set at £12,570 for 2022/23.

Self-assessment tax return

Each year you must file a self-assessment tax return. You will need to complete the self-employment pages to tell HMRC about the income and expenses from your business. You must file your self-assessment tax return online by 31 January after the end of the tax year. Your 2022/23 tax returns must be filed online by 31 January 2024. You can file a paper return instead but must do this by the earlier deadline of 31 October after the tax year.

Paying tax and payments on account

If your total income tax and Class 1 National Insurance liability for a tax year is £1,000 or more, you will need to make payments on account for the following tax year. Payments on account for 2022/23, where your 2021/22 liability is at least £1,000, are due as follow:

- 31 January 2023: 50% of 2021/22 tax and Class 4 National Insurance liability.
- 31 July 2023: 50% of 2021/22 tax and Class 4 National Insurance liability.
- 31 January 2024: any balance due for 2022/23 (plus first payment on account for 2023/24).

If your tax and Class 4 National Insurance liability is less than £1,000, you do not need to make payments on account. Instead, you must pay any tax due for 2022/23 by 31 January 2024.

National Insurance Contributions

If your profits are above certain levels, you must also pay National Insurance contributions. The self-employed pay two classes of contribution – Class 2 and Class 4.

Class 2 contributions are payable at the rate of £3.15 per week for 2022/23 if your profits exceed the small profits threshold of £6,725. If your profits are less than this, you can choose to pay Class 2 contributions voluntarily to ensure that the year is a qualifying one for state pension purposes.

You will also pay Class 4 National Insurance contributions if your profits exceed £11,908. You will pay Class 4 National Insurance at the rate of 10.25% on profits between £11,908 and £50,270 and at 3.25% on profits in excess of £50,270.

You will need to pay any National Insurance for 2022/23 by 31 January 2024 together with any tax due under self-assessment.

VAT

If you are registered for VAT, you will need to comply with the filing requirements of Making Tax Digital for VAT.

Making Tax Digital

Making Tax Digital (MTD) is changing the way that taxpayers communicate with HMRC. If you are VAT-registered and have turnover above the VAT registration threshold, you will already be complying with MTD for VAT.

MTD for income tax is being introduced from 6 April 2024 and if your turnover from self-employment is more than £10,000, you will need to comply with MTD for income tax from the start of your next accounting period beginning on or after 6 April 2024. Under MTD for income tax, you will need to keep digital records and provide quarterly updates to HMRC instead of filing a self-assessment tax return.

Although April 2024 may seem to be some time ahead, landlords and self-employed taxpayers with turnover in excess of £10,000 – and who are not using accounting software that is compatible with MTD filing obligations – would be advised to consider their options in the coming months.

We can help you choose appropriate software and provide installation and training support if required.

Self-employed v incorporated

As everyone's personal tax affairs are unique, planning for the best type of business structure can be tricky.

Please call if you would like to discuss your options.

Chapter 7:

Making the most of tax losses 2022-23

If you have suffered losses, due to the Covid-19 pandemic or otherwise, you may be able to claim tax relief for those losses, and possibly generate a tax repayment in the process. The options for relieving losses will depend on whether you operate your business as an unincorporated business, or whether you operate through a limited company. You will also need to consider where you are in your company's lifecycle. If you are an unincorporated business, the available options will further depend on whether you use cash basis accounting.

When looking to optimise the relief for a loss, as a general rule you should try to obtain relief for the loss as early as possible and at the highest possible rate. You may need to choose which of these takes priority.

Unincorporated businesses

If you run an unincorporated business, for example, if you are a sole trader or a partner in a partnership, there are various ways in which you can obtain tax relief for a trading loss.

Option 1 – against general income of current and/or previous year

If you prepare your accounts using the accruals basis and realise a trading loss, you can claim relief against your total income of the year of the loss and/or the previous tax year. This is useful if you have other income. The claim can also be extended to capital gains in certain circumstances.

Where the loss is carried back and set against income of a previous year, this may trigger a repayment of tax already paid.

If, however, you prepare accounts using the cash basis, sideways loss relief (against other income) is not available, nor is relief against capital gains.

Claims cannot be tailored to preserve your personal allowance – the loss must be set in full against the income of the year for which relief is claimed. This may result in your personal allowance being fully or partially lost.

Option 2 – extended carry-back for 2020/21 and 2021/22 losses

As a temporary measure, losses for 2020/21 and 2021/22 can be carried back and set against your trading profits for the previous three years. This option is available regardless of whether you prepare accounts under the accrual's basis or the cash basis.

If you use the accruals basis you have the option of sideways relief (as outlined in option 1 above) and cannot fully relieve a loss for 2020/21 under option 1 above, the extended carry-back rules allow you the additional option of carrying it back against trading profits of 2018/19 and 2017/18. Relief is given against the income of a later tax year first. Likewise, you can carry back a loss for 2021/22 which has not been fully utilised under option 1 above, against trading profits of 2019/20 and 2018/19. Where a claim has been made under option 1 above for any year, this takes precedence.

If, however, you use the cash basis to prepare your accounts, you can make use of the extended carry back rules to carry a trading loss back and set against trading profits from the previous three years, setting the loss against profits of a later year before an earlier year. The claim cannot be tailored to preserve personal allowances. If you use the cash basis and made a loss for 2020/21, you can set it against trading profits for 2019/20, 2018/19 and 2017/18. Where a loss is made for 2021/22, this can be set against any trading profits for 2020/21, 2019/20 and 2018/19.

Losses you can carry back under these rules are capped at £2 million a year.

Carrying the loss back may generate a welcome tax repayment.

Option 3 – carry forward against future trading profits

Where you cannot relieve the loss under options 1 and 2 above (or option 4 below), you can carry the loss forward and set it against future profits of the same trade. You may prefer this option if carrying the loss back would result in the loss of your personal allowance.

In the absence of the extended carry back rules (outlined in option 2), if you use the cash basis and make a loss, you can only carry this loss forward against future profits of the same trade (unless the loss is a terminal loss: see option 5).

Option 4 – loss in the early years

If your business is new and you make a loss in the year in which start your trade or any of the following three years, you can set the loss of your net income of the three previous tax years, using the losses of the earliest year first. However, this option is not available if you prepare your accounts using the cash basis.

Option 5 – terminal loss

If you stop trading and you make a loss in the final 12 months of your trade, you can carry the loss back against the profits of the same trade for the period of the loss and the previous three tax years. This option is available regardless of whether you prepare your accounts using the accruals basis or the cash basis.

Losses cap

If you prepare your accounts under the accrual's basis, any losses that you relieve under options 1 (excluding any extension to capital gains) and 3 are subject to a cap of £50,000 or 25% of your net income if higher.

If you make a claim under the extended carry back rules, which are available for 2020/21 and 2021/22 losses (as outlined in option 3), the loss that can be relieved for each year under these rules is capped at £2 million.

Companies

If you run your business as a limited company, there are various options available for relieving the loss.
Carrying a loss back may generate a much-needed tax repayment.

Option 1 – against total profits of the same accounting period

You can relieve a trading loss in an accounting period against total profits, including chargeable gains, of the same accounting period. If you have made a trading loss as a result of the impact of COVID-19 or otherwise, but also realised chargeable gains in the same period, you can relieve the loss against those gains.

Option 2 – against profits of a preceding period

If you are unable to fully relieve a loss under option 1 above, you can carry the loss back against profits of the previous accounting period. This will generate a useful tax repayment and will often be preferable where this is an option rather than carrying the loss forward.

Option 3 – extended carry back

If you incurred losses in accounting periods ending between 1 April 2020 and 31 March 2020 you can benefit from an extended carry back period. You can carry the loss back (to the extent it cannot be relieved under option 1) against the profits of the same trade for the preceding three accounting periods. The loss is set against profits of a later year before an earlier year. Losses for an accounting period which can be carried back under these rules are capped at £2 million.

Option 4 – carry forward against future profits

Losses can be carried forward and set against trading profits of the same trade. While the above options will normally be used in preference to carrying a loss forward, where your profits are in excess of £50,000, the rate at which you pay corporation tax will increase from 1 April 2023. Consequently, carrying the loss forward may provide relief at a higher rate, albeit later.

Chapter 8:

Capital expenditure tax breaks 2022-23

If you are running a business and you invest in plant and machinery, you may be able to claim relief for that expenditure in the form of capital allowances. There are various allowances available, and the available allowances will depend on the nature of the expenditure, when it is incurred and whether you operate as an unincorporated business or as company. In particular, there is a limited window to take advantage of the temporary higher limit for the Annual Investment Allowance, and also the super-deduction and 50% first-year allowances available to companies.

If you use the cash basis to prepare your accounts, different rules apply to provide relief for your capital expenditure.

What are capital allowances?

Capital allowances provide a deduction for qualifying capital expenditure when computing your profits. Depending on the allowances available, you may receive relief in full for the expenditure in the accounting period in which it was incurred, or it may be spread over several accounting periods.

Plant and machinery capital allowances

Unless you prepare your accounts using the cash basis, you can claim plant and machinery capital allowances for expenditure on items that you use in your business, such as computers, machinery, office furniture, equipment, and business vehicles. There are a number of different allowances available.

Annual Investment Allowance

If you incur expenditure that qualifies for the Annual Investment Allowance (AIA) you can deduct the cost of that expenditure in full in the accounting period in which you incurred, it up to the amount of the available AIA limit. In this way, the AIA gives immediate 100% relief for the expenditure.

Writing down allowances

Writing down allowances (WDAs) provide relief for qualifying expenditure on plant and machinery over a number of years. You can claim WDAs if you have used up your AIA limit of if the expenditure does not qualify for the AIA, as is the case for business cars. You can also claim WDAs instead of the AIA if you prefer.

You can claim writing down allowances at the rate of 18% on items that are allocated to the main rate pool. This will be any qualifying expenditure on plant and machinery that does not need to be allocated to the special rate pool or to a single asset pool.

You can claim allowances at the lower rate of 6% for items that are allocated to the special rate pool. This includes cars with CO_2 emissions over a certain threshold, integral features, long life assets and thermal insulation.

If you use an item both privately and for the business, you need to allocate it to a single asset pool. You can claim WDAs on the business-use element.

First year allowances

Like the AIA, first-year allowances provide a 100% deduction for capital expenditure in the accounting period in which it is incurred. You can claim first year allowances for new zero-emission cars and goods vehicles, and for certain other specialised capital assets.

Super-deduction

If you operate your business as a company within the charge to corporation tax, you can claim a super-deduction of 130% for expenditure that would otherwise qualify for main rate capital allowances which is incurred in between 1 April 2021 and 31 March 2023. The rate is reduced if the accounting period spans 1 April 2023. The super-deduction operates as a first-year allowance.

Special Rate (SR) allowance

The SR allowance is another temporary first-year allowance available to companies within the charge to corporation tax. You can claim the allowance if you incur qualifying expenditure on plant and machinery that would otherwise qualify for special rate capital allowances between 1 April 2021 and 31 March 2021. The SR allowance is a first-year allowance given at the rate of 50%.

Business cars

Special rules apply to business cars and the allowances that you can claim depend on the car's emission levels. If you incur the expenditure on or after 1 April 2021 (companies)/ 6 April 2021 (unincorporated businesses), you can claim:

- a 100% first year allowance for expenditure on new and unused zero-emission cars,
- main rate WDAs at 18% for expenditure on low emission cars with CO_2 emissions of 50g/km or less and second-hand zero-emission cars,
- and special rate WDAs at 6% on cars with CO_2 emissions in excess of 50g/km.

Capital allowances cannot be claimed for cars if a deduction for expenses is claimed using the simplified expenses system.

Balancing allowances and charges

If you sell an asset for less than it's written down value for capital allowance purposes, you may be able to claim the difference as a balancing allowance.

Conversely, if you sell an asset for more than it's written down value (the difference between it's cost and any tax allowances claimed), the difference or profit on sale may increase your tax bill.

Claims

Claims for capital allowances are optional. You do not have to make a claim and you can tailor the amount of the claim to maximise a reduction in taxes payable. This is subject to the limits set for each type of claim.

For example, it may be prudent to reduce a claim (by unincorporated businesses) to protect personal tax allowance(s).

Also, it may be that more than one option is available, and where this is the case, the challenge is to maximise the relief available. For example, a company may have the option to claim the super-deduction, the AIA, or a writing down allowance. Claiming the super-deduction will secure the highest rate of relief.

Cash basis

If you run an unincorporated business and have elected to use cash basis accounting, instead of claiming capital allowances, you can deduct the cost of any capital expenditure (unless it is of a type for which a deduction is prohibited) when working out your taxable profits. The main items which cannot be deducted are expenditure on land and buildings and cars. As long as you have not used simplified expenses to work out your deduction for running costs, you can claim capital allowances for your expenditure on business cars.

We can help

We can help you consider the best way to claim allowances and maximise any tax benefits.

Please call before you complete your acquisition(s).

Chapter 9:

Incorporating a property business 2022-23

If you have a property rental business, you may be running it through a limited company, or you may be running an unincorporated business and wondering whether you should incorporate.

There are advantages and disadvantages to incorporation.

Incorporating an existing property rental business

If you already run a property rental business and want to incorporate that business you will incur some up-front costs, which may be significant.

One of the main disadvantages is that stamp duty - SDLT (or LBTT in Scotland or LTT in Wales) - has to be paid again as the properties are being transferred to a connected company. Any SDLT will be based on the market value of the property(ies).

You may also realise a chargeable gain when you dispose of properties that you own personally to your limited company. However, where the consideration is in shares, incorporation relief (which applies unless you disclaim it) provides for the gain to be held over until the shares are sold, deferring the time at which any capital gains tax needs to be paid.

Setting up a new limited company and purchasing property

If you are thinking of starting a property rental business and running it as a limited company, you will need to set the company up. Once set up, the company will need to acquire the rental properties (securing finance if required). SDLT (or LBTT in Scotland, LTT in Wales) will be payable when the properties are purchased.

Tax on rental profits

One current attraction of operating as a limited company is that you will pay corporation tax at 19% on your profits rather than income tax at 20%, 40% or 45%. However, from 1 April 2023, the rate of corporation tax will increase if your profits are more than £50,000; the small profits' rate remains at 19% where profits are below £50,000. The rate is set at 25% where profits are in excess of £250,000. Where profits are between £50,000 and £250,000, corporation tax is charged at 25% as reduced by marginal relief. The taper from 19% where profits are £50,000 to 25% where profits are £250,000 means that between these limits, the marginal rate is more than 25%. If you have more than one company, the upper and lower profits limits are divided by the number of associated companies plus one.

The forthcoming rise in corporation tax may impact on whether incorporation is worthwhile. The decision will depend on the rate at which you pay income tax and the rate at which you will pay corporation tax beyond April 2023. However, even beyond April 2023, the higher and additional rates of income tax are higher that the main corporation tax rate of 25%.

It is worth noting that a company does not have a personal allowance, so corporation tax is payable from the first £1 of taxable profit. Unless your personal allowance has been abated (which starts where adjusted net income exceeds £100,000), or used against other income, you will be able to enjoy the first £12,570 of your 2022/23 property income, tax-free.

You can deduct expenses wholly and exclusively incurred for the purpose of your property business when working out your taxable profits.

Finance costs

The tax relief available to landlords running unincorporated property businesses has been gradually restricted over the last few years. As an unincorporated landlord, you can no longer deduct finance costs, such as mortgage interest, when working out your taxable profits. Instead, you will receive relief as a tax reduction of 20% of the finance costs, regardless of the rate at which you pay tax. This is capped at 20% of property profits or 20% of adjusted net income if lower. The restriction does not apply to furnished holiday lettings.

By contrast, a limited liability property company can deduct allowable finance costs in full when working out its taxable rental profits. This means relief is given at the corporation tax rate, and also the issue of unrelieved interest does not arise as it is deductible in full, even if this creates as loss.

Capital gains

If your limited company disposes of a property, your company will pay corporation tax on any chargeable gain at the corporation tax rate, presently set at 19% for the financial year 2022.

By contrast, if you dispose of the property personally and you have income and gains in excess of the basic rate limit (set at £37,700 for 2022/23), you will pay capital gains tax at 28% on the disposal of a residential property and at 20% on the disposal of a commercial property. If your income and gains do not exceed the basic rate band, you will pay capital gains tax at, respectively, 18% and 10%.

However, your company will not benefit from the annual exempt amount (set at £12,300 for 2022/23).

Your company must pay corporation tax on any chargeable gains as part of its corporation tax liability nine months and one day after the end of its accounting period.

If you make a residential property gain personally, you must report it to HMRC within 60 days and make a payment on account of the capital gains tax due within the same time frame.

Annual tax on enveloped dwellings

If your limited company holds residential property valued at more than £500,000 you will need to consider whether a charge to the annual tax on enveloped dwelling arises. However, you can benefit from relief if you are running a qualifying property rental business. This will be the case if you are carrying on a property rental business on a commercial basis with a view to profit.

Extracting profits from your property company

Although you may less pay tax on your rental profits, if you run your business through a limited company rather than as an unincorporated property business, this is not the full story.

If you want to make use of the rental profits for personal use, you will need to extract them from your company, and this may trigger tax and National Insurance liabilities depending on the extraction route taken.

Extraction options could include salaries and/or dividends.

It is worth noting that the rates of Class 1 National Insurance contributions are increased by 1.25% for 2022/23. Likewise, the dividend tax rates are increased by 1.25% from 6 April 2022, to 8.75%, 33.75% and 39.35%.

This increases the tax and National Insurance cost of extracting funds from the company and should be considered when deciding whether to operate as a limited company.

We can help

As with most tax planning exercises, deciding on the best outcome will depend on all the issues described in this update PLUS consideration of any other income streams or business interests you may have.

Before making any firm decisions it is worth preparing an impact assessment so you can make your decision based on hard facts.

We can help you do this.

Chapter 10:

Accessing real-time data

In the next two years, we will see the extension of HMRC's Making Tax Digital initiative to include all VAT registered businesses and any self-employed business with turnover in excess of £10,000 p.a.

This will include property letting businesses (landlords) that are not incorporated.

Those affected will have to digitise record keeping so their financial data can be uploaded to HMRC's servers each quarter. For income tax purposes, this will apply from April 2024.

Add to this the need for all businesses to be keenly aware of their current financial position - to counter current economic challenges - and it is not difficult to see that we all need to use and benefit from computerised accounting records.

Manual record keeping is out-of-date

We are living through a period when recording business transactions or other tax information in a hand-written format is becoming redundant. The process is slow to manage and prone to error.

Instead, we need to embrace digital record keeping.

Embracing cloud-based accounting software

You may have taken the first tentative steps towards digitising your record keeping by recording transactions on a spreadsheet. Spreadsheets are rather like manual records – you still need to make individual entries – but totals are automatically updated using formulas. They do offer advantages, but unfortunately, these advantages are limited unless you have significant coding skills.

We can't over-emphasise the benefits of taking that extra step and using cloud-based accounting software to record transactions and access this real-time data to help run your business.

The benefits of accounts software

The benefits of cloud accounting software include:

1. You can link your bank accounts to your software – gone are days when it was necessary to reconcile entries using a pencil and paper statements, most accounting software handles this for you.
2. You can create and send invoices to customers directly from your PC/iPad or laptop. And, importantly, you can set up processes to manage credit control. For example, automating monthly statements and chasing emails.
3. Now that mobile phones have significant processing power, you can also manage these accounting processes using dedicated phone APPs. Check your bank balances, send an invoice from a remote location and so on.
4. Many software providers have stock control features and almost all have payroll options and automatic generation (and filing) of VAT returns using the new Making Tax Digital protocols.
5. We recommend cloud software, i.e., software you access via an internet browser. It is actually hosted on a remote server not your PC. In this way you can access the software from any internet linked device, to help you with any processing issues, and more importantly, view management reports.
6. The most important advantage of using cloud-based software is the ability to view real-time data, to see what is happening right now.

Once you get used to using technology in this way you will be surprised how much time you can save and how much useful information becomes available, at the click of a mouse, to help you run your business.

It is worth underlining that there is a wealth of reporting options beyond the usual profit, cash flow or balance sheet; reports that can be adapted to support your business endeavours. The key is to identify relevant challenges and then design reports that illustrate progress to solve those challenges.

How much will this cost?

Most cloud-based accounts software is provided for a small monthly fee. Depending on the level of detail that you need to record, the monthly costs will rarely exceed £30.

You will need to consider training costs, but these costs are an investment. The payback you will receive will far outstrip any initial expenditure.

We can help

There is no one-size-fits-all approach. The collection of financial data offers almost unlimited scope to view that data in formats that will be of value to your business. The real skill is not designing the required reports, it's identifying the original problem(s) and making sure you extract information from your accounting software to manage those problem areas.

Having access to real-time data will transform your ability to manage your business on a day-to-day basis.

As the information is sited at a secure location accessible from the internet, we can also access the data and help you use the information to better manage your business.

If you would like to discuss how you could benefit from using or developing the use of a cloud accounting solution, now is the perfect time to dip your toe in the water. Call any time to discuss your options.

Chapter 11:

Why business planning is imperative 2022-23

Whilst we may be seeing the end of major COVID related disruption other factors are conspiring to challenge UK business during 2022-23.

As a consequence, this is not the time to relax and expect things will return to "normal".

Challenges we can expect 2022/23

As well as any residual COVID-19 challenges, we will likely encounter:

- Rising inflation.
- Rising interest rates.
- Increasing cost of labour as skilled staff are increasingly harder to find.
- Increasing taxation.
- Supply line uncertainties.
- Cash-flow issues.

Without disruption created by government regulation (to control COVID infection) business will also need to be wary of letting sales dominate thinking. Offering extended credit terms to win market share may place unsustainable strain on cash resources.

Maintaining business fitness 2022/23

There are very few businesses that have emerged unscathed from the disruption created by the pandemic and the measures – lockdowns – that government have been required to introduce to protect limited NHS resources since the virus first impacted our lives in early 2020.

Many businesses have been required to abandon planning and management of their businesses in order to cope with the challenging effects of lockdowns and reduced demand for their products and services.

What to do?

Key areas of concern

Financially, there are a vast number of issues that will need your attention in the coming months. They will range from recreating sales, establishing a supply chain for goods and service you will need, controlling costs, and investing in services and equipment to drive the process forwards.

In particular, you will need to manage:

- Cash flow
- Servicing debt
- Maintain solvency
- Rebuild reserves

How best to monitor progress?

Progress has a variety of faces:

- Businesses that have fared badly will be happy to re-establish some semblance of financial security,
- Those that have marked time during COVID challenges will want to plan to expand, and
- Those that have achieved growth against all odds will want to consolidate their gains.

To monitor progress there are certain building blocks it would be good to have in place. For example:

- Effective accounting systems and responsive bookkeeping software.
- A comprehensive business plan that can be flexed as circumstances change.
- A set of key indicators.
- The ability to produce management reports that compare actual trading results with your budget. This will direct change to plug adverse variances before they become a big problem.

Last, but very definitely not least, you must set up a formal process to review the above.

Key benefits of a review 2022/23

There is a well-known parable – the tortoise and the hare – where the hare gets so far ahead in a race with his slower challenger that he decides to take a nap. The nap becomes a deep sleep, and the remorseless tortoise slowly ambles past and wins the race.

This tale has relevance for UK businesses in 2022-23. We cannot afford to take our eye off the ball if we want to achieve our goals – win our race.

And the best way to stay conscious of developments, changes and challenges is to actively review progress on a regular basis.

How frequently should we review progress?

- **After your year end –** the least attractive option. This will likely leave you – like the hare – waking at your year end to find that you have lost out to your competitors.

- **Before your year end –** an improvement on the first option, but any trends that emerged during the pre-review period may escape much needed remedial action.

- **Quarterly –** a realistic option for businesses that start 2022-23 on a reasonably sound footing.

- **Monthly –** the best option for businesses that need to be ultra-cautious, perhaps building from an exhausted financial base. A monthly review will also benefit firms that have set an aggressive agenda and are keen to invest in the review process to capitalise on any opportunities that open up.

Reviews ensure you cover all bases. That you deal with challenges and take advantage of opportunities. Without reviews, you may, like the hare, suffer the inevitable consequences of unconsciousness…

We can help

There is no one-size-fits-all approach to staying ahead of business challenges.

The collection of financial data offers almost unlimited scope to present that data in formats that will be of value to your business. The real skill is not designing the required reports, it's identifying the original problems and results you want to achieve.

We help many of our business clients by being an active partner in creating goals and reviewing progress on a regular basis.

Call now so we can discuss your options. Pick up the phone; there is no charge for an initial discussion.

Chapter 12:

Why tax planning is a sound investment

Most of us would rather avoid the word "tax" and yet tax planning offers a unique opportunity to reduce the amount of tax that you pay and make a positive contribution to your efforts to outpace the current economic downturn and emerge financially more secure.

The rest of this fact sheet does sketch out some of the opportunities for individuals and businesses to save tax, more importantly, it also sets out the case for investing in an appropriate level of tax planning; for you or your business.

What our tax planning services do not offer

We are all entitled to use the present tax legislation to minimise our tax payments. What we are not entitled to do is evade tax by adopting strategies that stretch the credibility of laws set by parliament beyond those originally intended.

Penalties for engaging in tax schemes that would be challenged by HMRC as tax evasion can be punitive and in some cases are treated as fraud.

What does tax planning achieve?

Tax planning achieves two major outcomes:

- It reveals one-off tax saving opportunities, but it also reveals ongoing tax savings; savings that you will reap for many years with no further investment in professional advice.
- Without straying into tax evasion, tax planning will also ensure you pay the minimum tax applicable to your circumstances, and no more…

HMRC are tax collectors. They are obliged to publish details of any tax savings options open to you, but under no obligation to tell you. A review of your personal and business circumstances is required to achieve this, and this is what tax planning advice will provide.

In the following three sections we outline some of the areas that we could cover as part of an annual tax planning review. However, these are just the tip of the tax planning iceberg.

Much will depend on consideration of your personal and business circumstances.

Personal tax planning objectives

- Take advantage of all allowances and reliefs to which you are entitled.
- Direct your income into tax-free forms – for example, tax-free benefits in kind.
- Advising on the tax benefits of certain investment opportunities; the Enterprise Investment Scheme for example.
- Consider pension payments as a way to reduce taxes, particularly higher rates of income tax.
- Share income producing assets with family members.
- Consider use of companies to shelter income from higher rates of income tax.

Company tax planning objectives

- Choosing the best tax structure for your company if incorporating a self-employed business.
- Maximise tax relief for investment in new or used vehicles, plant or other equipment.
- Formulating the best mix of profit extraction choices: salary, dividends, pension contributions, rents, or interest.
- Choosing the best tax strategy when you dispose of your business.

VAT

- Deciding when to register or deregister.
- Choosing the most beneficial special scheme if available.
- Dealing with complications if part of your business turnover is partially exempt.

There is no one-fits-all approach

Every person and company, to some extent, is unique. Good advice for one would be bad advice for another. This is why listening to banter shared in your local bar may not be the best place to pick up advice.

There is no substitute for discussing tax planning options with a qualified tax practitioner.

How much does tax planning cost?

Cost may not be the most appropriate word to use. This fact sheet illustrates that tax planning is a sound investment. Accordingly, we will always strive to ensure that you secure a return on your investment.

This will not always result in the tax savings we achieve immediately exceeding the cost of our services.

For example, changes in legislation may require changes in the way you organise your financial affairs for the current tax year and in future tax years. In which case it is necessary to consider the long-term tax savings with any short-term fees payable in to make a true comparison.

One thing is clear. We will always determine the positive benefits of our advice whether this be a reduction in taxes payable or the avoidance of penalties and interest charges that may arise if no advice is taken. We will also provide you with a quote for our fees before undertaking any planning work on your behalf.

When should you seek advice?

Change should be the motivating factor; has tax legislation or have your personal or business circumstances changed?

Ideally, we should discuss these changes – whenever possible – BEFORE the change occurs.

Waiting until after the event, for example, after your business year end, may be too late to take appropriate action.

Tax planning is not a formulaic exercise. At its best, it is reshaping existing strategy in order to minimise the tax effects of change on existing planning.

And so the quick answer to this question is talk to us. If you are going to:

- buy or sell a property,
- experience a change in your personal circumstances,
- want to buy or sell a business, or
- consider any other options that impact your personal finances or business affairs.

Pick up the phone.

If your personal or business financial affairs warrant a periodic review, we would suggest that this is considered annually to ring-fence any changes in legislation or any other circumstances.

Call now so we discuss your options.

One thing is clear, being informed and taking appropriate action has never been more necessary; as the events of the last two years have demonstrated.

Chapter 13:

Challenges for new businesses 2022-23

Setting up a new business is not a project for the faint of heart. In this fact sheet we have set out a few of the roadblocks you are likely to encounter on your journey and a few ideas that will help you stay on-track.

What to do before taking the plunge

Most people who set up their own business will tell you it was more of a challenge than they expected and that it took longer to achieve business success than they anticipated. Here are some of the personal issues you might like to consider.

- Personal sacrifice. Starting a business is a life-changing event and will require hard work and long hours, especially in the early stages.
- Financial insecurity. We all hope that our efforts will be financially rewarding, but what if they are not in the early days of your new business?
- Loss of employment rights. You will need to take care of yourself as you may no longer receive sick pay or be paid when you are on holiday – indeed you may not have time for holidays.
- Pressure on close relationships
- Do you have the necessary skills? Are you an engineer with a yen to open a restaurant?

Planning – a must-do before your start

A detailed business plan is the key to making a success of your new business.

You will need to show it to anyone who you ask to invest in your business. You will also need to show it to your bank or other institution who you approach to lend you money.

They will all want to know that your ideas have been thought through and that there is a good chance of getting their money back in due course.

Your plan should include an explanation of how your business will start, build, and develop. You also need to know who you are competing with and what will enable you to be successful. The plan should describe the business, product or service, your marketplace, mode of operation, capital requirements and projected financial results.

It's your business and your ideas but we can help you craft a credible business plan.

Economic challenges

The exceptional disruption to the UK and global economy during the past two years has forced us to reconsider what we have assumed is "normal" in terms of business activity.

Since March 2020, the entertainment, hospitality, and travel sector have suffered more than most from repeated lockdown restrictions.

Accordingly, timing your launch date is important. The early part of 2022 may not be the best time to consider starting a business in one of these sectors.

Also, if you need to raise capital in order to fund the launch of your business, lenders may not be that enthusiastic about financing the purchase of a hotel or public house.

Online trading

If your new business intends to trade in goods rather than services, you may want to plan to have an online sales platform, especially if you are selling direct to consumers.

Many existing businesses that have adapted in this way have been far more successful in weathering COVID disruption than those waiting for customers to shop in-store.

Supply disruption

If your business intends to trade with the EU, you would do well to research the customs regulations you will need to comply with.

If you are importing goods from abroad, you would also be wise to investigate any delays to deliveries. For example, this update was written during the early part of 2022, and at that time, China was facing challenges with the COVID Omicron variant. As Chinese components are common-place in goods sold in the UK, any unexpected delays in shipping could be detrimental.

Eyes wide open

Taking on a new business start-up is a dream that needs a dose of realism in order to succeed.

The comments we have made in this fact sheet are not intended to put you off your new venture, but to help you succeed by avoiding the pitfalls that budding entrepreneurs now face.

Other matters that you may like to consider as part of your planning include:

- See if you can discuss your business plans with someone – preferably not a likely competitor – who already runs a successful business of the type you intend to launch. Ask them to describe the sort of difficulties you are likely to encounter and how best to tackle them.

- You will need professional advisors to help you set up and manage your business. These may include a: surveyor (if you are buying property), solicitor, financial advisor, insurance broker and – very important – an accountant.

- Be sure to select a business structure that protects your personal assets, particularly your home. The key phrase here is limitation of liability.

We can help

We have been fortunate in helping many new business owners set up and successfully establish their business dream. You can tap into this wealth of experience by discussing your new business plans with us.

We would be happy to call you or organise an initial online call to discuss your options on a complimentary basis.

In the coming months, as we continue to emerge from the worst of the COVID disruption, there will always be room for new business owners who are informed, have done their homework, have a detailed business plan and the backing of a professional advisor committed to their success.

Pick up the phone, we would love to talk with you.

Chapter 14:

Business exit challenges 2022-23

Hopefully, COVID-19 seems to be under control, and we may have seen the back of the disruption experienced during 2020 and 2021.

In this fact sheet we have laid out how to maximise your business value even if in a forced sale situation.

Maximising value if forced to sell

When you sell your business, it is easy to see that you should get something for business assets, whether they be property, plant, vehicles, or other equipment.

Buyers will want to pay the lowest price and you will want to sell at the best possible price. Inevitably, a deal may be struck somewhere in between.

However, realizing value for your business equipment and property can just be the tip of the iceberg. Your most valuable asset is likely to be goodwill, and this is rarely quantified in your accounts.

One way to define goodwill is the price a buyer would be willing to pay for the relationship with your customer base. This could be the value of existing contracts or hard-won, repeating sales to regular customers. You have done the hard work and invested in the conversion costs to win these relationships, and many buyers will be prepared to pay you something for this goodwill.

The problem is how much would they be prepared to pay?

If forced to sell, try and slow down the sale. You will need to take advice and have your business goodwill valued as if it was a going concern.

Although you may have run out of capital to take your business forward there may be competitors with sufficient funds to make you a sensible offer.

Offer buyers ongoing participation

Buyers will be wary of paying a reasonable price for a business if the present owner is not prepared to stay on for a period of time to ease existing customers into a lasting relationship with the new owners.

The speed and amount you receive as payment for your business may depend on this.

If you are not in a close-down or forced sale situation, there are a variety of exit strategies you could consider.

Exit strategies

- Sale to a third party
- Handing business to family members
- Selling business to your employees – staff buyout
- Gradual wind-down

The first three options are fairly self-explanatory. Each will require an arms-length valuation and a negotiated settlement: how quickly will you be paid and in what form will you be paid e.g., will you be paid in cash or shares on signing a contract to sell or as a deposit and instalments?

If your business is a company, has cash reserves, no other assets and cannot be sold, there are a variety of tax planning options you could consider. These may include withdrawing funds as dividends over a number of years to supplement pensions. This is a gradual wind-down option.

What drivers will increase the value of your business?

If you are not in a forced sale situation, what drivers, indicators do you need to focus on to achieve a successful exit? The following list describes some of the key factors you could consider:

- Having a strategic plan in place to grow your business.
- Positive financial performance.
- A history of adequate working capital and cash-flow management.
- How does your business compare with competitors?
- What are your unique selling points?
- Has your business developed intellectual property?
- Is the value of recurring or contracted work significant?
- Is there reliance on key customers, suppliers, or staff?
- How easy will it be to reduce reliance on founder or shareholders?

Working on these areas over time will help you to maximise the value of your business.

We can help

Without a doubt, planning is absolutely vital if you want to maximise the value you can extract from your business when it’s time for you to exit.

Hopefully, you will have considered and worked on the issues that will boost business value, perhaps for many years.

Unfortunately, the current pandemic may have put these planning matters on hold, but they should be reactivated as the economy starts to open up.

The main difficulty you will face if forced to sell is that these planning options may be denied. For example, your bankers may call in their security if you can no longer service debt repayments.

A successful business exit rarely happens without giving due consideration to the factors that will increase business value.

If you would like to consider your business exit planning options in more detail, please call.

If you are forced to sell and don’t know how to proceed, again, please call. We can help.

Chapter 15:

Why multiple income streams matter

Businesses and employed persons have both had their assumptions about income security challenged since the COVID pandemic started to affect economic activity in the UK March 2020.

In this information sheet we have suggested a number of ideas for creating additional income streams. After all, in challenging times it pays to avoid having all your eggs in one basket.

The major source of new income for businesses that sell to consumers is utilising the internet. We have set out a few ideas to consider on this topic below.

What have we learned during the pandemic?

Primarily, that we can take nothing for granted.

Customers may have been denied access to your business during periods of lockdown and teams fragmented, obliged to work from home or furloughed.

The suggestion in this discussion paper is that we should no longer rely on one source of income to pay our bills. Instead, we should seek out and consider building multiple income streams.

In this way, we would become more adaptable and able to survive, financially, if future challenges with the same disruptive effects as the pandemic, re-occur.

Income streams you may be able to create

The following suggestions may or may not suit your circumstances, but most of us will have options to supplement our income. The key is to explore these options.

Individuals

- Rent out your drive or DIY equipment.
- Rent a room in your home.
- If you have the capital, buy and let property and keep the day job.
- Turn your hobby into a small business utilising online shopping platform such as Etsy.com.
- Offer to write copy for business owners on your specialist topic.
- Hire your car to third parties.
- What other skills do you have? Look for part-time employment in more than one sector. For example, drive a taxi and deliver for supermarkets.

Business owners

- Sub-let surplus office space, warehousing, or factory space.
- Do you have under-utilised plant, vehicles, or other equipment that you could hire out?
- Do you have staff that you want to retain in your business long-term that you could sub-contract to other firms for limited periods?
- Could you franchise your business?

And last, but very definitely not least:

- Could your business develop an online sales platform?

Selling online

Using an online sales outlet has benefitted many businesses during lockdown keeping open that vital link between sellers and their customers.

Retailers in particular have used this strategy to maintain some semblance of sales activity.

Enterprising wholesalers have used the internet to sell direct to consumers when their retail customers were forced to close. In many cases this has resulted in an increase in profits; retail margins being higher than wholesale margins.

Numerous home-based based hobbyists have used Etsy.com or similar ready-made online shopping markets to turn their hobby into a small business.

What are the choices that retailers can make when considering online sales?

Ready-made online markets

Etsy.com and similar online markets offer a place online for you to set up a stall and sell to an existing list of willing consumers. No marketing costs, no need to drive traffic to your stall. But you will have to pay a commission on each sale you achieve.

Bespoke online markets

Alternatively, you could use Shopify.com or similar platform and build your own online shop. No commission to pay on sales but you would have to create your own database of online customers and fund the appropriate marketing costs to keep them engaged with your offerings.

Your first port of call if you want to try this option is probably your website developer.

Considering your options – we can help

When times are good very few of us are going to want the hassle of investigating and implementing a variety of income producing activities.

The aim of this discussion paper is to underline the fact that we can no longer rely on the status quo. What was so yesterday, may not be the norm tomorrow.

In which case it probably makes sense to at least consider the notion that it may be possible for you to create multiple income streams and be better placed to ride out the challenges created by the COVID pandemic and similar events.

We all have very different financial circumstances and there is no universal solution to this conundrum. There are tax concessions if your income from micro-business or rentals is below £1,000 for each source and trying out options at this level of activity may help you to filter out schemes that work or should be disregarded.

Whatever your circumstances, please call as we can help you consider your options.

Chapter 16:

When to incorporate your business

If you are thinking of setting up a business, or if you already operate as a sole trader, you may be considering whether to incorporate your business, and if so, when to incorporate.

This decision will affect the way in which you run your business and ultimately, what taxes you pay, and when you pay them.

Operating as a sole trader

If you run your business as a sole trader, there is no distinction for tax purposes between you and your business. Any profits that you make from running your business are considered in working out your overall tax liability for the tax year. The rate at which you pay tax depends on your total taxable income for the year, not just on the level of your business profits.

If you make a loss, relief may be available for that loss. The reliefs that are available for that loss will depend on when in the business cycle the loss is made and whether you use the cash basis or the traditional accruals basis to work out your profit or loss.

Currently, once the business is up and running, you are taxed on the profits for the accounting period that ends in the tax year. For example, if you prepare your accounts to 30 June each year, for 2022/23, you will be taxed on your profits for the year to 30 June 2022.

However, this is changing and from 2024/25 onwards you will be taxed on the profits for the tax year, with 2023/24 being a transitional year.

For 2022/23, the basic personal allowance is £12,570. Income tax is charged on taxable income as follows:

Rate	%	Taxable income
Basic rate	20%	£0 to £37,700
Higher rate	40%	£37,701 to £150,000
Additional rate	45%	Above £150,000

You will also pay Class 4 National Insurance if your profits are above £11,908. For 2022/23, Class 4 National Insurance is payable at the rate of 10.25% on profits between £11,908 and £50,270 and at the rate of 3.25% on profits in excess of £50,270.

If your profits are more than £6,725, you will also need to pay Class 2 National Insurance of £3.15 per week.

Operating as a limited company

If you choose to operate your business as a limited company, the first point to note is that the company is a separate legal identity and pays tax in its own right.

The company must pay corporation tax on its profits. Unlike an individual, there is no tax-free allowance for a company; corporation tax is payable from the first pound of taxable profit.

For the financial year beginning 1 April 2022, corporation tax is payable at the rate of 19%.

However, the rates of corporation tax are being reformed from 1 April 2023. From that date, you will continue to pay 19% if your taxable profits are less than £50,000.

However, if your taxable profits are more than £250,000, you will pay tax at 25%. Between these limits, the tax charge is initially calculated at 25%, but is reduced for marginal relief.

The limits of £50,000 and £250,000 are proportionately reduced if you have associated companies or prepare accounts for a period of less than 12 months.

If you operate your business as a company and you want to use your profits outside of the company, for example, to meet your living expenses, you will need to take the profits out of the company, and depending on the route chosen, this may incur additional tax and possibly National Insurance liabilities.

A popular and tax-efficient strategy is to pay a salary either equal to the primary threshold for Class 1 National Insurance purposes (set at £11,908 for 2022/23) or, if the National Insurance employment allowance is available, equal to the personal allowance (set at £12,570 for 2022/23). Any further profits can be extracted as dividends.

This has the advantage that no National Insurance is payable on dividends and also that the dividend tax rates are lower than the rates of income tax. For 2022/23, the first £2,000 of dividend income is tax-free.

Thereafter, dividends (which are treated as the top slice of income) are taxed at:

- 8.75% to the extent that they fall within the basic rate band,
- 33.75% to the extent that they fall within the higher rate band, and
- 39.35% to the extent that they fall within the additional rate band.

Dividends are paid out of the company's retained profits that have already suffered corporation tax. Consequently, companies that have exhausted their reserves of retained profits can no longer make dividend payments to shareholders.

Should you incorporate?

At first sight, it may seem beneficial to operate as a limited company as the rate of corporation tax at 19% is lower than even the basic rate of income tax.

However, this is not the full picture – a company has no tax-free allowance, and further tax and National Insurance may be payable if you extract the profits from the company for personal use.

The position is further complicated in that corporation tax rates are to increase from April 2023, and this may have the effect of swinging the pendulum away from incorporation.

The most tax-efficient option will depend on personal circumstances and will be affected by the level of profits that your business make and also any other income that you may have.

There is no substitute for crunching the numbers; this is essential to assess which is the most tax-efficient option for you.

It is also important to plan ahead. While incorporation relief is available if you incorporate your business in exchange for shares, there is currently no relief if you disincorporate, and moving between structures can in itself trigger tax bills.

Limiting liability

Aside from the tax and National Insurance issues in the previous sections of this update, business owners should consider their personal liability should their business fail.

In a nut-shell, if you are self-employed (whether sole trader or in a regular partnership structure) if your business becomes insolvent you may become personally liable for business debts not covered by business assets.

It is possible to cover this risk by converting to a Limited Liability Partnership, but this will not change your tax status.

Incorporation as a Private Limited Company is probably your best option if commercial risks are a significant factor. This may be so even if the tax benefits are marginal.

We can help

With increases in corporation tax on the horizon (from 1 April 2023) this shift towards a higher company tax regime will complicate the issues to be considered when deciding on a self-employed or incorporated business structure.

We can help you work out what is the most tax efficient, and risk averse structure for your business.

Please call so we can help you consider your options.

Chapter 17:

Electric vehicles (EVs) tax breaks 2022-23

If you provide your employees with company cars or company vans, or if your employees use their own vehicles for work, you may wish to consider switching to electric vehicles to take advantage of some of the tax breaks that are on offer.

The Government are keen for employers and employees to make green choices and are providing tax incentives to those who do.

Company cars

If you provide an employee with a company car that is available for the employee's private use, the employee is taxed on the resulting benefit.

The amount charged to tax depends, predominantly, on the list price of the car and the level of its CO_2 emissions.

To encourage drivers to adopt low-emission cars, drivers of electric and low emission cars pay less tax than those choosing higher emission models.

Drivers of diesel cars not meeting the RDE2 emissions standard pay an additional supplement.

For 2022/23, the amount that is charged to tax in respect of an electric company car is 2% of the list price of the car and optional accessories (as reduced by capital contributions of up to £5,000). The taxable amount is adjusted to reflect certain periods of unavailability and any contributions for private use.

The low charge means that an electric company car is a very tax-efficient benefit.

For example, the taxable amount for electric car with a list price of £30,000 is set at only £600 for 2022/23. Consequently, a basic rate taxpayer would only pay £120 in tax for the benefit of having an electric company car available for their private use throughout 2022/23. For a higher rate taxpayer, the tax hit is only £240.

As an employer, you would pay Class 1A National Insurance contributions on the total, taxable benefits paid to employees.

For 2022/23, these are payable at the rate of 15.05%. Consequently, the lower the benefit tax charge for employees, the lower your associated Class 1A National Insurance bill.

Also, you can claim a 100% first-year capital allowance for any new and unused electric cars that you purchase.

Car fuel benefit charges

HMRC do not regard electricity as a 'fuel' for the purposes of the fuel benefit charge.

Consequently, if you provide or meet the cost of electricity for an employee's private mileage in an electric company car, the employee will not be taxed on that provision, and there is no Class 1A for you to pay.

If an employee with a company car meets the cost of electricity for business journeys, you can make a mileage payment tax free as long as the amount paid is not more than the advisory fuel rate at that time. Currently, a payment of 4 pence per mile can be made tax-free.

Compare this to company car drivers of hybrid or petrol/diesel fuelled vehicles who could be paying a significant, additional tax charge if their employer meets private fuel costs.

Workplace charging

A tax exemption applies if you provide electric charging facilities which can be used by employees to charge their cars.

The exemption applies when the charging facilities are used by an employee to charge their own car or a car in which they are a passenger (for example, a car used to give an employee a lift to work).

The exemption is not relevant to company cars – charging costs are a connected cost of providing the car and are subject to a separate exemption.

The exemption only applies to charging facilities that are provided at or near the workplace and which are available to your employees generally. It does not apply if you reimburse an employee for the cost of charging their vehicle away from the workplace.

Company vans

A tax charge arises under the benefit-in-kind rules if a company van is available to an employee for their unrestricted private use. No charge arises is private use is restricted to home to work travel.

If an employee has unrestricted private use of a company van, there is no tax charge if the van is an electric van. By contrast, the amount charged to tax for 2022/23 for a van other than an electric van is £3,600. Choosing an electric company van will save an employee paying tax at the basic rate £720 in tax and an employee paying tax at the higher rate £1,440 in tax.

Employers will also save Class 1A National Insurance of £541.80.

As with company cars, electricity is not regarded as a ‘fuel’ for the purposes of the fuel scale charge. Consequently, if you meet the cost of electricity for unrestricted private mileage in a company van, there is no associated fuel benefit charge.

We can help

As the infrastructure for recharging electric vehicles is expanded, and with our aims to meet climate change obligations, the tax incentives set out above are the icing on the cake.

If you are considering your options and need advice on the tax benefits, please call.

We can help you formulate a tax-efficient company vehicle policy and explain the tax implications of your vehicle choices.

Chapter 18:

Corporation tax increases 1 April 2023

If you operate your business through a limited company, for example, as either a personal or family company, you will pay corporation tax on your profits. Currently, the rate of corporation tax that is payable is the same regardless of the level of your profits. For the financial year 2022 (i.e., the year from 1 April 2022 to 31 March 2023), the rate of corporation tax is set at 19%.

However, corporation tax is being reformed from 1 April 2023. The changes may affect how much corporation tax you pay and how you calculate your corporation tax liability. It is important to understand what the changes may mean for your business.

Corporation tax from April 2023

From 1 April 2023:

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

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

Impact if profits are £50,000 or less

If your company is a standalone company without associates and your taxable profits are £50,000 or less, you will be unaffected by the changes to corporation that come into effect from April 2023. You will continue to pay corporation tax on your profits at 19%.

Marginal relief – profits between £50,000 and £250,000

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

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

Marginal relief is calculated in accordance with the following formula:

F X (U – A) x N/A

Where:

F is the standard marginal relief fraction

U is the upper limit

A is the amount of augmented profits

N is the amount of the taxable profits.

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

This formula is not included to confuse you, but to illustrate that a new complication has been added to the determination of company tax liabilities.

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

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

For example, if you have total taxable profits of £100,000 for the year to 31 March 2023, and did not receive any non-exempt distributions (so augmented profits are also £100,000), you will be entitled to marginal relief of:

3/200 (£250,000 - £100,000) x £100,000/£100,000 = £2,250.

Therefore, your corporation tax bill will be £22,750 ((£100,000 @ 25%) - £2,250). This is an effective rate of 22.75%.

Likewise, if your taxable profits are £200,000, you will be entitled to marginal relief of £750 and will pay corporation tax of £49,250 ((£200,000 @ 25%) - £750). This is an effective rate of 24.625%.

In this way the marginal relief smooths the transition from 19% to 25%.

Profits in excess of £250,000

If profits from your standalone company are more than £250,000, the rate at which you pay corporation tax will increase by 6%, from 19% to 25% from 1 April 2023. You will need to plan ahead for the impact of this increase, which will adversely affect your cashflow and will reduce your retained profits. A reduction in retained profits will mean there are less funds to distribute as dividends.

For every £10,000 of profits, you will pay an additional £600 in corporation tax from 1 April 2023.

Impact of associated companies

The lower (£50,000) and upper (£250,000) profit limits are reduced if you have associated companies. The limit is divided by the number of associated companies plus 1. For example, if you have one associated company, the lower limit is £25,000 and the upper limit is £125,000 – the limits are divided by two. Likewise, if you have four associated companies, the limits are £10,000 and £50,000 – the limits are divided by five.

Where you have associated companies, the reduction in the limits will affect the profits which are charged at the small companies' rate, the band to which marginal relief applies and point at which corporation tax is payable at the main rate.

For example, if you have one associated company so that the limits are halved, from 1 April 2023, you will pay corporation tax at the small profits rate if your profits are £25,000 are less. If your profits fall between £25,000 and £125,000 you will pay tax at 25%, as reduced by marginal relief. If your profits are more than £125,000, you will pay corporation tax at the main rate of 25%.

The following table shows the lower and upper profit limits if you have no associated companies, or between 1 and 4 associated companies.

Number of associates	Lower profits limit	Upper profits limit
0	£50,000	£250,000
1	£25,000	£125,000
2	£16,667	£83,333
3	£12,500	£62,500
4	£10,000	£50,000

You may want to review your company structures prior to 6 April 2023. For example, if you have one company with taxable profits of £40,000 and one company with taxable profits of £5,000, the company with the taxable profits of £40,000 will not benefit from the small profits rate as the profits are above the lower limit of £25,000 that applies to a company with one associate. Merging the companies will mean that there is only one company and the combined profits of £45,000 will be charged at the small profits rate of 19%.

Short accounting periods

The lower and upper profit limits are also proportionately reduced if your accounting period is less than 12 months. For example, if you change your accounting date and prepare accounts for nine months when moving to the new date, the limits are £37,500 and £187,500.

We can help

If your company is likely to have profits in excess of £50,000 or has one or more associated companies, we will need to revisit options to minimise your corporation tax bills from 1 April 2023.

Please call so we can discuss your options.

Chapter 19:

Company demergers 2022-23

If you operate a company that manages a number of different strands, you may want to split the business into separate companies, each dealing with a different business activity.

The tax legislation contains provisions to facilitate transactions in this way and that enables trading activities which are carried on by a single company or a group to be divided so that they may be carried on by two or more companies which do not belong to the same group or by two or more independent companies.

The process is generally known as a company demerger.

Demergers can be used to transfer parts of a business to operate independently or be sold off.

There are different routes by which a demerger can be achieved. This note focuses on the statutory route.

To achieve a demerger, a distribution would normally be made by a company. The statutory provisions provide that where certain conditions are met, the distribution is an 'exempt distribution', i.e., one that is not treated as a distribution for tax purposes.

General requirements

For the statutory rules to apply, a number of general conditions must be met.

1) Companies involved in the transactions must be UK resident or resident in a member State at the time that the distribution is made.
2) The distributing company and the company whose shares are distributed must be a trading company or a member of a trading group.
3) The distribution must be made wholly or mainly for the purposes of benefitting some or all of the trading activities which before the distributions were carried on by a single company or group and after the distribution will be carried on by two or more companies and groups.
4) The distribution must not form part of a scheme or arrangement, the main purpose or one of the main purposes of which is the avoidance of tax, the making of a chargeable payment, the acquisition of the distributing company or another relevant company other than by members of the distributing company or the cessation or sale of the trade after the distribution.

The statutory provisions provide for different types of demerger.

Direct demerger

A direct demerger is where there is a distribution by a company of its shares in one or more 75% subsidiaries.

For the distribution to be treated as an exempt distribution, the distributed shares:

- must not be redeemable.
- must constitute the whole or substantially the whole of the distributing company's holding of the subsidiary's ordinary share capital; and
- must confer the whole or substantially the whole of the distributing company's voting shares in the subsidiary.

After the distribution, the distributing company must be a trading company or the holding company of a trading group; unless the distributing company is a 75% subsidiary of another company, the distribution involves two or more of the distributing company's 75% subsidiaries and the distributing company is dissolved without any net assets available for distribution on the winding up.

Tax implications of a direct demerger

Where there is a direct demerger that meets the statutory conditions, the distribution is exempt from income tax in the shareholders' hands. In addition, there is no immediate capital gains tax liability as any gain is effectively rolled over.

As long as the substantial shareholder exemption applies, any capital gain by the distributing company is not taxable.

There is no VAT or stamp duty to pay.

Indirect demerger

An indirect demerger is where there is a transfer of the trade or the shares in the company that is to be demerged to a newly-incorporated company. The new company then issues shares to the shareholders of the distributing company.

Again, to benefit from the favourable tax treatment offered by the statutory rules, certain conditions must be met.

Where the trade is transferred, the distributing company must not retain any interest in the trade or only retain a minor interest.

Where the shares are transferred, the shares must comprise the whole or substantially the whole of the distributing company's ordinary share capital of the subsidiary and also the whole or substantially the whole of the distributing company's voting rights.

After the distribution, the only or main activity of the new company must be the carrying on of the trade or the holding of the shares that were transferred to it.

The shares issued by the new company must not be redeemable and they must constitute the whole or substantially the whole of its issued ordinary share capital and its voting rights.

As with a direct demerger, after the distribution, the distributing company must be a trading company or the holding company of a trading group, unless the distributing company is a 75% subsidiary of another company, the distribution involves two or more of the distributing company's 75% subsidiaries and the distributing company is then dissolved without any net assets available for distribution on the winding up.

Tax implications of an indirect demerger

Where the statutory conditions are met, the distribution is exempt for income tax purposes in the hands of the shareholder and any capital gains are effectively rolled over.

There is no exit charge on the distributing company.

Where the distribution is to all members, there is no stamp duty.

There is no VAT chargeable on the distribution

Cross border demergers

The statutory provisions also provide for cross border mergers, but these are outside the scope of this note.

Chargeable payments

When planning a demerger, you will also need to give thought to potential future transactions. To discourage the use of demergers for tax avoidance purposes, a chargeable payment is treated as a distribution if it is made within five years of an exempt distribution. The definition of a chargeable payment is broad and includes a direct or indirect payment or transfer of money or money's worth in connection with the shares of the company to the members of the company or, where the company is unquoted, to anyone, other than:

- a distribution,
- an exempt distribution,
- payments made to members of the same group, and
- payments made for genuine commercial reasons.

Miscellaneous requirements

Clearance procedure

A company thinking of demerging can apply to HMRC for advance clearance.

Returns

Where an exempt distribution is made, you must make a return to HMRC within 30 days providing details of the distribution and the reason why it is exempt.

We can help

If you have a good commercial reason for demerging any of your existing activities, we can advise how to organise the demerger without triggering unnecessary tax liabilities.

Please call for an initial discussion of your objectives.

Chapter 20:

The transition to quarterly tax returns

Making Tax Digital (MTD) is the Government's digital tax programme which requires taxpayers to maintain digital records and to send tax information to HMRC digitally using approved software.

MTD for VAT

The MTD programme started with MTD for VAT. If you are a VAT-registered business and your turnover for VAT purposes is above the VAT registration threshold of £85,000, you will already be within MTD for VAT. If your turnover for VAT purposes is below £85,000, you may have decided to join MTD voluntarily. However, if you have not done so, you will need to comply with MTD for VAT from the start of your first VAT accounting period to begin on or after 1 April 2022, as MTD for VAT is compulsory for all VAT-registered businesses from that date.

Under MTD for VAT you must keep your VAT records digitally, using either a compatible software package or other software, such as spreadsheets that connect to HMRC's systems. If you use more than one software package, or spreadsheets and software packages, you will need to link them electronically – you can't simply input data manually from a spreadsheet into a software package.

You must also file digital VAT returns.

If your turnover is below the VAT registration threshold, you may wish to assess whether it remains beneficial to remain registered for VAT.

MTD for Income Tax Self-Assessment

MTD for Income Tax Self-Assessment (MTD for ITSA) is being introduced in stages. MTD for ITSA replaces the current requirement to file a self-assessment tax return with a requirement to make periodic digital submissions.

Under MTD for ITSA, instead of filing an annual self-assessment tax return, you will need to use MTD-compatible software to keep digital records and file:

- quarterly updates for business income and expenses.
- an end of period statement; and
- a final declaration.

The date by which you will need to comply with MTD for ITSA depends on your circumstances.

MTD for ITSA will apply initially to self-employed individuals and landlords who have business and/or property income of more than £10,000. If you have both property and business income, MTD applies if the total is over £10,000. Individuals to whom this applies will need to comply with MTD for ITSA from the start of the 2024/25 tax year (i.e., from 6 April 2024).

All other individuals within Income Tax Self-Assessment will be required to comply with MTD for ITSA from the start of the 2025/26 tax year (i.e., from 6 April 2025).

Quarterly updates are required for each business and each property business. This may mean that you need to make multiple submissions. Quarter end dates are set at 5 July, 5 October, 5 January, and 5 April. However, you will be able to elect to use calendar quarters instead and submit information to 30 June, 30 September, 31 December and 31 March.

The quarterly updates will be used to send income and expenses data to HMRC. However, this will need to be adjusted for any accounting adjustments and to claim any reliefs. This is done by means of an end of period statement. This will also be used to confirm that the information that has been submitted is correct.

You will need to submit the end of period statement by 31 January following the end of the tax year.

You will also need to submit a final declaration. This replaces the current self-assessment tax return. The final declaration must also be submitted by 31 January after the end of the tax year, and any tax due must be paid by that date.

Under MTD for ITSA, HMRC will produce on-going tax calculations based on information submitted on the quarterly returns. However, as these do not consider adjustments and reliefs, these should be seen as a guide only – the eventual liability may be very different.

The start date is not that far ahead, particularly for businesses and landlords with income in excess of £10,000. It is important that you plan ahead and that you understand what MTD for ITSA will mean for you.

MTD for Corporation Tax

Corporation will also be brought within MTD. The start date has not yet been set; however, this will not be before 6 April 2026.

As with MTD for VAT and MTD for ITSA, under MTD for corporation tax, companies will be required to maintain digital records and to send data digitally to HMRC.

HMRC have consulted on what MTD for corporation tax may look like.

Planning for this change

Without a doubt MTD for all taxes will mean a significant change as we move all significant reporting to HMRC from annual to quarterly returns.

The days of manual record keeping are coming to an end, and we recommend that all taxpayers who are required to submit a self-assessment tax return make a change to digital, cloud-based software sooner rather than later.

Aside from the benefits of having real-time data at your fingertips, you will have the means to link your software to HMRC's servers and comply with all the MTD requirements.

We can help you understand your obligations under MTD and what you need to do to prepare.

We can also help you find appropriate MTD software for your business and assist you in keeping your records digitally.

Chapter 21:

Changes to self-employed tax basis periods

In preparation for the introduction of Making Tax Digital for Income Tax Self-Assessment (MTD for ITSA) the basis period rules for unincorporated businesses are being abolished. Instead, unincorporated businesses will be assessed on the profits for the tax year. The new rules take effect from 2024/25, with 2023/24 being a transitional year.

This will affect you if you run an incorporated business and you currently prepare your accounts to a date other than one between 31 March and 5 April inclusive.

What is a basis period?

Literally, a basis period for a self-employed person or partnership is the period of accounts that is taxed in a particular tax year.

For example, the basis period taxed in the tax year 2021-22 is the annual accounts ending between 6 April 2021 and 5 April 2022. This could be any 12-month period ending between those two dates.

The current basis period rules

Under the current rules, once an unincorporated business is established, the profits are taxed on a current year basis. This means that the profits that are taxed for any given tax year are the profits for the accounting period that ends in that tax year.

For example, if you have been running your business for many years and prepare your accounts to 31 December each year, for 2022/23, you will be taxed on the profits of your business for the year to 31 December 2022 – 31 December 2022 falls in the 2022/23 tax year. This is the case regardless of the fact that the period from 1 January 2022 to 5 April 2022 falls in the 2021/22 tax year.

Different rules apply in the opening and closing years.

Overlap profits

In the opening years of the business, some profits may be taxed twice. For example, if you started your business on 1 January 2017 and prepare your accounts to 31 December, you would be taxed on the profits for the period from 1 January 2017 to 5 April 2017 in 2016/17 (actual basis) and on the profits for the period from 1 January to 31 December 2017 in 2017/18 (first 12 months). The profits for the period from 1 January 2017 to 5 April 2017 are taxed twice. These are overlap profits.

Overlap profits may also arise if you change your accounting date.

A deduction for overlap profits is normally given on cessation but it may also be given if you change your accounting date.

New rules – the tax year basis

Under the proposed reforms, from 2024/25 you will be taxed on the profits of the tax year (i.e., for 2024/25, on the profits for the period from 6 April 2024 to 5 April 2025).

If you already prepare your accounts to 5 April, the position is simple as the period for which the accounts are prepared matches the tax year. Under the equivalence rule, accounts prepared to a date falling between 31 March and 4 April inclusive are also treated as corresponding with the tax year.

If you prepare your accounts to another date, you will need to undertake an apportionment calculation to find the profits to be taxed for the tax year. For example, if you prepare your accounts to 30 September each year, for 2024/25, the profits for the tax year will comprise 6/12$^{\text{ths}}$ of the profits for the year to 30 September 2024 and 6/12$^{\text{ths}}$ of the profits for the year to 30 September 2025.

Transitional year 2023/24

The 2023/24 tax year is a transitional year in which unincorporated business that do not already prepare accounts for the tax year will need to move to a tax year basis. If you have any overlap profits, relief for these profits will be given in 2023/24, but only if you move to a new accounting date. If you already prepare your accounts for the tax year, you cannot relieve your overlap profits in 2023/24.

The profits that would be assessed in the transition year where accounts are prepared to a date other than 31 March -- 5 April are to be found by adding together two components and deducting any overlap profits from the early years to give effect to any available overlap relief. The two components are:

- the standard component – this is the profit assessable for the 2023/24 tax year under the current year basis, and
- the transition component – this is the profit attributable to the period running from the end of the current year basis period to 5 April 2024 (the end of the 2023/24 tax year).

For example, if you prepare your accounts to 30 September each year, for 2023/24, you will be assessed on your profits for the year to 30 September 2023 (the profits assessable for 2023/24 under the current year basis), plus profits for the period from 1 October 2023 to 5 April 2024, less any overlap profits not already relieved.

The implications

Depending on the date to which you prepare your accounts and the extent of your overlap profits, if any, your profits for 2023/23 may be considerably higher than normal. The problem will be exacerbated if you prepare your accounts to a date early in the tax year. For example, if you prepare your accounts to 30 April, there will be an additional 11 months of profits in 2023/24, whereas if you prepare your accounts to 28 February, there will only be an additional month's profits to consider.

However, relief is available as the transition profits are taxed over a five-year period rather than in full in 2023/24.

Depending on when you started your business, your overlap profits may have been eroded by inflation. You may also have lost track of your overlap profits.

Spreading of transitional profits

If you need to change your accounting date to correspond with the tax year, the excess profits that are brought into charge in 2023/24 (the transition profits) will be spread over five years, starting with the 2023/24 tax year. This happens automatically.

However, you can elect for the spreading of profits not to apply and for them to be taxed in full in 2023/24.

If your business ceases before the transition profits have been taxed in full, any balance not yet brought into charge is taxed in the final year.

The spreading of transition profits may mean that you have higher than normal tax bills for the next five years.

Change your accounting date now?

You may also wish to consider changing your accounting date prior to the introduction of the reforms and so accelerate the preparation of accounts to a tax year basis.

Much will depend on your present profitability and your expected levels of profitability in the coming years.

We can help.

If you do not currently prepare your accounts on a tax year basis, we can help you understand what the changes to the basis period rules mean for your business. We can also help you prepare for the change.