STREETS®
CHARTERED ACCOUNTANTS

Accountancy, tax and business advice that really makes a difference

Newsletter
Winter 2022

STREETS®
CHARTERED ACCOUNTANTS

INTRODUCTION

We now have the fiscal strategy of the new team at Downing Street and a summary of the recent Autumn Statement is included in this newsletter.

As expected, the focus is on restoring credibility to the UK's finances and is a mix of expenditure cuts and tax increases.

As always, readers are encouraged to call us for more information regarding any of the updates and strategies we have shared in this newsletter.

BUDGET SUMMARY

Autumn Statement 2022 – the highlights

As expected, the Chancellor has focussed his attention on plugging the deficit in the UK's finances and so his announcements laid out the tax increases and public spending cuts to achieve those ends. The major tax changes are set out below. Please call if you need more information.

Income Tax

Higher income earners will be dismayed that the additional rate threshold will be reduced from £150,000 to £125,140 with effect from 6 April 2023. This move will see an estimated 250,000 further taxpayers pay the additional rate of Income Tax of 45% from next April.

Previous announcements had confirmed that there would be no increase in the Income Tax Personal Allowance and higher rate threshold until April 2026. The Chancellor has now frozen these figures for a further two years until April 2028. Higher rate threshold will remain frozen at £37,700 and the personal tax allowance will remain at £12,570 through to April 2028.

Taxpayers benefitting from annual increases in their earnings up to April 2028 will find themselves paying tax on the full value of any increases. This is because, with personal allowances frozen until April 2028, any increases in earnings will be taxed and, in some cases, this may push earnings into the higher rate tax bands especially for those who will now be subject to the 45% rate (with its new reduced limit).

Regional variations to Income Tax rates may apply in Wales and Scotland.

Dividend income

The current £2,000 dividend tax-free allowance is to be reduced to £1,000 from April 2023 and to £500 from April 2024.

The 1.25% increase in the tax rates payable on dividend income, which took effect in April 2022 remains in place.

The rates that apply in all regions of the UK from 6 April 2023 are as follows:

- Dividends that form part of the basic rate band – 8.75%
- Dividends that form part of the higher rate band – 33.75%
- Dividends that form part of the additional rate band – 39.35%

Inheritance Tax

No changes to present rates and allowances were announced. These rates and allowances will remain frozen at current levels until April 2028.

The nil-rate band will continue to be £325,000 and the residence nil-rate band at £175,000, for this period.

Capital Gains Tax

The Chancellor announced a significant reduction in the annual exempt amount applicable to Capital Gains Tax (CGT). This rate had previously been fixed at £12,300 from April 2021 to April 2026 for individuals, personal representatives, and some types of trusts for disabled people.

The exempt amount will now be reduced to £6,000 from April 2023 before being further reduced to £3,000 from April 2024.

Corporation Tax

The Chancellor had previously announced on 17 October 2022 that the planned increases in Corporation Tax (CT) rates from April 2023 would be going ahead.

From1 April 2023, there will be two rates of CT:

- Taxable profits up £50,000 will continue to be taxed at 19%.
- Taxable profits more than £250,000 will be taxed at the main rate of 25%.

Profits between £50,000 and £250,000 will be subject to a marginal tapering relief. This would be reduced for the number of associated companies and for short accounting periods.

VAT

There will be no changes to the 20% rate. The £85,000 registration limit and the £83,000 deregistration limit will now remain at these levels until 31 March 2026.

BUSINESS

Self-assessment filing deadline

Taxpayers registered for Self-Assessment for the 2021-22 tax year, and who are still required to file a return for this year, are reminded that the online filing deadline is fast approaching, 31 January 2023.

The 31 January 2023 deadline is also the date on which any unpaid tax for 2021-22 will need to be paid.

We recommend that if you have not yet filed, you take steps to complete and file your return as soon as possible. Aside from avoiding late filing penalties this will also give you breathing space to organise the funds to clear any outstanding taxes due.

If you have over-paid tax for 2021-22, filing faster will ensure you receive a refund from HMRC sooner rather than later.

If you need help organising filing please get in touch, we can help.

Government-backed start-up loans

You can apply for a government-backed Start Up Loan of £500 to £25,000 to start or grow your business.

Unlike a business loan, this is an unsecured personal loan. You'll need to pass a credit check.

You will get free support and guidance to help write your business plan, and successful applicants get up to 12 months of free mentoring on the Start Up Loans website.

To apply for the loan all of the following must apply:

- you live in the UK;
- you're 18 or over; and
- you have (or plan to start) a UK-based business that's been fully trading for less than 36 months.

Fees and repayment

Start Up Loans are government-backed and charge a fixed interest rate of 6% per year.

You can repay the loan over a period of 1 to 5 years. There's no application fee and no early repayment fee.

Buy-to-let loan interest trap

Although finance costs, predominantly loan interest, are now disallowed as an expense that can be utilised to reduce taxable rental income, these charges do qualify for a tax credit limited to 20% basic rate Income Tax. For example, if your loan/mortgage interest amounts to £10,000 this cannot be used to reduce your rental income. It will simply reduce your Income Tax bill by £2,000 (£10,000 x 20%).

However, there are three hoops that these claims need to jump through. The tax deduction is worked out as the lower of:

- 20% of any finance costs - costs not deducted from rental income in the tax year plus any unrelieved finance costs brought forward, in the above example £2,000;
- 20% of property business profits - the profits of the property business in the tax year (after using any brought forward losses); and
- 20% of adjusted total income - the income (after losses and reliefs and excluding savings and dividends income) that exceeds your personal allowance.

It is the final condition that can catch taxpayers out and deny relief. For example, if the majority of earnings are dividend income, and other earnings in total are lower than the annual personal tax allowance, currently £12,570, then no relief for finance charges can be claimed.

This could impact director shareholders of smaller companies with personal property income and finance costs, many of whom have adopted the high-dividend low-salary approach to taking remuneration from their company.

This is a further justification for ongoing tax planning to ensure that all options are considered and reviewed to minimise overall tax payments.

Overtrading

Many businesses will be concerned that government actions to regain financial credibility will plunge the UK economy into a prolonged period of recession.

However, if you are selling the right mix of goods and services you may well find an unexpected surge in sales. But beware, there are circumstances when this apparent success may be a possible threat to your business.

During recent months, many businesses have been faced with paying fixed costs – rent for example – even if turnover has reduced or been eliminated due to various disruptive influences. Recent government schemes to assist with rising energy costs are welcomed, but many businesses will be struggling to maintain profitability.

This will reduce cash reserves, and, in some cases, firms will be obliged to borrow money to fund losses if they want their businesses to survive.

A sudden increase in sales may not generate cash inflows at a fast enough rate to meet current costs, and as most businesses will be entering this period with depleted or exhausted reserves, unpaid creditors including your bank may enforce a close-down in order to part recover their unpaid bills and loans.

This is overtrading and the way to avoid it is to adopt rigorous cash-flow management. This is a process that you can start now, before any upturn. If you need help designing the necessary spreadsheets or other systems, please call, we can help.

Research before sales

Who knows best? You or your customers?

Who is the best judge of the suitability and cost of goods or services you try and sell to your customers?

Many business owners assume that they know what their customers need and rush to market with goods or services that may or may not be widely appreciated.

Ultimately, it is the customer that decides if what you sell is what they need.

The next time you have a light-bulb moment and think you see an opportunity to sell new or improved goods or services, check out your idea(s) with a selection of your customers, see what they think.

It can be as simple as picking up the phone for a ten-minute chat or emailing a representative number of customers that won't be offended by your approach.

Market research can help you avoid the expenditure of valuable time and resources creating and offering items that your customers really do not want or desire.

Achieving clarity in this way will help you make decisions on new sales lines that have less risk of failure. In these uncertain times, this is a strategy that could pay dividends for your business.

VAT & DUTIES

Check a UK VAT number is valid

HMRC have an online facility at https://www.gov.uk/check-uk-vat-number where you can check to see if a VAT number on a supplier's invoice is valid. To use this service, you will need your own VAT number.

Business owners are advised to use this facility if dealing with a supplier for the first time. If a VAT number is subsequently found to be incorrect, HMRC will disallow any deduction you may have made for input tax, and you will have to repay the amount to HMRC even if you are unable to recover the spurious VAT charge from the supplier.

Claiming VAT on purchases before registration

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

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

You can only reclaim VAT on purchases for the business now registered for VAT. They must relate to your 'business purpose'. This means they must relate

to VAT taxable goods or services that you supply.

VAT added to your shopping or services

In shops

Any VAT due is already included in the price of something you buy in a shop. No tax is added when you pay. Certain shops in Northern Ireland offer tax-free shopping for visitors.

In adverts, catalogues and price lists

This depends on who they are aimed at. If they're for:

- the general public only, they'll show you a price including VAT;
- businesses as well as consumers, they might show the price with VAT and without; and
- businesses only they do not usually include VAT, which is charged on top of the price shown.

On bills and receipts

Sometimes VAT is shown on a separate line. This does not mean you're paying extra - it just shows how much tax is included in the price.

Invoices from suppliers like builders, painters and decorators must show a separate amount for VAT and their VAT registration number.

How VAT is worked out

When someone charges you VAT they multiply their selling price by the VAT rate to calculate the amount of VAT to charge.

They then add this to the selling price to give you the price you actually pay - this is called the 'gross' price.

EMPLOYMENT & PAYROLL

Christmas gifts for staff

Business owners who are minded to celebrate the forthcoming Christmas break with their staff are reminded that there is a tax-free allowance for the provision of an annual party or other event for the benefit of staff and their partners. The present limit to tax relief is £150 per head. If this amount is exceeded, the full cost of the benefit is taxable not the excess over £150.

Where it's not possible to calculate individual costs an averaging process can be adopted. There are also other considerations that must be met to qualify for this relief.

Another way to benefit staff tax-free for Christmas is to consider making small gifts.

You don't have to pay tax on a benefit (gift) to your employee if all of the following apply:

- it cost you £50 or less to provide
- it isn't cash or a cash voucher
- it isn't a reward for their work or performance
- it isn't in the terms of their contract

Gifts that fall into this category are known as a 'trivial benefit'; and whilst they may be much more than trivial in substance, you don't need to pay tax or National Insurance or let HMRC know you are making the gift.

Any gifts that do not meet this definition will likely be taxable.

Gifts to directors are treated in a similar fashion with one over-riding condition: a director cannot receive trivial gifts of more than £300 in total each tax year. This restriction only applies to the directors of "close companies". A close company is a limited company with five or fewer shareholders.

Watch out for VAT charge

If you recover the input tax charged when you buy gifts for employees, and if the total value of gifts given to an employee in a tax year exceeds £50, then you will have to account for VAT on the total value of gifts provided. If this is the case, you may be advised to avoid recovering the VAT in the first place.

NIC for company directors

Directors are classed as employees and pay National Insurance on annual income from salary and bonuses over £11,908.

Contributions are worked out from their annual earnings rather than from what they earn in each pay period.

There are different rules for tax on dividends.

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

You can use payroll software to work out the National Insurance due. There are 2 different ways of doing this. You may be able to change your method during the tax year depending on your payroll software.

Standard annual earnings period method

This method is common for directors who are paid irregularly.

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

Alternative method

This method is common for directors who are paid regularly.

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

What to report to HMRC

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

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

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

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

NIC & PENSIONS

The New State Pension

You'll be able to claim the new State Pension if you are a man born on or after 6 April 1951 or a woman born on or after 6 April 1953.

The earliest you can get the new State Pension is when you reach State Pension age. If you reached State Pension age before 6 April 2016, these rules do not apply. Instead, you will get the basic State Pension.

Your National Insurance record

You will usually need at least 10 qualifying years on your National Insurance record to get any State Pension. They do not have to be 10 qualifying years in a row. This means for 10 years at least one or more of the following applied to you:

- you were working and paid National Insurance contributions;
- you were getting National Insurance credits for example if you were unemployed, ill or a parent or carer;
- you were paying voluntary National Insurance contributions.

If you have lived or worked abroad, you might still be able to get some new State Pension.

You might also qualify if you've paid married women's or widow's reduced rate contributions.

The number of qualifying years on your National Insurance record affects how much State Pension you get. Check your State Pension forecast to see what you might receive.

Working after State Pension age

If you keep working after you reach State Pension age you can stop paying National Insurance. You can also request flexible working arrangements.

The full new State Pension is £185.15 per week.

The only reasons you can get more than the full State Pension are if you have over a certain amount of Additional State Pension or if you defer (delay) taking your State Pension.

If you reached State Pension age before 6 April 2016, you'll get a different amount under the basic State Pension rules.

You can still get a State Pension if you have other income like a personal pension or a workplace pension.

And don't forget, your State Pension is classified as taxable income. You might have to pay tax on the State Pension you receive.

Who pays National Insurance

You will pay mandatory National Insurance if you are 16 or over and are either an employee earning above £242 a

week or self-employed and making a profit of £6,725 or more a year.

You may be able to pay voluntary contributions to avoid gaps in your NI contributions record.

You will need a National Insurance number before you can start paying National Insurance contributions.

If you earn between £123 and £242 a week, you will pay no NIC, but your contributions will be treated as having been paid to protect your National Insurance record.

PERSONAL

Tax-free gifts to spouse, civil partner or charity

There are special rules for Capital Gains Tax (CGT) on gifts or assets you dispose of to your spouse, civil partner or to a charity.

The normal rules apply for gifts to others.

You do not pay CGT on assets you give or sell to your husband, wife or civil partner, unless you separated and did not live together at all in that tax year or if you gave them goods for their business to sell.

A tax year is from 6 April to 5 April the following year.

Your spouse or civil partner may have to pay tax on any gain if they later dispose of the asset gifted to them. Their gain will be calculated on the difference in value between when you first owned the asset and when they disposed of it.

If this was before April 1982, your spouse or civil partner should work out their gain using the market value on 31 March 1982 instead.

They should keep a record of what you paid for the asset.

Also, you do not have to pay CGT on assets you give away to charity.

You may have to pay if you sell an asset to charity for more than you paid for it or less than its market value.

Work out your gain using the amount the charity actually pays you, rather than the value of the asset.

Unclaimed Child Trust Fund accounts

A recent post by HMRC reminds tens of thousands of teenagers in the UK, who have not yet claimed their matured Child Trust Funds savings, that they could have thousands of pounds waiting for them.

An estimated 6.3 million Child Trust Fund accounts were set up throughout the duration of the scheme, containing about £9 billion.

If a parent or guardian was not able to set up an account for their child, HMRC opened a savings account on the child's behalf.

Teenagers aged 16 or over can take control of their own Child Trust Fund if they wish, although the funds can only be withdrawn once they turn 18 years old.

Where children have a Child Trust Fund, families can still pay in up to £9,000 a year tax-free. The account matures once the child turns 18 years old and no further money can be deposited. They can either withdraw the funds from the matured Child Trust Fund account or reinvest it into another savings account.

Until the child withdraws or transfers the money, it stays in an account that no-one else has access to.

The Child Trust Fund scheme closed in January 2011 and was replaced with Junior Individual Savings Accounts (ISA).

Child Trust Funds are long-term savings accounts set up for every child born between 1 September 2002 and 2 January 2011. To encourage future saving and start the account, the government provided an initial deposit of at least £250.

The savings accounts mature when the child turns 18 years old. Eligible teenagers, who are aged 18 or over and have yet to access their Child Trust Fund account, could have savings waiting for them worth an average of £2,100.

If teenagers or their parents and guardians already know who their Child Trust Fund provider is, they can contact them directly. This might be a bank, building society or other savings provider.

Many eligible teenagers who have yet to claim their savings might be starting university, apprenticeships or their first job. The lump-sum amount could offer a financial boost at a time when they need it most.

FINANCIAL CALENDAR

Every month:

1 Annual Corporation Tax due for companies with a year ending nine months and a day earlier, e.g. tax due 1 October 2023 for year ending 31 December 2022.
14 Quarterly instalment of Corporation Tax due for large companies (depending on accounting year-end).
19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.
22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.
30/31 Submit CT600 for a year ending 12 months earlier. Last day to amend CT600 for a year ending 24 months earlier.

If the due date for payment falls on a weekend or Bank Holiday, payment must be made by the previous working day. Electronic payments sent using the Faster Payments Service (FPS) are able to clear into HMRC's account on a non-banking day – a Saturday, Sunday and most Bank Holidays.

File accounts with Companies House for private companies with a year ending nine months earlier and for public companies with a year ending six months earlier.

December 2022

30 Last day to submit 2021/22 tax return online to have unpaid tax of up to £17,000 collected through the 2023/24 PAYE code.
The amount of debt that can be coded out in a year ranges from £3,000 to £17,000 based on a graduated scale.

January 2023

14 Due date for CT61 return and CT payment for quarter to 31 December 2022.
31 Submit 2021/22 Self Assessment return online. Pay balance of 2021/22 Income Tax and CGT plus first payment on account for 2022/23.

February 2023

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

March 2023

31 Last minute planning for 2022/23 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

April 2023

5 Last day of tax year (6 April 2023, first day of new tax year).
14 Due date for CT61 return and CT payment for quarter to 31 March 2023.

May 2023

3 Submit employer forms P46 (car) for quarter to 5 April 2023.
31 Last day to issue 2022/23 P60s to employees.

July 2023

5 Final date to agree 2022/23 PAYE Settlement Agreements (PSA).
6 Last date for returns of expenses and benefits (forms P11D, P9D and P11D(b)) for 2022/23 to reach HMRC. Relevant employees to receive copies of forms P11D and P9D.
6 Last date to submit annual returns for employee share schemes and employment-related securities for 2022/23 (forms 34, 35, 39, 40 and 42).

14 Due date for CT61 return and CT payment for quarter to 30 June 2023.
22 Class 1A NICs for 2022/23 due (19th if paid by cheque).
31 Due date for second payment on account of 2022/23 Income Tax and Class 4 NICs.
31 Last day to pay 2021/22 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).

August 2023

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

October 2023

5 Deadline to notify HMRC of chargeability to Income Tax or CGT for 2022/23.
14 Due date for CT61 return and CT payment for quarter to 30 September 2023.
31 Deadline to submit 2021/22 Self Assessment tax return if filed on paper.

November 2023

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

STREETS®
CHARTERED ACCOUNTANTS

We are a top 40 UK firm of chartered accountants, tax specialists and business advisors.

Check out our new app!

It is feature rich with tools such as our document portal, mileage tracker, rates and allowances, the latest topical news and other resources. Includes payslip, loan and savings calculators.

Search for "Streets Chartered Accountants" in your favourite app store!

Connect with us

info@streetsweb.co.uk
www.streetsweb.co.uk

streets-chartered-accountants

@streetsacc

streets-chartered-accountants

streetsacc1