Abbott Moore

Our knowledge, your language

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Newsletter

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Making Tax Digital major rethink

Making Tax Digital for income tax (MTD ITSA) has been postponed again. It will not now be mandated for any taxpayer until April 2026. An announcement on 19 December 2022 set out a revised timetable, along with other changes. The logic is that this gives all parties longer to prepare in challenging economic conditions.

Self-employed businesses and landlords with qualifying annual income over £10,000 were expected to enter MTD ITSA in April 2024; with most partnerships entering in April 2025. This will not now happen. Landlords and businesses instead enter MTD ITSA, and a new points-based penalty regime, in stages, according to income. HMRC has reconsidered the income thresholds involved, which are now as follows:

- April 2026 entry for self-employed individuals and landlords with income over £50,000
- April 2027 entry for self-employed individuals and landlords with income over £30,000.

HMRC will review whether MTD ITSA can be designed to work appropriately for those under the £30,000 threshold. This is a first indication that such businesses may perhaps not be required to enter MTD ITSA in its current format. Partnerships are still expected to join 'at a later date' but no further detail has been given. We will continue to update you as information becomes available.

Director remuneration takes a hit: new planning era starts now

Changes announced in the Autumn Statement will be keenly felt by many company directors, especially where profit extraction has traditionally relied on a strategy of low salary and higher dividend payment.

The freezing of the income tax personal allowance is one major factor. This is now set at £12,570 until 5 April 2028. The UK higher rate threshold is also frozen at £37,700 for the same period. From 6 April 2023, the income tax additional rate threshold falls from £150,000 to £125,140. These are measures which will push many directors into higher rates of tax. The position is different in Scotland, where the higher and top rates increase to 42% and 47% from 6 April 2023; the starter, basic, intermediate and higher (£31,093) rate thresholds are frozen, and the top rate threshold falls to £125,140.

Of particular importance in a company remuneration context, the Dividend Allowance is being significantly reduced. From 6 April 2023, it falls to £1,000, from the current £2,000. From 6 April 2024,the axe falls again, with a drop to £500. All these developments fundamentally reshape the outlook for tax, and are likely to require a review of remuneration strategy.

This is the more so, given the impact of other recent tax measures, notably the increase in the tax rate on dividends. Originally part of the Health and Social Care Levy (HSCL) package, the higher tax rate remains, though the HSCL has been dropped. This means that the increased dividend rates (8.75% basic rate; 33.75% higher rate; and 39.35% additional rate) continue to apply after 5 April 2023. The rates apply across the UK, including Welsh and Scottish taxpayers. The increase in corporation tax to 25% from 1 April 2023 may need to be factored into calculations – though this is not something that will necessarily mean change for smaller companies. Companies with profits of £50,000 or less will pay the small profits rate of 19%. Those with profits between £50,000 and £250,000 will pay at the main rate of 25%, reduced by a marginal relief. Where there are associated companies, however, these thresholds may be reached sooner.

In this period of change, advice on remuneration planning is strongly recommended. Strategies include last-chance use of rates and allowances before 5 April 2023, and assessment of the relative merits of dividend and bonus payments. There may also be the possibility of what is called 'leapfrogging' - varying profit extraction year on year in order to access lower tax bands. We are always available to help you review your options.

What can HMRC's app do?

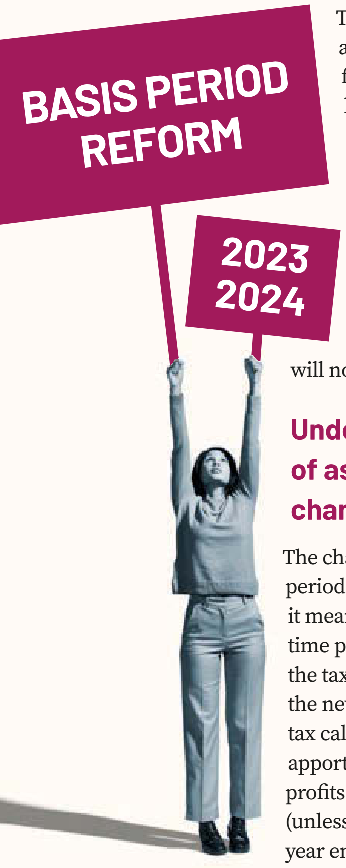
HMRC's app has been revamped in a move to push traffic online. Improved functionality lets you see, for example, your tax code, National Insurance number and, for those in self assessment, the Unique Taxpayer Reference. You can use it to update your postal address; renew tax credits or report changes; and keep track of any correspondence with HMRC. You can also see HMRC's estimates of the tax you owe under self assessment or PAYE; register for self assessment and make self assessment payments.

For PAYE taxpayers, the app gives access to HMRC's figures for your income from employment for the current and previous five years. Details can be printed or downloaded: for employers working on pre-employment checks with a new member of staff, that's potentially far more efficient than phoning HMRC and waiting for information by post.

The app can be downloaded from the App Store for iOS and from Google Play Store for Android. For first-time access, Government Gateway (GG) user ID and password are needed to sign in. After the first sign-in, access requires only a 6-digit PIN, fingerprint or facial recognition.

A change that could mean higher tax bills for sole traders and partnerships

The procedure for assessing when trading profits are taxed is changing radically.



The change means a major overhaul for unincorporated businesses using anything other than 31 March or 5 April as their accounting date. Businesses with year ends between 31 March and 5 April, however, will not be affected.

Underlying period of assessment changes

The change is called basis period reform. Essentially, it means there's a different time period underpinning the tax assessment. Using the new tax year basis, tax calculations will apportion accounting profits to the tax year (unless the accounting year ends between 31 March and 5 April). They will have no direct link to a business' accounting year end.

Bringing profits into tax faster

Change starts in the new tax year, 6 April 2023. 2023/24 is a transition year, in which a longer period of profits falls to be taxed. Rather than assessing to tax just the profits for the 12 months of the usual accounting year, profits for the period to 5 April 2024 are also included. In other words, the timescale for taxing those particular business profits is accelerated. Many businesses will benefit from the automatic application of what is called spreading relief, which means that 20% of the 'additional' transitional profit will be taxed in 2023/24, with the balance spread over the following four years. Provisions exist to minimise the impact on benefits and allowances, such as liability for High Income Child Benefit Charge, and we can advise on the likely impact in your circumstances.

How it works

Telemachus Takeaway uses 31 December as its year end. To enter the new tax year basis, in the transition year 2023/24, it's assessed on these profits (assuming use of spreading relief):

- profits from 1 January 2023 (its accounting date in 2022/23) to 31 December 2023 (the 'standard' part) **plus**
- profits from 1 January 2024 to 5 April 2024 (the 'transition part'): 20% is charged in 2023/24, and the balance spread over the following four years.

In calculating the transition part, businesses will be allowed to deduct any overlap relief for historic profits taxed twice on commencement of trade, or change of accounting date under the current basis period rules. Although the default is to spread the transition part over five years from 2023/24 (as in the example above), it will be possible to elect to bring profits into charge sooner. This calculation can be complex, particularly in situations where there is a loss.

Permanent change

Quite apart from the issue of potentially higher tax bills in the shorter term for businesses whose year ends do not fall between 31 March and 5 April, the new basis of assessment brings permanent change to procedure.

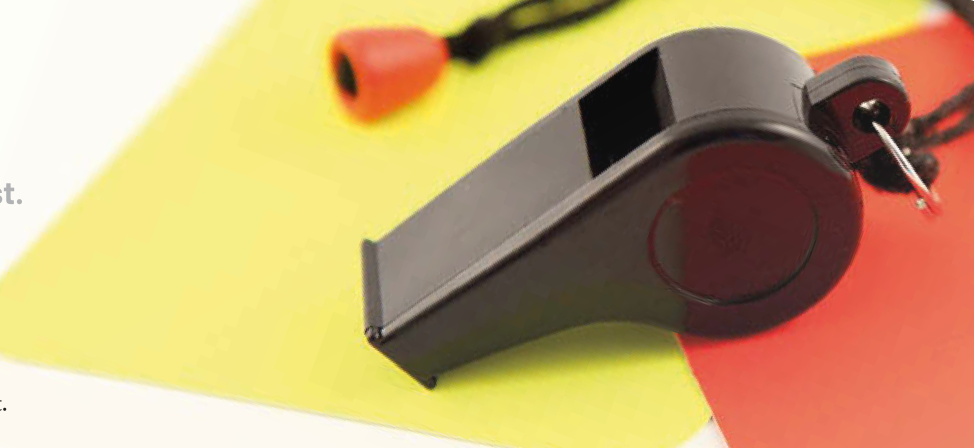
With effect from 2023/24, taxable profits for such businesses will have to be calculated by apportioning profits for the accounting periods either side of the tax year. To do so, accounts preparation will need to follow swiftly at the end of the accounting period. The use of provisional figures, followed by the filing of amendments, will be required where year ends do not permit accounts to be finalised before tax returns are submitted. The issue will be most acute for businesses with year ends later in the calendar year, such as those with accounting dates after 30 September.

Meeting the challenge

The change is likely to add considerably to the admin burden for unincorporated businesses without a year end between 31 March and 5 April. Changing the accounting year end to align with the tax year may be advantageous in some circumstances. Many businesses may also benefit from planning around cash flow to meet higher tax bills. We should be pleased to discuss the new system with you, and help you plan how best to meet the challenge.

VAT round-up

New VAT rules for penalty and interest.



For VAT accounting periods starting on or after 1 January 2023, it's out with the old - the default surcharge regime; and in with the new - a penalty system designed to be fairer and more proportionate. Under the new rules, new penalties apply for late submission of VAT returns and late payment. There are also changes to how VAT interest is calculated.

Alert

The impact of some of the rules may come as something of a surprise. **Any** late submission brings exposure to late submission penalty points, and even financial penalties. This applies across the board, even where submitting a nil or repayment return.

The new late submission penalties use a points-based system, each late return triggering a penalty point. These points automatically expire after 24 months unless a penalty threshold is reached in that time. The penalty threshold varies, depending on whether returns are filed annually, quarterly or monthly returns: it is four points for quarterly returns. On hitting the penalty threshold, a £200 penalty accrues, with further £200 penalties charged for each subsequent late submission. If there has been a penalty, points are reset to nil by showing compliant behaviour for a period set by HMRC (dependent on the filing frequency). This route involves submitting all returns on or before the due date, and ensuring all outstanding returns for the previous 24 months are filed.

For the new late payment penalty system, the sooner VAT is paid, the lower the penalty range. Penalties escalate on a sliding scale:

- payment in full, or agreeing a payment plan on or between days 1 and 15: no penalty (though interest is charged)
- payment in full or arranging a payment plan on or between days 16 and 30: first penalty calculated at 2% of the VAT owing at day 15
- 31 days or more overdue: first penalty calculated at 2% of the VAT owing at day 15, plus 2% of the VAT owed at day 30. Second penalty, calculated at a daily rate of 4% per year for the remaining duration of the outstanding balance (calculated when outstanding balance is paid in full or payment plan agreed).

HMRC is giving a 'period of familiarisation' from 1 January 2023 to 31 December 2023, in which a first late payment penalty will not be charged if payment is made in full within 30 days of the due date.

Mistake on a VAT return? What to do next

The basic divide is between errors that need to be reported to HMRC in their own right, and errors that can simply be corrected by making adjustments to the next VAT return. Time is always of the essence with VAT. Put right anything that's amiss as soon as it comes to light in order to keep out of the penalty regime.

For errors that need to be reported, HMRC has a new online VAT Error Correction Notice (VAT652) online form. It doesn't replace the print and post form, which is still available. The online form, however, is now HMRC's preferred route.

It can be used by signing in through Government Gateway or email address. If using the email option, a security code is sent to the email address given. Having signed in, details of the error can be provided, and HMRC will acknowledge receipt with a notification and unique reference number. New features include the ability to upload supporting documents, such as calculations or explanatory letters, and the ability to save and complete the form later.

But not every error needs to be notified in this way. Non-deliberate errors can be corrected on the next VAT return if either:

- net errors don't exceed £10,000 or
- are between £10,000 and £50,000 but don't exceed 1% of the figure in box 6 (net outputs) on the VAT return on which the error is being corrected.

Be aware though, that for penalty mitigation purposes, a correction on the VAT return is not sufficient disclosure. This means that there may also still be a need to inform HMRC separately of the error.

Autumn Statement see-saw for Research and Development tax relief

Tax relief for Research and Development (R&D) expenditure changes from 1 April 2023.

Relief under the hitherto particularly generous, small and medium- sized enterprises (SME) scheme goes down. Relief for the Research and Development Expenditure Credit (RDEC) goes up.

The deduction rate for qualifying expenditure under the SME scheme drops to 86% from 130%. The SME cash repayment credit, which can be claimed for surrenderable losses, falls to 10% from 14.5%. On the other hand, RDEC, used mainly by larger companies, rises to 20% from 13%.

The rebalancing is driven by government fears around abuse and fraud under the SME scheme, and starts to close the gap between the two schemes. It means that from next year, an R&D-qualifying spend of £100 will generate £15 tax saving under the RDEC scheme, and £21.50 under the SME scheme (assuming a 25% corporation tax rate). This contrasts with the current regime: with corporation tax at 19%, the saving would be £10.53 under RDEC at the current rates, and £24.70 under the SME scheme. The government has stated that this 'improves the competitiveness of the RDEC scheme, and is a step towards a simplified, single RDEC-like scheme for all.'

Despite these developments, appropriate use of R&D tax relief can still contribute significantly to business cash flow and liquidity. We should be pleased to help you explore its potential for your company.

Venture capital tax relief: where are we now?

It's all about providing early stage finance to new, higher-risk companies, and rewarding individual investors with generous tax relief for doing so. The venture capital schemes were envisaged as time-limited, and given sunset clauses in the legislation. But the position is now changing.

The schemes comprise the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS), Social Investment Tax Relief (SITR) and Venture Capital Trusts (VCTs). The EIS and VCT schemes were due to expire by 6 April 2025. Instead, they have been given a longer lease of life, and in some areas, made wider in scope.

Details to note are as follows:

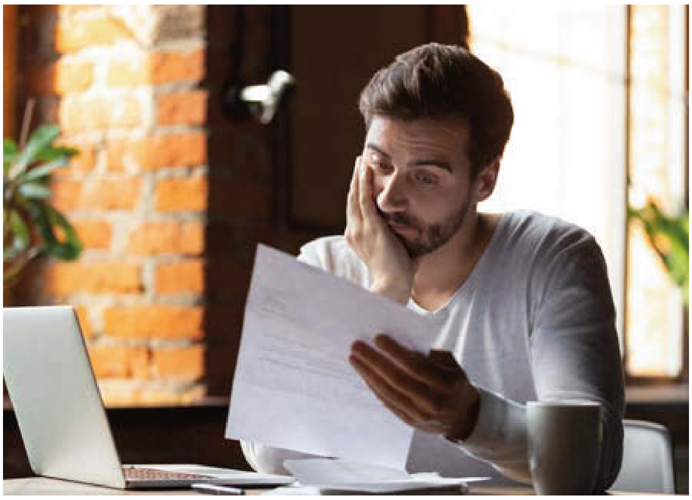
- SEIS benefits from increased limits from April 2023. These include increasing the amount companies can raise in SEIS investment to £250,000, and doubling the annual investor limit to £200,000. The limit on the age of the company's qualifying trade increases from two years to three, and the gross asset limit also increases, from £200,000 to £350,000.
- EIS and VCT schemes will now be available beyond 6 April 2025, though it is not yet clear whether a further sunset clause will apply.
- SITR is due to finish in April 2023.
- new admin: there is a new online Government Gateway service for companies to apply for advance assurance on a venture capital scheme. This is to be used for all schemes except SITR. SITR applications should still be made by email or post, with a covering letter and supporting documentation submitted. Advance assurance involves a company providing HMRC with detailed information so that it can give an opinion on its eligibility to use a venture capital scheme. If advance assurance is given, HMRC will send a statement saying the investment is likely to qualify: this can then be shown to potential investors.

Working with you

Navigating the venture capital scheme rules demands a high level of precision: shares, company and investor must all meet specific criteria for tax relief to be available. Whether you are a business interested in raising external finance, or an individual looking for tax-efficient investment, we should welcome the opportunity to look at the various options with you.

HMRC compliance: more data, more questions

HMRC's ability to gather and analyse data is extensive, and with every piece of information it acquires, its ability to target compliance activity increases.



Input comes from many different sources, national and international - from regulated commercial bodies, like online sales platforms; to government organisations, like the Land Registry. Proposals recently tabled would extend data collection powers to cover provision of information on dividends paid to shareholders in owner-managed businesses; hours worked by employees; and the business sector in which self-employed people operate.

Access to all this data gives HMRC a sharper, more comprehensive picture of taxpayer affairs than ever before. And it can use it to ask questions about taxpayer and business affairs. Increasingly, this is being done by campaigns involving what are called one-to-many nudge letters, often used where HMRC believes there are issues of potential non-compliance across a particular business sector or income source. There is usually a specific trigger for this, such as apparent mismatch between third-party data received by HMRC, and data it holds on tax returns submitted. From HMRC's perspective, it's cost effective and shifts workload to the taxpayer.

Recent examples include nudge letters sent to taxi drivers working for online platforms like Uber and Lyft, and landlords who have put a deposit in a tenancy deposit scheme. In each of these cases, it is likely that the trigger has been HMRC receipt of third-party data.

At the close of 2022, HMRC was writing to individuals registered as Persons of Significant Control (PSCs), where records from Companies House suggest that they stopped being a PSC in 2021/22. The letter is intended to serve as a reminder that if they are no longer a PSC because of a disposal of shares, this should be declared in the tax return. It also recaps responsibilities around capital gains tax reporting, and reminds of the potential need for amendment of returns if such disposals were not included.

What to do

HMRC nudge letters do not mean a formal compliance check, neither do they necessarily mean there is an error in someone's affairs: any error could be HMRC's. They should, however, always be taken seriously, with a timely response or review of the figures. As your agents, we may get a copy of such letters, but this is not always the case. Do please contact us if you receive a nudge from HMRC.