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Taxation News

Regular News from the **EQ Taxperts**

WINTER 2022

Corporation Tax on the rise

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Time is the enemy

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The 31 January tax payable deadline

On 6 January, HMRC announced that it will waive late filing and late payment penalties for one month for Self Assessment taxpayers.

While HMRC hope that many will submit their returns by the usual 31 January deadline, the penalty waivers will support Self Assessment taxpayers that are under pressure to complete their 2020-21 tax return and pay any tax due.

The penalty waivers will mean that:

- anyone who cannot file their return by the 31 January deadline will not receive a late filing penalty if they file online by 28 February
- anyone who cannot pay their Self Assessment tax by the 31 January deadline will not receive a late payment penalty if they pay their tax in full, or set up a Time to Pay arrangement by 1 April

However, it is important to note that interest will be payable from 1 February, at a rate of 2.75%, so it is still better to pay by 31 January if possible.

If you feel you need spread the cost of your tax payment, you may be able to set up monthly payment plan with a Time to Pay arrangement or a Self Assessment payment plan. However, remember firstly to consider whether there is any scope to reduce your payments on account for 2021/22 due to reduced profits or any other factors. The process of managing of tax payments starts with getting the liability right, and ensuring you are not overpaying. Our EQ Taxperts can assess that for you.

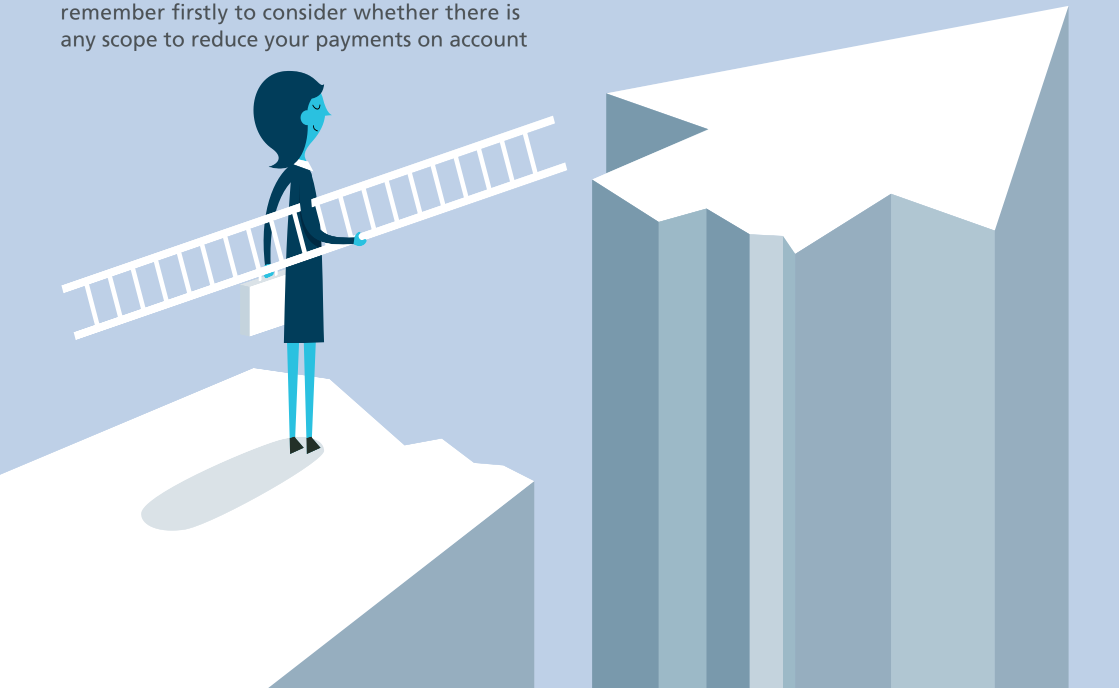
You can set up a Self Assessment payment plan within 60 days of the payment deadline to pay your tax bill in instalments, over a period of up to 12 months, without contacting HMRC.

To be eligible to set up an online payment plan you need to:

- have filed your 2020-21 tax return
- owe £30,000 or less
- have no other tax debts
- have no other HMRC payment plans set up

If a payment plan has not been set up by midnight of 1 April 2022, and any tax remains outstanding, a late payment penalty of 5% will be charged.

If you need assistance with your tax return, or any other tax related matter, please get in touch with our EQ Taxperts.



Corporation Tax on the rise

It has been announced previously that the full rate of Corporation Tax (CT) will rise to 25% with effect from 1 April 2023 for profits over £250,000 and we make no apology for returning to this subject. Profits up to £50,000 will continue to be taxed at 19%, with profits between £50,000 and £250,000 taxed at a marginal rate of 26.5%.

Such an increase in the CT rate will make things like remuneration planning (bonuses, employer pensions) and group structuring much more significant issues than they might have been previously.

Many businesses operate from multiple companies sometimes for simplicity and clarity, often a legacy of history or perhaps setting up in a particular way to make a sale easier. Whatever the reason might be, having too many companies may actually cost your business in terms of tax. The reason for this is the potential association between the companies which reduce the profit thresholds used to assess the CT rate.

The takeaway lesson from this article should be for businesses with multiple associated companies to consider their current group structures and to get rid of 'unnecessary' companies. These days, the definition of associated is quite widely drawn and failure to recognise this issue could cost a group unnecessary tax.

The optimum position will be to keep profits out of the higher marginal rate and, where possible, try to tax profits at only 19%.

In order to plan for this, keeping up to date management accounts is important so that decisions can be made based on accurate financial information.

For a review of your group structure, contact one of our EQ Taxperts.

Extending the basic rate band

One might offer the opinion that paying tax at the basic rate, up to 21% in Scotland, is 'acceptable' to most taxpayers but paying 41% or 46% tax is a real disincentive for many.

The typical way to extend the basic rate band is either through the payment of one off personal pension contributions or to make donations to charity.

The effect of both such payments is to extend the basic rate band which psychologically improves the mindset of most taxpayers. In order to make such assessments, having a good handle on your pre tax earnings is critical so that your payments can be pitched a the right level and in the correct tax year too.

Keep an eye out for our pre tax year end planner which will give you lots of ideas with which to manage your personal tax cost. To discuss your own circumstances, contact our EQ Taxperts.

Enterprise Management Incentives (EMIs) – A tool for retaining key staff

The EMI scheme is a tax-advantaged share option scheme which enables companies to attract and retain key staff by rewarding them with shares in their employer company.

How does it work?

Employers can offer key employees the option to purchase a small shareholding in the business at some date in the future, but at a price set today.

Offering employees shares in the business helps align the interests of the owners with that of the employees, with everyone aiming to increase shareholder value through company growth.

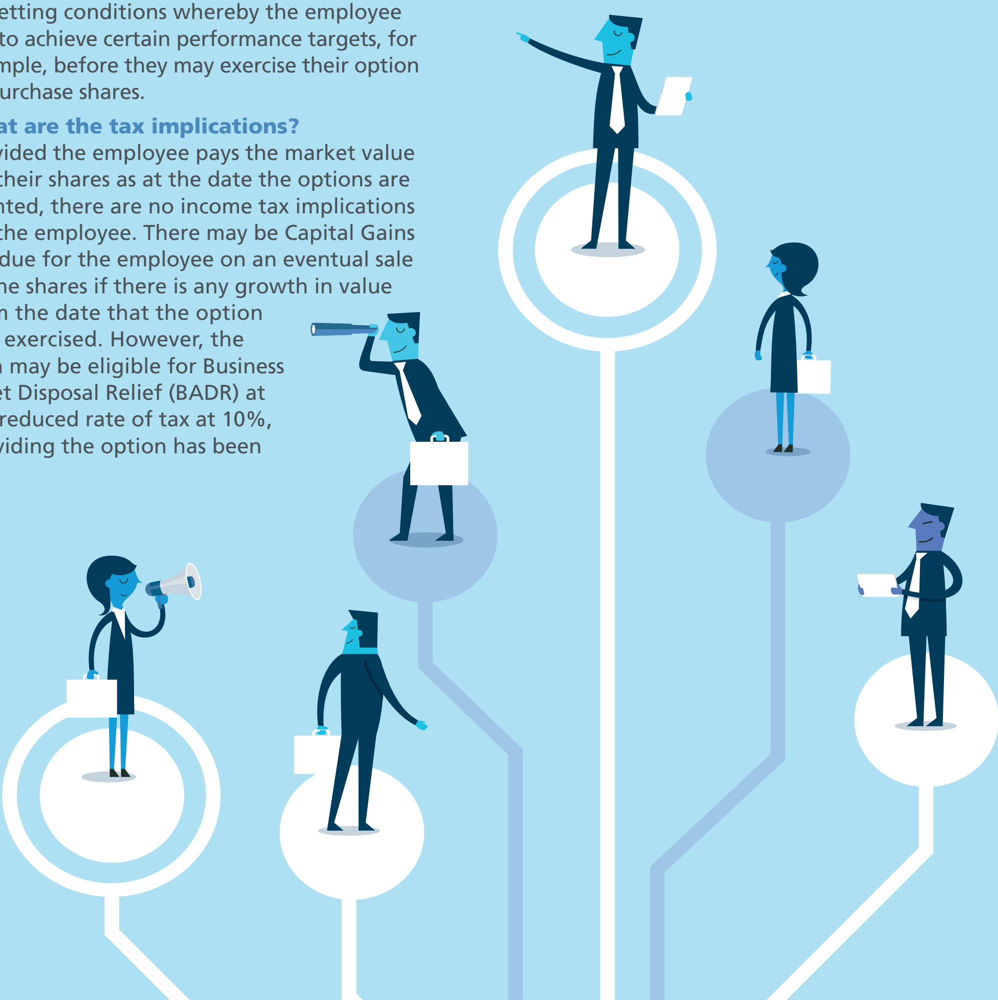
The terms of the option can be flexible and drafted in such a way to meet the commercial requirements of the company. This can be done by setting conditions whereby the employee has to achieve certain performance targets, for example, before they may exercise their option to purchase shares.

What are the tax implications?

Provided the employee pays the market value for their shares as at the date the options are granted, there are no income tax implications for the employee. There may be Capital Gains Tax due for the employee on an eventual sale of the shares if there is any growth in value from the date that the option was exercised. However, the gain may be eligible for Business Asset Disposal Relief (BADR) at the reduced rate of tax at 10%, providing the option has been held for a minimum period of two years and all other conditions are met.

The scheme is open to trading companies and there is no limit on the number of employees that can participate. There are a number of qualifying conditions which have to be met by both the employer and employee in order to qualify.

For more information or advice on EMI schemes please contact our Employers Solution Taxperts.



Time is the enemy

Particularly in the past year, we have noticed an increase in the amount of time that HMRC are taking to provide even the most straightforward of tax clearances. Whether this is driven by a challenge for sufficient resource or another reason, it does give rise to concerns that transactions may be delayed as a result.

One 'tactic' that HMRC seem to have increasingly employed is to ask an apparently spurious question to simply delay the process in approving a clearance application. As a result, a clearance process that might otherwise have taken perhaps 30 days, can now take over 60 days.

With the days of the last minute tax clearance request effectively over, the answer, therefore, is to start the process earlier and to give yourself as much time as possible to secure the tax clearances required to transact.

Most professional advisers to a transaction of any type would bemoan the time and complexity of finalising a deal and therefore it is important to plan and start early, as rushing a deal is when mistakes happen.

Our specialist tax team are highly experienced at supporting clients to ensure a smooth transaction process and we'll be happy to support you in any deals that you may be considering. To discuss, contact our Transaction Taxperts.

Changes to VAT Rate for the Hospitality Sector

The second phase of the temporary VAT reduction for the hospitality sector, which commenced on 1 October 2021 and increased the rate for most goods and services within this industry from 5% to 12.5%, is set to end of 31 March 2022 where the VAT rate will revert to the standard rate of 20%.

The VAT reduction was intended to provide this sector with support after being perhaps the most widely impacted sector by the various COVID restrictions that have been in place since March 2020.

Those businesses impacted by the change in VAT rate should ensure accounting systems are up to date prior to 1 April 2022 to ensure the correct VAT rate is applied to sales from this date on.

Businesses operating as hotels or holiday accommodation providers should remember that the lower rate of VAT applies to deposits received before 1 April for stays taking place after the rate has increased to 20%.

Whilst we expect the VAT rate to revert to 20% from 1 April 2022 in line with previous guidance, with the Spring Budget taking place on 23 March, it is possible the temporary reduction could be extended beyond this date and we would therefore recommend hospitality businesses to keep an eye out for any updates at that time.

The impact of COVID support on your R&D claims

Where a company receives state aid this can have an impact on the R&D tax credits that can be claimed. As some COVID-19 support schemes are classed as state aid, if funds from these schemes have been used to support a company's R&D activities this could result in some costs that would have otherwise qualified for the more generous SME R&D scheme potentially falling into the less generous RDEC scheme.

For example, support claimed under the Coronavirus Statutory Sick Pay Rebate Scheme, Bounce Bank Loans, Coronavirus Business Interruption Loans etc., are classified as state aid.

Whilst funds received under the Coronavirus Job Retention Scheme are not state aid, a staff member would not be able to undertake work on R&D projects whilst furloughed, and any periods of furlough for the employees affected would not qualify for R&D reliefs.

Whether the support received is either notified or de minimis state aid also affects the scope of the qualifying R&D costs that would fall under either the SME or RDEC schemes. It is therefore important to assess the COVID related support that has been claimed and how this has been utilised to fund R&D activities, to ensure that a company is making an accurate R&D claim. Our R&D Taxperts can guide you through this process and ensure that appropriate claims are being made.

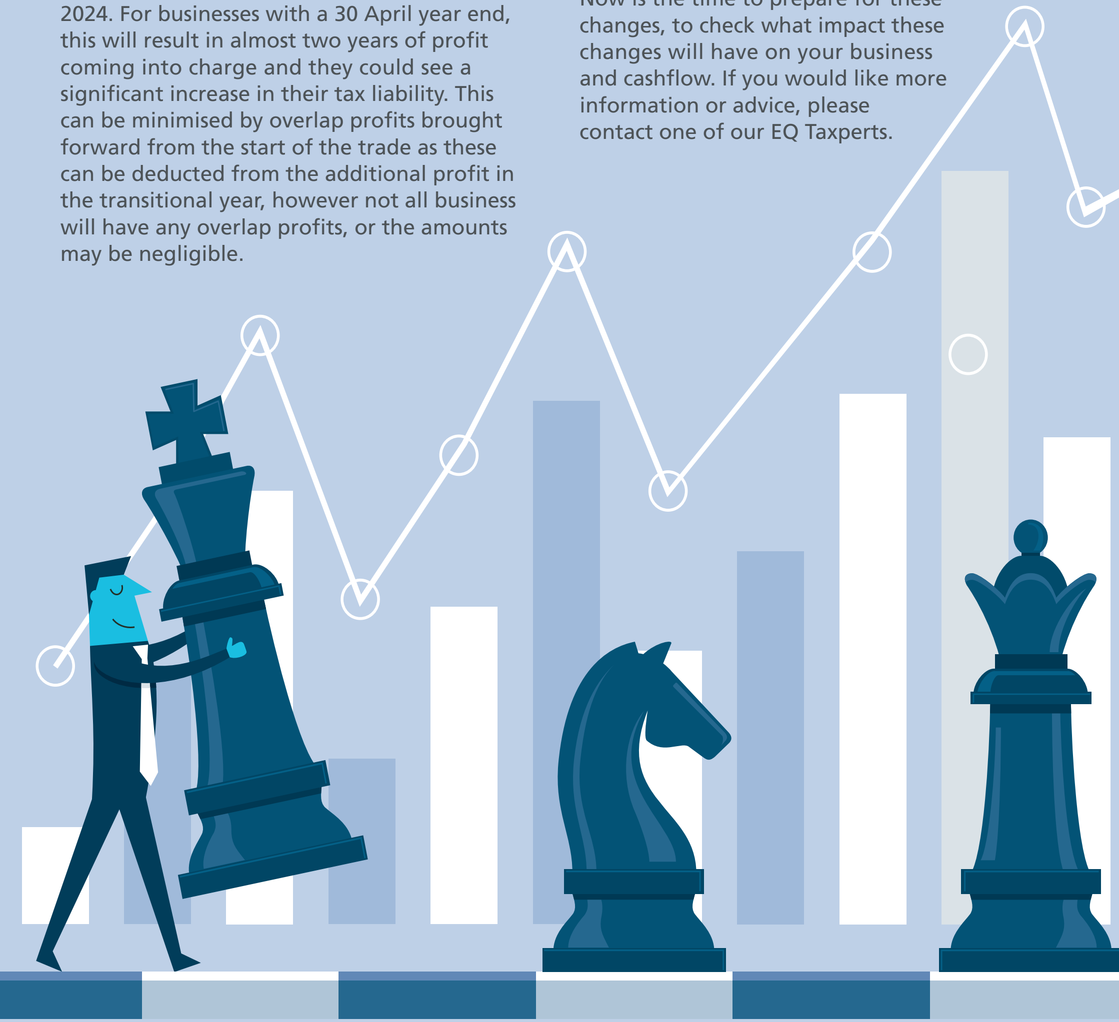
Basis Period Reform – time to start planning

The government have confirmed that the basis period reform will go ahead as planned. This means that the profits and losses of sole traders and partnerships will be calculated based on the tax year itself, not the accounting period ending in the tax year, as is currently the case.

These changes will come into effect from 6 April 2024 and for those business who do not use 5 April or 31 March as their accounting date, there will be a transitional year, tax year 2023/24. The profits chargeable in the transitional year will be the 12 months to the date of the accounting period ending in that year together with the period to the 5 April 2024. For businesses with a 30 April year end, this will result in almost two years of profit coming into charge and they could see a significant increase in their tax liability. This can be minimised by overlap profits brought forward from the start of the trade as these can be deducted from the additional profit in the transitional year, however not all business will have any overlap profits, or the amounts may be negligible.

The additional profits from the transitional period will automatically be spread over a five year period, however the taxpayer can choose to bring forward some or all of those profits, with careful tax planning this election could be used to prevent or reduce profits from being taxed at higher tax bandings.

Now is the time to prepare for these changes, to check what impact these changes will have on your business and cashflow. If you would like more information or advice, please contact one of our EQ Taxperts.



Capital allowances for commercial properties – maximise your claim

Within commercial properties there are a number of items that should qualify for favourable tax relief. These are typically the fixtures and fittings within a building such as hot and cold water systems, lighting systems, carpets and furniture, to name but a few.

Capital allowances reduce the amount of tax payable by those subject to either Income or Corporation Tax, directly resulting in a cash benefit to the business.

Further allowances for structures

From 29 October 2018, the Government introduced a Structures and Buildings Allowance (SBA) for new non-residential structures and buildings. This relatively new relief, given at a flat rate of 3% over a 33⅓ year period, which was 2% over a 50 year period prior to 1 April 2020, should cover expenditure that does not qualify for capital allowances, such as walls, doors, waste disposal systems and mains services and systems.

For those constructing new commercial property, we encourage you to ask your contractor, where possible, to split their invoices between the expenditure qualifying for capital allowances and qualifying expenditure for SBA to enable you to maximise the tax deduction.

If you would like further information on capital allowances, and the amounts that can be claimed, please contact our Commercial Property Taxperts.

Looking for Trusted Tax Advice?

Talk to the **EQ Taxperts**

We are always happy to offer free, no obligation, initial consultations, and often act on a tax consultancy basis only.

For more information on any of the services outlined in this bulletin, or to discuss a particular issue with one of our advisors please get in touch.

Talk to the EQ Taxperts today.

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