monahans
Chartered Accountants & Business Advisers

2022/23

End of Year Tax Planning

2022/23
End of Year Tax Planning

This year we have had four different Chancellors of the Exchequer and three Prime Ministers. There were three Government fiscal statements in Autumn alone and there will shortly be a Spring Budget announcement.

In this guide we set out what you need to know about the tax landscape over the next 12 months. As always please contact us to discuss any queries or potential planning.

monahans.co.uk

Contents

About Monahans

Monahans is the largest independent firm of chartered accountants and business advisers in the South West, serving businesses in local communities and beyond.

Ever since the firm was founded in the 1890s, Monahans has been at the heart of local business communities. From these foundations, we've grown to eight office locations across the South West – from Monahans Swindon and Monahans Trowbridge, to Bath, Chippenham, Frome, Glastonbury, Melksham, and Taunton – and expanded our national and international reach, whilst staying true to our commitment to be a trusted partner to clients and help them achieve their ambitions.

Offering a range of specialised services that include Corporate Finance, Tax Consultancy, Audit, Business Recovery and Insolvency, Digital Cloud Accounting, Elite Payroll, HR Services and Probate, our team has the experience to understand and anticipate needs, provide insights, and support clients with reassuring professional expertise in a constantly evolving, challenging business world.

8 offices across the South West

180 team members

92% staff satisfaction

11 partners

Income Tax

The tax-free personal allowance for the 2023/24 tax year is £12,570, this allowance has been frozen at £12,570 until April 2028.

The next £37,700 is taxed at the basic rate of 20% (8.75% for dividend income). Higher rate tax of 40% (33.75% for dividends) is charged on income above £50,270 and additional rate tax of 45% (39.35% for dividends) is charged on income above £125,140 (a reduction from £150,000 in the 2022/23 tax year).

The personal allowance is tapered away by £1 for every £2 of income over £100,000 per year.

There is no personal allowances at all where income exceeds £125,140. As a result, the effective rate of tax on income between £100,000 and £125,140 is 60%. This means that the effective rate of tax relief on pension contributions and gift aid donations is 60% within this income band.

Action Point

Sufficient gift aid donations and/or personal pension contributions should be made, where possible, to mitigate the impact of the tapering of the personal allowance.

Dividends

The dividend allowance will be cut to £1,000 in April 2023, having been £2,000 for several years, and cut again to £500 from April 2024. Amounts falling within the dividend allowance are taxed at 0%.

The allowance will, however, use any part of the lower rate bands that they would otherwise have fallen into. This means more dividend income will be taxable each year.

Dividends are treated as the top slice of income, so the basic and higher rates are first allocated against other income. The dividend tax rates are as follows:

- Basic rate - 8.75%
- Higher rate - 33.75%
- Additional rate - 39.35%.

In order to maximise tax relief, sufficient income should be generated where possible to fully utilise the personal allowance and basic rate band. This may be done by careful planning of the timing of dividends from a private company or distributions from a family trust.

Interest

The Personal Savings Allowance (PSA) entitles basic rate taxpayers to £1,000 of tax-free savings income and higher rate taxpayers £500. However, additional rate taxpayers receive no allowance. With the changes in the additional rate band, there will now be more individuals losing their PSA allowance.

Married Couples Allowance (MCA)

Married couples can effectively transfer 10% of their personal allowance to their spouses or civil partners by making an election. Tax relief is given via a tax reduction of 20% of the transferred amount, £1,260 for 2023/24. This transfer is only available if both parties are not higher rate or additional rate taxpayers. It should be remembered that children also have tax free allowances that may be utilised.

Action Point

There is potential to divert income from grandparents or other relations (not parents) in order to utilise a child's personal allowance. This can be achieved by creating a family trust as part of an Inheritance Tax planning exercise. Professional advice should be sought before undertaking this.

Child Benefit

If you or your partner receive child benefit, it is important to remember that taxpayers with adjusted net income in excess of £50,000 are liable to the high-income child benefit charge. The charge will be levied on the higher earning partner. The charge is 1% of the full child benefit award for every £100 of income between £50,000 and £60,000. Where income is more than £60,000 all child benefit is lost.

Action Point

Consider your income for the 22/23 and 23/24 tax years to confirm if you might be subject to the charge. You can elect not to receive child benefit if you will continue to be affected by these rules.

Capital Gains Tax

The annual exemption for capital gains tax will be slashed from £12,300 to £6,000 in 2023/24 and then halved to £3,000 in 2024/25.

Use your annual exemption

This is a 'use it or lose it' exemption; it cannot be carried forward to the future years.

It therefore makes sense to crystalise gains each year to the extent of the annual allowance, if possible.

Note that under the 'bed and breakfasting' rule (selling some shares and then buying the same shares shortly afterwards to crystalise a gain or a loss), a gain or loss does not crystallise for tax purposes if you sell shares and repurchase the same shares within 30 days.

Action Point

If you are considering crystallising a gain in 22/23 through the sale of shares it is possible to repurchase the same shares through an ISA. Alternatively, a married couple can arrange for one partner to sell shares after their spouse has transferred some loss-making shares to them to reduce the overall gain.

Rates of tax for shares

The rate of capital gains tax (CGT) is 10%, where total taxable gains and income is less than £37,700. Any excess gains are taxed at 20%. Where business asset disposal relief (BADR) applies, the rate of tax on the whole gain is 10% subject to a £1m lifetime allowance (see BADR section).

Investment property

The 10% and 20% rates also apply to gains on commercial property but gains on residential properties are taxed at the higher rates of 18% and 28%. Taxable gains on the sale of UK residential property must be reported to HMRC within 30 days if the sale occurred on or before 26 October 2021, and within 60 days if the sale occurred after that date.

Crystallise and use capital losses

Capital losses must be offset against capital gains in the same year. Unused losses are carried forward indefinitely and can then be offset against future gains. A formal claim is required. The claim must be submitted to HMRC within four years of the end of the tax year of the loss, otherwise it will be time-barred. Hence, claims must be made by 5 April 2023 in respect of 2018/19 losses if claims have not already been filed.

When an asset has become valueless or worth next to nothing, it may be possible to make a "negligible value claim" in order to crystallise a capital loss. The claim can be backdated up to two tax years in certain circumstances, allowing the loss to be offset against gains made in earlier years.

Business asset disposal relief (BADR)

CGT is charged at 10% where BADR applies, subject to a lifetime limit of gains totalling £1m, so if you have already taken advantage of this relief in the past (it was formerly called Entrepreneurs' Relief) you may not be able to make a further claim on the disposal of your business.

BADR applies to the sale of a trading business carried on as a sole trader or partnership, or to the sale of shares in a trading company. It can also apply to personally held assets that have been used in the trade of a partnership that you are a partner of or a company that you are a shareholder in.

Action Point

Business owners should consistently review their BADR position as it is easy to fall foul of the detailed rules.

Your main residence

Ownership of two homes in the UK is becoming more commonplace as couples who both own houses marry, houses are inherited, parents buy houses for their children to live in, or people just buy a place in the country, either to let or to escape to at weekends.

The gain on your principal private residence is normally except from CGT. If you have more than one private residence, your 'main' residence will normally be, by default, the one in which you spend the greatest time.

However, it is also possible to determine that matter by nominating one of them as your main residence. This requires careful planning, since the flip side of a gain on one residence being treated as exempt is that a gain on the other residence will become chargeable. Written nominations must be submitted to HMRC within 24 months of any change in residences becoming available. Lettings relief of up to £40,000 (£80,000 per couple) is available for those landlords who are in shared occupancy with their tenant. The final 9 months of ownership of a main residence is exempt from CGT, irrespective of how you use the property in that time. This is extended to 36 months where the owner or their spouse is disabled or has moved into residential care.

Action Point

If you own more than one home, consider whether a principal private residence election is needed. You have two years to make an election so the sooner you speak with us, the better the position we will be in to advise on which property the election should be made.

Marital breakdown

There are various upcoming changes to the way in which separating spouses and civil partners review and assess their capital gains tax position from 6 April 2023. Therefore if you are separating it is important to discuss how the changes will apply to your circumstances.

The main change is around extending the period of time available to give separating couples at least three years to make no gain or no loss transfers between themselves for capital gains tax purposes. This will be beneficial for parties involved in more complex proceedings, as it means that more time can be spent on the divorce considerations, rather than capital gains tax considerations.

Capital gains tax overhaul

In recent years, there has been heightened media speculation that the government is considering a major overhaul to capital gains tax which could see rates aligned with that of income tax (currently 20%, 40% and 45%). So far, the Chancellor has chosen not to make any significant changes but this could be announced in a future Budget. Individuals who anticipate realising capital gains in the short to medium term should consider whether it is appropriate to bring these gains forward.

This can further affect a taxpayer's position if this increase means the taxable income then exceeds certain thresholds which reduce the availability of child benefit, the personal allowance or the pension savings annual allowance.

Property Investment

Property investment is still a very popular way of generating wealth through rental profits and capital appreciation but there are a number of tax consequences and filing obligations to be aware of.

Tax relief on loan interest

Since 6 April 2020, a higher or additional rate taxpayer will only be able to claim relief for any Residential Buy-To-Let (RBTL) interest at the basic rate. The way that this restriction operates means that a taxpayer's total income will no longer include a deduction for the restricted interest.

Annual tax on enveloped dwellings

Brought into effect in 2013, ATED was initially designed to deter companies and similar entities from owning high-value UK residential property to minimise taxes such as stamp duty land tax (SDLT) by applying an annual charge. In its initial phase, ATED only applied to properties valued in excess of £2m but as the years have gone by, the valuation bandings have decreased significantly. At present, properties valued at more than £500,000 may be caught by the regime.

The ATED rules require that UK residential properties held by companies and similar entities are revalued every five years and the most recent revaluation date was 1st April 2022.

Whilst this revaluation requirement may not have previously been a significant concern to a lot of businesses, UK house prices increased by 10.8% during the year to December 2021 so this particular valuation date could trigger an ATED filing requirement for companies previously outside of the regime or could shift properties already subject to the regime into higher ATED valuation bands.

Landlords can often obtain relief from ATED if their properties are commercially let but this relief must be claimed.

Action Point

Financial penalties for non-submission of an ATED return can be significant. Review any property portfolios held by your companies to ensure you are fully aware of your filing obligations.

CGT 60-day reporting payment regime

Since 6 April 2020 individuals, trustees and personal representatives (but not companies) who realise a taxable capital gain from the sale or other disposal of UK residential property have to make a residential property return and a payment on account of CGT. The exchange of contracts for the sale or gift of a UK residential property must be reported to HMRC within 60 days of completion if a tax liability arises, and an estimated capital gains tax payment will also be due by the same date.

This reporting requirement was previously 30 days if completion took place prior to 27th October 2021.

A return is not required where the capital gain is not taxable, for example, if it is covered by private residence relief but otherwise interest and penalties will be charged if the deadline is missed.

Please note however that there are different rules for non UK Residents and that immediate advice should be sought if a land or property sale is planned.

Rent a Room Relief

When you let rooms in your own home as residential accommodation, you can receive the rent tax-free if it falls within the limits for rent-a-room relief. This relief is currently capped at gross rents of £7,500 per year.

Where more than one person receives the rent from the property, each person has a tax-free exemption for rent of £3,750.

The conditions include that you must occupy the property as your main home at some point in the tax year. This relief can't cover income from a holiday home or buy-to-let property. Also, the accommodation must be used by the tenant for residential purposes, not as an office or storeroom.

Property Income Allowance

If you let out land or buildings that don't qualify for rent-a-room relief, the income could be covered by the £1,000 property income allowance. You can't use this allowance against rent paid by your own company, a company you work for, or one with which your spouse is associated.

If either type of rental income exceeds the relevant allowance, it must be declared on your tax return, along with any related expenses. If the allowance exceeds the actual expenses, you can deduct that allowance in place of those expenses.

Inheritance Tax

Over the last few years, the tax receipts from inheritance tax (IHT) have been steadily rising. This is in part due to increasing property prices and wealth while the nil rate band (the threshold at which you start to pay IHT) is frozen at £325,000. The other reason is that many of the reliefs and exemptions available are often not utilised.

IHT is broadly payable at 40% on the chargeable value of an estate above £325,000. The right tax planning for many individuals can take them out of the IHT net completely and for others there are significant savings available. Estate planning involves making use of exemptions, lifetime giving and structuring assets to secure reliefs, including business property relief and the residence nil rate band. The general aim is to reduce the value of the chargeable estate and consequently the IHT charge on death.

Annual gifts

There are a number of reliefs and exemptions for IHT and some common ones to consider annually are:

- Annual exemption – an amount of up to £3,000 can be given away each tax year and, if unused in a year, that amount can be carried forward for one year and utilised in the following tax year.
- Small gifts exemption – you can give up to £250 to as many people as you wish each tax year.
- Wedding gifts - £5,000 to your child, £2,500 to your grandchild or remoter issues and £1,000 to any other individual.
- Gifts to charities or registered clubs – full exemption from IHT.

Considering the above gifts should become part of your annual tax planning, although it is also important to make sure you are leaving yourself sufficient income for your needs.

Action Point

Are your assets structured to make best use of the IHT reliefs and allowances?

Have you passed on assets that you no longer require to the next generation or even skipping a generation?

Are your assets functioning to provide you with enough income if you are retired or will they when you retire?

Have you updated your Will to reflect any financial and family changes?

If the answer to any of the questions above is no, now is the time to be looking at your IHT position.

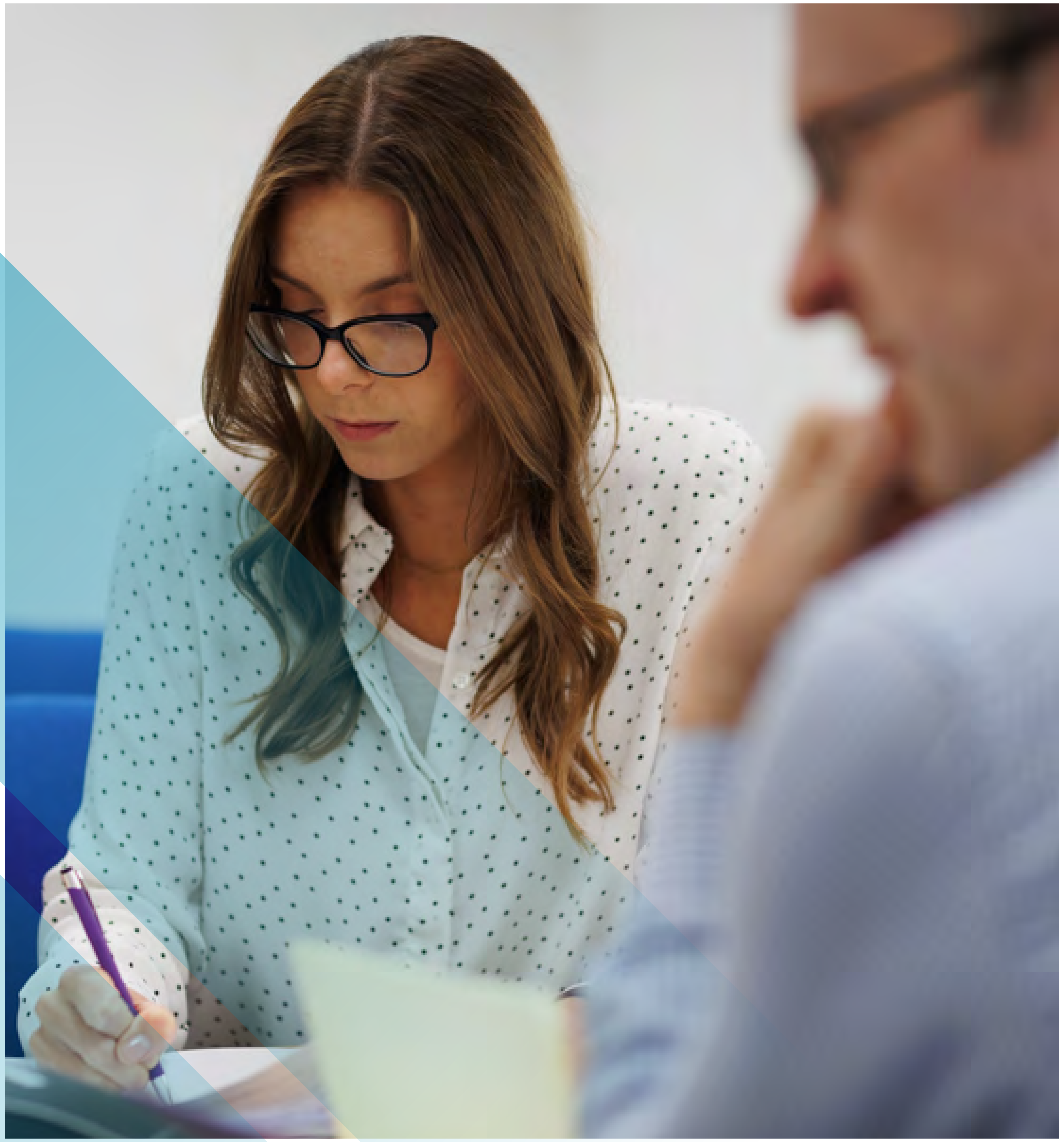
Longer term planning

In addition to considering utilising gifts on an annual basis, you should also take a look at your overall position every few years.

- Potentially exempt transfers (PETs) – a gift to an individual (family or others) that is in excess of the annual or small gifts exemption. There is no immediate charge to tax and if the donor lives for 7 years from the date of the gift, it is exempt from IHT. Tapering of the IHT may apply where between years 3 and 7 after the gift.
- Chargeable lifetime transfers (CLT) – this is usually on a gift to a trust. Lifetime IHT is charged at 20% on the excess over the nil rate band of £325,000.
- In addition to the nil rate band that can be used in lifetime and on death, there is a residential nil rate band (RNRB) available only on death. This is a valuable relief but is restricted on estates over £2million. Where appropriate, restructuring between spouses or civil partners to ensure both are below the £2 million means the relief is available on first death and further planning before the second can mean both RNRBs can be utilised. there are various other conditions to consider to also ensure the availability of the relief'
- Trusts – while trusts have dropped in popularity in recent years, they are still a very useful tool in estate planning as they allow a degree of control over the assets after they have been given away. The settlor cannot benefit from them if they are to be effective gifts for IHT, but they can have control over what happens to them which can be particularly useful where minor children are involved, or for older children where divorce or financial difficulty is a concern.
- Family investment companies – these are becoming more popular and are often being considered in place of trusts, although both can be used together.

- Business relief and agricultural property relief – these are complex but can provide very significant relief from IHT so it is important to take advice and ensure you are eligible and that you can provide evidence should it be needed. There are many IHT efficient investments available which utilise business relief and agricultural property relief. Appropriate investment advice would be needed when considering such investments as the financial risk needs to be considered alongside any tax benefits.
- Reduced IHT rate – the standard IHT rate is 40% but a 36% rate will apply if you leave at least 10% of your net estate to charity.

This is a brief summary of some of the most common reliefs and planning options for IHT. When planning for IHT it can also have an effect on both income tax and capital gains tax. It is therefore important to take advice so that it is all done correctly. Planning should be tailored to you and your family ensuring you have sufficient funds in lifetime as well as being tax efficient for the next generations.



Pensions

You'll need 35 qualifying years to get the full new state pension and at least 10 years to qualify for any amount of UK state pension.

State Pension and National Insurance (NI)

We would advise individuals obtain a state pension forecast and review their National Insurance record prior to 5 April where possible. This can be done online via the personal tax accounts or statements can be requested.

Where individuals are employed with low earnings, living or working outside the UK or self employed with small profits they may not automatically be making NI contributions and therefore not be aware of the gaps in their records.

A review can take place to check any discrepancies between NI paid and the details on HMRC's systems. In addition to this, years where NI Credits are missing can also be identified and any shortfalls reviewed.

A forecast will show the cost of making voluntary contributions and financial advice should then be obtained to consider any benefits for making these.

Action Point

Review your NIC record and consider topping it up by claiming NIC credits or paying voluntary contributions.

If you have already paid enough NIC to take advantage of the full state pension and you have a limited company you may wish to consider restructuring the income you receive from that company. Dividends or rental income may be taken in place of a salary and the company may be able to make contributions to a pension fund

Pensions contributions

There are various limits worth noting that can remove the tax benefits and even lead to substantial charges if excess contributions are made across your pension pots (not including your state pension).

- Earnings limit – individuals may not contribute more than 100 per cent of their relevant earnings in 12 months or more than the basic amount (£3,600), whichever is higher. 'Relevant earnings' includes any money gained from employment, trading or furnished holiday lets, for example. This can often cause a problem for those with large property portfolios because rent from owned properties cannot be counted as relevant earnings, unless they meet the furnished holiday let conditions. In addition to this, as dividends do not qualify, shareholders who are primarily remunerated by way of dividend may face restrictions due to the earnings limit.
- Annual limit – individuals may not contribute more than £40,000 per year. This includes contributions made by the pension holder, their employer and anything the government may pay in. The annual allowance starts to be tapered once adjusted taxable income is greater than £240,000. There can be substantial charges as well as a loss of tax benefits if this limit is exceeded. Individuals can 'bring forward' some of their annual allowance if it was not used in the previous three years under certain circumstances.
- Money Purchase Annual Allowance – If you start to take money from a defined contribution pension pot, the amount that you can contribute to your defined pension scheme (whilst still getting relief) is reduced to £4,000 per annum.
- Lifetime limit – this is the maximum amount which can be held within a pension scheme. Currently this is £1,073,100 – if the value exceeds this then a tax charge will be applied.

Action Point

Review your pension position before the end of every tax year to ensure you are making the most of reliefs available to you.

If the total of all your pension funds is likely to be at or near £1m by the time you retire, you should seek advice. If you are a high earner, a review of your pension position, allowances and bought forward amounts should take place.

Stakeholder pensions

Stakeholder pensions allow contributions to be made by, or for, all UK residents, including children and grandchildren from birth. Consider making a net contribution of up to £2,880 (effectively £3,600 gross) each year for members of your family, even for those who do not have any earnings. You can also make pension contributions in respect of family members who do not work (i.e. have no relevant earnings) or cannot afford them.

If you make contributions to your children's pension schemes on their behalf, they get the tax relief and the payments are treated as reducing their taxable income, so it could help keep them below the £50,000 income threshold at which they can retain the child benefit. The earlier that pension contributions are started, the more they may benefit from compounded tax-free returns

Your pension pot: A tax efficient way of keeping it in the family

Important changes are also taking place with regards to how pensions are treated in the event of your death. Retaining pension wealth within the pension fund and passing it to future generations is now an extremely tax efficient estate planning solution, as it combines inheritance tax (IHT) free inheritance with tax-free investment returns and potentially tax-free withdrawals. Indeed, it may even change the way we utilise our capital in retirement, possibly leading us to spend other funds before our pensions.

From April 2015, you can nominate who inherits your pension fund. It can be anyone of any age and is no longer restricted to your 'dependents'. If death occurs before age 75, the nominated beneficiary can access the funds at any time, tax free. If the original policy holder dies after age 75, defined contribution pension funds can be taken in instalments or a lump sum and will be taxed at the beneficiary's marginal rate as they draw income from it.

Additionally, the nominated beneficiary can appoint their own successor, allowing the accumulated pension wealth to cascade down generations, whilst continuing to enjoy the tax freedoms that the pension wrapper will provide.

Each time a pension fund is inherited, the new owner has control over the eventual destination of those funds.

Registration of Trusts

On 1 September 2021, HMRC confirmed that the Trust Registration Service (TRS) is now able to accept the registration of non-taxable, express UK trusts.

All UK express trusts must register unless it falls within one of the exclusions (see list of exclusions below).

An express trust is a trust created deliberately by a settlor, usually (but not always) in the form of a document such as a written deed or declaration of trust. Most trusts are express trusts. The registration consequences will depend on what type of trust it is.

The Fifth Money Laundering Directive (5MLD) came into effect in the UK on 6 October 2020. This directive has vastly extended the reporting obligations of Trusts to HMRC.

It replaces the Fourth Money Laundering Directive (4MLD) and now adds reporting obligations to a significant number of trusts.

Since late 2017, if a Trust incurs a liability to

- Income tax,
- Capital gains tax,
- Inheritance tax,
- Stamp Duty Land Tax or
- Stamp Duty Reserve Tax,

Trustees are required to register information about their trusts on HMRC's online TRS portal.

The TRS is now compulsory for all UK Non Taxable trusts created or in existence on or after 6th October 2020.

Please note *if the trust has ceased since 6th October 2020, the trustees are still required to register the trust and then are able to immediately close the trust record to record the fact that the trust has ceased.*

Trusts required to register

The TRS legislation may or may not affect you. Trustees have a legal duty to comply with HMRC reporting requirements, if required.

The trusts which now need to be registered include the following, but this is not an exhaustive list and we would be happy to discuss with you if you require clarification if registration is required.

- Trusts of Land where the legal owners registered at the Land Registry differ to the owners deriving an interest in the property. For example
  - where property is held on trust for a partnership - General partnerships cannot hold property for themselves, and in such cases a partner may hold property on trust for the partnership such as land or buildings, which may be used in the partnership's business. e.g. Mother and Father own the land (noted on land registry), which is farmed by the partnership, and held on trust for the partnership, which might include them and their two children as partners.

    A declaration of trust may have been prepared or it may be recorded in schedules to the partnership agreement, but occasionally it is simply recorded on the balance sheet of the partnership accounts.

    This trust is now registrable - unless the situation falls within the limited exceptions, such as where the legal owners and the beneficial owners are the same (Co- ownership).
  - where parents have contributed to a home for their child.
  - married couple or a civil partnership owns a house and they wish to give half (or a third etc.) of the property to the other of the couple.

    The gift itself should fall within the exemption for Capital Gains Tax and typically there will be no need to update the title at Land Registry. Gifts are completed by a Declaration of Trust, whereby the person making the gift declares that he or she holds the property on trust for him or herself and for the other of them 50:50 (or in whatever proportions they decide).
- Trusts which hold an asset such as a loan or a property for a surviving spouse or other beneficiaries after death.
- Bare Trusts where for example a parent holds an asset (for example stock and shares) for their minor child, except for child bank accounts created with deposits of cash.(Child Trust Funds and Junior ISAs are not trusts and therefore are not required to register.)
- Policies with surrender values - Some policies (such as investment bonds) are designed to provide regular or periodic payments to the policyholder in the form of surrenders or part-surrenders during the term of the policy, with a small life assurance element payable on death which is incidental to the benefits provided through the surrenders. In those cases, HMRC's view is that the withdrawals of cash in the event of a part or full surrender does constitute a pay out from the policy, because those withdrawals are intended from the outset as expected payments of funds from the policy. The exclusion from registration on TRS does not apply.
- Pilot trusts –created after 6 October 2020.
- Any Will Trust continuing after 2 years from death.
- Non-UK resident trusts created on or after 6th October 2020:
  - That acquire an interest in land in the UK; or
  - Has at least one trustee resident in UK and
  - Enters a Business relationship.

Excluded trusts

There are however several exclusions from registration, as follows:

- Legislative trusts (such as a life interest arising on intestacy, Bereaved minor (unless taxable), 18 to 25 trusts (unless taxable) and a disabled person trust)
- Trust imposed by court order (such as Court of Protection orders)
- Pension scheme trusts
- Trust of insurance policies (whole of life or term polices so long as conditions met)
- A trust where the trust is holding only benefits received on the death of the person assured and less than two years has passed since that person's death
- Charitable trusts
- Pilot trusts – which do not have a value greater than £100 and were created before 6 October 2020
- Cash deposit bank accounts for minors
- Trusts having effect on death (i.e. Will Trusts) within the first 2 years only
- Co-ownership (where legal and beneficial owners are the same)
- Personal Injury trusts

Action Point

If you hold property or investments you may have a requirement to register arrangements with the TRS depending on the circumstances.

Please get in touch with us to discuss your position in further detail.

Payroll

Here we consider various rates and thresholds applying to the 22/23 and 23/24 tax years and summarise some key areas for consideration.

What is Payroll Year End?

Key responsibilities include:

- Reporting to HMRC on the previous tax year (which ends on 5 April)
- Providing employees their P60
- Preparing for the new tax year, which starts on 6 April
- Payroll Year End 2022/23 timeline

The timeline for the main Payroll Year End dates for 2023/24 are:

- On or before your employees' payday: send your final FPS payroll report of the year
- From 6 April: update employee payroll records
- From 6 April: ensure your payroll software is updated
- From 6 April: if you are continuing to claim Employment Allowance in 2023/2024, you must send an EPS to HMRC indicating your intentions
- By 31 May: give your current employees a P60
- By 6 July: report employee expenses and benefits if they aren't being processed through payroll
- By 22 July: pay Class 1A NIC on P11D benefits
- Legislative changes for payroll in 2023

Payroll Year End 2022/23 will bring legislative changes you need to be aware of; see the upcoming legislative changes below:

Voluntary Living Wage

From 1st September 2022 currently £10.90 (Rest of the UK) and £11.95 (London)

Statutory Sick Payments (SSP)

Weekly SSP Rate - £109.40

Statutory Maternity, Paternity, Adoption and Shared Parental Pay

SMP, SPP, SAP, ShPP - £172.48 or 90% of the Employee's average weekly earnings, whichever is lower

SMP/SPP/ShPP/SAP – Proportion of your payments you can recover from HMRC –

- 92% if your total Class 1 National Insurance (both Employee and Employer contributions) is above £45,000 for the previous tax year
- 103% if your total Class 1 National Insurance for the previous tax year is £45,000 or lower

Income Tax rates – No change to the tax rates for 2023 – England and Northern Ireland

- No Change until at least April 2028 – Employee Personal Allowance £12,570 per year
- 20% on annual earnings above the PAYE tax threshold and up to £37,700. 40% on annual earnings from £37,701 to £125,140
- 45% on annual earnings above £125,140

National Minimum Wage Changes

Hourly Rate	1 April 2022	£ Increase	1 April 2023
Workers above compulsory school leaving age, but under 18	£4.81	47p	£5.28
Workers aged 18-20	£6.83	66p	£7.49
Apprentices	£4.81	47p	£5.28
Adult 21-22	£9.18	£1	£10.18
Adult 23 and over (Previously 25 & Over) National Living Wage	£9.50	92p	£10.42
Accommodation Offset (Daily Rate)	£8.70	40p	£9.10

Emergency tax codes

The emergency tax codes from 6 April 2021 are:

- 1257L W1
- 1257L M1

National Insurance – Frozen Until 2028 – See rates for 23/24 no change for the current year https://www.gov.uk/guidance/rates-and-thresholds-for-employers-2023-to-2024

Scottish Rates & Thresholds: https://www.gov.scot/publications/scottish-income-tax-2023-2024/

Welsh Rates: https://gov.wales/welsh-rates-income-tax

Student loan and postgraduate loan recovery - The 9% repayment rate will not change, and all outstanding loans will be written off after 30 years. This is applicable to all current loan schemes.

Rate or threshold	2023 to 2024 rate
Employee earnings threshold for student loan plan 1	£22,015 per year
Employee earnings threshold for student loan plan 2	£27,295 per year
Employee earnings threshold for student loan plan 4	£27,660 per year
Student loan deductions	9%
Employee earnings threshold for postgraduate loan (Plan 3)	£21,100
Postgraduate loan deductions	6%

Employment Allowance

The Employment Allowance increased to £5000 for those eligible from the 6th of April 2022 and will continue for the current tax year. It is **no longer** automatically claimed each year.

Holiday Pay - Working Time Regulations

Note that we are still awaiting the Responses from the 'Consultation on Modern Workplaces' document in respect of changes to the 1998 Working Time Regulations. However, this is eagerly anticipated with respect to annual leave, as a number of decisions of the Court of Justice of the European Union (CJEU) have ruled on various conflicts that arise between the right to paid annual leave and other types of leave (i.e., sickness and maternity). It is also eagerly anticipated considering two important 2014 case law rulings that affect the calculation of a week's pay when determining the rate at which holiday pay should be paid.

Action Point

If you have to work from home (as opposed to choosing to work from home) then you may be eligible for working from home allowance. If your employer does not pay this, you may be able to claim it directly from HMRC.

- New Starter Checklist: https://www.gov.uk/guidance/starter-checklist-for-paye
- **All employees must** provide their staff with a written statement from day 1. A contract is a legal requirement
- Be advised you will now need to use a 52 week average rather than the previous 12 weeks when you come to calculate holiday pay calculations for casual, zero hours and part time workers
- Holiday Pay – Are you getting it right? Please ensure you are, as the consequences for getting it wrong could be costly
- An extra Bank Holiday this year on the 8th of May 2023 UK Wide (The Coronation of King Charles) Employers should consider the application of work and holiday rules. Remember, it means two 4-day weeks in a row
- Please encourage your staff to setup their Personal Tax Accounts with HMRC. They can do this at https://www.gov.uk/personal-tax-account .Your staff can check HMRC have the correct details as well as having access to current and previous year tax and NI records.

Tax Efficient Investments

ISAs are an excellent investment for higher rate taxpayers. In 22/23 every UK resident individual over the age of 18 can invest up to £20,000 in a new, standard ISA. If this investment is not utilised it cannot be carried forwards.

Individual Savings Accounts (ISAs)

Interest and gain arising within an ISA do not attract income or capital gains tax.

There are now a few additional ISA options that may be considered:

- **Lifetime ISA (LISA):** Individuals between 18 and 39 can contribute up to £4,000 per tax year. The Government will then add a 25% bonus at the end of each tax year.
- **Junior ISA:** Available for children under the age of 18. Parents or other relatives may invest up to £9,000 in 22-23 on behalf of a child. No withdrawals can be made until the child reaches 18.

Action Point

Consider topping up your ISA subscriptions before the end of the tax year

Venture Capital Schemes

All venture capital schemes offer significant income tax and capital gains tax (CGT) advantages although these investments are not without risk.

Enterprise Investment Scheme (EIS)

This scheme can provide income tax and CGT reliefs on investments made into qualifying trading companies. Tax reliefs include:

- **Income Tax Reduction:** A reduction in income tax equal to up to 30% of the sum invested. The maximum investment that may be made during 22/23 is £1m and shares must be held for at least 3 years for benefits to be retained.
- **CGT Deferral:** Gains made on the disposal of any asset may be deferred by reinvestment into an EIS qualifying company. Investment must be made either one year prior to the crystallisation of the gain or 3 years after.
- **Disposal Relief:** Gains made on the disposal of EIS qualifying shares more than 3 years following acquisition will not attract CGT as long as income tax relief as been claimed. Losses may be offset against ordinary income, potentially saving income tax at 40/45%.

Seed Enterprise Investment Scheme (SEIS)

This scheme can provide income tax and CGT reliefs on investments made into qualifying trading companies. Tax reliefs include:

- **Income Tax Reduction:** A reduction in income tax equal to up to 50% of the sum invested. The maximum investment that may be made during 22/23 is £100,000 and shares must be held for at least 3 years for benefits to be retained.
- **CGT Exemption:** 50% of gains made on the disposal of any asset may be exempt from CGT by reinvestment into a SEIS qualifying company. Shorter time limits apply, generally reinvestment must be made in the same tax year.
- **Disposal Relief:** Gains made on the disposal of SEIS qualifying shares more than 3 years following acquisition will not attract CGT. Losses may be offset against ordinary income, potentially saving income tax at 40/45%.

Both EIS and SEIS shares are usually exempt from Inheritance Tax (IHT).

Professionally managed EIS and SEIS investment funds exist which invest in a broad range of EIS and SEIS companies on behalf of investors. There is still, however, a high degree of risk associated with these investments. Advice should be obtained from a financial adviser.

Venture Capital Trusts

These are generally specialist tax incentivised investments that enable individuals to invest indirectly in a range of small higher risk trading companies and securities. Advantages include:

- **Income Tax Reduction:** Income tax relief at 30% of the amount subscribed subject to a maximum investment of £200,000 for 22-23.
- **Disposal Relief:** Any gains arising on the disposal of investments made be free of CGT providing the investment has been held for at least 5 years.
- **Dividends:** Dividends received are generally exempt from income tax.

Action Point

- **Consider investing into a qualifying EIS or SEIS company before the end of the tax year to secure income tax relief.**
- **Have you crystallised gains within the last 3 years? Consider making an EIS or SEIS investment to defer or relieve gains. Note that gains deferred under EIS will come back into charge in future and will be subject to CGT at the rate prevailing at the time.**
- **Thresholds are changing for SEIS investments from 5th April 2023. Consider seeking advice on the changes to see if deferring any planned investment would be prudent.**

Family Investment Companies

A Family Investment Company (FIC) can be a useful way to protect family wealth and facilitate future succession planning. The most appropriate structure will depend on a family's circumstances but if structured correctly a FIC can be a tax efficient way of controlling family wealth.

Key features of a FIC include:

- **Income Tax Reduction:** Investments held directly may be subject to income tax at 40/45%. Investments held within a corporate structure are subject to corporation tax at 19% for 22-23.
- **CGT Reduction:** Gains made by individuals may be taxed at up to 28%. Gains are subject to corporation tax within a FIC.

Note: Corporation tax rates will increase from 1 April 2023 to a maximum of 25%.

- **Tax Exemption:** Dividends received by small companies are generally exempt from corporation tax. Interest and rental income will continue to be taxable.
- **Income Structuring:** Extraction of profits from a FIC can be made tax efficiently according to each shareholder's personal circumstances. Shareholders only pay tax when the FIC distributes income so profits may be retained by the company until required.

Action Point

A FIC may benefit you if you are seeking to preserve family wealth. Contact us to discuss how a FIC could work for you.

Making Tax Digital and Basis Periods (Self-Assessment)

All businesses with turnover above the VAT thresholds have been filing their VAT returns under Making Tax Digital (MTD) since 2019.

MTD for Income Tax Self Assessment (MTD ITSA) was originally due to be introduced in April 2024 but HMRC have recently announced that the start date will be deferred to April 2026. The regime will initially affect individual landlords and the self-employed.

While it is expected that many self-employed businesses use software for their record keeping, MTD ITSA will represent a major change for landlords who often only prepare an income and expenditure statement when preparing their tax return.

MTD ITSA will not initially apply to all taxpayers. The following individuals will be expected to file quarterly returns to HMRC:

- April 2026: Individuals with business and/or rental income in excess of £50,000 per annum
- April 2027: Individuals with business and/or rental income in excess of £30,000 per annum

At present a start date for individuals with income of less than £30,000 has not been announced.

HMRC currently intends to extend MTD to companies and partnerships but timescales for this are also likely to be pushed back.

Action Point

- **Whilst there is no immediate need for affected individuals to become MTD-ready we recommend that you start keeping your business records digitally if you are not already doing so.**
- **When available you may consider signing up to become part of the MTD ITSA pilot to understand your future filing obligations.**

You can find more information on MTD ITSA on our website here. Contact us for further information and to discuss your software options, we are able to offer solutions for the self-employed and landlords.

Basis Periods

When HMRC originally announced their plans to introduce MTD ITSA in April 2024 they also announced changes to the way in which sole traders and partnerships with a non-31st March or 5th April accounting period will be taxed.

At present profits are usually subject to tax based on the tax year in which the accounting period falls. For example, a business with a year end of 30th June 2023 will be subject to tax on those profits in the 23/24 tax year as the accounting period falls into the tax year ended 5th April 2024.

From April 2024 HMRC intend to tax all unincorporated businesses on a tax year basis rather than an accounting year basis with the 23/24 tax year being a transitional year. We had initially expected this change to be delayed as it was originally in place to deal with complications arising from the implementation of MTD ITSA but it has been confirmed that the basis of taxation will be changing as planned.

Example

A sole trader has a year end of 30th June. Profits to 30th June 2022 are £30,000, profits for 30th June 2023 are expected to be £50,000 and profits for the year ended 30th June 2024 are expected to be £60,000.

Year to 30th June 2022 – 22/23 Tax Year

Taxed as normal in the 22/23 tax year

Year to 30th June 2023 – 23/24 Tax Year

Profits 1st July 2022 to 30th June 2023	£50,000
Profits 1st July 2023 to 31st March 2024	£45,000
Total taxable profits	**£95,000**

The change in these rules brings forward an element of profit into the 23/24 tax year that, under currently rules, would not have been subject to tax for another year.

HMRC recognise that this will affect business cashflow and have confirmed the following:

- Any overlap profits from a previous year may be deducted from the transitional adjustment
- Profits in excess of a certain threshold may be spread over the next 5 tax years to ease the initial tax burden

Due to the change in the basis of taxation we expect many businesses to change their accounting year end to 31st March or 5th April unless there is a particularly strong commercial reason why a non-standard year end needs to be retained.

Action Point

If you are self-employed and have a non-standard year end you may be affected by this change. Speak to us to understand your options.

Capital Allowances

Allowances may be claimed if your business or company incurs capital expenditure on certain assets. Tax relief generally varies based on the asset acquired but can provide significant savings for those seeking to invest in business growth.

Annual Investment Allowance (AIA)

It was announced in the latest Budget that this relief would be made permanent.

AIA provides businesses with 100% tax relief on most types of plant and machinery, and many fixtures, up to an annual limit of £1m.

Expenditure in excess of this threshold or expenditure which does not attract AIA will generally be able to obtain allowances of 6% or 18% per annum. These are known as writing down allowances.

Super Deduction

This applies to certain assets acquired between 1 April 2021 and 31 March 2023 and is generally available to companies. The enhanced relief provides:

- A 130% deduction for most brand new plant and machinery investments that would ordinarily qualify for 18% writing down allowances.
- A 50% deduction for most brand new plant and machinery investments that ordinarily qualify for 6% writing down allowances.

The Super Deduction is a temporary measure and is designed to stimulate business investment. It effectively ensures that the rate of relief companies will get for their qualifying investments in plant and machinery will be similar to the rate at which depreciation is disallowed after the rate of corporation tax increases to 25% on 1 April 2023.

Certain exclusions apply.

Enhanced and First Year Allowances

A 100% allowance may be claimed in addition to the AIA for the following brand new, unused equipment:

- Electric cars and cars with zero C02 emissions
- Zero-emissions goods vehicles
- Equipment for electric vehicle charging points
- Gas, biogas and hydrogen refuelling equipment

Structures and Buildings Allowance (SBA)

Building construction costs do not ordinarily qualify for any form of allowance but where construction contracts relating to non-residential properties were entered into on or after 29th October 2018, and other certain conditions are met, a small allowance may be available.

The relief awards a 3% writing down allowance on a straight-line basis over 33 1/3 years against qualifying costs of construction.

The SBA may be considered to be a temporary relief as any tax savings obtained could be clawed back on future disposal of the property.

Action Point

- **The super deduction ends on 31st March 2023. Consider purchasing new assets before the relief is withdrawn**
- **If you are intending to purchase a Furnished Holiday Let or commercial property, seek advice to ensure that you maximise your capital allowances claim. Values attributed to fixtures must usually be agreed by a joint election between the buyer and seller**
- **Consider the timing of AIA qualifying expenditure. Given the change in corporation tax rate from 1st April 2023 it may be sensible to temporarily deferred planned expenditure if it will save tax at a higher rate.**

Corporation Tax

Significant changes to the corporation tax regime were announced in the March 2021 budget. Following a period of uncertainty it was finally confirmed in the last Budget of 2022 that these changes will be implemented.

To prepare for these changes companies need to think carefully about the timing of capital investment, the impact on cashflow and the utilisation of tax reliefs that may be available.

Corporation Tax Rates

From 1st April 2023 the following changes will be implemented:

- The main rate of corporation tax will increase from 19% to 25%
- Companies with profits of £50,000 or less will continue to be taxed at 19%
- A marginal rate of tax will apply to companies with profits between £50,000 and £250,000
- Companies with profits of £250,000 will be taxed at 25%

Associated Companies

The lower and upper profit limits (£50,000 and £250,000 respectively) will be reduced proportionally based on the number of associated companies. At present companies will only usually be associated with each other if there is an element of direct control between those companies. A relationship will usually be present where one company has control of the other or two or more companies are under the control of another company.

From 1st April 2023 companies under control of individuals will also need to be considered and may be associated for tax purposes.

Action Point

- **Consider the impact of the change in corporation tax rate on your cashflow to ensure you are ready for the change**
- **Review your business structure – do you have other interests that may now fall within the definition of an associated company? If so, is there any opportunity to restructure your interests to mitigate the impact of the changes?**

You can find more information on our website relating to the change in corporation tax rates [here](#) and associated company rules.

Company Losses

Companies can usually carry back trading losses for use against profits arising within the previous 12 months. For accounting periods ending in the period 1st April 2020 to 31st March 2022 a temporary extended relief claim is available which allows businesses to carry back trading losses for up to 36 months.

Groups of companies are subject to a cap of £2m.

Company losses can be used in a variety of ways and in a corporate structure companies may surrender their losses to group members who have made profits.

Action Point

- **If you made a loss during the year ended 31st March 2022 consider utilising the extended loss carry back rules if possible.**
- **Consider how company losses are utilised – would it be more beneficial to carry losses forward if they will save corporation tax at a higher rate in future?**

Corporation Tax Payments

Companies are generally required to settle their corporation tax liabilities within 9 months and one day after the end of an accounting period. However, larger companies may be required to make quarterly payments of tax.

Large companies with taxable total profits in excess of £1.5m may be required to make quarterly payments. Two of these payments are usually due within the accounting period with two payable following the end of the period.

The large company threshold of £1.5m is reduced by the number of associated companies. A company which becomes large for the first time will generally be able to obtain a year's grace before having to make these payments.

Very large companies with taxable total profits in excess of £20m may also be required to make quarterly payments. The payment profile differs from a large company, all payments are usually due within the accounting period.

A company meeting the very large definition does not receive any period of grace, quarterly payments are due immediately.

Action Point

- **Given the change in associated company rules from 1st April 2023 company owners may find that quarterly payment thresholds are reduced further than they have been previously. Review the impact of the change in the rules to ensure you are aware of your obligations.**
- **Ensure you have systems in place to monitor profit levels. Late payment interest is charged on late quarterly payments so understanding your company's payment profiles and estimating the payments as accurately as possible will be important.**

Income and Expenditure

There are several accounting techniques a company can utilise to minimise profits and ensure maximum tax efficiency.

- Income – Income generally arises when work is done or goods are supplied. In certain circumstances it be possible for income to be deferred into a later accounting period.
- Bonuses – It may be possible to make a provision for bonuses and other remuneration to be paid in the following year, advancing the timing of tax relief. Bonuses must be paid within 9 months of the accounting period to be an allowable deduction.
- Stock - The company can make a specific provision against slow-moving, damaged or obsolete stock, but a general provision is not allowed against tax. The company might be able to change the way it values stock, but great care needs to be taken.
- Bad Debts – Ledgers should be reviewed in detail so provisions and/or impairments can be made for specific bad debts.

It may also be worth considering how you could maximise your deductions for planned expenditure. If the company has a registered pension scheme tax relief is given for contributions when they are paid. If you are not utilising the maximum annual allowance available for contributions consider topping up the fund.

Action Point

- **Consider the year ahead and the timing of your expenditure. Should you delay expenditure until after 1st April 2023 when the corporation tax rates change or will it be more beneficial for you to bring expenditure forwards?**

Enhanced Tax Reliefs

Enhanced tax reliefs offer a significant saving to companies and may, in certain circumstances, provide tax relief in excess of 100%.

Some of the main enhanced tax relief regimes include:

- **Research and development (R&D) tax relief**
- **Patent Box**
- **Land Remediation relief**

Research and Development

Any industry can benefit from R&D tax relief providing the project(s) undertaken seek to advance knowledge and improve a service or product while solving scientific or technological uncertainties in the process.

A small to medium sized business may be able to obtain an additional 130% deduction against their profits based on qualifying expenditure. If this creates or increases a loss this loss may be surrendered to HMRC for a cash payment.

A large business may also benefit from the R&D regime in the form of a taxable cash payment from HMRC.

Changes to the regime will be implemented from April 2023 which will impose additional administrative requirements on businesses. Our website contains more information on the regime and the changes effecting all businesses **here**.

Patent Box

The patent box regime is useful to businesses who are developing and patenting products or processes. The regime effectively allows for a 10% corporation tax rate to be applied to profits arising from the exploitation of these patents.

Land Remediation Relief

If contaminated land is acquired relief may be available on the cost of remediating that land.

Relief is available at 150% of the qualifying costs incurred and may apply to capital and revenue costs. Although usually utilised for the clearing of asbestos the relief can be claimed on areas containing arsenic, radon or Japanese Knotweed

Action Point

- **If you are developing a product or process ensure you consider your ability to obtain R&D tax relief. The relief can be particularly valuable to businesses investing heavily in development.**
- **If you are already claiming R&D tax relief ensure you are aware of the changes to the rules from April 2023. There may be a change in the tax credits available to you.**
- **Ensure you are utilising these reliefs if they are appropriate to your situation.**

Value Added Tax (VAT)

The registration threshold for VAT is £85,000 and has been for some years now. From April 2022 all VAT registered businesses have to file their returns via Making Tax Digital, using compatible software and interfaces. Here we look at the rates of VAT applicable in the UK and when VAT can be reclaimed.

VAT Law is set out to tax everything at the standard rate (20%) but then goes on to list all the exceptions. Business activities in the UK can therefore carry one or more of the following liabilities:

- **Reduced rate (5%) – applicable to (for example) certain building works, energy saving materials and domestic energy supplies.**
- **Zero rate (0%) – applicable to (for example) food, children's clothes and new homes**
- **Exemptions – applicable to (for example) financial services, healthcare, education, land and rental income**

Some activities are also regarded as 'non business' (for example, a lot of work carried out by charities).

A business can only reclaim that VAT if:

- It is registered for VAT and
- its own activities are taxable (standard, lower or zero rate) or or otherwise permitted to recover by a particular concession.

VAT cannot be claimed if:

- The VAT relates to items that are specifically blocked
- The VAT relates to exempt income
- The VAT relates to non-business activity
- VAT is incurred by non-registered entities

So VAT can be a cost to organisations within the supply chain – including Charities, Financial Institutions, Healthcare providers, Property investors / developers and Educational establishments. To further complicate things, many organisations do more than one thing:

- Foods sales can be VATable or zero rated
- Estate agents may also arrange mortgages and this service is usually exempt from VAT
- Charities which are usually VAT exempt could have trading activities which are not.

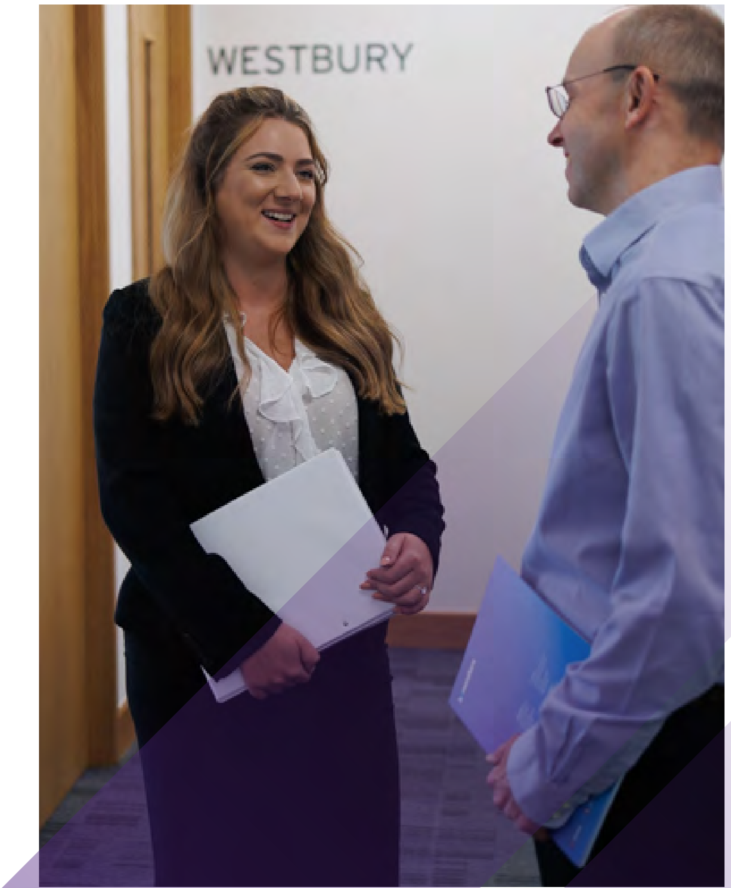
Where a business has a mix of taxable and exempt income streams, it is necessary to apportion any VAT on overheads (ie costs that do not relate wholly to either taxable or exempt income streams) between the two. This is usually done by applying the ratio of taxable to exempt income to the overhead VAT.

Action Point

VAT can often be a complex tax to navigate.

Monahans has extensive experience in assisting all organisations but particularly specialises in helping educational establishments and similar organisations to ensure that VAT does not become a burden, either financially or administratively.

It is important for all businesses to manage their cost base and control their outgoings. Making the most of opportunities available and avoiding pitfalls by seeking targeted advice will be key to ensure tax exposure is well managed.



monahans

Bath
Lennox House
3 Pierrepont Street
Bath BA1 1LB
01225 472800

Chippenham
14a Forest Gate
Pewsham
Chippenham
Wiltshire SN15 3RS
01249 766966

Frome
Unit 11
The Business Courtyard
Standerwick, Frome
Somerset BA11 2QB
01373 830955

Glastonbury
3 Landmark House
Wirral Park Road
Glastonbury
Somerset BA6 9FR
01458 836810

Melksham
5 King Street
Melksham
Wiltshire SN12 6HB
01225 790029

Swindon
Hermes House
Fire Fly Avenue
Swindon
Wiltshire SN2 2GA
01793 818300

Taunton
Suite B, Blackdown House
Blackbrook Park Avenue
Taunton
Somerset TA1 2PX
01823 462400

Trowbridge
County Gate
County Way
Trowbridge
Wiltshire BA14 7FJ
01225 785520

T **01793 818300**

W **monahans.co.uk**

in **@monahans**

@monahansaccount

03/2023