Lentells
Chartered Certified Accountants

Accountancy, Tax, Payroll, Wills & Probate
Winter 2021

News

Meet the Director Jo Fursman

Jo has been a director based in the Chard office since 2008. Jo originally commenced her training with Lentells back when there was an office in Crewkerne. After a few years with another local firm and gaining her ACCA qualification, Jo returned to Lentells in 2002 to help manage the growing specialist medical division.

Jo was appointed as a Director in 2008 and has recently taken over as Chair of the Board of Directors.

Jo now manages a mixed portfolio of clients including GP practices and associated locums and consultants together with a vast range of companies, sole traders and partnerships, particularly focusing on family run businesses.

Her friendly approachable nature together with the ability to explain things in a clear, concise manner has lead to her developing long lasting relationships with her clients enabling her to support them through every step.

Outside of the office, Jo is married with three sons which has led to her being treasurer for the local primary school PTFA and scout group. Due to the whole family's love of music they can often be found at a concert or festival or enjoying a holiday in their caravan.

Super Deduction Extension will benefit property landlord companies

Property landlords can now take advantage of the most attractive tax incentive for business investment ever offered by the British government, but they need to move fast.

Under the super-deduction, for two years from 1 April 2021 any investments a business makes in 'main rate plant and machinery' will qualify for a 130% capital allowance deduction.

When the scheme was first announced in March 2021, property letting companies were excluded but amendments set out in the Finance Bill means they are now eligible to apply for the tax break.

Fixtures will already qualify for capital allowances and a company can utilise their AIA of up to £1m until 31 December 2021 on such expenditure, resulting in an effective 100% tax deduction in the year of purchase. Property landlords will now be able to take advantage of the 130% super-deduction for main pool assets and maintain their AIA for special rate assets.

Under this change, a property landlord incurring £1m of qualifying expenditure can save almost £250,000 on their corporate tax bill.

To qualify, expenditure needs to be incurred on or after 1 April 2021 but before 1 April 2023 on new plant and machinery. The Chancellor has said that any contracts entered into before 3 March 2021, regardless of when the unconditional obligation arises will not qualify for the new relief.

Employers and employees to pay 1.25% more NICs

The government recently announced National Insurance Contributions (NICs) will rise by 1.25% from 6 April 2022 to help fund social care and the NHS.

This will directly affect all employees who earn above the NIC threshold (currently £9,568) as well as employers with staff earning over the employer NIC threshold (currently £8,840).

This will be paid by all working adults, including older workers over the age of 66, and is expected to raise around £12 billion a year.

Employers currently pay secondary Class 1 NICs at a flat rate of 13.8% for all employees who earn more than £8,840 a year. From 6 April 2022, the rate of employers' NICs will increase to 15.05% on qualifying earnings above this threshold. This rate will revert back to 13.8% from April 2023, but the additional 1.25% will apply separately as the new health and social care tax.

Employees have Class 1 NICs deducted from their pay packets at source by their employer if they earn more than £9,568 a year in 2021/22. They currently pay a main rate of Class 1 NICs at 12% on qualifying earnings up to £50,270, with an additional 2% applying on earnings above this. From April 2022, these main and higher rates of Class 1 NICs that apply to employees will increase to 13.25% and 3.25% respectively.

The changes will cost an employee who earns £25,000 an additional £193 per year with the cost to their employer an additional £202 per year.

The self-employed currently pay NICs at 9% on profits between £9,568 and £50,270 with 2% on profits over £50,270. They will also be subject to the rise, which will cost someone with profits of £25,000 an additional £192 per year.

These changes may mean salary sacrifice arrangements become more popular and businesses try to extract profits before 5 April to reduce the impact of the new charge.

Lentells are able to advise on all aspects of tax planning. For further information regarding this, contact your local Lentells office.

Employment Costs **Continue To Rise**

Following on from the recent announcement regarding the new health and social care charge of 1.25%, further pressure is being brought to bear on employers from 1 April 2022 with a 6.62% rise in the national minimum wage (NMW) for those aged 23 and over. This is also likely to have a knock on effect for employees currently paid a little above the NMW rate as they are likely to want to retain a gap between themselves and less senior/experienced staff.

The new rates are as follows;

	Rate from 1 April 2021	Rate from 1 April 2022
National Living Wage	£8.91	£9.50
21-22 Year Old Rate	£8.36	£9.18
18-20 Year Old Rate	£6.56	£6.83
16-17 Year Old Rate	£4.62	£4.81
Apprenticeship Rate	£4.30	£4.81

Employees are eligible to be paid at the apprentice rate if they are within the first 12 months of an apprenticeship, or beyond that point but remain under the age of 19.

Combined with the 1.25% increase in NIC, this will come as a significant rise in costs for many employers, which ultimately is likely to be passed onto customers, contributing to rising inflation.

The overall costs for an employee working 37 hours per week, paid at the NMW, who is also auto-enrolled for pension purposes, will rise from £18,802 to £20,246 in April 2022. That represents an increase of £1,444 being 7.7%.

Care needs to be taken to ensure that any reductions from salary, such as salary sacrifice arrangements, do not put an employee's pay below the NMW rates. If HMRC identify failures in complying with the NMW rates, penalties of up to 200% can be applied.

Shareholders and directors hit by dividend tax rate rise

Directors and shareholders who receive dividends from a company's profits face an increase in tax on those dividends from April 2022.

Dividend tax increase
From 6 April 2022, dividend taxes will rise to 8.75% for basic rate income taxpayers, 33.75% for those paying higher rate tax, and 39.35% for additional rate payers, on payments above a £2,000 tax-free dividend allowance.

The current rates of the dividend tax are 7.5% for basic rate income taxpayers, 32.5% for those in the higher rate tax income tax band, and 38.1% for those in the additional rate.

Around 40% of savers who hold dividend-paying investments outside of ISAs can expect to be hit with higher taxes from 2022/23 according to Government forecasts. Higher rate taxpayers are expected to pay £403 more in 2022/23, while the bill for those paying basic rate income tax will rise by £150 on average next year.

Tax-planning options
Two options to beat the dividend tax hike, particularly for those who have money in dealing accounts, is to consider putting as much as possible into an ISA or a pension scheme before next April.

ISAs continue to offer a tax-efficient way to save, allowing individuals to put up to £20,000 a year into a tax-free wrapper. This means there's no income tax or capital gains tax liability if the investment grows.

Some customers might rush to use up their £20,000 ISA allowance before the higher dividend tax rates kick in from 6 April 2022, driven by the tax benefits of ISAs enabling them to shelter dividends from the tax hike.

Alternatively, utilising the annual pension allowance - worth £40,000 in 2021/22 - is another tax-efficient option, although it involves taking money out of the company or investment for future use.

When the time comes to take benefits after the age of 55 (rising to 57 in 2028), 25% is normally tax-free with the rest of the retirement income that exceeds the personal allowance taxed at an individual's marginal rate of income tax.

Making Tax Digital for Income Tax Self Assessment

The government has delayed the introduction of Making Tax Digital for Income Tax Self Assessment (MTD for ITSA) to 6 April 2024 to give individuals and businesses more time to prepare.

The quarterly digital reporting for landlords and the self employed was due to start in 2023, but it will be pushed back by 12 months. The delay will also affect the introduction of the new penalty scheme for late filing and late payment of tax for ITSA. This will now be introduced for those who are mandated for MTD for ITSA in the tax year beginning April 2024 and for all other income tax self-assessment customers from April 2025.

Sole traders and landlords with a turnover over £10,000 will go onto MTD for ITSA from April 2024. Partnerships will join from April 2025 and everyone else from April 2026.

Under MTD for ITSA, individuals and businesses will be required to:
• Keep income and expense records digitally;
• Use MTD compatible software to submit digital quarterly updates and end of period statements; and
• Submit a final declaration for each tax year

Changes will be made to simplify the rules under which trading profits made by self employed individuals and partnerships are allocated to tax years through the Basis Period Reforms.

Basis Period Reforms
The Basis Period Reforms will affect unincorporated businesses who do not draw up annual accounts to 31 March or 5 April as reporting will change from a current year basis to a tax year basis from the 2024/25 tax year with 2023/24 as a transitional year.

Affected self employed individuals and partnerships may retain their existing accounting period but the trade profit or loss that they report to HMRC for the tax year will become the profit or loss arising in the tax year itself, regardless of the chosen accounting date.

This means that business profits/losses will be calculated for the tax year rather than for the period of account ending in the tax year. Businesses with non tax year periods of account will be required to apportion profits or losses to fit to the tax year basis.

For example, if a business has a year end of 31 July;
• Under the current year basis, its basis period for the 2024/25 tax year would be;
o Profits of the year to 30 June 2024
• Under the tax year basis for the 2024/25 tax year, the business will report for the 12 months to 31 March 2025, so the apportionment would be;
o 4/12 of its profits/losses for the period of account to 31 July 2024, and
o 8/12 of its profits/losses for the period of account to 31 July 2025

In 2023/24 continuing businesses will be taxed on their profits on the current year basis and the period up to the end of the tax year. Depending on the accounting date of the business, this could bring up to almost 2 year's profits into charge for a year.

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QuickBooks **Online Training**

Lentells are running a series of QuickBooks Online training sessions as online demonstrations with our IT Training Manager.

We offer training sessions for general businesses, starting at 9.30am and ending at 13.00pm. Each session will cover:

- Navigation through QuickBooks Online
- Maintaining the Customers and Suppliers Ledgers
- Performing bank reconciliations
- Amending the QuickBooks Chart of Accounts
- Generating your VAT return
- Generating the QuickBooks Reports
- Preparing Budgets (Plus version only)

We also offer training workshops on receipts and payments only, starting at 14.00pm and ending at 16.30pm. Our QuickBooks Online Training for receipts and payments will cover:

- Navigation around QuickBooks
- Customising QBO
- Posting Cheques and Deposits
- Reconciling the bank and using the bank feed
- Recurring transactions
- Reports
- VAT

For more information on the various courses available please go to https://www.lentells.co.uk/services/business/cloud-accounting-software-support/quickbooks-online-training

Capital Gains Tax reporting deadline extended to 60 days

It was announced in the Autumn Budget that the deadline to submit a Capital Gains Tax (CGT) return and pay any CGT due on a disposal of UK homes has been extended from 30 days to 60 days.

Since 6 April 2020 UK residents have been required to calculate, report and pay any Capital Gains Tax (CGT) liabilities on the disposal of UK residential property within 30 days of completion. For disposals that complete on or after 27 October 2021 the reporting and payment deadline will be 60 days after the completion date.

The time period has also been extended for non-UK residents who will now get 60 days to report and pay CGT on all disposals of UK land.

The Autumn Budget also confirmed that for mixed-use properties disposed of by UK residents, only the portion of the gain that relates to the residential part of the property should be reported and paid to HMRC.

No return is required if there is no CGT to pay, for example if the gain is covered in full by losses brought forward, or main residence relief. In most cases a calculation will still be needed to confirm this is the case.

The new return is in addition to the existing tax return and so the disposal must be reported again for individuals who complete a self-assessment tax return at the end of the tax year.

If you are intending to sell a residential property, we recommend you get in touch with us as soon as possible so that we can ensure that all the necessary information is available so that the return can be filed and any CGT paid within the 60 days.

There will be penalties for late returns, and interest will be charged on late payments.

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