

Managing corporation tax

Tax increases encourage directors' SIPP contributions

Cyber crime evolves

Rising tide of financial scams and fraud

HMRC is watching

Investigations include social media accounts



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Business Update

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IN THIS ISSUE:

- » Pension contributions and corporation tax
- » Rental sector shake up
- » Tax returns earnings limit changes
- » Scams, fraud and cyber crime
- » New redundancy protections
- » Employee share incentive schemes
- » HMRC's online scrutiny
- » News round up



Self-employed checklist

Self-employment can be an attractive option, with nearly 4.5 million people in the UK now working for themselves. Good preparation is essential: we look at five key areas to keep in focus.

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Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

Tax and national insurance contributions (NICs) You will need to pay your own tax and NICs. Register as self-employed with HMRC as soon as you start self-employment and in any case by 5 October following the end of your first tax year. HMRC has declared 2023/24 the transitional year for the self-employed to move from being taxed on accounting year profits to profits earned in the tax year, so choosing 5 April (or 31 March) as your accounting year end date will save having to apportion your profits in future tax years.

Class 2 NICs, currently £3.45 a week, count towards your state pension, so even if your self-employment profits are too low to make class 2 NICs compulsory, it may be worth paying voluntarily.

“ Choosing 5 April (or 31 March) as your accounting year end date will save having to apportion your profits in future tax years.

Records and accounts You will have to keep accurate records of your business income and expenditure and draw up regular accounts. You should keep your personal and business finances separate, so it is advisable to open a business bank account. Your accounts will track how your business is doing and help you identify ways to grow. Accounts are also essential for completing your tax return and for securing additional finance.

VAT If your business has reached a turnover of £85,000 or more, or you expect your turnover to exceed £85,000 in the coming 12 months, you will need to register for VAT. If you are near that threshold, monitor your turnover monthly because there is a tight time limit for registration.

Insurance Most self-employed people take out public liability insurance to protect themselves from any claims arising from their business activities. You might also need a professional indemnity policy. If you employ someone, you must have employer's liability insurance. Income protection insurance will help you pay your bills if ill health prevents you working.

Your pension Set aside income to help build up your retirement funds – contributions benefit from tax relief.

Pension contributions and corporation tax

Owner-managed companies with profits in the region of £150,000 to £250,000 are facing a significant tax hike this year. However, the tax increase can be mitigated by the company making pension contributions into a director's self-invested personal pension (SIPP).

A company with a 31 March year end and profits of £150,000 will find that its corporation tax bill for the year ended 31 March 2024 has increased by some £7,500 compared with the previous year. Profits between £50,000 and £250,000 are now taxed at a marginal rate of 26.5%.

Tax planning

Directors who have previously been reluctant to make sizable pension contributions may now find a compelling case for doing so. Take the above example:

- If the company invests the maximum £60,000 into a self-invested personal pension, this will save corporation tax of £15,900 – much more than the additional £7,500.



- Once the director reaches 55, 25% of the pension fund can be withdrawn tax free. If a director is already 55 the funds are available immediately.
- If the remaining pension fund can be withdrawn so that just 20% basic rate tax is

payable by the director, the overall tax rate on the pension income will be 15%. Very roughly, this allows the tax saving on the pension to balance out the additional tax cost faced by the company.

- Although there may not be any overall tax advantage as such, there is a timing benefit. The current year's corporation tax bill is cut, but the tax cost does not come in until the director retires and draws the pension income.

Timing is critical: the pension contribution must be made before the end of the company's accounting period.

Mitigating cost and risk

Low-cost providers allow the annual cost of maintaining a SIPP to be kept to a minimum.

One advantage of SIPPs is that they offer investment freedom. If a director has only a few years until retirement, they might not want to be exposed to stock market volatility. Investing in a fixed-term cash deposit account should avoid this risk.

TAX

Tax returns earnings limit changes

The threshold for PAYE taxpayers to be exempt from having to file a self-assessment tax return has been increased from £100,000 to £150,000 for the current tax year onwards.

The £150,000 threshold applies to total income, so not just gross salary but also any taxable benefits and investment income. Employed taxpayers with income between £100,000 and £150,000 for 2022/23 – and with no other reason for completing a return – should receive a self-assessment exit letter from HMRC so that they do not need to complete a return for 2023/24.

However, as a 60% tax rate applies on income between £100,000 and £125,140, any mistake by HMRC could be expensive. It may therefore be a good idea to still submit a return to ensure correct relief is given for deductions such as professional subscriptions, and always where reliefs such as pension contributions or donations to charity need to be claimed.

PROPERTY



Rental sector shake-up

The Renters (Reform) Bill has finally been introduced into Parliament, almost five years after it was first promised. It will only apply across England, because various reforms have already been introduced in Scotland and Wales.

Scotland

Changes to Scotland's tenancy regime in 2017 did away with fixed-term tenancies and also ended no-fault evictions. More recently, Scotland has introduced a cap on rent increases and a freeze on evictions.

- Although intended to be temporary, these measures have already been extended, with a second extension proposed to 31 March 2024.
- Rent increases are now mostly capped at 3%.

The rent cap has somewhat perversely led to Scotland seeing the UK's highest rent increases, with landlords putting up rents significantly between tenancies.

Wales

Wales has recently put in place various changes for landlords. From this June, the notice period for a no-fault eviction is extended from two to six months. The Welsh government is also consulting on possible rent controls.

England

Similar to Scotland, the Renters (Reform) Bill, if

enacted, will do away with fixed-term tenancies and end no-fault evictions.

- **Fixed-term tenancies** normally run for 6 or 12 months, after which the contract is either renewed or switched to a periodic tenancy. The proposal is that all tenancies will be periodic, running from month to month.
- **No-fault eviction**, known as a section 21 eviction, currently means a landlord can easily obtain possession of a rental property once the fixed-term contract has come to an end. The change will leave landlords relying on a section 8 eviction, so a landlord will have to have a legal reason for ending a tenancy.

The grounds for a section 8 eviction will be expanded to include repeated rent arrears, the landlord intending to sell the property, the landlord or a close family member wanting to live in the property, or where the property is to be redeveloped.

Alongside reforms to the taxation of rental income, the bill's provisions could change how attractive buy-to-let remains for landlords.

Keeping on top of scams, fraud and cyber crime

With HMRC warning about new scams targeting personal data or money transfers, the government has unveiled a plan to tackle financial scams and frauds which have become increasingly difficult to spot. Following a recent serious ransom attack that targeted the payroll data of several major organisations, keeping up with alerts and taking care of your data is more important than ever.

One recent HMRC scam consists of text messages claiming that the recipient's national insurance number has been used in a fraud. Others promise tax rebates. Tax credit claimants are being particularly targeted at the moment, with tens of thousands of fake websites purporting to give information about tax credits. HMRC has alerted claimants to be wary of scam communications that falsely appear to come from HMRC. Typical scams include:

- emails or texts claiming an individual's details are not up to date and that they risk losing out on payments they are due;
- emails or texts claiming that a direct debit payment has not 'gone through';
- phone calls threatening arrest if people do not immediately pay fake tax owed;
- emails or texts offering spurious tax rebates or bogus grants or support.

Other criminals have stolen personal data of employees of several large companies through a cyber attack on third-party payroll and human resources software. The data lost includes national insurance numbers, dates of birth, home addresses and bank details. The attack highlights the difficulty any organisation has in ensuring that suppliers providing critical services are cyber secure. Companies that outsource their payroll or any other sensitive operations should encrypt any data being transferred, and apply password protection with the password provided separately.

Anti-fraud plans

The government has recently unveiled a strategy for tackling scam texts, emails, phone calls and adverts, which, it says, now make up 40% of all crime. Among the proposals are:

- A new National Fraud Squad (NFS), with over 400 specialist investigators, will pursue "the most sophisticated and harmful fraudsters" and fraud will be made a priority for the police.
- Cold calling on all financial products will be banned and criminals will be prevented from being able to send scam texts in bulk.
- It will be harder for fraudsters to 'spoof' UK phone numbers to make it look like they are calling from a legitimate business.
- Reporting scams will be made easier.

However there is much that individuals and businesses can do to protect themselves against fraud. One way of spotting an email scam is to examine the sender's email address. For example, genuine government emails will always come from a gov.uk email address. Messages from banks and other financial organisations will never request passwords and other personal information. Don't follow links in emails or texts.

Working from home is another risk area. Ideally, to minimise leaks of sensitive data, staff working out of the office should only do so within office-based computer systems and, ideally, using corporate computers and phones, although this inevitably comes at a cost. Personal WhatsApp and email accounts should not be used for work, and vice versa. Passwords must be secure and changed regularly. Businesses should consider using professional help to review their ways of working.



New redundancy protections

Recent legislation will extend the protection from redundancy for parents during or after pregnancy. Carers and parents of sick or premature babies will also benefit from new statutory leave.

Redundancy rights

From 24 July, the redundancy protection period for employees on maternity, adoption, or shared parental leave will be extended to cover any period of pregnancy plus a further period after the employee returns to work.

- Redundancy protection is expected to start from when an employee informs their employer of their pregnancy.
- The further period is likely to be six months.
- During the redundancy protection period employers must give preference to protected employees at risk of redundancy – over other at-risk employees – when offering alternative employment.
- Currently, redundancy protection only applies while an employee is on maternity, adoption or shared parental leave.

Statutory leave

Working carers will be allowed to take up to a week of flexible unpaid leave each year so they can provide or arrange care for a dependent. The dependent must have a long-term care need.

Parents of sick or premature babies will be allowed to take up to 12 weeks of paid neonatal leave in addition to any other statutory entitlement if their baby needs to be in hospital within 28 days of birth.

Carer's leave and neonatal leave are not expected to come into force before April 2024 and April 2025 respectively.



Companies that outsource their payroll or any other sensitive operations should encrypt any data being transferred, and apply password protection with the password provided separately.

Employee share incentive schemes under review

Use of two tax-advantaged employee share schemes has declined since 2016, prompting a review into whether their rules are sufficiently simple and clear, and contain enough flexibility to meet companies' needs.

Benefits for employees

A government-commissioned research report published in June found that offering share and share option schemes improved business and employment outcomes, especially staff retention and recruitment. However a third of the businesses surveyed said the schemes were too "complicated, time-consuming and costly" to set up. Some interviewees doubted the suitability of the schemes for smaller businesses.

Announcing a review of two of the share schemes – Save As You Earn (SAYE) and the Share Incentive Plan (SIP) – Victoria Atkins, Financial Secretary to the Treasury, said the government was "keen to ensure the benefits of these schemes are felt widely by employees" especially those on lower incomes.

- The SAYE scheme allows employees to buy discounted shares in their company by contributing up to £500 a month to a savings contract for three to five years. The money saved and interest earned is tax free.

- A SIP lets companies help employees to buy shares in their company or offer them as awards, tax free. Companies can give employees up to £3,600 of free shares each tax year and individuals can buy shares out of their salary for up to £1,800 in value or 10% of their income, whichever is lower. Employees pay no income tax or national insurance contributions on the value of the free or matching shares provided they keep the shares in the plan for at least five years.

The government is seeking views on:

- the effectiveness and suitability of the schemes;
- current usage and participation;
- whether the schemes' rules are simple and clear and offer enough flexibility to meet individual companies' needs;
- whether they incentivise share ownership for lower earners.

The final date for responses is 25 August 2023.

Look out for HMRC's online scrutiny

Although the coronavirus job retention scheme (CJRS) ended on 30 September 2021, a recent case involving a CJRS claim shows the scope of HMRC's evolving data gathering.

Claims under the CJRS could be made in respect of furloughed employees who had ceased all work. When it came to directors, they were permitted to carry out their statutory duties without this being classed as working.

Working or not?

A director of Glo-Ball Group Ltd was paid nearly £3,500 under the CJRS. Although the director did no work as such while furloughed, they continued to update the company's Facebook account.

At the First-Tier Tribunal, HMRC successfully argued that this constituted working, and the CJRS claim was denied; even though the director only took a few minutes each month on the updating.

HMRC's investigation of information on Facebook accounts, blogs and other social networking sites could impact on taxpayers in various ways. For example:

- An undeclared trade or property rental could easily be uncovered by HMRC from online adverts.
- Postings showing an expensive lifestyle could prompt a compliance check from HMRC if the lifestyle is not backed up by the level of income declared on tax returns.

HMRC normally only looks at internet data which is available to everyone, not data where privacy settings have been applied.

Consultation

Following a recent consultation addressing HMRC's current data weaknesses in several areas, the government intends to implement changes where data is already held by taxpayers.

One proposal is that hours worked could be collected via real time information PAYE reporting. However, this will only be required where the hours worked are reasonably stable, so not for zero hours contracts.

News round up

VAT registration and self-assessment helplines close

HMRC has recently closed its VAT registration helpline, leaving businesses with just the online 'check when you can expect a reply' service. The self-assessment helpline has also closed for three months until 4 September, with HMRC trialling a seasonal model.

P11D changes

Forms P11D and P11D(b) can now only be submitted online, either through HMRC's PAYE online service or using payroll software. Paper forms sent after 5 April 2023, including amendments, will be rejected, although they can still be provided to employees.

Intestacy rules amended

The amount of statutory legacy that a spouse or civil partner receives under intestacy rules for England and Wales is changing. From 26 July 2023, where a person dies intestate leaving a spouse or civil partner together with children, the statutory legacy amount will increase from £270,000 to £322,000.

Advisory fuel rates

The 1 June update sees petrol rates unchanged. Diesel rates are down by either 1p or 2p per mile, with the two higher LPG rates up by 1p. The fully electric car rate has been 9p per mile since 1 March.

