A R Lee & Co

CHARTERED CERTIFIED ACCOUNTANTS

Newsletter

November 2021
Issue 43

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Introduction

We delayed the issue of this newsletter in order to be able to report on the Chancellor's Autumn Statement. In the event, many of the potential tax increases that some had feared did not materialise and the changes that were announced, were either published or leaked before his speech. However, there were a number of more detailed announcements and we have highlighted the ones most relevant to our clients in the pages that follow.

Life continues to be a little strange, in that everyone is trying to go about their daily business as normally as possible, but against a background of the continuing pandemic. We are, perhaps, more fortunate than many other countries, that our vaccination program has been as effective as it has, although we all now await our booster doses to maintain our protection.

Having said that, the disruption caused by the pandemic has continued to affect supply chains across the world, which has led to some sharp increases in the prices of many goods and, also, shortages. It remains to be seen if the increase in inflation will be transitory, as many central banks hope, or perhaps longer term. We will have to wait and see although, in the meantime, interest rates are starting to rise, but are at least expected to remain relatively low for the foreseeable future.

We hope you and your families remain well and you are no doubt looking forward to the Christmas holiday season, assuming you will be able to buy a turkey of course!

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Autumn Budget Highlights

Having announced most of the bad news before the Budget, like the 1.25% increase in National Insurance and Dividend Tax rates, the Chancellor tried to adopt a more upbeat tone to his speech by announcing various new benefits and reliefs. It was almost as if the £300 billion black hole in the public finances caused by Covid hadn't happened, although this will have to be paid back eventually.

Business Rates

The temporary relief for retail, hospitality and leisure properties has been extended to include 2022/23 and all eligible businesses will receive a reduction of at least 50% in their business rates bills. The multiplier rate is also to be frozen for 2022/23. New reliefs were also announced to encourage investment in commercial property improvements and also to support green investment and the decarbonisation of non-domestic buildings. Revaluations will now take place every three years from 2023 and Transitional Relief and the Supporting Small Business Scheme have been extended until 2023.

Tax Rates & Allowances

Having previously announced that Income Tax allowances and tax bands would remain frozen until 5 April 2026, there was no change here although, perhaps more importantly, there was no change to the rate of Capital Gains Tax (CGT) or Inheritance Tax (IHT). However, both taxes remain the subject of Government consultation and there may well be changes ahead but, perhaps, not before 5 April 2023.

Capital Allowances

The annual limit of £1m for the annual investment allowance has been extended until 31 March 2023 which also coincides with the end of the previously announced "super-deduction" for limited companies.

Capital Gains Tax Reporting

The current 30 day time limit for UK resident individuals to report and pay any CGT due on the sale of a residential property and for non-UK residents to report the sale of any type of UK land and property has been extended to 60 days. This is a very welcome relaxation, as 30 days was often simply inadequate to obtain all the information needed to calculate the amount of any tax due.

National Minimum & Living Wage

It was also announced that minimum wage rates will increase from 1 April 2022:

	£	Increase (%)
National Living Wage	9.50	6.6
21-22 Year Old Rate	9.18	9.8
18-20 Year Old Rate	6.83	4.1
16-17 Year Old Rate	4.81	4.1
Apprentice Rate	4.81	11.9

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Making Tax Digital (MTD) for Income Tax Self Assessment (ITSA)

In previous newsletters, we have provided initial information about MTD for ITSA, which will apply to all self-employed individuals and landlords who have gross income in excess of £10,000 per year. MTD for ITSA will require digital records to be maintained and for the data to be submitted to HMRC every three months.

These new requirements were originally expected to become mandatory from April 2023, but have now been deferred for one year until April 2024. This is mainly due to the fact that neither the public, or the required software providers, are thought to be sufficiently prepared for the changes that will be needed.

At the same time, the Government has announced a change to the basis period rules for income from self-employment. Since 1996/97, the self-employed have paid tax based on their profit for the accounting year that ends within the tax year (the current year basis). For example, if someone prepares accounts to 30 April each year, their 2021 profit will form the basis of their tax liability for the year ended 5 April 2022. From April 2024, the self-employed will be taxed on a “tax-year basis” i.e. on the profit they actually make during the tax year. Accounting periods that do not align with the tax year will have to be apportioned as necessary.

In order to achieve this, 2023/24 will be a “transition” year and the self-employed will not only have to declare their profit for the accounts year that ends in that tax year, but also for any period that follows up to 5 April 2024. For those clients with a 30 April accounts year-end, the additional taxable profit could well be substantial, although this may be offset by transitional or overlap relief from 1996/97 or when the business started, if later. However, the relief available tends to be less than current income due to inflation etc. If more tax is due than would normally be the case, there will be an option to elect to pay this over the following five years.

The majority of taxpayers tend to already have a 31 March or 5 April accounts year-end and will not therefore see any difference in their tax bills. However, other clients may well prefer to change their accounting date in 2024 to 31 March or 5 April in order to align with the tax year, otherwise it may be difficult, if not impossible, to prepare their later accounts in time to complete their Tax Return for 2023/24 before the filing deadline.

Whilst the one year delay will give everyone longer to prepare, it is important that you start to at least think about how MTD for ITSA will affect you and the changes that you will need to make in order to comply and we are here to assist and advise you in any way that we can.

Advisory Fuel Rates for Business Mileage

From 1 September 2021 (previous quarter in brackets)

Engine Size	Petrol	Diesel	LPG
1400cc or less	12p (11p)		7p (8p)
1401cc - 2000cc	14p (13p)		8p (9p)
Over 2000cc	20p (19p)		12p (14p)
1600cc or less		10p (9p)	
1601cc - 2000cc		12p (11p)	
Over 2000cc		15p (13p)	

This and That

Making Tax Digital for VAT

Whilst on the subject of MTD, all existing VAT registered businesses will need to comply with the MTD for VAT rules from 1 April 2022 even if they were previously exempt because they were trading under the VAT registration threshold of £85,000 and were voluntarily registered for VAT. Do let us know if you need any help to make the transition.

Cryptocurrency

HMRC has obtained information from brokers about individuals who have bought and sold cryptocurrencies and will be writing to them this month if they believe a tax liability or obligation to submit a Tax Return may have arisen. They say this is to remind taxpayers “to review their transactions to ensure that they are declared correctly”.

If you have been fortunate enough to have made a profit from selling a cryptocurrency, then this will usually fall under Capital Gains Tax rules for tax purposes. If the net annual gain exceeds the annual allowance of £12,300 plus any losses brought forward, then a tax liability will arise. It is also a legal requirement to submit a Return if the gross value of sales in the tax year exceed £49,200, even if there is no tax to pay.

Annual Tax on Enveloped Dwellings (ATED)

If you own a residential property within a limited company that was either valued at more than £500k on 1 April 2017, or was acquired for more than £500k since that date, then you will be familiar with the need to submit an annual ATED Return and to claim relief from the annual tax charge, even if the company is fully exempt from the charge.

Whilst the same starting value of £500k continues to apply, existing properties owned have to be revalued every five years and the next revaluation date is 1 April 2022. If you have a residential property in your company that was previously acquired for less than £500k, you will need to review its current value at 1 April 2022 and, if it now exceeds £500k, submit an ATED Return by 30 April 2022. The penalties for not doing so, even when no actual tax is due, can very quickly escalate to large amounts.

New System of VAT Penalties

A new system of penalties will be introduced from 1 April 2022 for either the late payment of VAT or the late filing of a Return. Currently, either delay is dealt with under the default surcharge regime under which penalties can increase very rapidly and can also be disproportionate to the delay in the submission of the Return or the payment due.

Under the new penalty system, separate penalties will be charged for either late filing or late payment. The penalties will also increase in stages, charging more to those that file or pay significantly later than those who miss a deadline by just a few days. Penalties will also be due even if the tax is paid on time, or a repayment is due, if the actual Return is not filed on time.

As with all taxes, if you are unable to pay on time, it is better to submit the Return and then apply to HMRC for a time to pay arrangement before the deadline for payment passes, as this will protect you against penalties, although not interest.