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WARREN & Son.

NEWSLETTER

December 2022

Chancellor's Autumn Statement

The main features for 2023/24 were –

- Benefits & pension increased by 10.1%
- Social rents increase capped at 7%
- Average energy limit cap at £3k, and grant of £900 if on UC, £300 for pensioners & £150 for disabled
- Duty exemption for electric vehicles to end in 2025
- Minimum hourly wage £10.42 for employees aged 23 or over
- Thresholds for IT, IHT & NI capped until April 2028
- Dividend allowance reduced from £2,000 to £1,000 then to £500 for 2024/25
- CGT allowance reduced from £12,300 to £6,000, then to £3,000 for 2024/25
- Additional 45% rate of income tax to start at £125,140

Self employed or Limited Company ?

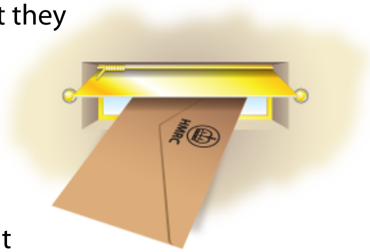
Tax is often quoted as being the reason for forming a limited company, and at first sight it appears to be beneficial - the top rate of Corporation tax next year is 26.5%, (on profits between £50,000 and £250,000) whereas the top rate of income tax for the self employed is 45% (on incomes exceeding £125,000). For lower incomes, the corporation tax rate for company profits under £50,000 is 19% whereas the income tax rate up to this figure for the self employed is 20%. However, two other factors must be taken into account; firstly how much of the profit is required by the directors/shareholders and how much can be left in the Company, then secondly how does National Insurance affect these figures. The figures above assume that no salary or dividend is taken from the company by the directors/shareholders. However there is an additional personal tax liability at the rate of 8.25% on any dividends taken if ones total income is under £50,000. This increases to 39.35% if ones total income exceeds £125,000 (nb. the rate is 33.75% for incomes in between these figures). Unfortunately this situation become more complicated for those who do not draw out all the Company profits. These profits which are left in the Company (assuming that they are not drawn out of the company as dividends in future years) will be taxed at 20% if the company is liquidated in the future to release these funds. National Insurance only affects the self employed and for them there is a fixed figure of £180 per annum and in addition a rate of 10.25% between £12,000 and £50,000 and 3.25% on any excess.

Dependant on your individual circumstances a limited company may or may not be an advantage for you. However there is an additional advantage for the self employed who either have a separate salary exceeding £50,000 or those aged over 66 who do not have to pay the national insurance rate above of 10.25%. For these individuals this usually favours the self employed route. The other factors to be taken into account include the fact that mortgage lenders are less willing to accept dividends as representing income for a mortgage purposes. Also the simplified accounts of a limited company and director/shareholder details are available for public viewing. There are the additional costs of running a limited Company to be taken into account, which are mainly accountancy fees. Throughout I have used the marginal rates of tax & NI, ignoring any allowances, and for simplicity I have rounded the income figures.
I appreciate that this is a very complex area of tax so please contact Martyn for any clarification.

Making Tax Digital – Update

The term 'making tax digital' (MTD) has been with us since April 2020, but so far only in relation to VAT returns. In essence it is a creation of HMRC which enforces bookkeeping records to be maintained on a computer (using their approved software) and the resulting (quarterly) forms to be sent to HMRC electronically, also through their approved software. From April 2024, just fifteen months away, all business with an annual turnover in excess of £10,000, and this includes rental income, will have to join the system. It will be more complicated than the current MTD for VAT as it will replace the annual income tax return. All income and expenditure will have to be analysed and adjustments made for stock variations, depreciation, amortization, capital expenditure, provisions, debtors, creditors, prepayments and private use. We are able to offer most small businesses a bookkeeping service to meet all of HMRCs requirements, normally on a quarterly basis. The cost to you will of course be more than at present, where we just prepare your annual accounts and your tax return. However I do not anticipate that it will be excessively more, because the extra time taken on bookkeeping will reduce the time spent on preparing the accounts. Please contact us for a quote.

HMRC 'Nudge' letters



In recent years HMRC have started issuing what they call 'nudge' letters. These are letters written to taxpayers where HMRC think there may be a tax liability that has not been reported on the taxpayers tax return. The latest letter refers to small Company directors and shareholders.
Each year every small, limited Company must register the details of any controlling Director at Companies House. HMRC have now got wise to this and are writing to most of them who do not submit tax returns. They are mainly looking for dividends or benefits given to a director that have not been taxed.
They are also looking for those who are no longer registered as controlling directors in case there had been a share sale and potential Capital Gains Tax liability has been missed.

State Pension top up

To obtain the full state pension everyone must have paid, or be credited with, a minimum of 35 qualifying years of National Insurance. However, for men born after 5 April 1951 and women born after 5 April 1953 who have not achieved this minimum you only have until 5th April 2023 to purchase up to sixteen years of contributions. After this date this reduces to six years.

HMRC app.

HMRC have introduced a new HMRC app for mobile phones.
This is available from your phone's app store. This can be used to make a self-assessment payment, to track forms and letters sent to HMRC, to claim a refund and to update your postal address.

PAYE direct debits

The option to pay PAYE liabilities by monthly direct debit is now available and this is how it operates:
The new system takes PAYE direct debit payments from the employers account on 23rd of each month, one day later than the deadline of the 22nd. This is causing an interest notice to be shown on account. However, interest will be reversed once the direct debit is successfully processed. If the direct debit fails, then the interest will accrue until payment is made successfully. Please contact Kirstie with any problem.

Residential Property CGT online

When selling or disposing of a residential property, it is important to report and pay any capital gains tax due within 60 days of selling the property. If you're a UK resident, you do not need to report your gains online if your total gains are less than the tax-free allowance (currently £12,300 for individuals and £6,150 for trusts but these are reducing in 2023/24). If a property is jointly owned each person must report their own gains. Gains should be reported online by creating a capital gains tax on UK property account. You'll need a Government Gateway user ID and password to set up your account or sign in. If you do not have a user ID, you can create one the first time you sign in. If you would like for us to calculate your gain and report on your behalf, then you would need to send us your account reference number (this starts with an X) and the postcode of the property you have disposed of.

When reporting you'll need the:

- address and postcode of the property
- date you got the property
- date you exchanged contracts when you were selling (or 'disposing' of) the property
- date you stopped being the property's owner (completion date)
- value of the property when you got it*
- value of the property when you sold or disposed of it*
- costs of buying, selling, or making improvements to the property
- details of any tax reliefs, allowances, or exemptions you're entitled to claim
- Your estimated income for the tax year the disposal occurs in

**You will be required to use the market value if:*

- it was a gift (there are different rules if it was to your spouse, civil partner or a charity)
- you sold it for less than it was worth to help the buyer
- you inherited it (and do not know the Inheritance Tax value)
- you owned it before April 1982

If you complete a self-assessment return, the disposal must be included along with any tax already reported and paid to ensure that no tax is outstanding due to the estimation of earnings for the period.

Submission of Income Tax Returns

Many taxpayers are of the opinion that when their Tax Return is submitted to HMRC it is then checked by one of their officers. Then if they are satisfied with it they file it, but if not they write to you. Wrong, it is their 'artificial intelligence' that checks it. They will correct any obvious error, but otherwise they will normally just make a note of any item that gives them cause for concern. In the past they would usually write to you asking for an explanation but now they seem to wait for up to four years to see if any potential error is repeated in future years. If HMRC consider that you have not taken reasonable care this period can be extended to six years.
Their rationale for this method is that if they challenge you after just one year there is a good chance that it was just a one-off genuine mistake.
in which case they cannot charge you a penalty.
However if this 'genuine mistake' goes on for several years the excuse become less valid and HMRC will seek to charge you a penalty of up to 30% of the tax plus interest. In addition they will collect several years of tax arrears for doing the same amount of work than if they had written to you in the first year.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.

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