

SPOTLIGHT ON THE NEW TAX YEAR

Welcome...

Our Spring issue of Talking Tax brings a spotlight on tying up loose ends, as another tax year draws to a close, and preparing for a new tax year ahead. We set out our top ten tax tips to consider to help maximise available allowances and reliefs.

For corporates, we take a look at how you can provide tax efficient company cars to your employees, some traps to be aware of with the upcoming corporation tax rate rise, as well as a Q&A with tax director, Jemma Vaughan, on the incentives available under the patent box regime.

Another hot topic of focus is the extension to the trust registration service which brings a compliance obligation for many more trusts. Last, but certainly not least, we provide some updates on the developments in the world of VAT.



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TOP TEN TAX TIPS – YEAR END PLANNING

As another tax year draws to a close, now is a good time to take stock and consider whether all allowances and reliefs have been maximised as far as possible and whether any action needs to be taken before the new tax year begins.

We have set out below our top ten tips to consider:

1. With dividend rates set to increase by 1.25%, it will be worthwhile for directors to **consider whether dividends can be paid prior to 6 April 2022 before the rate increase takes effect**. The £2,000 tax free dividend allowance per annum should also be utilised as far as possible.
2. Owner managed businesses should review their remuneration package in advance of the new tax year and look to utilise their tax bands as far as possible. **A combination of low salary, high interest and dividends could result in tax free income of up to £20,570** (and double that for couples) in 2021/22 and 2022/23, if structured appropriately and depending on the individual's circumstances.
3. If you have been required to work from home as a result of the COVID-19 pandemic, do not forget to claim your working from home allowance. **Where household costs have not been reimbursed by your company or employer, you can claim tax relief for costs at a flat rate of £6 per week or £312 per year**. HMRC has also confirmed that for both the 2020/21 and 2021/22 tax years it is possible to claim the allowance for the entire tax year, providing that you have been required to work from home at some point during each year.
4. As the personal allowance is reduced by £1 for every £2 of net income over £100,000, those with income of between £100,000 and £125,140 could end up paying tax at an effective rate of 60%. If your income is close to the threshold **it may be worth considering ways to reduce your taxable income**. This could be achieved by making pension contributions, charitable donations, deferring income into 2022/23 or transferring income producing assets to your spouse.
5. Taxable income exceeding £50,000 for the year could lead to a claw back of child benefit under the high-income child benefit charge. Once taxable income reaches £60,000 the benefit will be lost in full. **Reducing, deferring or transferring taxable income** as described above could help to preserve this benefit.
6. Up to £1,260 of your personal allowance can be transferred to a spouse or civil partner if neither of you are higher rate taxpayers, by virtue of the marriage allowance. **This is of benefit where one spouse has income of less than the personal allowance (currently frozen at £12,570), with a tax saving of up to £252 per annum**.
7. With 100% of mortgage interest relief for landlords restricted to the basic rate of tax since April 2020, you may not receive full relief for your finance costs. **There are several ways to minimise the impact of the rules including incorporation, spousal transfers, use of partnerships etc.**
8. If you have any surplus cash, you could look to make a tax efficient investment. There are various options which typically **offer income tax relief at 30% (but can be as high as 50%) and with tax free capital gains on disposal**. It may also be possible to carry back an investment made in 2021/22 to 2020/21 to accelerate tax relief.
9. **The capital gains tax annual exemption for all individuals is £12,300**, which you should try and use, where possible. Consideration should be given to the transfer of assets between spouses such that both utilise their annual exemptions on a subsequent disposal or deferral into 2022/23 where the allowance has already been used.
10. Consider **utilising your pensions allowance, which enables you to contribute up to £40,000 for 2021/22, plus any unused allowance for the previous three tax years**. Note, however, that if your adjusted income is more than £240,000, the allowance reduces by £1 for every £2 above this threshold down to a limit of £4,000. This reduction only applies where your 'threshold income' (broadly taxable income) is also over £200,000.

ELECTRIC COMPANY CARS – A TAX EFFICIENT BENEFIT

Providing an employee with a company car as part of their remuneration package has, in recent years, become a much more attractive benefit. The tax payable by employees for car benefits has significantly reduced for electric or low emission cars and is set to remain at low rates for the next few years.

TAX IMPLICATIONS FOR THE EMPLOYER

If the vehicle is purchased outright or under hire purchase, the employer can enjoy 100% first year capital allowances for new electric cars or cars with zero emissions. This is compared to capital allowance rates of 18% or 6% for higher emission or second-hand cars.

Where the vehicle is leased, the full cost of rental payments will be deductible for cars with CO₂ emissions of less than 50g/km. For cars with higher emissions, a 15% disallowance of the lease rental payment will be applied.

The employer will be required to pay class 1A NICs at 13.8% (15.05% from April 2022) on the value of the car benefit to the employee. This cost is deductible for tax purposes.

TAX IMPLICATIONS FOR THE EMPLOYEE

The provision of a company car is taxable as a benefit in kind on the employee and subject to income tax at the appropriate rate.

The benefit value is calculated by taking the list price of the car and multiplying this by the appropriate benefit percentage. The relevant percentage is based on the car's CO₂ emissions and electric range (where applicable) and is capped at 37% for the highest emission cars. For zero emission cars this is set at just 1% of the list price of the car in 2021/22 and 2% for 2022/23. It has been confirmed that these rates are set to be frozen until at least 5 April 2025.

As an example, the income tax charge for a higher rate taxpayer with an electric company car that has a list price of £30,000 would be just £120 in 2021/22. This is in comparison to an income tax liability of £4,400 for a company car with the same list price but CO₂ emissions exceeding 160g/km.

Further tax savings for both the employer and employee can also be enjoyed where the employee enters into a salary sacrifice arrangement for a low emission car (less than 75 g/km). We would recommend that professional advice is sought in advance of entering into such an arrangement as there are several conditions to be satisfied for a salary sacrifice arrangement to be effective, as well as a requirement to update the terms of an employee's employment contract.

For further details on car salary sacrifice arrangements, read our article: <https://bit.ly/3Fm8Ks3>



OTHER CONSIDERATIONS

There is no fuel benefit for pure electric cars and an employer can pay an employee up to 5p per business mile for the cost of electricity without any tax implications.

Further, the provision of a charging point at the workplace and the company car user's home does not give rise to a taxable benefit.



REWARDING YOUR COMPANY FOR PROTECTING ITS IP – COULD YOUR PATENT PAY FOR ITSELF?

A Q&A with Jemma Vaughan, Director at Hazlewoods

WHAT IS KEEPING YOU BUSY LATELY?

I am currently assisting a number of clients with claiming the patent box tax relief. Patent box is a corporation tax incentive that rewards companies by potentially halving the corporation tax payable on profits arising from qualifying intellectual property (IP) rights, predominantly UK or European office patents. The scheme has been in existence since 2013 and although a bit of a slow burner, is starting to gain some traction for companies wanting to obtain financial reward in return for protecting their technology which can often be quite costly.

IT SOUNDS LIKE IT WOULD BE VALUABLE TO A LOT OF COMPANIES, IS IT EASY TO CLAIM?

Electing in requires a simple disclosure in a company's tax return in the first relevant year, however, whether a company should elect in needs to be carefully considered as there are other factors to consider besides owning or having an exclusive license over a patent, including satisfying a 'development condition'. Even if the patent is not yet granted, an election can be made to 'bank' the calculated patent box profits until the year of grant. The rules can be quite complex, but the potential financial reward can be extremely valuable and

may help to fund investment into new research and development projects with a view to building an even larger IP portfolio in the future.

HOW CAN COMPANIES FIND OUT MORE?

Just let us know if you have a patent! We will guide you through the rules to obtain the information we need. If initial discussions identify that the company may qualify for claiming the relief, then we can undertake some indicative calculations to determine whether patent box could be of benefit to your company.

TELL US A BIT ABOUT YOURSELF

I have been at Hazlewoods for just over ten years, having joined in December 2011 to specialise in corporation tax and specifically innovation tax reliefs. Working for a Gloucestershire firm, I am definitely in the minority by supporting rival rugby team Worcester Warriors and am often reminded of my team's performance when they lose – especially when they play Gloucester!

For more information on patent box and other corporation tax incentives, please get in touch with Jemma at jemma.vaughan@hazlewoods.co.uk or 01242 680000.





TRUST REGISTRATION SERVICE – MORE TRUSTS CAPTURED

As part of HMRC's digital strategy, the trust registration service (TRS) was introduced in 2017 requiring the registration of most express trusts with a 'UK tax consequence'. Trusts with a UK income tax, capital gains tax, inheritance tax or stamp duty land tax liability were all required to register under the TRS.

From 6 October 2020, the scope of trusts required to register was extended to include all UK express trusts (and certain non-EU resident trusts) regardless of whether they have a UK income tax liability or not. There are a limited number of exclusions specified under the revised legislation which does provide a 'get out of jail free card' to some trusts, but a huge number of additional trusts will now need to comply.

MORE ADMIN...

The extension to all UK express trusts is quite far reaching as most UK trusts are express trusts. An express trust is defined as one which was 'intentionally created'.

Broadly, trusts already in existence will have until 1 September 2022 to register under the TRS. All new express trusts created on or after 3 June 2022 will have 90 days to register. This is a welcome extension to the original 30-day timescale proposed.

THE EXCLUSIONS

As mentioned above, a trust does not need to be registered if it meets one of the specified exclusions which includes:

- Co-ownership trusts – for example jointly held property where the trustees and beneficiaries are the same persons as 'tenants in common'.
- Trusts created by will – a trust created by will that holds only property from a deceased person's estate is excluded from registration for a period of two years from the date of death.
- Historic pilot trusts – includes pilot trusts in existence before 6 October 2020 with assets of less than £100. If the

trust is set up after this date, or further funds are added to an existing pilot trust, they will need to be registered.

- Life policy trusts – life policies written in trust may be excluded from registration during the lifetime of the person assured.

If the trust is an express trust and has incurred a tax liability, it will be required to register regardless of whether it meets one of the above exclusions or not.

Bare trusts are not specifically excluded and they would typically meet the definition of an express trust, therefore, unless they fall under one of the specified exclusions, they would be required to register under the new rules.

HOW TO REGISTER

In order to register, the trust will need to set up a government gateway account online. When doing so (if the trust does not already have an account) you will need to ensure that you set up an 'organisation account'. You will then need to answer some questions about the trust and, following this, you should receive confirmation that you have successfully 'claimed' the trust. You will then be able to access the TRS using your government gateway details or can pass on details to your agent who can assist with the registration.

Given that the trust no longer must have incurred a UK tax liability to be registrable, your professional advisor may not be readily aware that you have a registration obligation. Please get in touch with us if you would like clarification on whether a trust may need to be registered and/or if you require any assistance with the registration process.



CORPORATION TAX RATE RISE AND THE TIMING OF TRANSACTIONS

With the corporation tax rate increasing from 19% to 25% from 1 April 2023, there are some potential pitfalls for companies to look out for.

The first pitfall is for companies where their accounting period ends on anything other than 31 March. Corporation tax is charged per Government 'financial year' which runs from 1 April to 31 March. Where a company has an accounting period which straddles two 'financial years', it is necessary to apportion the profits on a strict time basis between the two years and charge the corporation tax rate set for that year on the profits apportioned to that year.

This has little practical implication where the corporation tax rate is the same for the two years in question, however, where the accounting period straddles a rate change, this could result in additional tax being paid due to the strict time apportionment of profits.

Take for example a company with a 12-month accounting period ending 31 December 2023 - Three months fall into one financial year where the corporation tax rate is 19% and nine months into the financial year where the corporation tax rate is 25%.

In anticipation of the rate change the directors of the company decided to dispose of investment properties in February 2023, thinking that profits from these disposals would be charged solely at the rate of 19%. Unfortunately, due to the way corporation tax is charged, these profits are apportioned across the entire year. Three months at 19% and nine months at 25% resulting in a blended rate of 23.5% applying to profits of the entire year.

If it is appropriate to do so, the directors of a company may wish to consider changing a year end or shortening an accounting period where there might be an unusually large transaction in the year to avoid the higher blended rate of corporation tax applying.

The other pitfall with a rate change can apply even to companies with a year end of 31 March. This is where the date on which a transaction is taken into account for tax might differ to the date on which, for example, the contract is signed.

One example is where a company disposes of a capital asset. The disposal date for a company's chargeable gain is the date on which the contract for sale becomes unconditional. For some contracts it is easy to identify, it is simply the date the contract is signed if there are no conditions within the contract to fulfil.

An example where the date of disposal for tax purposes diverges from the date of signing would be land being sold subject to planning permission. If a contract was signed on 1 January 2022 and it was conditional on planning permission being granted, no contract comes into existence until that planning permission is granted.

If permission was granted on 1 June 2023 the disposal date for that asset for tax purposes would be 1 June 2023. If the company had a 31 March year end, the disposal should be reflected in the tax return for the financial year ending 31 March 2024 rather than the return for the financial year ended 31 March 2022. This is two tax returns later than the period in which the contract was originally signed. Any profits from the disposal would also be taxed at 25% rather than 19%.

It is very important that company directors and shareholders pay close attention to the dates on which any large transactions may potentially take place so they can identify the potential period and tax rate which might apply, as well as any possible advance planning to mitigate the tax charge.

VAT UPDATE

With 2021 serving primarily as a period of legislative transition, in 2022 UK VAT policy is most definitely moving forward. Here are some of the immediate changes already on the horizon for VAT.

EXTENSION TO MAKING TAX DIGITAL (MTD)

Most taxpayers already file VAT returns via an MTD software interface along with maintaining digital records. The first phase of MTD for VAT was launched with effect from 1 April 2019 and applied to all businesses with turnover exceeding the VAT registration threshold of £85,000.

From 1 April 2022, MTD for VAT will apply to all VAT registered businesses including those voluntarily registered for VAT still trading below the threshold. This will include many small business owners, self-employed consultants, property landlords, farmers and other professionals.

Any small business yet to implement MTD for VAT should prepare their accounting systems now in order to ensure a smooth first filing on their next relevant VAT return. Now is the time to consider moving from a spreadsheet-based bookkeeping system to either a fully MTD-compliant integrated cloud-based package or investing in Excel bridging software.

NEW PENALTY REGIME

From 1 April 2022, a new points-based penalty regime was due to apply to late statutory VAT filings and payments. HMRC has recently announced, however, that this will now be delayed until 1 January 2023.

For late filings, penalties will be levied under a points-based system. HMRC will allocate one point for each missed submission. Points are then kept on file for two years. A £200 penalty is applied when the total number of points reaches the relevant threshold – five for monthly returns, four for quarterly returns or two for annual returns.

For late payments, HMRC will levy penalties in two stages, with fixed penalties for payments up to 30 days late plus daily penalties for late payment thereafter.

Now more than ever, perceived insufficiency of funds should not deter a taxpayer from at least filing. More importantly, businesses anticipating difficulty paying a VAT liability should strongly consider seeking a 'time to pay' agreement with HMRC. The most favourable terms are more often achieved when professional advisors intervene, and any support is a more than worthwhile investment when working carefully out of a crisis.

FULL CUSTOMS CONTROLS, ORIGIN RULES AND INTRASTAT

Full customs controls took effect from 1 January 2022 for all goods moving between Great Britain from the EU (excluding Ireland). Therefore, taxpayers can no longer delay making customs declarations under the staged customs controls rules that applied during 2021. That simplification has ended.

This means that the previous customs declaration deferral window of up to 175 days no longer exists. So full customs declarations are now required to be submitted before goods can be released into free circulation.

However, a simplified declarations authorisation can be granted by HMRC. This provides for goods to be released directly to a specified customs procedure upon arrival under certain circumstances, or some businesses may decide to use a customs intermediary to act on their behalf.



Any business that would benefit from a simplified declarations procedure should first seek support in applying for a duty deferment account and simplified import VAT accounting. The application process can take up to eight weeks for HMRC to issue the necessary approval.

Postponed import VAT accounting (PIVA) remains in existence for VAT-registered importers. New rules also apply for border controls. Additionally, rule of origin changes from 1 January 2022 means that UK exporters delivering goods to the EU must make supply declarations where relevant at the point of export rather than after the event as before.

Finally, from 31 January 2022, intrastat declarations now only apply to movements of goods between Northern Ireland and the EU. Mainland UK is now free from EU intrastat. But the supplementary

declarations regime will still apply to movements between the UK and non-EU territories.

Please contact us if you would like to discuss any specific international trade questions or applying for specific customs authorisations and simplifications.

END OF THE TEMPORARY REDUCED RATE(S) FOR LEISURE AND HOSPITALITY

On 8 July 2020, a temporary 5% VAT rate was introduced for certain supplies of hospitality, hotel accommodation and admissions to attractions.

The 5% rate relief ended on 30 September 2021 and from 1 October 2021 increased to 12.5%. Higher rate goods and services have not been taxed at 12.5% since 1976!

This relief is due to end on 31 March 2022 and will mark the withdrawal of one of the remaining pandemic support measures.

MEET THE TAX PARTNERS



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