MNA News Wire

MARSLAND NASH ASSOCIATES

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BECOMING A MORE ECO FRIENDLY BUSINESS

Environmental sustainability has moved to the forefront of the news headlines and consumers are keen to support eco-friendly businesses.

Buying habits are changing as people seek to minimise their impact on the natural environment. By incorporating eco-friendly ideas into your business, you can align your brand's ethos with that of your customer base.

If you are running a small business, you might think that your environmental impact is inconsequential but the people buying your products or services don't see it that way. Customers are starting to vote with their wallets – they want to support the green agenda.

Businesses can start their eco efforts by choosing to purchase and use sustainable products from paper through to packaging, etc. You can go a step further and introduce recycling facilities in your offices too.

Your business could make efforts to reduce its carbon footprint by switching to energy efficient appliances, LED lighting, smart thermostats and so forth. Encouraging staff to work from home where possible can also help to reduce CO2 emissions by reducing the number of cars on the road.

Your business can also make an effort to reduce its waste or even reduce its water usage in order to help to protect the environment. Conservation is just as important as recycling, after all.

Your firm can choose to do business with green suppliers only. Whether that is net zero emission web hosting or carbon neutral suppliers in your supply chain - every little bit helps.

Finally, for whatever parts of your firm's operations that can't become more environmentally friendly (for whatever reason), you can look into offsetting your carbon emissions.

There are a variety of carbon offset credits available on the market today. A carbon credit represents either the permanent removal of a tonne of CO2 from the atmosphere or the avoidance of one tonne of CO2 being emitted in the first place.

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STRATEGIC CHALLENGES IN THE NEW NORMAL

As we move towards a post-pandemic recovery and the economy begins to stabilise in the next few months, businesses face new challenges and will have to adapt to a new normal.

Supply chain issues

Supply chains were disrupted as producers and manufacturers shut down during the pandemic. Some businesses are now facing difficulties in obtaining the materials or products that they need. In other cases, the price of raw materials has gone up due to scarcity caused by lack of production throughout the past 18 months or so.

Managing supply chain issues is difficult and the best thing that businesses can do is to manage the expectations of their customers. It is important to stress that supply chain challenges tend to be temporary. As the global economy recovers, manufacturing, production and shipping should eventually return to normal.

Staffing

Many businesses are struggling to fill roles. Perhaps potential candidates are unwilling to move during uncertain times, or maybe the booming tech industry has absorbed all the best talent. Either way, many businesses are struggling to hire good people.

Some businesses are adding creative perks or benefits to attract staff. Besides health care or pension contributions, some firms are attracting talent with unlimited holiday, remote working opportunities or career development through staff education programmes and sponsored learning.

Profitability issues

Businesses that have survived the pandemic may have burned up their cash reserves or taken on additional debt to finance themselves throughout the last 18 months.

Businesses should plan for a difficult trading environment for some time yet. Sales could continue to struggle, the cost of materials could be higher for some time yet and labour costs, taxation or regulatory costs could be higher. As such, businesses should try to keep costs down where possible. In addition, they should double down on their marketing efforts in order to drive sales and ultimately, revenue.

Last year, businesses had to adapt to conditions created by the pandemic. In 2021, they must adapt to the aftermath. There will be opportunities to innovate and evolve business models, introduce new products or services, etc. The businesses that adapt and create new opportunities or competitive advantages will be the most successful.

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INCREASING PRICES

How can you raise your prices without losing too many customers?

The current business environment is incredibly competitive but as we emerge from the pandemic, consumer demand is increasing and many sectors have seen labour and material costs rise. As demand increases and levels of supply fall, businesses have an opportunity to increase their prices.

Study the competition
Have your key competitors increased their prices recently? If so, your customers will be more amenable to the change. However if you are the only firm pushing your prices up, you will need to offer something unique in order to justify it.

Be open about your price increase
Tell your customers what you are doing. Avoid language like "updated price" or "adjustments to our pricing model." Just be honest and authentic – after all, customers want to buy products and services from businesses that are open and honest.

Explain the reasons for the increase
You don't have to go into detail about profit margins or unit costs. Simply share the basic information. For example, "We are now going to deliver your product / service directly to your front door, and as a result, we will be raising our prices from next quarter."

Don't apologise for increasing your prices - this will just invite your customers to negotiate. Focus on the benefits that the customer gets from buying your product or service. Maybe you offer something faster, better or with unique features?

You win some, you lose some
Some price-sensitive customers may choose to go to another supplier but any new customers will be more profitable as those new customers may be willing and able to pay a higher price for a better quality product or service.

Two-tiered pricing
If you receive feedback that some customers are now looking around for a cheaper alternative, maybe you could introduce a new lower tier of product or service, which has less features but at a more competitive price. For example, your top tier customers might get a dedicated account manager, 24/7 service and support, etc.

The lower priced product may cut out the account manager and support may be available only 5 days per week but the price could be 25% lower. That way you end up making more money from your premium customers but you don't lose your more budget conscious clients to your competitors.

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NATIONAL LIVING WAGE INCREASED TO £9.50 AN HOUR

Among the announcements leaked before Budget Day was an increase in the hourly rate for the National Living Wage (NLW) which was greater than inflation for those aged 23 or over, to £9.50 an hour. For an employee working a 35-hour week that would mean £17,290 a year. With the 1.25% increase in employers NIC to 15.05% on earnings over £9,100 a year would mean £1,233 on top, the cost to the employer would be £18,523 a year before pension costs.

HMRC SUPPORT WITH CHILDCARE COSTS

With more employees going back to work after the end of CJRS furlough support, they need to start thinking about childcare if they have children.

If they haven't already done so employees should set up a "Tax-Free" Childcare Account to help pay towards the cost of childminders, breakfast and after school clubs, nursery fees and approved play schemes.

For every £8 an eligible family pay into the special account the government adds £2, up to £2,000 a year, or up to £4,000 a year if a child is disabled. The scheme is available to parents or carers who have children aged up to 11, or 17 if their child is disabled.

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"TEMPORARY" £1 MILLION ANNUAL INVESTMENT ALLOWANCE EXTENDED

Businesses investing in plant and machinery will welcome yet another extension in the 100% Annual Investment Allowance (AIA) until 31 March 2023. The 100% relief was scheduled to revert to £200,000 on 1 January 2022. This deduction is available to unincorporated businesses as well as limited companies and the equipment does not have to be new.

This tax allowance is not as generous as the 130% super-deduction announced in the March 2021 Budget which is available when new plant and machinery is acquired by limited companies between 1 April 2021 and 31 March 2023.

MORE TIME TO REPORT AND PAY CGT ON RESIDENTIAL PROPERTY DISPOSAL

Many were expecting big changes to capital gains tax in the Autumn Budget, particularly as the Office of Tax Simplification (OTS) had suggested that CGT rates should be aligned with income tax rates.

The Government have however taken on board the OTS recommendation that the 30 day reporting and payment deadline should be increased to 60 days. This will be a welcome change for property owners and their tax agents and will affect residential property disposals that complete on or after 27 October 2021.

Entrepreneurs will be relieved that CGT Business Asset Disposal Relief continues resulting in a 10% CGT rate on the first £1 million of lifetime gains.

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MTD Spotlight…

MTD COMING SOON FOR INCOME TAX

VAT registered business making taxable supplies above the £85,000 registration threshold have been grappling with Making Tax Digital (MTD) since April 2019. The next roll-out will be the introduction of MTD for income tax which was scheduled to start in April 2023, now postponed to April 2024 (see below)

The obligation to keep records in a digital format and report information quarterly will apply to unincorporated businesses and property landlords with gross income in excess of £10,000 a year. Businesses operating MTD for VAT will already have MTD compliant accounting software but the extension of MTD to income tax will mean a major change for property rental businesses who are outside of the current rules.

There are a number of MTD compliant accounting software packages that you might wish to consider and we can of course advise you on the one that is most appropriate for your business. There are even relatively cheap software packages specifically designed for property rental businesses.

MTD FOR INCOME TAX POSTPONED TO 2024/25

Having listened to stakeholder feedback from businesses and the accounting profession, the government have announced that they will introduce Making Tax Digital (MTD) for Income Tax Self-Assessment (ITSA) a year later than planned, in the tax year beginning in April 2024.

This will give the self-employed and buy to let landlords an extra year to prepare for the digitalisation of Income Tax and also allow HMRC more time for customer testing of the pilot system.
The start date for partnerships to join MTD for ITSA has been put back still further to the tax year beginning in April 2025.

There has been no change to the £10,000 per annum gross income threshold which means that most self-employed traders and buy to let landlords will be mandated to comply with MTD for income tax from April 2024.

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MTD Spotlight…

INFORMATION IN QUARTERLY MTD FOR INCOME TAX REPORTS

The precise details of what needs to be reported each quarter have yet to be finalised, but the categories of income and expenditure are likely to be the same as currently reported for self-assessment.

The accounting software will need to record income and expenditure into the following main categories:

- Turnover/gross rents
- Costs of goods sold
- Materials
- Wages and salaries of employees
- Sub-contractor costs
- Rent, rates, power, insurance
- Repairs and renewals
- Professional fees
- Telephone and other office costs
- Interest on bank and other loans
- Motor and travel expenses

It is unclear at this stage how loans to finance residential lettings will be reported as those costs are no longer deducted in arriving at rental profits as relief is now given by way of a basic rate tax deduction.

TIMING OF MTD FOR INCOME TAX REPORTS

It is currently proposed that there will be 4 quarterly reports to HMRC followed by a finalisation return when end of year adjustments will be made. For a buy to let business that would mean quarterly returns made up to 5 July, 5 October, 5 January and 5 April. There would then be a MTD finalisation submission the following 31 January.

BASIS PERIOD REFORM AND POSSIBLE NEW TAX YEAR END

Following consultation over the summer 2021, the government will legislate in Finance Bill 2021/22 to simplify the basis period rules for sole traders, partnerships, as well as trusts with trading and property rental income. There would also be complicated transitional rules for 2022/23 which could result in a big tax bill that year for some traders.

The Treasury are also consulting on changing the tax year itself from the archaic 5 April year end to 31 March or even 31 December. A calendar tax year would bring the UK into line with most other countries at last!

We will keep you updated when more information comes available.

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DEALING WITH REDUNDANCIES CORRECTLY

Remember that there are key steps that need to be followed as far as employment law is concerned. It is also important to treat any payments on termination of employment correctly for tax and national insurance purposes. In genuine redundancy situations the first £30,000 paid on termination of employment is tax free but many employers get this wrong.

The £30,000 includes statutory redundancy pay and any enhancement from the employer as well as continuing benefits such as private health insurance.

The excess is subject to income tax and employers national insurance. We can of course assist you with the process to ensure that the redundancy process is dealt with correctly.

BIG TAX BILLS FOR THE SELF-EMPLOYED IN 2022/23

Previously we mentioned that draft legislation has been published to change the basis periods for the assessment of self-employed profits to coincide with the tax year. The proposed new rules provide that from 2023/24 onwards profits or losses will be apportioned to tax years where the period of account does not coincide with the tax year. This is intended to coincide with the start of Making Tax Digital for income tax.

The transitional rules proposed for the previous 2022/23 tax year could result in large tax bills for some sole traders and partners, particularly those with an existing 30 April year end. The profits of year ended 30 April 2021 would be taxed in 2021/22 under the current rules with 2023/24 taxing profits arising between 6 April 2023 and 5 April 2024 under the new rules. But what about 2022/23?

The profits taxed in 2022/23 would be those for year ended 30 April 2022 plus the period 1 May 2022 to 5 April 2023 - in total 23 months profits!

The good news is that there would be a deduction for 11 months "overlap relief" which typically arose when profits were taxed twice at the start of the business - but those will often be much lower than the extra 11 months being taxed in 2022/23!

The transitional provisions allow the taxpayer to elect to spread the excess profits over the next 5 tax years to smooth out the excessive tax bill.

We can work with you to advise you on how much to set aside to cover these additional tax liabilities.

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ACCOUNTING FOR IMPORT VAT ON YOUR VAT RETURN

HMRC have recently updated their guidance on accounting for VAT on goods imported from outside the UK which, since Brexit, includes the European Union.

Businesses registered for VAT in the UK can account for import VAT on their VAT Return for goods imported into:

- Great Britain (England, Scotland and Wales) from anywhere outside the UK
- Northern Ireland from outside the UK and EU

Businesses can also account for import VAT for goods moved between Great Britain and Northern Ireland that are declared into a customs special procedure, when they are removed from that special procedure.

You do not need HMRC approval to account for import VAT on your VAT Return.

Accounting for import VAT on your VAT Return has significant cash flow benefits as you declare and recover import VAT on the same VAT Return, rather than having to pay it upfront when the goods are imported and recover it later.

NOTIFY OPTION TO TAX LAND AND BUILDINGS WITHIN 30 DAYS

If you are notifying HMRC of a decision to opt to tax land and buildings, you are normally required to notify HMRC within 30 days. The 30 day deadline was temporarily extended to 90 days to help businesses and agents during the pandemic, but that temporary extension has now ended for decisions made from **1 August 2021 onwards**.

Supplies of land and buildings, such leasing or renting out a property, are normally exempt from VAT. This means that no VAT is payable, but the person making the supply cannot normally recover any of the VAT incurred on property expenses.

However it is possible to waive the exemption, or "opt to tax" the land. For the purposes of VAT, the term 'land' includes any buildings or structures permanently affixed to it.

Once you have opted to tax all the supplies you make of your interest in the land or buildings will normally be standard-rated, and this will normally enable you to recover any VAT you incur in making those supplies.

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COMPANY LOSS RELIEF CAN BE CLAIMED EARLY

Where a company makes a trading loss of no more than £200,000 in an accounting period it is now possible to claim relief for that loss even though the corporation tax return CT600 has not been submitted.

This will enable the company to carry back the loss to earlier years and obtain a repayment of tax previously paid.

HMRC will however need evidence of the loss to support the claim, in particular a PDF of the company's management accounts for the period.

In determining whether the loss is no more than £200,000 the company is required to claim all available reliefs, in particular capital allowances.

Where companies are members of a group the £200,000 limit applies to each individual company. Note that for members of a group the £2,000,000 limit on the temporary extended carry back applies to the group as a whole. The extended carry back allows companies to carry back trading losses two further years in addition to the normal one year carry back.

We can of course advise you on the best use of trading losses.

Losses carried back will result in a repayment of corporation tax at 19% whereas if carried forward against profits the losses may save tax at up to 26.5% after April 2023.

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NICs AND TAX ON DIVIDENDS TO FUND HEALTH AND SOCIAL CARE

Content accurate as at 27.9.21

The Prime Minister announced on 7th September that the government will introduce a new 1.25% Levy to provide an extra £12 bn a year to support the NHS and social care.

From April 2022 it is proposed that there will be a 1.25% rise in National Insurance Contributions (NICs) to be paid by both employers and workers. This will then become a separate Levy on earned income from 2023/24 - calculated in the same way as NIC and appearing on an employee's payslip.

Note that the 1.25% increase also applies to the Class 4 contributions paid by the self-employed on their profits. The Class 1 NI contributions paid by employees increase to 13.25% of earnings above £9,568 and the self-employed rate increases to 10.25%. The 3% differential remains for the time being, although there are rumours that the rates will align in the future. Above £50,270 earnings or profits the rate will be 3.25%.

The employers Class 1 NIC rate will increase from 13.8% to 15.05% from 6 April 2022, however many small businesses are able to set off the £4,000 employment allowance against their employers NIC liability. Many workers operating through personal service companies to whom the new "off-payroll" working rules apply will also be caught by the proposed measures.

DIVIDEND TAX RATES ALSO INCREASING FROM 2022/23

It is also proposed that there will be a 1.25% increase in the rate of tax payable on dividends received by those who own shares in companies. This would mean that after the £2,000 tax free dividend allowance the rate of tax would be 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for those with income in excess of £150,000 a year. This will catch many family company director/shareholders who traditionally "pay" themselves by taking a low salary and larger dividends to minimise NICs.

PLANNING ACTIONS BEFORE THE NEW RATES COMMENCE

The announcement of the proposed changes more than six months before they take effect means that there is time to reduce the impact. Employees could consider agreeing a salary sacrifice arrangement with their employer, for example sacrificing their £5,000 annual bonus for an additional pension contribution paid by their employer. Such an arrangement would save 1.25% NICs for both employee and employer as well as £2,000 income tax where the employee is a higher rate taxpayer. Employees might also consider a salary sacrifice in favour of an electric company car.

Shareholder/directors of family companies could consider bringing forward dividend payments to before 6 April 2022. Such a strategy needs careful planning as if the extra dividend takes the taxpayer's income above £50,270 the excess would be taxable at the 32.5% rate instead of the 7.5% rate and the planning could backfire.

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CAPITAL ALLOWANCES ON PLANT IN RESIDENTIAL PROPERTY

The capital allowance legislation specifically denies tax relief for plant and machinery installed in a dwelling house. However, plant and machinery installed in the common areas of blocks of flats such as hallways, stairs and lift shafts would qualify as the flats themselves are the dwellings not the building as a whole.

HMRC have recently confirmed their view that common areas in Houses of Multiple Occupation (HMO) are parts of a "dwelling house" and ineligible for capital allowance claims.

This would seem inconsistent with the treatment of blocks of flats and there may be a test case on the interpretation, particularly as there is no definition of "dwelling house" in the tax legislation.

There is also a lack of clarity concerning the status of University Halls of residence where there is often substantial expenditure on plant and machinery in common areas.

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ADVISORY FUEL RATE FOR COMPANY CARS

As the result in recent increases in petrol and diesel prices HMRC have increased the advisory fuel rates that apply for the reimbursement of employees' private fuel for their company cars. The same rates apply when the employer reimburses employees for fuel used for business journeys in their company car.

The new rates apply from 1 September 2021, but you can continue to use the previous rates for up to 1 month from the date the new rates apply.

Where there has been a change the previous rate is shown in brackets:-

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

You can continue to use the previous rates for up to 1 month from the date the new rates apply. For wholly electric cars there is a 4p advisory rate.

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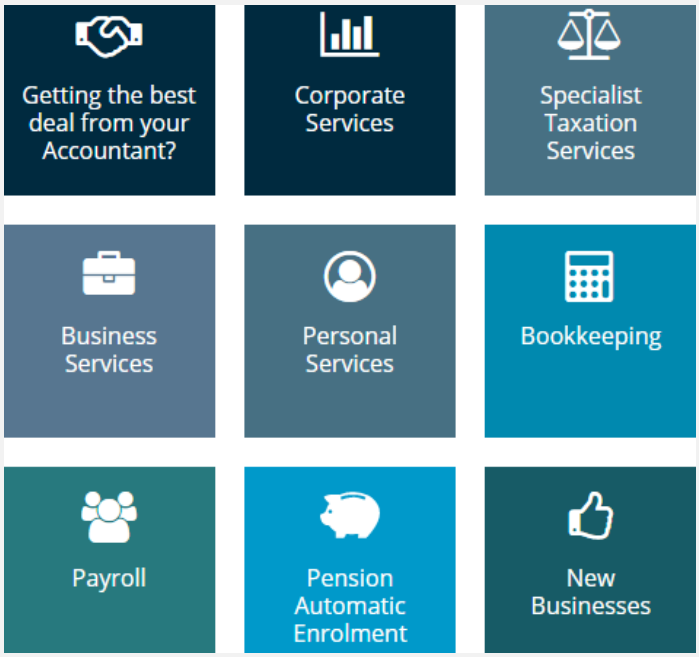
MNA WEBSITE



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- ⇒ Latest accounts and tax news
- ⇒ Downloads section which includes all our newsletters
- ⇒ Filing deadlines pages
- ⇒ Current tax rates and information pages

Plus much more!

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