28 November 2022

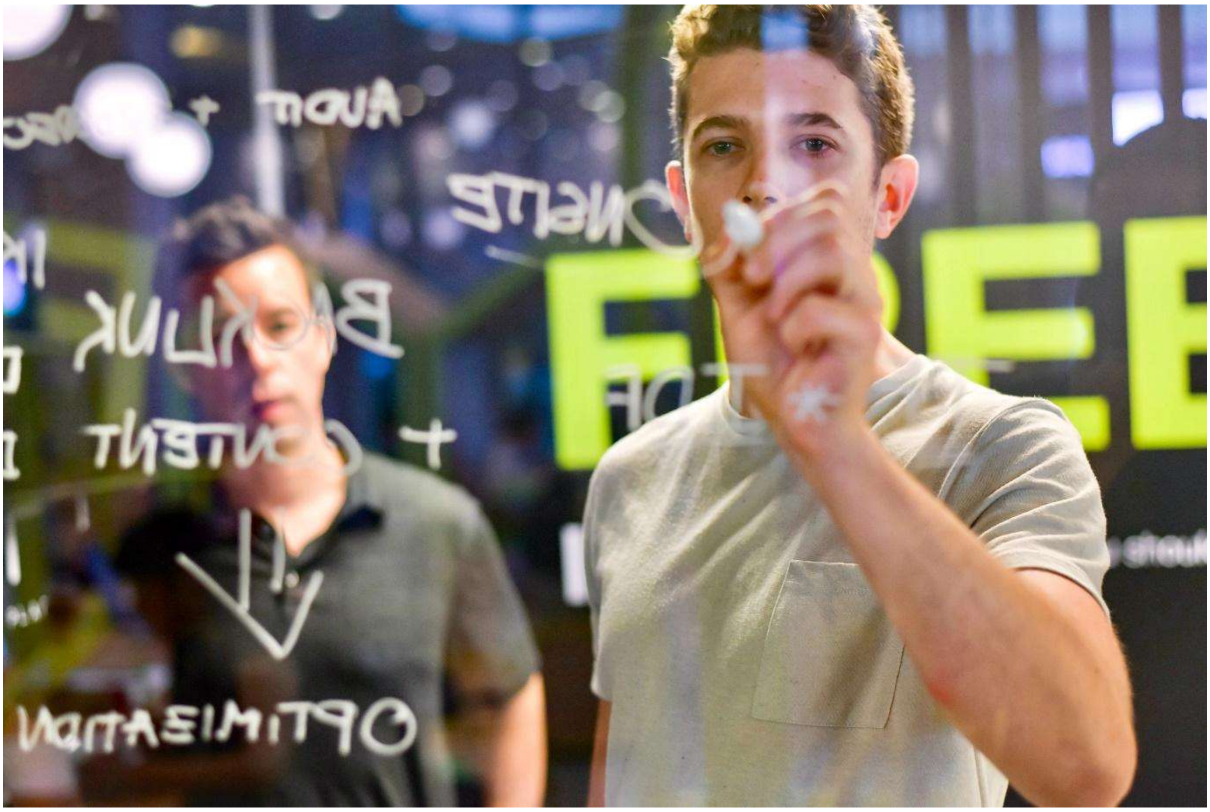
BUSINESS NEWS ENGLAND

Welcome to our round up of the latest business news for our clients. Please contact us if you want to talk about how these updates affect your business. We are here to support you!

HMRC is changing how they assess profits for some sole traders and partnerships

How HMRC assesses profits for sole traders and partnerships who use an accounting date between 6 April and 30 March **will change** from 6 April 2023. This change will not affect companies.

Your accounting date is the last day of the period that you prepare your accounts for. You choose your accounting date when you set up your business and will normally make your accounts up to that date every year. Under the current rules, you are taxed on profits for the accounting date that ends in a given tax year. For example, if your accounting date is 30 November, for the 2022 to 2023 tax year you will be taxed on profits in your 30 November 2022 accounts.



From 6 April 2024, you will be assessed on your profits for each tax year that runs from 6 April to 5 April. This change will affect how you fill in your tax return if you use an accounting date between 6 April and 30 March. The way your profits are assessed if you use an accounting date between 31 March and 5 April will not change.

There will be a transition year from 6 April 2023 to 5 April 2024 to allow any overlap relief that you may be due to be used against your profits for that tax year. You may be due overlap relief from when you started to trade, or if you subsequently changed your accounting date.

How your profits for the 2023 to 2024 tax year will be assessed

The changes will mean the amount of tax that you owe in the 2023 to 2024 tax year may change if you use an accounting date between 6 April and 30 March. You will be assessed to tax on both:

- The 12-month accounting period you have previously been using (the one that ends in 2023/24).
- The rest of the 2023 to 2024 tax year — minus any overlap relief that you may be due — spread over 2022/23 and the next 4 tax years. You can spread these ‘excess’ profits over a shorter period if you wish.

Example (assuming no overlap relief is available):

1. Your accounting period is from 1 January to 31 December.
2. Your assessable profit is £32,000 from 1 January 2023 to 31 December 2023.
3. Your assessable profit is £18,000 from 1 January 2024 to 5 April 2024.
4. The £18,000 profit is divided equally and assessed over the next 5 tax years at £3,600 a year (£18,000 divided by 5).
5. In the 2023 to 2024 tax year, your total assessable profits will be £35,600 (£32,000 plus £3,600).

Any increased profits from the 2023 to 2024 tax year will be treated in a special way to minimise the impact on benefits and allowances.

How overlap relief can be used

If you set an accounting date between 6 April and 30 March when you started your business, or if you subsequently changed your accounting date, you may have paid tax twice on some of your profits and be entitled to 'overlap relief'.

Usually, businesses can only use overlap relief to get this tax back when they stop trading or change their accounting date. However, HMRC will allow a business with unused overlap relief to use it in the 6 April 2023 to 5 April 2024 transition year.

In the example above, any overlap relief would be deducted from the £18,000 in step 3, also thereby reducing the profits spread over the subsequent 4 tax years.

Please speak to us about how much overlap relief you may be due in the future.

Changing your accounting period

You do not have to change your accounting period and can continue to use whatever accounting date suits your business.

However, you may want to consider changing your accounting date to 31 March or 5 April. If you do, this will align your accounting period with the end of the tax year, and you will not need to apportion profits on your tax return every year.

HMRC have confirmed that the restrictions on changing your accounting date that are currently in place will be lifted starting from the tax return for 2023 to 2024. If you change your accounting date in your tax return for a year before 2023 to 2024, you will not be able to spread any extra profits that arise in the tax year you made the change in.

Please talk to us because we will be able to clarify this change and discuss your options directly.

"Off-payroll" working rules continue to apply

With all of the U-turns on tax policy in the last couple of months, businesses may be confused about what changes are going ahead and which ones have been scrapped by the new chancellor.

One of the controversial announcements in the mini-budget on 23 September was the abolition of the "off-payroll" rules that apply when workers are engaged via an intermediary, typically their own personal service company (PSC). This was due to take effect from 6 April 2023, restoring the tax rules to the pre-6 April 2017 position and would have reduced the compliance burden on end-user organisations.

However, this is one of the many measures that was scrapped by Jeremy Hunt, so the current rules continue to apply.

This means that public sector bodies and large and medium-sized organisations will still need to decide the employment status of every worker who supplies their services through their own intermediary (PSC), even if they are provided through an agency. Whether the organisation qualifies as large or medium-sized is determined by the criteria set out in the Companies Act.

If the off-payroll working rules apply to the relationship, they are required to communicate the worker's employment status determination to them and also the fee-payer by using a Status Determination Statement (SDS). If the end-user organisation is also the fee-payer, they will need to deduct and pay Income Tax and National Insurance contributions to HMRC.

HMRC suggest that end-users utilise the Check Employment Status for Tax service to help them decide if the off-payroll working rules apply.

For detailed guidance see: April 2021 changes to off-payroll working for clients - GOV.UK (www.gov.uk)

Cost of living crisis – Support for charities

The rising cost of living crisis is impacting us all, and charities are no exception.

Fundraising challenges, cost of business increases and volunteer and staff stability are just some of the many issues charities may face.

Over the coming weeks, the Charity Finance Group (CFG) will be sharing a selection of free resources in their cost of living hub.

In the meantime, take a look at some of their advice below:

- Cost of living overview: The cost of living: what can your charity do now?
- Supporting your people: How can charity employers support employees? and seven quick tips for employers
- Reducing costs: Understanding energy consumption and As prices rise, look to procurement!
- Inflation, investments and reserves: How to invest in a world of high inflation and Making your assets work for you
- Reducing risk, boosting resilience: Six steps to developing a business continuity plan and Managing in a crisis: a guide

The cost of living hub will provide you with the ideas, strategies and tools you need to help you, your teams and your communities work through the cost of living crisis together.

For further information, see: Charity Finance Group | Cost of living (cfg.org.uk)

Companies are urged to file accounts early and online to avoid penalties

Running your own company can be exciting but also challenging. Directors have lots of responsibilities including keeping company records up-to-date and making sure they're filed on time.

All limited companies, whether they trade or not, must deliver annual accounts to Companies House (CH) each year. This includes dormant companies.

If we do not file your accounts for you, then you can use Companies House online services which are available 24 hours a day, 7 days a week. There are inbuilt checks to help you avoid mistakes.

It can take as little as 15 minutes from start to finish and you'll know your accounts have been delivered on time. To file online, you'll need your company authentication code. If you need to request a new code, you should allow up to 5 days for this to arrive at the company's registered office.

You should only send paper accounts if your company cannot file online.

Accounts filed on paper need to be manually checked. Companies House can only check them during office opening hours, and they can take over a week to process.

If you need to file your accounts on paper, you should send them to Companies House well before the deadline. This will give you plenty of time to correct your accounts and resend them if they are rejected. You should also consider using a guaranteed next-day delivery and note any industrial disputes or other factors that may make it difficult for a carrier to deliver on time.

Companies House cannot accept postal delays as a reason to appeal a late filing penalty.

See: Companies urged to file accounts early and online to avoid penalties - GOV.UK (www.gov.uk)

Christmas workers can save time with the HMRC app

New employees can use the secure HMRC app to find out their personal tax information and pass details on to their employer - saving them time.

As tens of thousands of people start seasonal jobs over the next few weeks, they can use the HM Revenue and Customs (HMRC) app to save them time finding details they need to pass on to their employers.

In the 12 months up to October 2022, HMRC received almost 3 million calls from people asking for information that is now readily available on the app, with more than 340,000 using it to access employment and income information since July 2022.

New functions and capabilities mean that customers can access their income and employment history, salary information, National Insurance number or tax code via the app, whenever they need it. The information can be downloaded and printed – so there is no need to call HMRC to ask for it to be sent in the post. This means that using the app rather than calling the helpline makes the process much quicker.

See: Check your tax with the official HMRC app - GOV.UK (www.gov.uk)

Autumn Finance Bill 2022 published

The Autumn Finance Bill 2022 was published last week, legislating for key tax changes announced by the Chancellor in the Autumn Statement.

Measures include:

- The Energy Profits Levy (EPL) is being extended to help fund cost of living support and ensure oil and gas companies pay their fair share of tax. The rate of tax applied to the profits of oil and gas companies is increasing from 25% to 35% and the sunset clause changing to March 2028 rather than December 2025. This measure also reduces the investment allowance from 80% to 29%, except for investment expenditure on upstream decarbonisation, where it will remain at 80%. This broadly maintains the existing cash value of total tax relief for non-decarbonisation investments.
- The threshold for the additional rate of income tax will be lowered from £150,000 to £125,140.
- The Dividend Allowance will be reduced from £2,000 to £1,000 from April 2023 and to £500 from April 2024, and the Capital Gains Tax (CGT) annual exempt amount will be reduced from £12,300 to £6,000 in April 2023, and £3,000 in April 2024.

- Introducing Vehicle Excise Duty (VED) for Electric Vehicles (EVs) from April 2025. This aligns their taxation with that of petrol and diesel vehicles, reflecting their permanent role in the net-zero economy of the future. Alongside this, the government will provide certainty on favourable Company Car Tax rates for electric cars until 2028.
- Income Tax thresholds will remain fixed at their current levels until 2028, an extension of two years.
- The current thresholds for inheritance tax will also remain in place until 2028, an extension of two years.
- Research and development (R&D) tax reliefs will be reformed to make sure taxpayers' money is spent as effectively as possible, including by reducing error and fraud. From 1 April 2023, the Research and Development Expenditure Credit (RDEC) rate will be increased to 20% from 13%, the SME deduction rate will be reduced to 86% from 130%, and the Small and Medium Enterprise credit rate decreased to 10% from 14.5%.

The main Spring Finance Bill 2023 will follow the Spring Budget in the usual way, for remaining tax measures needed ahead of April 2023. Please talk to us about how the measures affect you and we will be delighted to help.

See: Autumn Finance Bill 2022 published - GOV.UK (www.gov.uk)

Innovation Loans Future Economy competition - Round 7

Innovate UK is offering up to £25 million in loans to micro, small and medium-sized enterprises (SMEs). Loans are for highly innovative late-stage research and development (R&D) projects with the best potential for the future. There should be a clear route to commercialisation and economic impact.

Your project must lead to new products, processes or services that are significantly ahead of others currently available or propose an innovative use of existing products, processes or services. It can also involve a new or innovative business model.

Innovate UK are particularly interested in projects that focus on the future economy areas included in the Innovate UK plan for action.

You must be able to show that you:

- Need public funding.
- Can cover interest payments.

- Will be able to repay the loan on time.

You can apply for a loan of between £100,000 and £2 million to fund your project's eligible costs.

See: Competition overview - Innovation Loans Future Economy Competition: Round 7 - Innovation Funding Service (apply-for-innovation-funding.service.gov.uk)

Global Incubator Programme: Healthtech - USA

Innovate UK is inviting innovative companies in the digital health and medical device sectors to join their Global Incubator Programme (GIP) in the USA.

Applications are open to innovative companies developing technologies across a broad range of healthtech sectors including:

- Clinical decision support
- Hospital efficiency
- Remote patient monitoring
- Digital therapeutics
- Surgical devices
- ICU devices
- Outpatient medical devices
- Artificial intelligence in radiology
- Wearables and devices that enable patient monitoring
- Diagnostic platforms
- Biomaterials

Prospective applicants should have:

- A novel / innovative solution with some traction (such as efficacy data or reference customers).
- A strong leadership team ready to dedicate time in Houston at the TMC Innovation Factory to build relationships with advisors, investors, clinical champions and decision-makers.
- A willingness to adapt and openness to incorporating the feedback and guidance provided by experts in the Innovate UK network.

- An initial US value proposition and a hypothesis about how to reduce cost, drive quality and increase revenue in the US healthcare provider market.

See: GIP_Healthtech_USA_Houston_FLYER copy (ukri.org)

Materials for Space virtual roundtables

Innovate UK Knowledge Transfer Network (KTN) and the Defence Science Technology Laboratory (Dstl) are inviting you to attend three virtual roundtable discussions in December.

The discussions will focus on:

- Sustainable materials for space - 1 December 2022
- Lightweight materials and structures for space - 6 December 2022
- Materials to survive the natural space environment - 8 December 2022

This is your chance to influence the focus areas of Dstl's Materials for Space Science and Technology Research direction.

The findings will feed into a technology roadmap to shape Dstl's future Materials for Space strategy for advanced materials and processes relating to each of the roundtable themes.

These events are for:

- Materials innovators
- Industrial research and development users
- Academic researchers
- Small and medium-sized businesses
- Original equipment manufacturers
- Space primes

See: Innovate UK KTN & Dstl Technology Consultation – Materials for Space - Innovate UK KTN (ktn-uk.org)