

Tax E-News

Welcome to the October edition of Tax E-News. We hope that you find this informative. Please contact us if you wish to discuss any matters in more detail.

ITS IMPORTANT TO HAVE UP TO DATE PROFIT FORECASTS FOR TAX

In order that we can help predict your taxable profits and tax liabilities we need up to date profit figures and projections. One of the advantages of keeping your business accounts in a computerised form, ideally on the Cloud, is that we can review your latest financial position and help you prepare more reliable profit forecasts to estimate your tax bills.

Unincorporated Businesses

Reliable profit forecasts are particularly important at the moment, with the changes to the taxation of sole traders and partnerships from 2024/25, and the complicated transitional rules that apply in 2023/24. The transitional rules may result in higher tax bills if your business does not have a 31 March or 5 April year end. If we have reliable profit forecasts for your business we can determine whether or not changing your business year end would be beneficial, and also determine the timing of that change.

Limited Companies

From 1 April 2023 the rate of corporation tax that a company pays depends on the level of the company's profits and the number of "associated companies". "Associated companies" are those under common control, which may include companies controlled by close relatives under certain circumstances.

Assuming a company has no "associated companies" then the 19% corporation tax rate continues to apply where profits are no more than £50,000 and the 25% corporation tax rate applies where profits exceed £250,000 a year. The £50,000 and £250,000 limits are divided by the number of "associated companies".

In between the limits there is marginal relief to achieve the transition between 19% and 25%. The marginal tax rate between £50,000 and £250,000 is 26.5% and thus tax planning can be particularly effective.

For example, buying new equipment or paying additional pension contributions on behalf of the directors would potentially save 26.5% corporation tax. The timing of expenditure is critical here, as the expenses would need to be incurred before the year end. We would recommend a review at least 2 months before the company's year-end, with reliable profit forecasts available to allow time for pre-year-end planning.

WHEN ARE COMPANIES ASSOCIATED?

"Associated companies" for corporation tax purposes are those under common control. The most obvious situation is where one of the companies has control of the other, or both of the companies are under the control of the same person or persons. In determining control, the rights and powers of an individual's associates, broadly close relatives, may be taken into consideration, but only where there is substantial commercial interdependence between the two companies. This could be financial, economic, or organisational interdependence and will depend on the facts of each case. An example would be where a brother and sister each have their own limited companies and there is a large loan or significant trading between them, such that one is dependent upon the other.

This is not a straightforward matter, and we can of course advise you on whether or not it impacts your company.

LARGER COMPANIES ARE REQUIRED TO PAY TAX QUARTERLY

Although not a new measure, where a company has profits in excess of £1,500,000 a year it is required to estimate and pay corporation tax quarterly during the year, rather than 9 months after the end of its accounting period. What has changed since 1 April 2023 is that the £1,500,000 threshold is divided by the number of "associated companies"

in the accounting period, as defined above. Thus, if a company has two associated companies, if any of them has profits in excess of £500,000, quarterly instalments of corporation tax will be required. If that company has a 31 March 2024 year end, it needs to pay its estimated corporation tax liability according to the following schedule:

- 25% of its estimated liability by 14 October 2023
- 50% of its estimated liability by 14 January 2024
- 75% of its estimated liability by 14 April 2024
- 100% of its corporation tax liability by 14 July 2024

As mentioned above, accurate profit forecasts are required in order to compute the quarterly payments.

Note that this is a significant acceleration of tax payments compared to the normal 9-month payment interval. Consequently, there is a one year “grace period” that applies for the first year the threshold is breached. You might also wish to consider minimizing the number of associated companies to avoid this cash flow disadvantage.

AUTUMN STATEMENT DATE SET FOR 22 NOVEMBER

The Treasury has announced that the Office of Budget Responsibility (OBR) will produce a report on the state of the UK Economy in time for the Chancellor Jeremy Hunt to present his Autumn Statement on Wednesday 22 November.

Last year the Chancellor announced a number of significant changes, reversing many of the proposals in the Kwarteng/Truss mini-Budget the previous September. This time we are not expecting too many surprises. However, the leaks and rumors have already started with suggestions that there will be no significant tax cuts. There is also likely to be a General Election within the next 13 months so there may be a few tax sweeteners. The Prime Minister’s statement on 20 September on progress to Net Zero suggests that there may be a number of announcements concerning green energy measures affecting individuals and businesses. Another suggestion has been the possible abolition of inheritance tax which may encourage traditional Conservative Party voters to stay loyal (see below)

RUMOURS THAT INHERITANCE TAX MAY BE ABOLISHED

In the weeks before any Budget or Autumn Statement there are always leaks and rumors. Normally, in the run up to a General Election there are also tax give aways in an attempt to re-elect the incumbent political party. One rumour that has been circulating in the press concerns the possible abolition of inheritance tax (IHT). That would certainly be very popular amongst wavering Conservative voters as it would enable them to retain more wealth within the family.

This rumour may have the effect of causing families to delay estate planning pending an announcement. Tax planning can only be based on the tax rules that exist at the time, and should not be based on speculation over future law changes. A further uncertainty concerns tax changes resulting from a possible change in the political party in government. The Labour Party has a history for increasing capital taxes and strengthening the rules concerning the use of trusts in tax planning.

The now disbanded Office of Tax Simplification produced 2 reports in recent years concerning the simplification of IHT and the complicated interactions with capital gains tax (CGT). The Chancellor may decide to take some of those suggestions on board or possibly abolish IHT and extend CGT to certain transfers on death.

As always please contact us to discuss your future plans concerning the transfer of your business and family assets. We will of course keep you informed of any changes in tax legislation that may affect those plans.

ARE YOU DUE A NATIONAL INSURANCE REFUND ON CAR ALLOWANCES?

Recent Tribunal decisions in favour of employing companies and against HMRC has caused many organisations in similar circumstance to make protective claims for the recovery of National Insurance Contributions (NIC) in respect of car allowances paid to employees using their own cars or vans for business journeys.

Many employers have a policy of only reimbursing the fuel costs associated with those business journeys (for example at 15p per mile) rather than paying the maximum HMRC Approved Mileage Allowance Payments ('AMAP') rates (currently 45p/25p per mile) on a tax and NIC free basis. The employee can then make a claim for the difference between the 45p allowance, and the amount received from the employer as a deduction from their employment income.

The recent Upper Tribunal decisions (which HMRC have confirmed they will not appeal) have held that the amounts paid by the employer in respect of business mileage are exempt from NIC and consequently employers should consider making a claim for repayment from HMRC.

Please contact us if you think you may be entitled to make such a repayment claim.

DIARY OF MAIN TAX EVENTS

OCTOBER/ NOVEMBER 2023

Date	What's Due
1 October	Corporation tax for year to 31/12/22 unless paid by quarterly instalments
5 October	Deadline for notifying HMRC of chargeability for 2022/23 if not within Self-Assessment and receive income or gains on which tax is due. i.e. to register for Self-Assessment.
19 October	PAYE & NIC deductions, and CIS return and tax, for month to 5/10/23 (due 22 October if you pay electronically)
1 November	Corporation tax for year to 31/01/2023, unless quarterly instalments apply
19 November	PAYE & NIC deductions, and CIS return and tax, for month to 5/11/23 (due 22/11 if you pay electronically)