Viewpoint Accountants

TAX NEWSLETTER

February 2023

WELCOME TO THE FEBRUARY TAX NEWSLETTER

Our newsletters are designed to keep you informed of the latest tax issues, we hope you find it useful.

Please contact us if you need further information on any of the subjects covered, we are only a phone call away and always here to help.

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MAKING TAX DIGITAL FOR INCOME TAX DELAYED AGAIN

Making tax digital (MTD) for income tax self-assessment (ITSA) was originally scheduled to start in 2018 and was then put back to 2023 and then 2024. It was announced just before Christmas that the new system of submitting digital information quarterly to HMRC has been delayed yet again! The start date will now depend upon the gross business receipts of the individual.

Self-employed individuals and landlords with annual gross receipts above £50,000 will need to follow the rules for MTD for ITSA from 6 April 2026. Those with annual gross receipts between £30,000 and £50,000 will be mandated into the regime from 6 April 2027.

Whether MTD for ITSA will apply to those with gross receipts under £30,000 is under review but it would appear that the government have finally increased the starting threshold from £10,000, which they have resisted up until now.

Despite the delay in the mandatory start date for MTD for ITSA, businesses should nevertheless consider whether or not it would be beneficial to keep their business records digitally anyway.

The date when partnerships will be required to join MTD for ITSA has not been set and may be clarified in the March 2023 Budget.

BUT NEW TAX YEAR BASIS GOES AHEAD

Although the start of MTD for ITSA has been delayed to 2026 at the earliest, the start date of the new regime for taxing the profits of unincorporated businesses on a tax year basis has not been delayed and the transition will still take effect in the tax year to 5 April 2024.

This will be a major change for those unincorporated businesses that prepare their accounts to a date other than 5 April or 31 March. From 6 April 2024 such businesses will need to compute their taxable profits from 6 April to 5 April each year, regardless of their accounting end date.

So, for a sole trader or partnership making up accounts to 31 December each year, their 2024/25 profits would be calculated as 9/12ths of their profits for the year ended 31 December 2024 plus 3/12ths of their profits for the year ended 31 December 2025.

This will invariably require the inclusion of an estimate of the profits of the later period with subsequent amendment once the final figures are known. For this reason many businesses may wish to consider changing their accounting date and we can of course advise you of the tax consequences.

More imminent is the change in the way that profits are to be taxed for the 2023/24 tax year. The upcoming tax year is scheduled to be a "transitional year" with complicated rules for calculating business profits. For many businesses the change will result in a higher tax bill and, if you can supply us with estimated figures, we can work with you to calculate the impact on your cash flow.

Please note that although MTD for ITSA will only apply to the self-employed and landlords initially, these tax year basis changes apply to all unincorporated businesses, including partnerships and LLPs, and those with profits of less than £50,000.

As mentioned before, those already preparing accounts to 31 March or 5 April are not affected.

NEW VAT PENALTY REGIME

A new, and arguably fairer, system for determining penalties for late returns and late payment of VAT applies to return periods commencing on or after 1 January 2023. The same system will also apply to the returns to be submitted under MTD for income tax, when it eventually starts!

Under the new regime, taxpayers will accumulate points for late submissions, and only after reaching a certain threshold will an automatic penalty be imposed. The threshold will depend on how regularly the taxpayer is required to submit a return. For a typical business submitting VAT returns quarterly an automatic £200 penalty will apply when 4 penalty points are accumulated. The system is designed to penalise persistent defaulters rather than those businesses that have an occasional lapse.

130% SUPER DEDUCTION ENDS SOON

Companies considering the acquisition of new plant and machinery need to be aware that the temporary 'super-deduction' of up to 130% for the cost of acquiring new plant ends on 31 March 2023.

Consequently, corporate businesses may wish to bring forward planned expenditure to take advantage of this enhanced tax deduction, utilising hire purchase agreements if funds are otherwise unavailable.

IMPORTANT R&D CHANGES FROM APRIL 2023

The government are committed to a number of important changes to Research & Development (R&D) tax relief from 1 April 2023. It also looks increasing likely that the two existing systems will be merged into a single system in future years and we hope to hear more in the March 2023 Budget.

We already know that there will be a significant reduction in the tax relief available to qualifying SME companies from 1 April 2023, with the current 230% tax relief reducing to just 186%. The effect of this change combined with the reduction in the credit rate will reduce the repayable credit for loss making SMEs from £33.35 per £100 spend to just £18.60. Companies affected should consider the timing of their R&D expenditure.

For non-SME companies the R&D Expenditure Credit (RDEC) is being increased from 13% to 20% as part of the gradual alignment.

There are also important changes to the claims notification procedure from April 2023.

WANT TO REDUCE YOUR 2021/22 TAX BILL?

If you would like to legitimately reduce your 2021/22 tax bill that you have just paid, or your bill for 2022/23, you might want to consider investing in shares in qualifying Enterprise Investment Scheme (EIS) companies.

Under this HMRC approved scheme every £1,000 you invest reduces your tax bill by £300 (30%), provided you are not connected with the company. Broadly you are not allowed to be an employee or control more than 30% of the company.

The reduction in your tax bill is available in the tax year in which the shares are issued, however you may elect to treat some or all of the shares as issued in the previous year and claim tax relief in that previous year.

If you are prepared to take more of a risk by investing in small start-up companies, the Seed EIS scheme provides a 50% tax deduction on up to £100,000 of investments.

Although we can advise you on the tax advantages of investing in EIS and Seed EIS companies you will need to consult with a suitably qualified Independent Financial Adviser who will help you find investments appropriate to your needs.

DIARY OF MAIN TAX EVENTS - FEB / MAR 2023

DATE	WHAT'S DUE
01 February	Corporation tax payment for year to 30/04/22 (unless quarterly instalments apply).
19 February	PAYE & NIC deductions, and CIS return and tax, for month to 05/02/23 (due 22/02 if you pay electronically).
28 February	5% surcharge added to the outstanding balance of tax and national insurance due to be paid on 31 January 2023.
01 March	Corporation tax payment for year to 31/05/22 (unless quarterly instalments apply).
19 March	PAYE & NIC deductions, and CIS return and tax, for month to 05/03/23 (due 22/03 if you pay electronically).

FURTHER INFORMATION & ADVICE

If you would like further information or advice about any of the issues raised in this newsletter then we would be delighted to hear from you.

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