SPRING 2023 | ISSUE 37

WATSON

MTD For Income Tax Delayed Again

Making tax digital for income tax self-assessment (MTD ITSA) was set to take effect from 6 April 2024. This has been postponed until 6 April 2026.

Under the original proposals the start date for MTD ITSA was April 2018. This latest delay represents the fifth deferral (as shown below) and will be an opportunity to make fundamental changes to address the problematic areas of MTD.

- In July 2017 the start date was deferred to “not before 2020”
- In March 2019 the start date was deferred to “not before 2021”
- In July 2020 the start date was deferred to April 2023
- In September 2021 the start date was deferred to April 2024
- In December 2022 that start date was deferred to April 2026

The new regime will require sole traders and individual landlords to keep their business records digitally and to send summaries of business income and expenses to HMRC at least quarterly.

For the first year, only businesses with annual turnover of over £50,000 will need to follow the MTD ITSA rules and from 6 April 2027 that turnover threshold will be reduced to £30,000. No date has been set for partnerships to enter the MTD ITSA regime and the expansion of MTD to corporation tax now seems a very distant ambition.

The Government has said that it will review the MTD ITSA service to see how MTD ITSA can be shaped to meet the needs of these smaller businesses and the best way for them to fulfil their income tax obligations. Only when that review is complete and after consultation with businesses, tax agents and others will the Government set out plans for any further mandating of MTD ITSA beyond 2027.

Regardless of the MTD ITSA start date all unincorporated businesses including partnerships will have to report profits to HMRC for a period that aligns with the tax year from 6 April 2024.

If your business uses an accounting period which does not end on 31 March; 5 April; or a day between those dates there will be some complicated calculations to undertake for 2023-24. Certain partnerships and seasonal businesses could be adversely affected by this change.

We can help you decide whether you need to change your accounting period and assess the ongoing costs if you decide not to.

CONTENTS

OUR SERVICES

- Corporate strategy
- Accounting & audit
- Business development
- Taxation
- Software support & training
- Payroll
- Outsourced management accounting

Hailsham | Brighton
Head office: 30-34 North Street, Hailsham, East Sussex, BN27 1DW
01323 842 119 | mail@watsons.co.uk | watsons.co.uk

watson associates

Planning dividends in 2023/24

Owners and directors of family businesses often take a small salary from the company and any extra funds as dividends. Other family members may also hold shares in the company and receive a dividend each year.

The first £2,000 of dividends received by each taxpayer is currently tax-free but that dividend allowance will be cut to £1,000 on 6 April 2023 and £500 in April 2024. Taxpayers who receive dividends in excess of their dividend allowance need to inform HMRC.

Your company may wish to review how and when it pays dividends to family shareholders this year. We can help you with this.

Taxpayers who receive dividends in excess of their dividend allowance need to inform HMRC of that income and, in many situations, will have to complete a tax return to declare their taxable dividends.

Dividend income is treated as falling into the taxpayer's highest tax band where it is taxed at these rates in 2022-23:

- basic rate band: 8.75% (other income taxed at 20%);
- higher rate band: 33.75% (other income taxed at 40%); and
- additional rate band: 39.35% (other income taxed at 45%).

These dividend rates have been in place since 6 April 2022.

How much dividend can I take?

There is sometimes a general presumption that dividends may be paid out of any cash that happens to be in the bank account at the time. But it's nothing like so simple as that.

The key message here is that before declaring a dividend, the directors must be as certain as they can be that there are sufficient distributable reserves available, *taking into account any corporation tax on profits earned, and losses incurred, since the last annual accounts were prepared*.

This may necessitate the production of reliable management accounts prepared using the same accounting policies as the annual accounts in order to give a true and fair view of profits, losses, assets and liabilities, share capital and reserves.

We can help in this area and would be pleased to discuss it with you.

Supporting your children

If you are a parent, there are various ways in which you can provide financial assistance for your children, but it is always as well to be aware of the tax consequences of the method of help.

Income tax

The income of children is theirs in their own right, no matter how young they are and also they qualify for the standard personal allowance and the various tax bands and rates. Parents can make gifts to their children and so long as the income generated from such gifted capital in a year is less than £100 for each child from each parent, then the income is taxed as the child's and there are no further tax consequences. However if the income exceeds this limit, the whole amount and not just the excess over £100 will be taxed on the donor parent, where the child is under 18 and unmarried. There are certain investments where this "£100 rule" does not apply, and these are mentioned below. One can, of course, invest for capital growth, rather than immediate income – in some accumulation unit trusts, for example.

Inheritance tax (IHT)

In each tax year, each parent may give up to £250 to any number of people, plus further larger gifts up to £3,000 in total. Regular gifts made out of income are not subject to IHT, and there are special allowances for gifts given in consideration of marriage. Most other gifts rank as potentially exempt, becoming fully exempt if the donor survives for seven years.

Most trusts now come within the new mainstream IHT regime. This counts transfers into trusts as chargeable transfers attracting IHT at the lifetime rate of 20% and subject to a charge every subsequent ten years and on exit from the trust. However the IHT nil-rate band can be used to remove a charge arising on the initial transfer. The nil-rate band is currently £325,000.

Junior ISAs

Junior ISAs, for those aged under 18, allow investment of up to £9,000 per tax year in cash or stocks and shares. Withdrawals are not permitted until the child reaches the age of 18, at which point the Junior ISA will become a normal adult ISA. 16 – 17 year olds can also invest up to £20,000 in an 'adult' cash ISA, even if they already have a Junior ISA.

Premium Bonds

Premium Bonds can be bought for a child under 16 by anyone.

Pensions

Although the benefits may not be available until a child is in late middle age, parents may pay up to £3,600 gross (£2,880 net) a year into a personal pension on behalf of a child under 18. The contributions are paid net of basic rate tax, which is retained whether or not the child is a taxpayer.

Students

Many parents provide funds to help their children through higher education as an alternative, or top-up, to student loans.

There is considerable scope when it comes to student accommodation. By buying a house in the student area, your children can be assured of somewhere decent to live and should be able to cover most of the costs by renting rooms to other students. If the property is bought by the student, not the parent (and these days many lenders are happy to offer a mortgage to a student if the parents act as guarantors), the eventual sale may be free from capital gains tax under the principal private residence exemption.

Don't forget the grandparents

The strict rules which apply to gifts from parents do not apply in the same way to gifts from grandparents, who are very often more than happy to support their grandchildren.

The notes above in connection with tax liabilities cover some of the "headline" information, but are not comprehensive. Please contact us for further information and help.

VAT Do’s and Don’ts

VAT registered businesses act as unpaid tax collectors and are required to account both promptly and accurately for all the tax revenue collected by them.

The VAT system is policed by HMRC with heavy penalties for breaches of the legislation. Ignorance is not an acceptable excuse for not complying with the rules.

We highlight below some of the VAT Do’s and Don’ts that you need to consider.

It is however important for you to seek specific professional advice appropriate to your circumstances.

- **DO** keep a monthly record of your turnover - late registration can result in severe penalties
- **DO** be aware that a business is required to register for VAT if the value of its taxable supplies exceeds a set annual figure (frozen at £85,000 since 1 April 2017)
- **DO** notify your local VAT office when major changes take place - changes must be notified within thirty days
- **DO** retain records for the last six years - these could be demanded by law
- **DO** obtain and keep VAT invoices - these are your authority to claim back VAT on supplies made to you
- **DO** charge VAT on supplies to your staff
- **DO** charge VAT on any equipment or vehicles (except motor cars) that you sell or part-exchange
- **DO** account for VAT on fuel used for private motoring using the appropriate flat rate valuation
- **DON’T** claim the VAT paid on the purchase of a motor car - it is not recoverable except in some very special cases
- **DON’T** claim the VAT paid on goods or services used for private purposes. Where there is an element of private use (e.g. telephone) an appropriate percentage should be claimed. Special arrangements apply to private use of petrol (see above)
- **DON’T** claim the VAT paid on entertaining (except for reasonable, relevant costs of entertaining overseas customers)
- **DON’T** forget to account for VAT on inter-company charges
- **DON’T** charge VAT on the transfer of a business as a going concern (make sure contracts incorporate appropriate VAT provisions)

New VAT Late Filing Penalties

If you submit a VAT return late for a period starting on or after 1 January 2023 the HMRC computer will automatically allocate a late-filing 'point' but not a monetary penalty. Only when you have collected several points will you receive a flat £200 penalty.

The penalty threshold depends on how regularly you file your VAT returns:

- quarterly returns: 4 points;
- monthly returns: 5 points; and
- annual returns: 2 points.

Businesses that file quarterly VAT returns become liable to pay a £200 penalty when they file the fourth VAT return late. Each subsequent late VAT return triggers another £200 late-filing penalty until the points slate is wiped clean by a period of perfect compliance.

Perfect compliance is achieved by completing all outstanding VAT returns and filing all VAT returns on time for twelve months. Annual and monthly filers have different periods to meet for perfect compliance.
It does not matter whether the VAT return shows a repayment or VAT owing - if it is delivered late a point or penalty is charged. There is no soft-landing for the new system of late-filing penalties.

The old system of surcharges for late paid VAT does not feed into the new late-filing penalty system.

New VAT Late Payment Penalties

For VAT periods beginning on and after 1 January 2023 you will have up to 15 days to pay your VAT - or arrange a time to pay agreement - before HMRC charge a penalty. In 2023 this 15-day grace period will be stretched to 30 days while traders get used to the new system.

From 2024 onwards the penalties are calculated as 2% of the unpaid VAT at day 15 and a further 2% of the unpaid VAT at day 30. If no payment is made until after day 30 the first penalty will be 4% of the amount due. However if full payment is made between days 15 and 30 the first penalty will be set at 2%. From day 31 a second penalty is charged daily based on an annual rate of 4% of any outstanding VAT due.

This is a much fairer system than the old VAT default surcharges which could see traders hit with penalties of up to 15% of the late paid VAT for paying just one day late. There is no carry forward of default periods or surcharge levels from the old VAT penalty system into the new late-payment regime.

New Members to the WA Team

A warm welcome to our new staff members.

Since our last newsletter we have had the good fortune to be able to add to our dedicated team of professionals. Here are the names of our new full time members of staff who you may have contact with from time to time - may we introduce:

Helen Archer *Tax Manager*

Melanie Benton *Secretary*

Ethan Carlton-Blake *Trainee*

Cindy Carrick *Payroll*

Tom Ford *Trainee*

Jacob Harper *Trainee*

Katy Hesling *Accounts Assistant*

Sean O'Brien *Graduate Trainee*

Elliot Rogers *Qualified Accountant*

Ellie Sacco *Trainee*

We are delighted to have the new members of the team on board - this now brings our numbers up to 71! All of the Directors at Watson Associates are committed to recruiting and training qualified staff at all levels and would encourage anyone interested in pursuing a career in accountancy to contact us.

CHILDREN with CANCER FUND

Children with Cancer Fund

We are excited and proud to announce our support of Children with Cancer Fund for 2023.

We have started the year off well already raising over £500 and we will keep you updated on other events we will be taking part in.

Upcoming Dates for your Diary

6 July 2023	Employers to submit forms P11D and returns of Class 1A NICs (forms P11D(b)) to HMRC for 2022/23.
19 July 2023	Employer non-electronic payments of Class 1A NICs for 2022/23 must reach HMRC. The due date is 22 July for payments made by an approved electronic payment method.
31 July 2023	Second payment on account of self-assessed income tax and Class 4 NIC for 2022/23 due.

New director appointed

We are delighted to announce the appointment of a new director, George Hiller-Jones.

George joined the company post qualification from a top 10 firm. George's experience and skill set allow him to provide comprehensive and commercial advice to SME's, Owner Managed Businesses and larger corporate clients.

Congratulations George!