ammu
accounting matters

tax matters

2021-2022

tax planning is likely to matter even more this year

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Welcome to the first edition of our annual guide to helping you to manage and plan your financial and tax affairs.

While there is often a focus on planning for the end of the tax year, much less attention is paid to the start of the tax year. The lack of an obvious deadline is probably one reason – deadlines tend to concentrate the mind!

Nevertheless, some planning at the beginning of the year can be rewarding, in fact it can be quite literally when it comes to disposing of assets and making investments.

This will be especially relevant this tax year following the 12 months we have all just lived through. You may find that the impact of tax reliefs and allowances on your income, investments and assets could be vastly different from what you'd expect in a normal year.

You may also be thinking differently about passing on wealth, retirement or selling the business. Or you could be starting up a new business or making investments in new or early-stage companies who will help to rebuild our economy from the ravages of the pandemic and lock-down restrictions.

This guide offers pointers on a range of opportunities you could consider and forms the basis of a good financial plan to complete the tax year – for life, work and family. With ideas affecting income and investment, for couples, company directors and employees, and self-employed people, there will be something for everyone.

Enjoy.

Jane & Simon

P.S As this is the first edition of the guide, we're looking for your feedback. If there are other tax matters you'd like us to feature then please do let me know! We will however cover all the bases when we discuss your affairs directly with you at our tax planning meetings. So, once you've had a flick through let us know what you think and what may have sparked an …

'I should do something about that this year'.

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get ahead this tax year!

20 opening pointers to get you started

1. Have you checked your PAYE Tax Code is correct?

2. If you've not utilised your personal allowance in full, can you transfer 10% of the personal allowance to your partner to reduce their tax bill?

3. Could you transfer income to your partner to maximise the tax-free savings and dividend income limits?

4. Could you transfer income to your partner to avoid losing child benefit?

5. Have you told HMRC which property should be treated as your main home for tax purposes?

6. Have you and your married/civil partner nominated one property as the main home within 2 years of marriage/civil partnership? (applies if you each have property)

7. Are you selling a home? Check if you have Capital Gains Tax (CGT) to pay

8. Have you used your annual CGT exempt amount by making any available disposals before 6 April 2022?

9. Can you reduce CGT by spreading your company shares between you and your spouse?

10. Have you used this year's ISA allowance before 6 April 2022?

11. Are you contributing to your child's Junior ISA?

12. Are you making the best use of tax-free savings and dividend allowances?

13. Are you investing enough in your pension (or possibly a lifetime ISA) if you wish to retire earlier than the state pension age, which is likely to keep going up?

14. Have you considered the timing of dividends and bonuses to minimise tax rates?

15. If you are aged over 55, have you taken advice about the options for drawing your pension savings?

16. Have you planned your capital gains to manage capital losses?

17. Have you made gifts to use your annual Inheritance Tax (IHT) allowances?

18. Have you considered setting up a Family Investment Company or Trust as a tax efficient way of distributing wealth to your family members and loved ones?

19. Are you considering any charitable gifts now or in your will?

20. Are you making preparations to comply with MTD? Making Tax Digital (MTD) comes into play for self-assessment taxpayers from April 2023.

personal + family tax matters

in Scotland, income tax is a partially devolved tax

The Scottish Government is responsible for setting the rates and bands each year for non-saving income. The Scottish Rate of Income Tax (SRIT) currently applies only to non-savings income. Non savings income includes employment, pensions, self-employment and property income.

All savings and investment income remains taxable at the rates and tax bands set by the UK Government and is expected to remain so for the foreseeable future.

If you are a UK resident who splits their time between Scotland and the rest of the UK, you should consider your position carefully and make sure the facts reflect and support your intentions when declaring whether you are a Scottish taxpayer or not.

Income tax and your personal allowance

A strong starting point in tax planning is to understand where your income is likely to fall relative to the tax thresholds. In the Spring budget, renamed the big freeze, the Chancellor announced that Income tax and National Insurance will remain frozen for 2021-22.

Where the personal allowance is available, it is phased out on income between £100,000 and £125,140. This results in an effective tax rate of up to 60% (61.5% for Scottish residents) within this income bracket.

It may be possible to reduce taxable income through pension contributions and eligible charitable donations. The personal allowance is not available to non-UK domiciled individuals who claim the remittance basis.

Low earners will pay less tax than the rest of the UK, although those with income above £27,392 will pay more. However, all Scottish taxpayers will pay slightly less tax compared to the current year.

Income tax rates will remain the same but the threshold where the upper rate kicks in will be frozen. The starter rate (19%) and basic rate (20%) band thresholds have been increased by inflation.

The UK Government continue to set the rates for all other income and allowances and reliefs that apply. Your personal allowance, along with the other allowances such as those applicable to savings and dividends are set by the UK Government and apply to Scottish taxpayers on the same basis as all UK taxpayers.

See 2021/22 tax rates on the inside back page for the full UK and Scottish tax rates, reliefs and allowances.

Tax rates for 2021/22 are:

taxable income	band	rates
0 to £2,097	starter	19%
£2,098 to £12,726	basic	20%
£12,727 to £31,092	intermediate	21%
£31,093 to £150,000	higher	41%
Over £150,000	top	46%

income tax saving for couples

Switching income from one spouse or partner to the other can help save tax, which may be even more important this year.

Always aim to use both individuals' personal allowances (£12,570 in 2021/22) and minimise any higher and additional or top rate tax.

- Income over £150,000 is currently taxed at 45%, or 46% for non-savings, non-dividend income in Scotland.
- The personal allowance is withdrawn where income (less certain deductions) is more than £100,000.
- You might be able to reorganise both of your financial affairs to avoid exceeding one of these limits. However, CGT may be payable on switching ownership of an investment if you are not married or in a civil partnership.

If you are also a director of a company, you can receive £2,000 of dividends tax free in 2021/22 regardless of your tax status. See your Business section for more planning ideas.

Reorganising your shareholdings between you may make better use of this limit. You can also receive £1,000 of savings income tax free if you are a basic rate taxpayer, and £500 if paying tax at the higher rate.

If you or your partner have little or no earnings or pension income, you might also benefit from a 0% tax rate on up to a further £5,000 of savings income.

Again, shifting assets between you can help minimise tax on your savings income. A £1,000 tax-free allowance is available for income from property, such as where a parking space is let out, so joint ownership could result in a modest tax saving.

If one spouse or civil partner will not be able to use their personal allowance for 2021/22, then claiming the marriage allowance will save the other spouse/civil partner up to £250 (£251.40 to be exact) in tax.

However, a claim can only be made if the recipient does not pay tax above the basic rate. Claims can be backdated for four tax years, so the advantage of making a claim by 5 April 2022 is the inclusion of 2017/18.

inheritance tax (IHT)

You will want to pass on as much wealth to your family and other loved ones as you possibly can.

We will help you to structure your financial interests and affairs to minimise any taxes that may be payable from your estate. This will help to ensure that your beneficiaries receive the maximum benefit from your estate that you intended.

By taking the time to arrange your estate tax efficiently it may also avoid the need for your beneficiaries to sell some of their inherited assets to meet any future tax bills that may come their way from HMRC.

Inheritance tax of 40% may be payable on your estate. The first £325,000 (£650,000 if you are married or in a civil partnership) is exempt. This is known as the IHT nil rate band which will remain at this level until 5 April 2026.

Further, there is an extra allowance applying to your main home. The residence nil rate band (RNRB) is £175,000 and the RNRB taper will continue to apply where the value of the estate is greater than £2 million.

Again, couples can combine their RNRBs which can take the value of your IHT free estate up to £1,000,000 where a main residence is included.

The RNRB can be complex and there are a range of qualifying conditions which we will discuss with you during your planning consultation.

other reliefs that may be available to you

If you meet the conditions for Business Property Relief (BPR) you can potentially remove the full value of a business – sole trader, partnership, shares in private company – from being subject to an IHT charge, either via lifetime gifts or on death.

If you own farmland or pastures, woodlands occupied with agricultural land, buildings used in connection with agriculture and, in some cases, farm cottages and houses, you may qualify for Agricultural Property Relief (APR).

The rules can be complex, but these reliefs are there to avoid the need for your beneficiaries to sell assets in order to pay the IHT demand from HMRC.

your inheritance tax exemptions:

Inheritance tax planning is generally not related to the tax year end, although this is as good a time as any to review your will and ensure your stated wishes are up to date.

There are, however, certain IHT exemptions that are related to the tax year.

Gifts totalling up to £3,000 in a tax year are exempt from IHT. If you didn't use this exemption in 2020/21, you can make IHT-free gifts of up to £6,000 before 6 April 2022. If you have already used your exemption for 2021/22, you could delay your next gift until after 6 April 2022 to take advantage of the 2022/23 exemption.

Gifts of up to £250 to any person in any one tax year are exempt. You can use this exemption for any number of different recipients.

Regular gifts out of excess income can also be exempt, with the amount of excess income determined each tax year. You need careful documentation to prove that you make the gifts from income rather than capital.

Family Investment Company or setting up a trust to protect your wealth

If you don't want to give direct, you could consider setting up a Family Investment Company or Trust.

A Family Investment Company (FIC) can provide a tax efficient investment solution for family succession planning. By setting up a FIC it enables the owners to retain control over the assets whilst at the same time distributing wealth within the family in a tax efficient manner.

There is no inheritance tax to pay on the growth in value of the FIC as it will be outside the owner's estate. Further, there will be no IHT on shares gifted to family members if the owner survives for 7 years

It is also possible to transfer asset(s) into a trust with no capital gains or inheritance tax impacts. Some additional tax charges and costs related to FICs and Trusts may apply, and the benefits depend on individual circumstances and qualifying conditions apply.

Both FICs and Trusts are worth a look when considering the options available to you for passing wealth to the next generation whilst minimising yours (and their) potential future tax liabilities.

giving back

In this particularly difficult time for many, remember you can get tax relief for any gifts to charity if you make a gift aid declaration.

You make the gift out of your taxed income and the charity benefits by claiming back basic rate tax on the value of the gift. Higher and additional rate taxpayers can claim an extra 20% or 25% in relief. In Scotland, intermediate, higher and top rate taxpayers can claim an extra 1%, 21% or 26% in relief.

You can obtain both income tax and CGT relief on gifts to charities of shares listed on the stock market and certain other investments.

Gifts to charity are free of IHT, so remembering a charity in your will can reduce the total amount of IHT that will be paid on your estate. If 10% of your net estate is left to charity, then the rate of IHT payable will be reduced from 40% to 36%.

useful links

www.gov.uk/inheritance-tax – HMRC guide to IHT.

www.gov.uk/donating-to-charity – information about tax relief when donating to a charity.

get ahead on capital gains tax (CGT) planning

Some careful forethought can help minimise your capital gains bill this year.

Everyone has an annual CGT exempt amount, which in 2021/22 makes the first £12,300 of gains free of tax.

CGT is payable when you sell an asset, or gift it to a family member, and there has been an increase in the value of the asset.

Most gains above the exempt amount are taxed at 10%, with 20% payable on gains that exceed this limit. Residential property gains are taxed at 18% and 28%.

You should generally aim to use your annual exempt amount by making disposals before 6 April 2022.

If you have already made gains of more than £12,300 in this tax year, you might be able to dispose of loss-making investments to create a tax loss. This could reduce the net gains to the exempt amount.

planning points

Transferring assets between married couples or civil partners before disposal might save CGT, particularly where one partner has an unused exempt amount, has not fully used their basic rate tax band or has capital losses available. You should generally leave as much time as possible between the transfer and the disposal.

CGT is normally payable on 31 January after the end of the tax year in which you make the disposal. You could therefore delay a major sale until after 5 April 2022 to give yourself an extra 12 months before you must pay the tax. However, a payment on account of CGT must be made within 30 days of a residential property disposal (other than of an exempt principal private residence). There is no timing advantage to delaying such a disposal.

Timing your disposals is particularly important if disposals in this tax year have resulted in a net loss. Depending on the level of your income, making a disposal either side of the tax year end could save or cost you tax.

A shareholding or another chargeable asset might have lost virtually all value. If so, you can claim the loss against your capital gains without disposing of the asset by making a negligible value claim. You can backdate the loss relief to either of the two tax years before the one in which you make the claim - provided you owned the asset in the earlier year and it was already of negligible value.

expert advice

Simon Murrison:

“Think ahead as CGT reform remains on the agenda. Now may be a good time to review whether to realise your gains before the tax regime becomes harsher.”

savings and investments

individual savings accounts

Individual saving accounts (ISAs) have income tax and CGT advantages.

You can invest in one cash ISA, one stocks and shares ISA and one innovative finance ISA in each tax year. ISAs are free of UK tax on investment income and capital gains.

If you are aged 18 to 39, you can also invest up to £4,000 in a lifetime ISA. However, the maximum investment limit of £20,000 (for 2021/22) applies across all four types of ISA.

lifetime ISAs

The Government adds a 25% bonus to investments of up to £4,000 a year in a lifetime ISA. You can use these savings to help buy a first home or keep the funds for retirement.

A lifetime ISA will be a more attractive approach to retirement saving than a traditional pension for some, or you can, of course, opt for both forms of pension saving.

junior ISAs

Although 16- and 17-year-olds can open a cash ISA, the rules effectively prevent you from opening an ISA for them.

Parents and others can contribute to a Junior ISA for children up to 18 who do not have a child trust fund. The contribution limit is £9,000 in 2021/22.

pensions

Pension funds are a key focus in tax planning as they are broadly free of UK tax on their capital gains and investment income. Although pensions should always be considered in the longer term, the Covid-19 crisis might have affected your pension savings, especially as stock markets continue to react negatively to any indication of further lock-downs.

When you take the benefits, up to a quarter of the fund is normally tax free, but the pension income will be taxable.

Most people aged 55 (rising to 57 in 2028) and over can draw their pension savings flexibly. Withdrawals above the tax-free amount are liable to income tax at your marginal rate.

2 questions to ask yourself are:

1. **Are you investing enough in your pension or possibly a lifetime ISA if you wish to, or must, retire earlier than state pension age** (which is likely to keep going up?)

2. **If you're aged over 55, have you taken advice about the options for drawing your pension?**

pension contributions

There is an annual limit of £40,000 on pension contributions that qualify for tax relief, although this limit is tapered down to a minimum of £4,000 if your income exceeds £200,000. This can be increased if you did not use up your allowances in the preceding 3 tax years and were a member of a qualifying pension scheme. (Further details below)

You can, however, carry forward unused annual allowances for up to three years to offset against a contribution of more than the annual limit. For people already drawing a flexible income from a pension, the annual allowance is £4,000.

stakeholder pensions

Any UK resident individual under the age of 75 can contribute up to £2,880 (net) into a stakeholder pension each year, irrespective of their income level or employment status, so these pensions can be funded for non-working spouses and children.

- Flexible access to pensions from age 55 (57 from 2028) is set to remain at 10 years below state pension age
- Pension drawdown restrictions have been relaxed
- Some final salary pensions can be switched to DC, but some transfers from public sector schemes are no longer allowed
- It is possible to take smaller amounts over time, each with 25% tax free
- Death benefits from a defined contribution pension paid to beneficiaries before age 75 will be completely tax free
- Death benefits paid to beneficiaries after age 75 will be subject to tax at the beneficiary/nominee's marginal rate
- The 25% tax-free amount no longer must be taken all at once on retirement.

planning points

You should take advice before accessing pension savings as there are several options and they will generally have a long-term effect on your financial position.

You can pay up to the whole of your earnings into a pension scheme, but the tax relief is capped by the annual allowance plus any unused allowances brought forward.

Tax relief on pension contributions is at least 20% for higher rate taxpayers and 25% for additional rate taxpayers. In Scotland, intermediate, higher and top rate taxpayers receive relief at 1%, 21% or 26%. Limiting your contributions to amounts that qualify for at least 20% tax relief will give you the most benefit.

Effective relief can be as high as 60%, or 61.5% in Scotland, where the personal allowance is being withdrawn, and can be even higher if tax credits are being withdrawn.

You could set up a pension for your partner or children since they don't need earnings to build up to £3,600 in a personal pension. Even if they do not pay any tax, their pension scheme can still benefit from 20% tax credit from the Government.

You can combine your disparate pension pots from previous jobs and investments, and you can consolidate pension pots to purchase commercial property.

Land and buildings transaction tax

1 April 2021, the nil rate threshold reverts to £145,000, with a £175,000 threshold for first-time buyers. There are no other changes; the additional residential property rate remains at 4%.

For the full range of property transaction taxes applicable in Scotland and the rest of the UK, see UK Tax Rates 2021-22 on the inside back page.

allowances

From 6 April 2016, the standard Annual Allowance (AA) of £40,000 for pension contributions (the total of personal and employer contributions) was reduced by £1 for every additional £2 of an individual's 'adjusted income' over £150,000.

This could still affect you if your income from all sources was over £110,000. However, from 6 April 2020, the thresholds were increased, and the reduction only applies if an individual's 'adjusted income' is over £240,000. This can still affect you if your income from all sources is over £200,000.

Unused allowances from, 2018/19 and 2019/20 and 2020/21 (based on your available annual allowances for those years) can be brought forward and used in 2021/22.

This can affect you unexpectedly if you are a member of a final salary scheme e.g. defined benefit (DB) or career average scheme. Should you breach the rules and pay too much, you will be subject to a pension tax charge. Payment of this charge is the individual member's responsibility and will be charged at your marginal rate of tax however, it may be possible for you to elect to use your pension fund to pay the charge if certain conditions are met.

If the total of all your pension funds is likely to be at or near £1m by the time you retire, you should seek urgent advice.

The maximum you can hold in a tax-favoured pension scheme without triggering an extra tax charge is £1,073,100 in 2021/22 and will remain at this level for the next four tax years to 2025/26.

business tax matters

corporation tax

The main rate of corporation tax will remain at 19% for the year beginning 1 April 2022. It will rise to 25% from April 2023 for businesses with profits of £250,000 and over.

The rate for businesses with profits of £50,000 or less will remain at 19% with a marginal taper for profits between £50,000 and £250,000.

These thresholds are proportionately reduced for the number of associated companies and for short accounting periods. The rate of diverted profits tax will increase to 31%. The government will review the bank surcharge rate of 8% considering the corporation tax increase.

planning point:

If loans are made by a company to its participators and the loan is in place at the year end, a tax charge arises. Consider having such loans paid off in advance of the year

incentives to invest

Capital Allowances (CAs) represent a valuable tax deduction for your business. They can be claimed on a wide variety of capital assets including plant, machinery, equipment, fixtures & fittings and vehicles. the Annual Investment Allowance (AIA), which offers a reduction in taxable profits of 100% of the allowable expenditure. The temporary £1 million limit for the AIA will be extended again – to 31 December 2021.

super deduction

Super-deduction allows an uncapped 130% capital allowance on plant and 50% first-year allowances.

Companies investing in qualifying new plant and machinery between 1 April 2021 and 31 March 2023 will benefit from new first-year capital allowances. Investments in main-rate assets – those that qualify for 18% writing down allowance (WDA) – will be relieved by a 130% super-deduction, while investments in assets qualifying for 6% WDAs will benefit from a 50% first-year allowance.

planning point:

It is important to seek expert advice before investing in new plant and machinery. The 130% super deduction, combined with the current corporation tax of 19%, means that for every £100,000 you spend, you get £24,700 back in tax reductions. In 2023 Corporation Tax will rise to 25% so with no super-deduction, a £100,000 expenditure would allow for a tax reduction equaling £25,000.

R&D tax credits

R&D Tax Credits remain a key part of The Government's strategy to support innovation in the UK and typically, most SMEs qualify. It can help a Limited company reduce corporation tax liability or can be claimed as a cash sum.

Many SMEs are potentially eligible, whether profit or loss-making and claims can be made retrospectively for two previous financial years.

R&D tax credit can only be claimed by companies that have incurred expenditure on qualifying R&D projects that are relevant to the company's trade.

A project should address an area of scientific or technological **uncertainty** and be **innovative.**

are you eligible?

To give you a flavour for some of the projects we have been involved in and to get you thinking about the projects, developments and advancements you may have undertaken that could qualify for R&D Tax Credits, we have provided examples on our website www.ammu.uk.

There is obviously more detail behind the headlines but what these examples will give you is a good indicator of the range of works, projects and improvements that have qualified for R&D Tax Credit funding.

expert advice

Iain Robertson says:

“It's encouraging to hear the announcement of a review to make sure that R&D tax credits in the UK match up to the rather more generous schemes found in other parts of the world, indicating the government's continuing support for this approach of supporting innovation.”

incentives to sell

business owners and investors

Entrepreneurs' relief was an incentive designed to help entrepreneurs to start a new business by reducing the amount of CGT payable when they sold a business, or certain business assets where the qualifying conditions were met.

The name changed in 2020 to Business Asset Disposal Relief (BADR) but there was no change to how relief benefits business owners looking to minimise their CGT liability when selling. Providing the qualifying conditions are met, BADR enables the seller to reduce their CGT liability to 10%. What's more there is no limit to the number of times you can claim this relief, although there is a lifetime cap of £1,000,000.

When selling the whole of or part of your business, to qualify you must be a business owner or a business partner for the duration of the qualifying period. You also need to have owned the business for at least two years.

If you are selling shares, you don't need to be the business owner to qualify but you must have been an employee and held the shares in the trading company (or holding company of a trading group) for the qualifying period. Conditions do apply and there is one notable exception to the qualifying conditions – investor relief.

investor relief

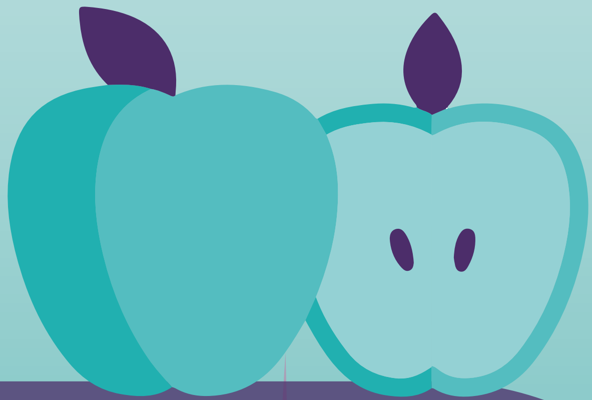
In 2016, investors relief was introduced to incentivise individual investors to purchase shares in non-listed trading businesses. This was part of the UK Governments aim to encourage new and more investment in high growth start up and early-stage businesses looking to scale up but who find funding hard to come by from traditional funders and lenders.

Investors relief is also a good option for those who have used up their other tax reliefs and for new companies that can't access other forms of relief such as SEIS and EIS – see below.

Capital gains made by investors are only taxed at 10% if conditions are met – these conditions are broadly similar to the conditions for BADR although there are a couple of minor differences.

If you are a business owner considering selling your business or selling a share you should speak to us about your BADR and/or Investor Relief position as it is easy to fall foul of the detailed rules.

EIS and seed EIS



The Enterprise Investment Scheme and Seed Enterprise Investment Schemes aim to help new and early-stage companies to attract investment. In return unquoted companies attract equity investment by offering investors a range of tax incentives.

The appeal for investors is clear and for companies looking for funding, the investment opportunity will be much more attractive if investors qualify for EIS or SEIS.

Under EIS, up to £5 million can be raised each year, and a maximum of £12 million in a company's lifetime. It also includes amounts received from other venture capital schemes. The company must receive investment under a venture capital scheme within 7 years of its first commercial sale.

Seed EIS is targeted at companies looking to raise funds in their first two years of trading. 50% income tax relief is available on investments of up to £100,000 and again no CGT is payable when the shares are sold. You must follow the Scheme's strict conditions.

loss relief

To help improve cash flow positions, both incorporated and unincorporated businesses will be able to carry back unused trading loss. The period over which incorporated and unincorporated businesses may carry back trading losses will be extended temporarily from one year to three years.

This extension will apply to a maximum £2 million of unused trading losses made in each of the tax years 2020/21 and 2021/22 by unincorporated businesses. The same maximum will apply separately to companies' unused trading losses, after carry back to the preceding year, in relevant accounting periods ending between 1 April 2020 and 31 March 2021 and for periods ending between 1 April 2021 and 31 March 2022.

The £2 million cap will be subject to a group-level limit, requiring groups with companies that have the capacity to carry back losses above £200,000 to apportion the cap between their companies.

planning for directors + employers

Bringing forward income could be a sensible approach if your income has taken a hit this year, but you expect it to return to normal next year.

- If your income is less than £150,000 this year but is expected to exceed that figure next year, you could bring forward income into 2021/22 to avoid the additional or top rate next year.
- Conversely, if your income will fall below £150,000 in 2021/22, you might be able to avoid the additional or top rate of income tax this year by delaying a bonus until after 6 April 2022.

Alternatively, you could consider a similar strategy to keep your income below the level at which you would lose your personal allowance. This option would mean sacrificing salary to bring your income below any of the thresholds in exchange for a tax-free employer's pension contribution.

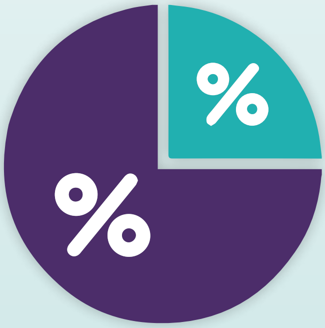
If, like many, you are required to work from home this year, you can claim a tax-free amount of £312 for 2021/22 to cover the additional costs involved – it doesn't matter how many weeks you work from home.

expert advice

Iain Robertson says:

"Think ahead: as your business might be entitled to a valuable R&D tax credit – even if it doesn't make a taxable profit. Check out the position; you might be surprised what expenditure can qualify and how much it could be worth to you."

dividends



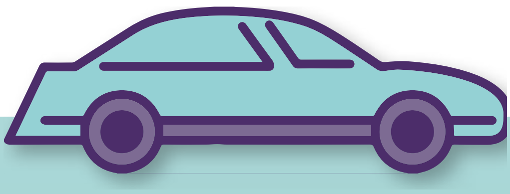
You should consider paying a dividend before 6 April 2022 if you are the owner of a limited company, particularly if you have not already made full use of the £2,000 tax-free allowance. This might well be the case for 2021/22, because many public companies have cut or deferred dividend payments.

Bringing forward a dividend payment could also help. If the income falls into the basic rate band this year (or Scottish starter, basic or intermediate rate bands), or if you expect to pay tax at the additional or top rate next year but only at the higher rates this year.

You could even give shares to your spouse or civil partner shortly before paying a dividend, provided you genuinely transfer ownership. It is advisable to leave as much time as possible between the gift and the subsequent dividend payment.

some other considerations

If you are going to **work abroad** for more than a year, it may help to leave the UK before 6 April 2022. There are complex rules around residency, so you should seek specific advice.



This is also a good time to review your **company car** situation, especially if you are now working from home and expect that to continue long term.

If you are hardly using your company car, you can return it to your employer to remove the tax charge. The changes introduced from 6 April 2020 mean that switching to a fully electric car or an ultra-low emission hybrid with a high electric motoring range will drastically lower your tax cost. Such a switch will also save tax and NIC for your company.

If your business is affected by the **personal service company** rules (IR35), it is important to calculate how much salary to draw before 6 April 2022 to avoid being taxed on a 'deemed payment'. You also need to plan for the off payroll working rules that will apply to IR35 engagements, which may have been postponed for a year due to the Covid-19 crisis.

self-employment

The director/employee tax planning approach around income levels applies equally to those who are self-employed.

Remember that when calculating your trading profit for 2021/22, you must include any Covid-19 support payments because these are all taxable.

If you are self-employed, you might be able to affect the timing of your taxable profits to avoid paying tax at 45%, or 46% in Scotland, but this will depend on your accounting date.

partners salary

You could pay an otherwise non-earning partner a salary, on which you will get tax relief. You normally must keep PAYE records even if the salary is below the NICs limit, which is £520 a month in 2021/22. If, however, the salary is between £520 and £797 a month, your partner will avoid paying any employee NICs, but will still qualify for state benefits. A small amount of employer NICs will be payable if the salary exceeds £737 a month.

You can also pay an employer's contribution to your partner's personal pension plan. There are no taxes or NICs on the payment itself, and it should be an allowable business expense. However, the total value of your partner's salary, benefits and pension contributions must be justifiable in relation to the work performed.

Alternatively, you could plan ahead to share the profits of your business by operating as a partnership in 2021/22. You both need to be genuinely involved as business partners, though not necessarily equally.

apprenticeship schemes extended!

The Kick-start Scheme provides funding to employers to create job placements for 16 to 24-year-olds on Universal Credit.

Employers of all sizes can apply for funding which covers:

- 100% of the National Minimum Wage (or the National Living Wage depending on the age of the participant) for 25 hours per week for a total of 6 months.
- associated employer National Insurance contributions.
- employer minimum automatic enrollment contributions.

Employers can spread the start date of the job placements up until the end of December 2021.

Grants available are: £300 per job placement to cover admin costs and £1,500 per job placement for employers.

Useful link www.gov.uk/government/collections/kick-start-scheme

employee share scheme + incentives

Employee share schemes help to incentivise, motivate, recruit and retain your best people and they provide employers with a tax efficient way to reward their employees.

Employee share schemes, such as the Enterprise Management Incentive (EMI) scheme, can give your employees a direct financial interest in the future success of your business - and there are also significant tax reliefs available to the company and the employee.

Not only do employee share schemes enable employers to reward their employees in a tax efficient way, they can also be beneficial if you are considering selling your business or taking a step back into semi-retirement or bringing in a new management team. The schemes are a good way of keeping the key members of the team in place during this transitional phase.

employee ownership trusts

Over the last few years, Employee Ownership Trusts (EOT) have grown in popularity as they have become a viable business succession option for owners who want to transfer ownership to their employees.

An EOT is a tax incentivised means of transferring ownership and control of the business for the benefit of the employees.

The main benefit to the owner-manager is that there is no capital gains tax to pay on the sale if the ownership passes into an EOT.

Under an EOT the employees do not directly own the shares; the shares are held in the trust and these are used to the benefit of the employees e.g. annual bonus based on company performance. It also means that today's employees and any future employees of the business will benefit from the EOT as it is the employees as a whole who benefit rather than individual employees owning shares – as is the case with EMI schemes.

We can help you to review the various options and schemes that offer the most tax and commercial benefits to the business and its employees.

making tax digital:

HMRC introduced MTD in April 2019 for VAT registered businesses with turnover above the £85,000 VAT threshold. All other VAT registered business will need to comply with MTD from April 2022.

From April 2023, all self-assessment tax payers will also need to comply with MTD requirements. This will also see landlords and business owners with over £10,000 of income being subject to MTD.

Businesses will need to use MTD compliant software to submit their information digitally to HMRC. You don't need to have all of your digital records on one piece of software, but you must have links between the software you use.

If MTD will apply you should consider what you need to do to prepare for the transition to MTD – we are on hand to guide you and to recommend the software you will need to get you ready for MTD.

digital expert advice

Jamie McLachlan says:

"The last year accelerated digital transformation faster than the last decade. All businesses can and should harness the power within digital accounting software to understand more about their customers, their profit and loss making lines and to automate 90% of accounting tasks and streamline processes for a faster, resilient business."

are you ready to go digital?

get in touch with us today to arrange a consultation

VAT: deferral

what you need to know about the new payment scheme

Businesses that deferred VAT payments due between 20 March and 30 June 2020, and could not afford to pay by 31 March 2021, have the option of joining a new scheme allowing them to pay the deferred VAT over a longer period. The VAT deferral new payment scheme opened on 23 February and will close on 21 June 2021.

The scheme lets a business pay any outstanding deferred VAT in equal installments without incurring interest or penalties. The number of installments can be between two and 11, depending on when a business joins the scheme.

VAT: reverse charges

The VAT domestic reverse charge has applied to most supplies of building and construction services since 1 March 2021. The rules cover standard and reduced rate VAT supplies between VAT-registered sub-contractors and contractors where reporting is required under the construction industry scheme (CIS).

There are range of conditions, but in essence sub-contractors will no longer charge or account for output VAT, and invoices must state that the reverse charge applies. The main contractor will account for the VAT and make the appropriate payments via their quarterly returns to HMRC.

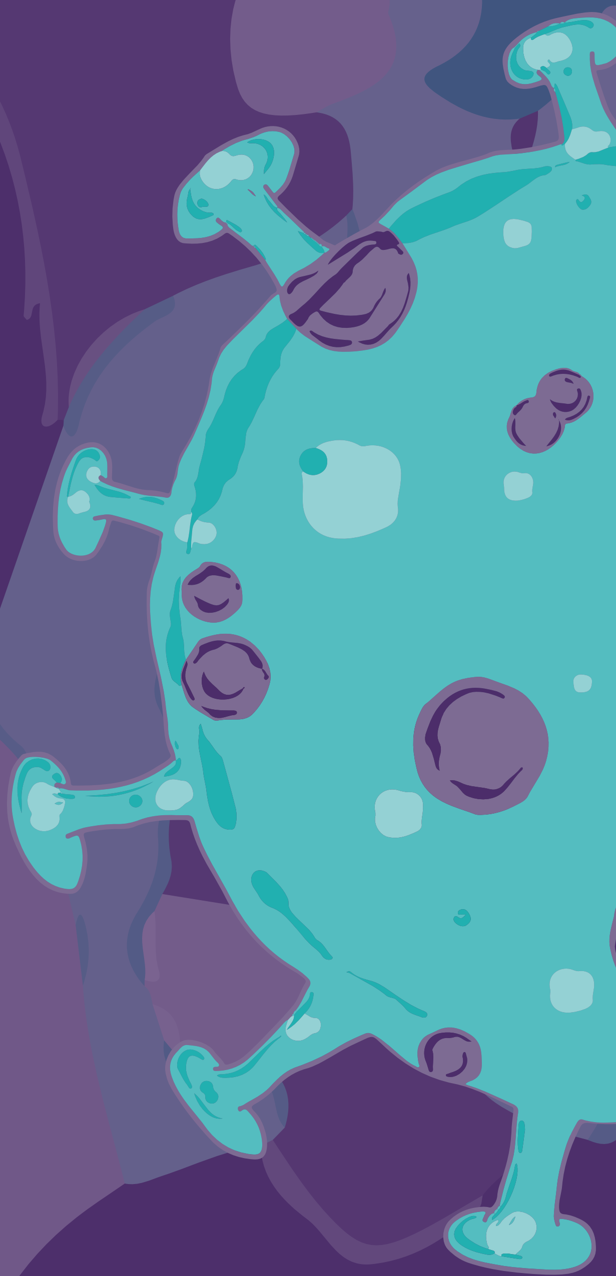
planning point:

Cashflow is likely to be affected for sub-contractors who will no longer benefit from retaining VAT before paying it over to HMRC. Moving to monthly VAT returns could be the best option for managing repayments.

covid support available to scottish businesses

coronavirus job retention scheme (CJRS)

The CJRS (furlough scheme) will be extended to run until 30 September 2021, providing employees with 80% of their current salary for hours not worked. Up to the end of June, the current 80% government payment level will be maintained (capped at £2,500 a month), with employers responsible for NICs and pension payments. The Government payment will then drop to 70% in July and 60% in August and September (with the monthly cap reducing proportionately).



self-employed income support scheme (SEISS)

The SEISS will also be extended to September 2021. A fifth grant, claimable from late July, will cover the period May to September. It will be worth 80% of three months' average profits where the claimant's turnover has dropped by 30% or more. Where the fall in turnover is less, the grant will be limited to 30% of profits (capped at £2,850). Eligibility will be extended to include those who were self-employed in 2019/20 and who have filed a tax return for that year.

planning point:

If your business has been impacted by the pandemic and subsequent lockdown restrictions and you would like further advice on accessing Covid-19 support or applying for funding via the recovery loan scheme then get in touch with us.

We can help you to review the options and choices available to your business to get your through this difficult period. We can also prepare cashflow forecasts and financial projections based on a few potential scenarios that may unfold over the next 6-12 months as you map out what cash, stock and resources you will need to trade during a periods of fluctuating demand.

5% VAT rate for food, attractions and accommodation extended

To continue to support businesses and jobs in the hospitality sector, the reduced 5% rate of VAT will continue to apply to supplies of food and non-alcoholic drinks from restaurants, pubs, bars, cafés and similar premises across the UK until 30 September 2021.

The 5% reduced rate of VAT will also continue to apply to supplies of accommodation and admission to attractions across the UK. From 1 October until 31 March 2022 the rate will be set at 12.5% and will then revert to 20% from 1 April 2022.

help to grow scheme

The Government launched the 'Help to Grow scheme' for free online advice, money off software, to improve business performance and growth potential.

There are two elements of the scheme: Executive Development Programme and Digital.

Useful link: You can find out more about the scheme and apply here:

www.helptogrow.campaign.gov.uk

recovery loan scheme

From 6 April 2021, a new recovery loan scheme provides lenders with a guarantee of 80% on eligible loans between £25,000 and £10 million. The scheme will be open to all businesses, including those that have already received support under the existing COVID-19 guaranteed loan schemes.

and finally…
some financial lessons from 2020-21

The last year has been a traumatic one in which much has changed, perhaps never to revert to the old 'normal'. It has also provided some useful financial lessons.

key learnings

make sure you have an up-to-date will:

Early on in Lockdown 1.0 the importance of having an up-to-date will (or, in some cases, any will) was highlighted to many people just as it became difficult to arrange one.

always keep an adequate cash reserve

In a world of near zero interest rates, you may be reluctant to leave cash on deposit, earning next to nothing. However, cash gives you valuable flexibility and time to react to changed circumstances.

go digital!

The businesses that survived and thrived during the pandemic embraced digital. The need to go digital is heightened by tax policy makers driving forward their 10-year plan to digitise the system - everyone will be expected to get on board. The sooner you start the easier the transition plus you'll experience multiple business benefits when you go digital.

don't panic!

Whether you're an active investor or simply make pension contributions, watching the performance of world markets has been stressful over the last year. The UK's FTSE 100 hit its low for 2020 on 23 March, the day that the Prime Minister launched Lockdown 1.0. It was a dark time, but any investor who panicked and sold up at that point, when the FTSE 100 was below 5,000, would have chosen the worst time to pull out.

By the end of 2020, the index was 29.4% above its March nadir. That performance was also a reminder of another lesson: trying to predict market timing is almost impossible.

If any of these maxims resonate with you then you may be better prepared for next time.

it might just happen...

an early look at tax matters 2022-23

not so good for some…

A wealth tax is one way that has been suggested to repay at least part of the massive government debt that has accumulated. The idea was given a boost in December 2020 when a 125-page report detailing how a wealth tax could operate was published by the Wealth Tax Commission, which is independent of government.

Its main proposals were that the tax should be a one-off, levied at the rate of 5% on individual wealth above £500,000. The definition of wealth would include all assets. So, for example, there would be none of the special reliefs for pensions, farmland or business assets that currently apply under inheritance tax.

The Commission estimated that such a tax would raise a net £260 billion. It would be payable by 8.25 million people, meaning it would reach many who pay income tax at no more than basic rate.

winners and losers…

There have been recent consultations with the pensions industry, and it has been suggested that the government top up might be increased to 30% but with no further tax relief. That would continue to encourage people to save for their own pension but the better off would get less tax relief. The pension rules continue to be complex, and this may well be announced as a simplification measure.

getting better…

The Office of Tax Simplification (OTS) has suggested simplifying IHT on lifetime gifts including reducing the period of potential exemption from 7 to 5 years. Such a change would mean that the donor would only be required to survive for 5 years following a gift for the transfer to be exempt from IHT.

taking another dip…

The OTS also suggested that the conditions for Business Property Relief might be tightened up by aligning the rules with the definition of a trading company for CGT. This relief currently provides 100% relief on the transfer of shares in an unquoted company. The suggested change would mean that more transfers of shares would potentially be liable to inheritance tax and may require a careful review of your plans if you are looking to pass on your business.

this could go a number of ways…

The OTS has suggested that the mismatch between CGT and income tax rates encourages taxpayers to prefer to take profits as capital rather than income.

There has also been increased scrutiny of shares for share exchanges and company share buy backs by HMRC. (Both of these transactions, if properly structured, can currently be taxed as capital gains instead of income).

The CGT annual exempt amount is currently £12,300 which is considered a very generous de minimise.

It is important that we do not need to report trivial disposals of capital assets but perhaps we will need to get used to a more modest limit going forward.

You should consider making use of the current generous limit whilst it is still there this tax year.

UK PERSONAL AND BUSINESS TAX RATES 2021-22

INCOME TAX

Main personal allowances and reliefs	21/22	20/21
Personal allowance*	£12,570	£12,500
Marriage/civil partner's transferable allowance	£1,260	£1,250
Married couple's/civil partner's allowance at 10%†		
(if at least one born before 6/4/35) – maximum	£9,125	£9,075
– minimum	£3,530	£3,510
Blind person's allowance	£2,520	£2,500
Rent-a-room relief	£7,500	£7,500
Property allowance and trading allowance (each)	£1,000	£1,000

**Personal allowance reduced by £1 for every £2 of adjusted net income over £100,000*

†Married couple's/civil partner's allowance reduced by £1 for every £2 of adjusted net income over £30,400 (£30,200 for 20/21), until minimum reached

UK taxpayers excluding Scottish taxpayers' non-dividend, non-savings income	21/22	20/21
20% basic rate on first slice of taxable income up to	£37,700	£37,500
40% higher rate on next slice of taxable income over	£37,700	£37,500
45% additional rate on taxable income over	£150,000	£150,000

Scottish taxpayers – non-dividend, non-savings income	21/22	20/21
19% starter rate on taxable income up to	£2,097	£2,085
20% basic rate on next slice up to	£12,726	£12,658
21% intermediate rate on next slice up to	£31,092	£30,930
41% higher rate on next slice up to	£150,000	£150,000
46% top rate on income over	£150,000	£150,000

All UK taxpayers		21/22	20/21
Starting rate at 0% on band of savings income up to**		£5,000	£5,000
Personal savings allowance at 0%:	Basic rate	£1,000	£1,000
	Higher rate	£500	£500
	Additional rate	£0	£0
Dividend allowance at 0%:	All individuals	£2,000	£2,000
Tax rates on dividend income:	Basic rate	7.5%	7.5%
	Higher rate	32.5%	32.5%
	Additional rate	38.1%	38.1%
Trusts: Standard rate band generally		£1,000	£1,000
Rate applicable to trusts:	Dividends	38.1%	38.1%
	Other income	45%	45%

***Not available if taxable non-savings income exceeds the starting rate band*

High Income Child Benefit Charge, 1% of benefit per £100 of adjusted net income between £50,000 – £60,000

REGISTERED PENSIONS

	21/22	20/21
Lifetime allowance	£1,073,100	£1,073,100
Money purchase annual allowance	£4,000	£4,000
Annual allowance*	£40,000	£40,000

Annual allowance charge on excess is at applicable tax rate(s) on earnings

Lifetime allowance charge if excess is drawn as cash 55%; as income 25%

Pension commencement lump sum up to 25% of pension benefit value

**Reduced by £1 for every £2 of adjusted income over £240,000 to a minimum of £4,000, subject to threshold income being over £200,000*

INHERITANCE TAX

	21/22	20/21
Nil-rate band*	£325,000	£325,000
Residence nil-rate band*†	£175,000	£175,000
Rate of tax on excess	40%	40%
Rate if at least 10% of net estate left to charity	36%	36%
Lifetime transfers to and from certain trusts	20%	20%
Overseas domiciled spouse/civil partner exemption	£325,000	£325,000

100% relief: businesses, unlisted/AIM companies, certain farmland/ buildings

50% relief: certain other business assets e.g. farmland let before 1/9/95

Annual exempt gifts of: £3,000 per donor £250 per donee

Tapered tax charge on lifetime gifts within 7 years of death

Years between gift and death	0–3	3–4	4–5	5–6	6–7
% of death tax charge	100	80	60	40	20

**Up to 100% of the unused proportion of a deceased spouse's/civil partner's nil-rate band and/or residence nil-rate band can be claimed on the survivor's death*

†Estates over £2,000,000: the value of the residence nil-rate band is reduced by 50% of the excess over £2,000,000

STAMP DUTIES AND PROPERTY TRANSACTION TAXES

Stamp Duty and SDRT: Stocks and marketable securities 0.5%

Additional residential and all corporate residential properties
£40,000 or more – add 3% to SDLT rates and 4% to LBTT and LTT rates

England & N Ireland – Stamp Duty Land Tax (SDLT) on slices of value

Residential property	%	Commercial property	%
Up to £125,000*	0	Up to £150,000	0
£125,001*–£250,000*	2	£150,001–£250,000	2
£250,001*–£925,000	5	Over £250,000	5
£925,001–£1,500,000	10		
Over £1,500,000	12		

**0% on slice up to £500,000 (8/7/20–30/6/21) and £250,000 (1/7/21–30/9/21)*

First time buyers: 0% on first £300,000 for properties up to £500,000

Non-resident purchasers: 2% surcharge on properties £40,000 or more

Residential properties bought by companies etc over £500,000: 15% of total consideration, subject to certain exemptions

Scotland – Land and Buildings Transaction Tax (LBTT) on slices of value

Residential property	%	Commercial property	%
Up to £145,000*	0	Up to £150,000	0
£145,001–£250,000	2	£150,001–£250,000	1
£250,001–£325,000	5	Over £250,000	5
£325,001–£750,000	10		
Over £750,000	12		

**Any changes to 0% to be confirmed*

First time buyers: 0% on the first £175,000

Wales – Land Transaction Tax (LTT) on slices of value

Residential property	%	Commercial property	%
Up to £180,000*	0	Up to £225,000	0
£180,001–£250,000	3.5	£225,001–£250,000	1
£250,001–£400,000	5	£250,001–£1,000,000	5
£400,001–£750,000	7.5	Over £1,000,000	6
£750,001–£1,500,000	10		
Over £1,500,000	12		

**Any changes to 0% to be confirmed*

CORPORATION TAX

	Profits	Diverted profits	Loans to participators
Years to 31/3/22 and 31/3/21	19%	25%	32.5%

STATE PENSIONS

	Annual	Weekly
New state pension – where state pension age reached after 5/4/16	£9,339.20	£179.60
Basic state pension – single person*	£7,155.20	£137.60
Basic state pension – spouse/civil partner*	£4,287.40	£82.45

State pension age reached before 6/4/16

TAX INCENTIVISED INVESTMENT

	21/22	20/21
Total Individual Savings Account (ISA) limit excluding Junior ISAs (JISAs)	£20,000	£20,000
Lifetime ISA	£4,000	£4,000
JISA and Child Trust Fund	£9,000	£9,000
Venture Capital Trust (VCT) at 30%	£200,000	£200,000
Enterprise Investment Scheme (EIS) at 30%*	£2,000,000	£2,000,000
EIS eligible for CGT deferral relief	No limit	No limit
Seed EIS (SEIS) at 50%	£100,000	£100,000
SEIS CGT reinvestment relief	50%	50%

*Above £1,000,000 investment must be in knowledge-intensive companies

NATIONAL INSURANCE CONTRIBUTIONS

Class 1	Employee	Employer
NICs rate	12%	13.8%
No NICs for employees generally on the first	£184 pw	£170 pw
No NICs for younger/veteran employees* on the first	£184 pw	£967 pw
NICs rate charged up to	£967 pw	No limit
2% NICs on earnings over	£967 pw	N/A

Employment Allowance £4,000

Per business – not available if sole employee is a director or employer's NICs for 20/21 £100,000 or more

Limits and Thresholds	Weekly	Monthly	Annual
Lower earnings limit	£120	£520	£6,240
Primary threshold	£184	£797	£9,568
Secondary threshold	£170	£737	£8,840
Upper earnings limit (and upper secondary thresholds*)	£967	£4,189	£50,270

Employees generally under 21 years and apprentices under 25 years. Veterans in first 12 months of civilian employment from April 2021.

Class 1A Employer On car and fuel benefits and most other taxable benefits provided to employees and directors	13.8%
Class 2 Self-employed Flat rate per week	£3.05 (£158.60 pa)
Small profits threshold No compulsory NICs if annual profits less than	£6,515
Class 4 Self-employed On annual profits of	£9,568 to £50,270: 9% Over £50,270: 2%
Class 3 Voluntary flat rate per week	£15.40 (£800.80 pa)

CAPITAL GAINS TAX

Tax Rates – Individuals	21/22	20/21
Below UK higher rate income tax band	10%	10%
Within UK higher and additional rate income tax bands	20%	20%
Tax Rate – Trusts and Estates	20%	20%
Surcharge for residential property and carried interest	8%	8%
Exemptions		
Annual exempt amount: Individuals, estates, etc	£12,300	£12,300
Trusts generally	£6,150	£6,150
Chattels gain limited to ⅝rds of proceeds exceeding	£6,000	£6,000

Business Asset Disposal Relief

10% on lifetime limit of £1,000,000

For trading businesses and companies (minimum 5% participation) held for at least 2 years

VALUE ADDED TAX

Standard rate	20%	Domestic fuel	5%

Reduced rate on hospitality, holiday accommodation and attractions:

15/7/20 – 30/9/21:	5%	1/10/21 – 31/3/22:	12½%

Since 1/4/17: Registration level £85,000	Deregistration £83,000
Flat rate scheme turnover limit	£150,000
Cash and annual accounting schemes turnover limit	£1,350,000

CAR BENEFITS

Taxable amount based on original list price and CO_2 emissions in g/km.

Zero emission cars 1%

Petrol and diesel hybrids with CO_2 emissions 1–50g/km

Range – electric-only miles	< 30	30–39	40–69	70–129	130+
Registered pre-6/4/20 (NEDC)	14%	12%	8%	5%	2%
Registered post-5/4/20 (WLTP)	13%	11%	7%	4%	1%

All non-diesel cars over 50g/km CO_2	51–54	55 & over
Registered pre-6/4/20 (NEDC)	15%	16%*–37%
Registered post-5/4/20 (WLTP)	14%	15%*–37%

Increased for every: extra 5g/km by 1% up to the maximum 37%

Diesels not meeting RDE2 standards: add 4%, up to 37% maximum

Fuel Benefit – taxable amount for private use	21/22	20/21
CO_2 % charge used for car benefit multiplied by	£24,600	£24,500

VANS – FOR PRIVATE USE

	21/22	20/21
Zero emission: chargeable amount	Nil	£2,792
Other vans: chargeable amount	£3,500	£3,490
Fuel: chargeable amount	£669	£666

TAX-FREE BUSINESS MILEAGE ALLOWANCE – OWN VEHICLE

Cars and vans first 10,000 miles	45p per mile	then 25p per mile
Qualifying passenger	5p per mile	
Motorcycles	24p per mile	Bicycles 20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

Plant and machinery (P&M) 100% annual investment allowance (1st year): 1/1/19 – 31/12/21 £1,000,000 From 1/1/22 £200,000

P&M super-deduction first year allowance (FYA) for companies from 1/4/21	130%
Special rate P&M FYA for companies from 1/4/21	50%
Plant and machinery*	18%
Patent rights and know-how*	25%
Certain long-life assets and integral features of buildings*	6%
Structures and buildings (straight line)	3%
Electric charge points	100%

Motor Cars

CO_2 emissions of g/km:	0†	1–50	Over 50
Capital allowance:	100% first year	18% pa*	6% pa*

**Annual reducing balance* *†New cars only*

Research and Development

Capital expenditure	100%
Revenue expenditure relief – small/medium-sized companies	230%
Research and development expenditure credit – large companies	13%

accounting matters

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