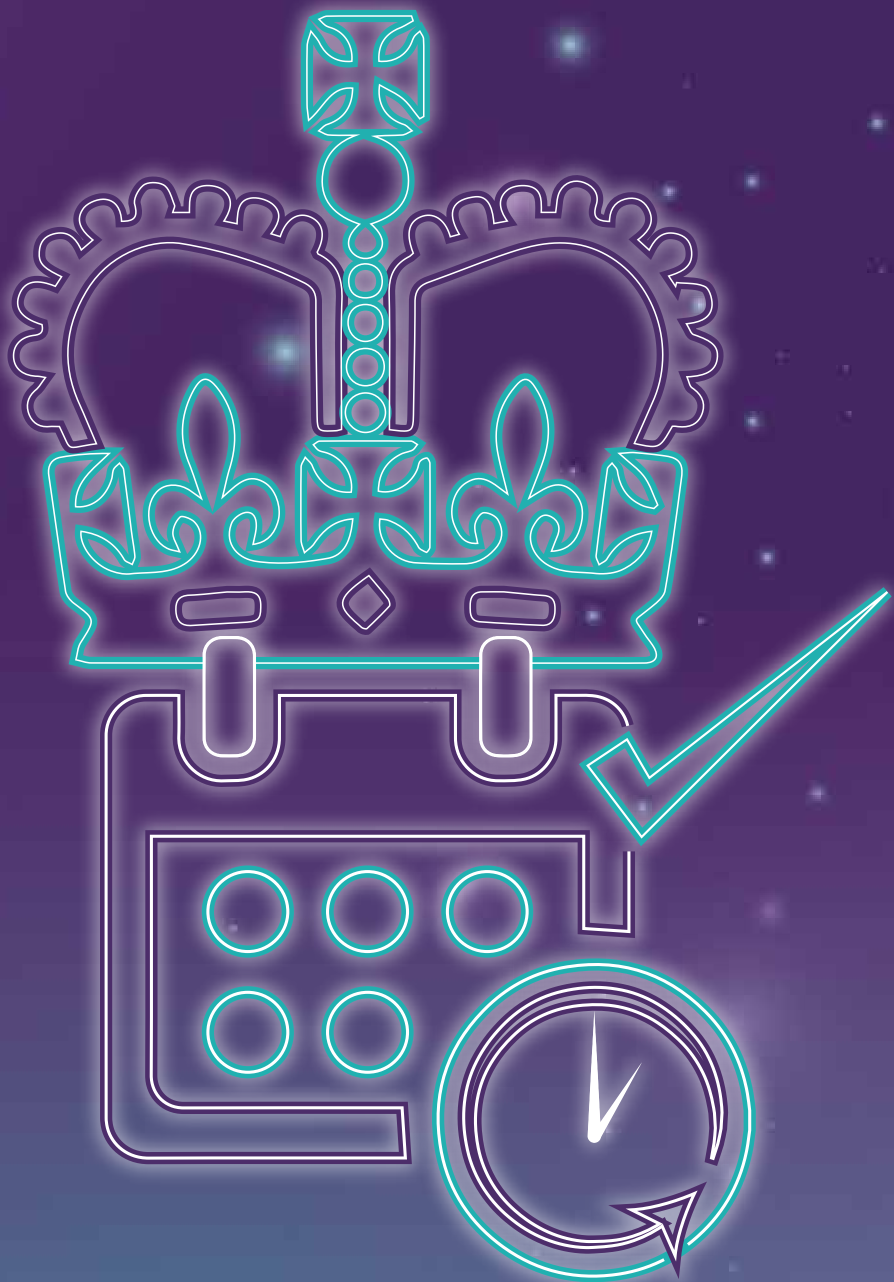
ammu
accounting matters



tax matters

2023 - 24

top 20 actions to take before 6 April 2024

1. Pay what you can into your pension.

2. Make the most of your ISA allowance.

3. Check you are making the best use of tax-free savings and dividend allowances.

4. Use your IHT gifting allowances to avoid unnecessary Inheritance tax liabilities.

5. Avoid paying Capital Gains tax by utilising your annual CGT exempt amount by making any available disposals.

6. If you are selling a home, check if you have Capital Gains Tax (CGT) to pay.

7. Reduce CGT and your Income tax liability by transferring your company shares between you and your spouse.

8. Check your PAYE Tax Code is correct – simple but costly mistakes do happen!

9. Utilise your personal allowance in full: you can transfer 10% of the personal allowance to your spouse to reduce their tax bill.

10. Transfer income to your partner (if possible) to avoid paying the high income child benefit charge.

11. Transfer certain income streams to your partner to maximise the tax-free savings and dividend income limits.

12. Make sure you tell HMRC which property should be treated as your main home for Capital Gains tax purposes.

13. If you are aged over 55, take advice about the options for drawing your pension savings.

14. Plan your capital gains to utilise capital losses.

15. Consider the timing of dividends and bonuses to minimise tax rates.

16. Thinking about retiring early? 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 rise.

17. Consider investing in an EIS-qualifying company, SEIS or VCT to reduce your income tax liability and amounts chargeable to IHT.

18. You or your married/civil partner nominate one property as the main home within 2 years of marriage/civil partnership (applies if you each have property).

19. Think about setting up a Family Investment Company or Trust as a tax-efficient way of distributing wealth to your family members. and loved ones.

20. Contribute to your child's Junior ISA.

Not every action is relevant to your unique circumstances so always seek expert financial advice.

welcome

Welcome to our comprehensive guide to managing your financial and tax affairs! In the current economic climate, with rising inflation and the increase in the cost of living, it has never been more important to stay on top of your tax matters and optimise all allowances and reliefs available to you.

I understand that recent years have presented numerous financial challenges, but I am here to help you take advantage of the tax benefits and plan for a more secure financial future. In this guide, you will find expert advice from myself and my colleagues on income and investment, business tax matters, and planning tips for couples, company directors, and employees.

My goal is to help you navigate the complexities of tax planning and to serve as your trusted adviser. Whether you're preparing to pass on your wealth, retire, or start a new business, Ammu Accounting's team is here to offer bespoke guidance tailored to your specific needs.

So, take a few moments to read the 3rd edition of Ammu Accounting's Tax Matters, and discover how our expert advice and insights can help you maximise your financial potential.

I look forward to hearing from you to arrange a consultation.

Emily Wilson
corporate + personal tax associate

emily@ammu.uk

personal and family matters

Scottish tax:

Whether you are native to Scotland or just passing through, it's important to know that income tax is a partially devolved tax. The Scottish Government is responsible for setting the rates and bands each year for non-savings income. The Scottish Rate of Income Tax (SRIT) currently applies to non-savings income - directly affecting those who earn through employment, pensions, self-employment, and property income.

If you're a UK resident who splits their time between Scotland and the rest of the UK, it's especially important to consider your position carefully.

The UK Government continues to set the rates for all other income and allowances and reliefs that apply. For example, your personal allowance (£12,570) and 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.

income tax

In Scotland, the starter, basic and intermediate rate bands will be unchanged for 2023/24, while the higher rate threshold will be frozen. The higher rate tax rate will be increased to 42%.

income thresholds

The top rate threshold will be cut to £125,140 and the top rate will rise by 1% to 47%. For 2023/24 to 2027/28, the personal allowance will remain at £12,570 and the higher rate threshold at £50,270. The additional rate threshold for 2023/24 will be reduced to £125,140.

Scottish income tax rates for 2023-24:

See 2023-24 tax rates table for the full UK and Scottish tax rates, reliefs and allowances available to download at:

www.ammu.uk/wp-content/uploads/2023/03/tax-tables-2023-24.pdf

income tax saving for couples

If you're in a couple, switching income from one spouse or partner to the other can help save tax.

All individuals should make sure they use their personal allowance and, as much as possible, reduce income charged at higher or additional (top) rates.

assignments of income tax repayments

Taxpayers are no longer legally able to assign their income tax repayments to a third party such as an agent, with effect from 15 March 2023.

5 planning tips

1. For the under 75s, making pension contributions can reduce the amount of income tax paid at the higher or additional (top) rates and prevent or reduce the withdrawal of the personal allowance.

2. Couples may be able to reduce their income tax bill by transferring income-producing investments between themselves before 2023/24, although CGT may be payable if they are not married or in a civil partnership.

3. Couples can make the most of their dividend tax free allowance in 2023/24 (Dividend allowance is £1,000 for everyone. Savings allowance is £1,000 for basic tax payers and £500 for higher rate tax payers). Single tax payers can receive up to £1,000 of savings income free. There is no such savings allowance for additional rate tax payers.

4. If you have little or no earnings or pension income, you might also benefit from a 0% tax rate on up to the first £5,000 of taxable savings income. Again, shifting assets between a couple can help minimise tax. 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.

5. The marriage allowance allows spouses or civil partners who are non-taxpayers to transfer 10% of their personal allowance to the intended recipient, provided the recipient pays tax at no more than the basic rate, and can be claimed up to four tax years back. i.e. back to 2019/20.

inheritance tax planning

Most inheritance tax (IHT) planning is not related to the tax year end, but this is as good a time as any to review your position.

The IHT nil rate band will remain at £325,000 from 2023/24 to 2027/28. The Residence Nil Rate Band (RNRB) likewise stays at £175,000 and the RNRB taper continues to apply until April 2028 if the value of a deceased person's estate is greater than £2 million.

IHT is payable if a person's assets on death, plus gifts made in the seven years before death, add up to more than the nil rate band, currently £325,000. The residence nil rate band is also available where a residence is left to direct descendants – £175,000 in 2023/24.

Consider Lifetime gifting as a way of reducing the value of your estate.

Gifts totaling up to £3,000 in a tax year are exempt from IHT.

If you didn't use this exemption in 2022/23, you can make IHT-free gifts of up to £6,000 before 6 April 2024.

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

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.

other IHT reliefs that may be available

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.

Agricultural Property Relief (APR) may be available to those who own farmland, pastures, woodlands, agricultural buildings and certain farm cottages and houses.

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

bereavement benefits extended to unmarried couples

The eligibility for Bereavement Support Payments (BSP) has been extended to unmarried couples, with two caveats:

- It applies only to unmarried couples with dependent children, which includes cases in which the survivor is pregnant at the time of their partner's death. Unmarried couples who do not have dependent children remain excluded from BSP.

- The amount of BSP is far from generous. The higher rate of BSP was set in 2017 as a lump sum of £3,500, plus up to 18 monthly payments of £350. Unlike most other benefits, it has been unchanged since, so inflation has cut its value by nearly a fifth.

Get in touch and we can help you protect your future financial circumstances.

non-resident status

planning points

Up until April 2026 the freeze on the IHT nil rate and residence nil rate bands remains. As the value of property and assets rise, more estates are likely to be liable for IHT.

Consider tax efficiency when passing on wealth to ensure maximum benefits for beneficiaries.

Utilise inter-generational planning strategies to minimize potential tax liabilities.

Protect the intended beneficiaries from unnecessary expenses.

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

tax status

As a taxpayer, having tax-exempt status in your country of residence is beneficial. However, if you are still subject to UK tax, then the benefits of your tax-exempt status may be limited.

It's important to note that UK residence status is determined separately for each tax year. This means that just because you were a UK resident in the previous year, it does not guarantee that you will be a resident in the current year as well.

- Spend fewer than 16 days in the UK during a tax year.
- Work full-time overseas, whether self-employed or employed – and you are allowed to visit the UK for up to 90 days each tax year; or
- Balance your visits and ties to the UK. For example, if you just make use of a UK home, UK visits will need to be restricted to no more than 90 days.

A good starting point for establishing residence status is HMRC's guidance on the statutory residence test.

We can guide you on your residency status and tax implications in the UK.

See Statutory Residence Test (SRT) notes for an overview at

www.gov.uk/government/publications/rdr3-statutory-residence-test-srt

UK property

There might not be much of a problem if currently renting in the UK, but home ownership comes with more issues. Simply leaving a home empty – even if affordable – could be in breach of the mortgage agreement and may invalidate household insurance. Property rental is a solution but means meeting serious requirements; a good letting agency should be able to advise.

You should retain your UK bank account, but also look at online options for holding currency and transferring funds overseas.

family investment company or trust

trusts and estates

As an alternative to giving directly to your beneficiaries you could consider setting up a Family Investment Company or Trust.

A Family Investment Company (FIC) can provide a tax efficient investment solution for long term 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 seven years.

It is also possible to transfer assets 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.

FICs and Trusts are not suitable for everyone but 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.

The way in which income tax applies to trusts, estates and their beneficiaries will be simplified with effect from 6 April 2024. Some technical clarifications relating to estate beneficiaries will also be made from 2023/24 onwards.

Changes to IHT regulations during 2023/24 will remove some reporting requirements for non-taxpaying trusts.

property & capital gains tax

purchasing property

Since April 2022, there is no tax to pay on properties purchased between £145,000 to £175,000 for first-time buyers in Scotland. Land and Building Transactions Tax (LBTT) is charged on the slices of value on both residential and commercial property in Scotland.

The additional dwellings supplement (ADS) rate increased on 16 December 2022 to 6% and is payable in addition to the LBTT rate on purchasing a second home in Scotland.

There are a range of different property taxes, rates and bands across the UK. Please consult with a solicitor to understand how the LBTT rates will impact your purchase.

For the full range of property transaction taxes applicable in Scotland and see UK Tax Rates 2023-24 on:

www.ammu.uk/wp-content/uploads/2023/03/tax-tables-2023-24.pdf

planning points

- 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.

- If qualifying shares or assets become virtually worthless you can claim the loss against your capital gains without disposing of the asset by making a negligible value claim.

- Backdate the loss relief to either of the two tax years before the one in which you make the claim, provided that you owned the asset in the earlier tax year, and it was already of negligible value. The deadline for backdating a claim to 2021/22 is 6 April 2024.

disposing of property

If your disposals so far this tax year have resulted in a net loss, the decision on whether to dispose of investments to realise gains before the tax year end will hinge on the amounts involved.

Depending on your level of income, timing your disposals either before or after the end of the tax year could result in more of your gains being taxed at 10% rather than 20% (or at 18% instead of 28% for residential property disposals).

Transferring income between married couples or civil partners can result in more gains being taxed at the lower rates of CGT due.

Transferring assets between married couples or civil partners before disposal could save CGT, particularly where one partner has an unused annual 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 6 April 2024 to give yourself an extra 12 months before you must pay the tax.

For non-exempt residential property disposal, a payment on account of CGT must be made within 60 days of completion (for disposals made after 26 October 2021).

capital gains tax (cgt) annual exempt amount

The CGT annual exempt amount for individuals and personal representatives will be cut to £6,000 for 2023/24. The annual exempt amount for most trusts will likewise fall to £3,000 (minimum £600).

For 2024/25 onwards, the corresponding figures will be £3,000 and £1,500 (minimum £300). The allowance will no longer be index linked.

The additional residential property rate increased on 16 December 2022 to 6% and is payable in addition to the LBTT rate on purchasing a second home in Scotland.

There are a range of different property taxes, rates and bands across the UK.

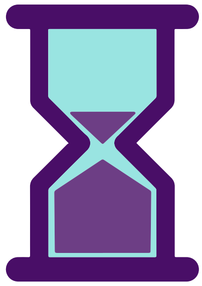
For the full range of property transaction taxes applicable in Scotland and to see UK Tax Rates 2023-24 visit:

www.ammu.uk/wp-content/uploads/2023/03/tax-tables-2023-24.pdf

cgt - separation and divorce

For disposals from 6 April 2023 separating spouses or civil partners have up to three years after the year they cease living together to make no gain/no loss transfers. No gain/no loss treatment also applies to assets that separating spouses or civil partners transfer between themselves as part of a formal divorce agreement. A spouse or civil partner who retains an interest in the former matrimonial home has the option to claim private residence relief (PRR) when the property is sold.

When couples divorce or dissolve a civil partnership some individuals who have transferred their interest in the former matrimonial home to their ex-spouse or civil partner are entitled to receive a percentage of the proceeds when that home is eventually sold. They can then apply the same tax treatment to those proceeds, when they are received, that applied when they transferred their original interest in the home to their ex-spouse or civil partner.



cgt assessment time period

A loophole has been closed under which HMRC could be left with no time to assess tax due on capital gains when an asset was disposed of under an unconditional contract completed much later. The date of such a contract is the date of disposal for these purposes. The change will take effect in relation to contracts entered into on or after 1 April 2023 for corporation tax and 6 April 2023 for CGT.

make the most of your cgt annual allowance

As the annual exempt amount for personal capital gains will be reduced from £12,300 to £6,000 for 2023/24 and cut down to just £3,000 from 2024/25. You should consider realising gains now and reinvesting the proceeds in ISAs or pensions, which are free of CGT.

cryptoassets

Changes will be introduced to CGT self-assessment tax return forms for 2024/25 to require amounts in respect of cryptoassets to be separately identified.

case study: capital gains tax for Peter's rental property

background

Peter, a resident of Scotland, bought his first home while he was still at university. After finishing university, he met his wife and bought their marital home. He then decided to rent out his first property. After some years, Peter decided to sell the rental property and contacted Ammu Accounting, to provide an estimated capital gains tax (CGT) calculation.

solution

Upon examining the situation, we discovered that the rental property was Peter's primary residency during his time at university. This meant that he was eligible for certain tax reliefs, which could help to minimise his CGT liability. Furthermore, recent legislative changes allowed his wife to also benefit from these reliefs if Peter transferred half of the property to her. Transferring capital assets between spouses occurs at no gain / no losses, which means that there would be no tax impact on this transfer.

outcome

Ammu was able to help both Peter and his wife utilise their tax allowances and optimise the tax reliefs available to them. As a result, Peter was able to save £8,200 in total. This was achieved by correctly calculating Peter's taxable gain and ensuring that both he and his wife claimed the relevant tax reliefs and exemptions.

conclusion

Peter's experience demonstrates the importance of seeking professional advice when dealing with the complexities of capital gains tax on rental properties. By working with an experienced tax expert, Peter was able to make the most of his tax allowances and reliefs, ultimately saving a significant amount of money.

pensions, savings and investments

planning points

You can pay up to your entire annual earnings into a pension scheme in any one tax year, but the tax relievable amount is capped by the annual allowance plus any unused allowances brought forward.

Tax relief on pension contributions is normally at least 20%, with higher and additional rate taxpayers receiving relief at 40% or 45%. In Scotland, intermediate, higher and top rate taxpayers receive relief at 21%, 41% or 46% respectively.

You may be able to make much larger pension contributions in 2023/24 as the annual allowance has gone up to £60,000.

The value of tax relief is greatest where it exceeds the eventual tax on benefits. For example, where a higher rate taxpayer becomes a non or basic rate taxpayer in retirement.

Limiting your contributions to amounts that qualify for tax relief at the higher rates 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 or Universal Credit payments are being withdrawn.

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

pensions

The 2023 Spring budget had significant implications for pensions. Here is an overview of those pension changes.

The **Pension Lifetime Allowance** was abolished. This was the amount of money (capped at £1,073,100) you could pay into pensions before facing a tax charge. This was abolished to incentivise people to work longer. In those circumstances, you may be able to contribute up to £180,000 in 2023/24. However, before taking any action, advice is essential.

You can take up to 25% of your pension as a tax-free lump sum. However, the tax-free element from pensions will be capped at £268,275 (25% of the 2022-23 Lifetime allowance), the remaining pension funds will be subject to income tax when drawn.

Annual allowance increased from £40,000 to £60,000. The Annual Allowance is the amount you can pay into a pension annually while benefiting from tax relief. So, for every £80 you pay into a personal pension the UK government adds another £20. At present, individuals will still be able to carry forward any unused allowance from the previous three tax years.

The Annual Allowance includes your own personal contributions as well as contributions from your employer if you're employed. Higher and additional rate taxpayers can claim back further tax relief through Self-Assessment.

High earners are limited to the level of pension contributions they can make. When an individual has an adjusted income of £240,000 and above, their annual pension allowance is tapered.

The minimum tapered annual allowance of £4,000 will increase to £10,000. While the adjusted income threshold for calculating this allowance jumps from £240,000 to £260,000 per annum.

Money Purchase Annual Allowance (MPAA) raised from £4,000 to £10,000.

To encourage older workers to remain in work the MPAA increased from £4,000 to £10,000.

The MPAA is triggered if a worker, aged above 55, has already drawn more than the 25% tax-free lump sum from their defined contribution pension pot and continues to pay into a pension scheme. The MPAA restricts the amount you can pay into a defined contribution pension while benefiting from tax relief.

drawing benefits

Many people aged 55 and over (57 from 6 April 2028) can draw their pension savings flexibly. Withdrawals above the tax-free amount are liable to income tax at your marginal rate. You should take advice before accessing pension savings as there are several options, each with their own pros and cons, and they will generally have a long-term effect on your financial position.

If you are already drawing your benefits from a pension fund that is not guaranteed and are considering reducing your withdrawals, you should be aware that this should also reduce the amount of income tax that you will pay.

pension contribution tax relief

In 2025/26, a new system will be introduced so that HMRC can make 20% top-up payments in respect of contributions made from 2024/25 onwards directly to low-earning individuals saving in a pension scheme using a Net Pay Arrangement. At present such contributions may not benefit from any tax relief and these top-ups will help align their outcomes with equivalent savers using Pension Relief at Source to save into pension schemes.

pensions relief relating to net pay arrangements

Employees contributing to an occupational pension scheme under a net pay arrangement do not currently benefit from any tax relief if their earnings are below the personal allowance. This anomaly will be rectified from 6 April 2024 when HMRC will start making top-up payments.

A net pay arrangement is where pension contributions are deducted from pay before tax is calculated.

The anomaly arises because someone in a similar situation, but making contributions with relief given at source, benefits from 20% relief. The change will mean low earners benefit from the same tax relief regardless of earnings.

pension top ups for lower paid employees

Employees contributing to an occupational pension scheme under a net pay arrangement do not currently benefit from any tax relief if their earnings are below the personal allowance. This anomaly will be rectified from 6 April 2024 when HMRC will start making top-up payments.

A net pay arrangement is where pension contributions are deducted from pay before tax is calculated.

The anomaly arises because someone in a similar situation, but making contributions with relief given at source, benefits from 20% relief. The change will mean low earners benefit from the same tax relief regardless of earnings.

top up payments

HMRC's top-up payments will be introduced from tax year 2024/25 onwards, with the top up not paid until after the end of the tax year. The implementation delay is due to the significant HMRC system changes required.

As an example, someone qualifying with savings of £500 into an occupational pension scheme for a tax year should receive a subsequent top-up from HMRC of £500 at 20% = £100. The same rate will apply for Scottish taxpayers.

If part of a person's pension savings already benefits from tax relief due to earnings exceeding the personal allowance, a top-up payment can still be given for the proportion not benefiting.

Top-ups will be taxable, although this will not mean any additional income tax for many recipients given their level of earnings.

Although top-ups are only estimated to be an average of just over £50 a year, more than a million employees should benefit – most of them women.

Don't lose your personal allowance.
Your personal allowance of £12,570 is reduced by £1 for every £2 of income between £100,000 and £125,140. You may be able to make a pension contribution or a charitable gift to bring your income below £100,000.

investing in pensions

Useful link: www.gov.uk/plan-retirement-income – information about pensions and pensioner benefits.

case study:
non-disclosure of rental income

background:

Nancy, a retiree in Scotland, purchased a rental property in Glasgow with the intention of using it as her nest egg for retirement. She decided to let the property to her nephew, who was attending university in the area. Believing that no tax was due on any profit since the property was let to a family member, she did not disclose the rental income on her tax returns. Another accountant had confirmed her belief.

challenge:

Nancy was unaware that the advice she had been given was incorrect until she realised her mistake and contacted Ammu Accounting for a second opinion. The challenge was to review her income/expenses over the years and determine the tax liability.

solution:

The Ammu tax team reviewed Nancy's income and expenses over the letting period and the income from prior years. We discovered that due to her financial activity, we could mitigate the years payable to tax, and no disclosure was due. We provided her with advice on her rental income and her tax obligations moving forward. Our team also helped her understand the importance of disclosing all income on her tax returns, regardless of who the tenant is.

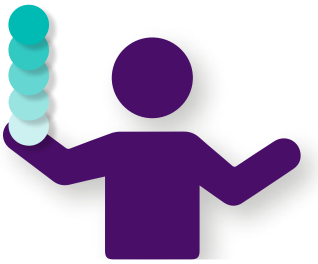
outcome:

Nancy's tax liability issue was successfully resolved and avoided penalties for non-disclosure of rental income.

conclusion:

Nancy's case is an example of how misunderstandings regarding tax obligations can lead to a non-disclosure of income, which can result in penalties and other legal consequences. Consulting a professional accounting firm can help individuals avoid such issues, ensure they comply with all tax regulations and avoid a stressful situation.

savings & other tax efficient investments



ISAs

individual savings account (isa) subscription limits

The ISA annual subscription limit for 2023/24 will remain at £20,000 and the corresponding limit for junior ISAs (JISAs) and child trust funds (CTFs) will stay at £9,000.

The lifetime allowance (LTA) for pensions has effectively been abolished from 2023/24.

savings rate band

The 0% band for the starting rate for savings income for 2023/24 will remain at its current level of £5,000.

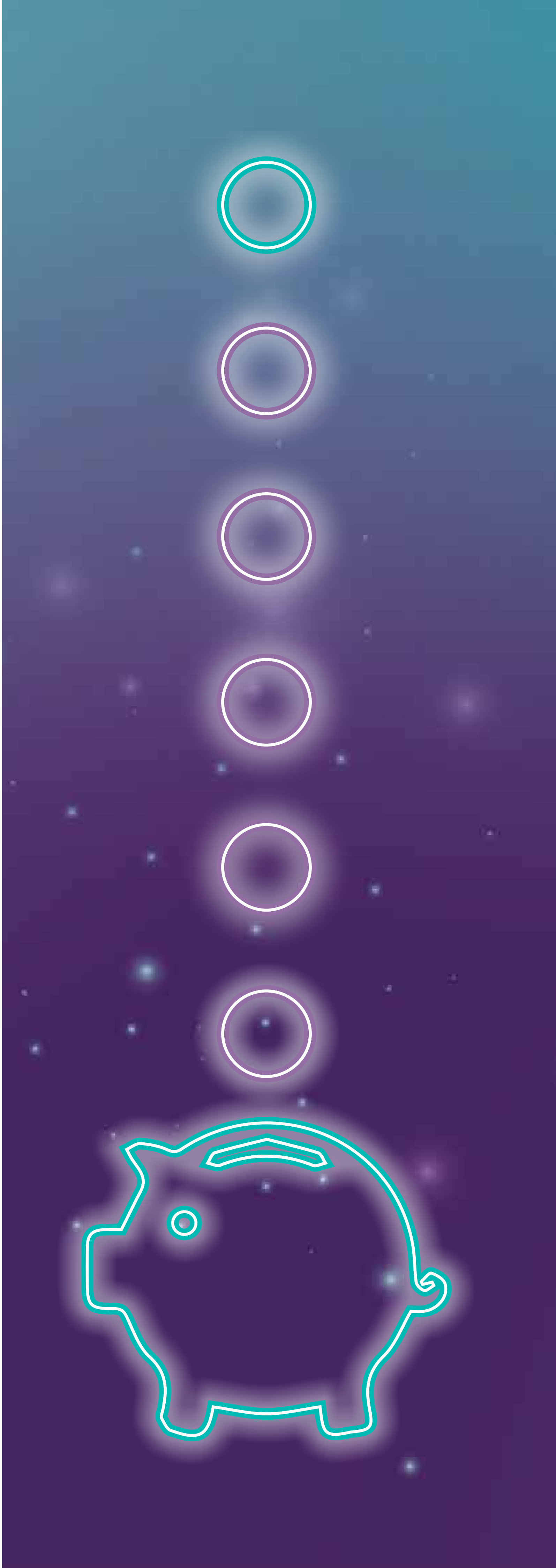
charitable reliefs

From 15 March 2023 UK charity tax reliefs and exemptions are restricted to UK charities and community amateur sports clubs (CASCs). The change affects income tax, CGT, corporation tax, IHT, stamp duty, SDLT, SDRT, annual tax on enveloped dwellings (ATED) and diverted profits tax. Non-UK charities and CASCs that HMRC had accepted before 15 March 2023 as qualifying for charity tax reliefs have a transitional period until April 2024.

dividend tax

The dividend allowance will reduce to £1,000 for 2023/24 and to £500 for 2024/25, as announced last November. The rates of tax on dividends above the dividend allowance will remain unchanged.

Always seek expert financial advice.



business matters

tips for business budgeting in uncertain times

As experienced accountants, we would like to emphasise the importance of having a solid budget in place to help guide your business through today's unpredictable economic landscape.

According to the forecast from the Office for Budget Responsibility, the CPI inflation rate is expected to fall from 10.1% in January 2023 to just 2.9% by the end of the year. This is welcome news, but the current uncertain times make it even more vital for businesses to plan ahead.

To do this, we recommend that you formulate an annual budget that you can regularly review. By taking this approach, you will gain a clear understanding of your company's financial standing and prospects, even in the face of uncertain business conditions.

To be prepared for the unpredictable, it is essential to consider a range of scenarios that should, could, or might occur, enabling you to weigh various investment options and make informed decisions.

What's more, as businesses have had to become more agile in response to rapidly changing market conditions, it is equally essential to create budgets that are adaptable to these changes, allowing your business to remain flexible and responsive.

That's why we strongly advise that you create an annual budget that considers a range of scenarios, looks beyond the immediate future, and is adaptable to changing market conditions. By doing so, you will have the best chance of success during uncertain times ahead.

Remember the team at Ammu Accounting are ready to help ensure that you are maximising the tax reliefs, allowances and planning opportunities that are available to you and the business, and we can help you to budget for a good tax year in 2023-24.

Jane Grant
co-founder
& director

jane@ammu.uk

Simon Murrison
co-founder
& director

simon@ammu.uk

planning points

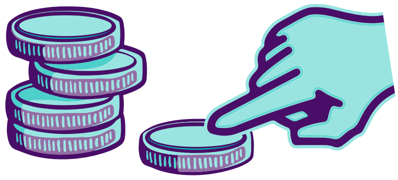
Build these guidelines into your financial plan and make sure to maintain sufficient reserves in case you face any unexpected financial difficulties in the upcoming tax year.

Start with your fixed costs. The things that you can be certain of such as premises, staff costs, raw materials, light, heat, electricity, IT, etc. Next, turn your focus to the longer-term aspects of your budget with an analysis of existing strategic or capital spending plans.

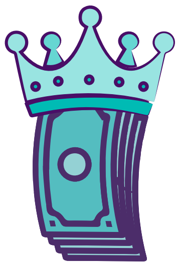
In uncertain times, it is important to be pragmatic. Create 3 scenarios for your budget – top, middle and bottom. Start with the middle scenario – the "expected" outcome and from there you can derive variations on whether things turn out better (top) or worse (bottom). Scenario-based budgeting is not intended to predict exact outcomes. Instead it is intended to help the business to understand the likely variances and to prepare and plan accordingly.

You should always calculate your budget using new data, not historical projections. Budgets may have been squeezed in the past 18-24 months and may not reflect the current or predicted market trends.

Stress-test the assumptions, scenarios and decisions that have gone into your draft budget. What if your sales don't grow next year? What if your income falls because 20% of your customers leave and go to another provider? How does this affect the profitability of the business? What if you are locked into a three year contract on price but your input costs have risen by 10% (or more)?



You should consider holding back some spending centrally as a contingency. This builds flexibility into the budget so that the business can react to changing circumstances as the year progresses.



Build realistic income models. Ensure you provide for bad debts and write offs in each of your top, middle and bottom scenarios. Cash is king and in uncertain times every business must focus on getting cash in on a monthly or even weekly basis. Billing cycles and cash collection management should be at the top of the agenda for the management team and offering extended payment terms to customers should be avoided as much as possible.

corporation tax rates

Corporation tax is charged at 25% (main rate) and 19% (small profits rate) for financial years 2023 and 2024. The Patent Box deduction formula will be amended to ensure the correct amount of relief is given for claimants that are subject to the small profits rate.

As corporation tax rates have increased, it is worth reviewing your salary and dividend remuneration mix as it may be tax efficient to do so. The right remuneration mix is bespoke to each business, please contact Emily Wilson who can review your salary mix on your behalf.

capital allowances - incentives to invest

Companies incurring qualifying expenditure on the provision of new plant and machinery from 1 April 2023 until 31 March 2026 will be able to claim a 100% first-year allowance for main rate expenditure, or a 50% first-year allowance for special rate expenditure. These temporary allowances may be extended beyond 31 March 2026.

The £1 million limit for the annual investment allowance will be made permanent.

The first-year allowance for electric vehicle charge points is extended until 31 March 2025 for corporation tax and 5 April 2025 for income tax, as previously announced.

real investment trusts (reit)

Real Estate Investment Trusts no longer need to own at least three properties if it owns at least one commercial property worth £20 million or more. The rule for disposals of property within three years of significant development work will be amended and administrative burdens will be reduced for certain partnerships that invest in REITs.

seed enterprise investment scheme (seis)

The amount of investment that companies will be able to raise under the SEIS will increase from £150,000 to £250,000, as previously announced. The gross asset limit will rise from £200,000 to £350,000 and the age limit on a qualifying trade will rise from two to three years. The annual investor limit will double to £200,000. The changes take effect from 6 April 2023.

enterprise management incentives (emi)

The process of granting share options will be simplified, removing the requirement for a company to set out details of share restrictions in the option agreement. The requirement for a company to declare an employee has signed a working time declaration will also be abolished. The changes will apply to EMI options granted or exercised from 6 April 2023.

company share option plan (csop)

The limit on the value of CSOP share options issued to an employee will double to £60,000 and the restriction on share classes within the CSOP will be removed. The changes, which were previously announced, will take effect from 6 April 2023.

top-up tax

Large multinational groups with headquarters in the UK will have to pay a top-up tax if their operations in a foreign jurisdiction have an effective tax rate of less than 15%. The measure will also apply to non-UK-headquartered groups with UK members that are partially owned by third parties or where the headquartered jurisdiction does not implement the OECD Pillar 2 framework.

qualifying asset holding companies (qahc)

The conditions that a company must meet to qualify as a QAHC will be amended to align better with the intended scope of the regime.

carried interest rules

UK-resident investment managers can use a new elective accruals basis from 6 April 2022 for carried interest to accelerate their tax liabilities, to align their timing with the position in other jurisdictions where they may obtain double taxation relief.

dividends

With dividend tax rates increasing by 1.25% on 6 April 2022, you should consider paying a dividend, profit permitting, before then if you operate your business as a limited company. You should also consider a dividend payment in 2022/23 if you have not already made full use of the £2,000 tax-free allowance.

considerations for company directors

- Switching a company car to an electric or hybrid model could mean significant tax savings for you and tax and NICs savings for your company, as well as reducing other costs.

- If you hold share options, you should consider your tax position both before and after the tax year end when deciding whether to exercise them now or in a future tax year.

- Directors who are shareholders may be able to reduce NICs by taking dividends rather than salary.

- 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.

directors' loan accounts

The dividend tax rates increased in April 2022 to 33.75%. The charge is payable when a director, who is also a participator, has an outstanding loan with a close company and the loan is not repaid within nine months and the day of the end of the company's accounting period.

how the tax charge works

For example, on 1 July 2023, a director withdraws £100,000 from their personal company to help fund a private property purchase. The company has an accounting date of 30 June.

- The loan falls in the company's year ending 30 June 2024, so there will be no tax charge if it is repaid by 1 April 2025. So, by careful timing, the director will have had use of company funds for 21 months, with the only tax being what is charged for having a beneficial loan.

- If not repaid by 1 April 2025, the company will have to pay a tax charge of £33,750 (£100,000 at 33.75%) along with its corporation tax liability.

- The tax charge will be refunded by HMRC if – after 1 April 2025 – the loan is repaid or written off. A write off will have tax implications for the director.

repayment

A loan cannot be repaid just before the deadline, to be immediately followed by a replacement loan.

It might be cheaper, in tax terms, to simply leave a director's loan outstanding. This could be the situation if the only way to repay it is by taking a bonus that, apart from being taxed, will also mean both employee and employer NICs are payable. The repayment could take several forms:

- *A dividend but this could be impractical if there are other shareholders who – not being in the same overdrawn loan position – don't wish to receive additional dividend income.*

- *Clearing a loan before the tax charge is due is generally preferable, there is no reason dividends cannot be used to clear a loan over several years.*

- *The director could introduce funds into the company, for example from a property disposal.*

- *The director transferring assets to the company, with the value transferred then credited to their director's loan account.*

- *Other tax considerations come into play when it comes to a car or property, but, for example, a personal loan owed to the director can be assigned to the company.*

Please get in touch with us if you wish to discuss the options available to you.

planning point

Dividend tax allowance fell from 6 April 2023 and will fall again in April 2024. You may be able to save tax if your company pays you a dividend in the current tax year.

VAT

Andrew Morrison
associate

andrew.morrison@ammu.uk

VAT thresholds frozen

The VAT registration and deregistration thresholds will stay at their current levels of £85,000 and £83,000, respectively, until 31 March 2026.

planning ahead

Make sure you submit your VAT returns and pay any VAT by the due dates to avoid penalties and interest. If you can't pay on time, contact HMRC early to make a time to pay arrangement.

late payment interest & penalties, and repayment interest rules

Technical changes are being made to ensure interest is charged on late payments of VAT and that penalties are applied as intended.

In particular, businesses that use annual accounting will not be charged late payment interest or penalties on instalments that they pay late, but only on any balancing payment they fail to pay on time.

Since 1 January 2023, a new points-based penalty applies to late VAT returns.

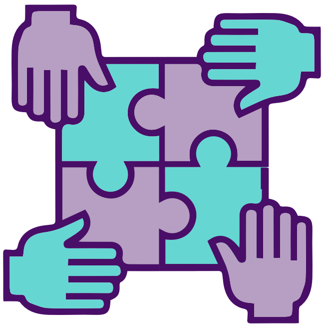
Talk to a member of our team early to avoid late payments and penalties.

income tax basis period reform

Income tax basis periods will be reformed so that a business's profit or loss for a tax year will be the profit or loss arising in the tax year itself, regardless of the business's accounting date. This removes the basis period rules, which result in tax being charged on profits twice in some circumstances, as well as the need for overlap relief. The new rules will come into force from 6 April 2024 with a transition period in 2023/24.

self-assessment planning point

Basis period change: 2023/24 is the transitional year in the HMRC process of aligning self-employed people's trading years with tax years. Make sure you are aware how this will affect you and how you can mitigate the impact of a possible acceleration in your tax payments.



national insurance contributions (NICs)

The upper earnings limit, upper secondary thresholds and upper profits limit will remain aligned to the unchanged higher rate threshold at £50,270 for 2023/24 to 2027/28, as previously announced. The Class 1 primary threshold of £12,570 and secondary threshold of £9,100 will remain frozen until April 2028. The NIC rates are unchanged

company car tax

The company car tax rates for 2023/24 will remain frozen for 2024/25. The rates for electric and ultra-low emission cars will increase by one percentage point in each of 2025/26, 2026/27 and 2027/28. These will be subject to a maximum percentage of 5% for electric cars and 21% for ultra-low emission cars. The rates for all other bands of vehicles will be increased by one percentage point for 2025/26 up to a maximum percentage of 37%; they will then be fixed for 2026/27 and 2027/28.

salary sacrifice

The higher rates of NICs make salary sacrifice arrangements more attractive than ever, especially regarding employer pension contributions. A company car salary sacrifice arrangement also works well for full electric and certain hybrids.

A typical arrangement might mean an employee – earning £75,000 a year – sacrificing £5,000 of their salary, with the employer then contributing this amount into the employee's pension scheme. The employee saves over £2,150 in tax and NICs, with the employer saving more than £750 in NICs.

Salary sacrifice will not, however, suit everyone. For lower-paid employees, a salary sacrifice arrangement cannot reduce normal earnings to below the rate of National Minimum/Living Wage.

Higher paid employees need to be aware that a lower base salary will normally mean a lower level of potential mortgage borrowing.

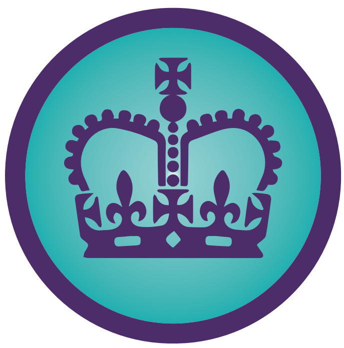
your partner's salary

If you are in business, you could pay an otherwise non-earning partner a salary, on which your business will get tax relief.

You normally must keep PAYE records even if the salary is below the National Insurance contributions (NICs) lower earnings limit, which is £6,396 per year in 2023/24. If, however, the salary is between £6,396 and £12,570 your partner will avoid paying any NICs but will still qualify for state benefits.

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 to share the profits of your business by operating as a partnership in 2023/24. You both need to be genuinely involved as business partners, though not necessarily equally.



research & development tax credits

R&D tax credits (r&d)

R&D Tax Credits are a key part of the government's strategy to support and reward innovation in the UK. It is an effective way for companies to be rewarded for investing in improving existing products, inventing next generation products, improving processes, and solving complex problems.

Isla Griffin
tax specialist
R&D and personal

isla@ammu.uk

changes to r&d tax credit scheme
beginning on or after 1 April 2023

Some of the changes being introduced are quite complex (and in parts not yet fully defined). We will keep a close eye on how they evolve as they are introduced. Do talk to us for clarification if you have any questions.

For expenditure incurred after 1 April 2023, for SMEs the uplift on qualifying R&D expenditure will be cut from 130% to 86% and loss making companies will only be able to claim a credit rate of 10% (reduced from14.5%). For larger SMEs which are profitable, some of the reduction in uplift will be offset by increased corporation tax rates.

An R&D tax credit rate of 14.5% will be available to loss-making SMEs whose R&D expenditure constitutes at least 40% of their total expenditure. There is no detail as yet on how this will work in practice.

For larger companies and grant-funded projects the payable tax credits (RDEC scheme) will increase from 13% to 20%.

The R&D tax credits reform begun for accounting periods starting on or after 1 April

2023 introduce two new categories of qualifying expenditure for R&D relief: data licences and cloud computing services.

Some extra administrative requirements have been introduced before claims will be considered to be eligible by HMRC:

Companies will have to inform HMRC of their intention to make a claim for R&D relief using a new digital form unless they have claimed R&D reliefs in the previous three years. For example, if the period of account in which you incur R&D costs runs from 1 January 2024 to 31 December 2024:

- *the first day of the accounting period is 1January 2024*
- *the end date of the accounting period is 31 December 2024*
- *you must submit the claim notification form between 1 January 2024 and 30 June 2025*
- *A digital additional information form will have to accompany all claims made on or after 1 August 2023*
- *The previously announced restriction on some overseas expenditure will come into effect from 1 April 2024 instead of 1 April 2024*

With our R&D experts on hand to liaise with HMRC everything will be taken care of.

Iain Robertson
tax specialist
R&D

iain@ammu.uk

planning point

Your business might be entitled to a valuable R&D tax credit – even if it doesn't make a taxable profit. You might be surprised what expenditure may now qualify and how much it could be worth to you.

Visit ammu's R&D Tax Credit Hub for helpful resources: **www.ammu.uk/rd-tax-credit-hub**

case study:
R&D tax credit claim for architecture firm

introduction

Our team, worked with a local architecture company to help them submit their first R&D tax credit claim. The company works within Scotland doing 'standard' architecture work, but also has two ongoing projects that aim to repurpose abandoned brownfield sites into hubs providing education facilities, retail units, and cafes. One of these sites needed to be fully off-grid, and both aim to achieve a zero-net carbon footprint. A significant portion of the work carried out by this architecture firm was speculative, as it had never been attempted before, and had to be self-funded, leading to a high degree of uncertainty about successful implementation.

challenge

The architecture firm was unsure about whether their projects met the R&D tax credit criteria. There was also a lack of clarity on the types of expenditure that could be claimed and how to calculate the credit. Additionally, the architecture firm was concerned about the time and effort required to submit a claim while still meeting the ongoing demands of their business.

solution

Ammu Accounting worked closely with the director of the architecture firm, guiding them through the R&D tax credit claim process. We provided expert advice on what constitutes qualifying R&D activities and expenditure, what the current rates of tax relief were, and how to submit their claim. We took the time to understand the architecture firm's projects in detail, analysing the innovative and technological aspects of their work to ensure that they met the R&D tax credit criteria.

outcome

As a result, we were able to submit a successful R&D tax credit claim on behalf of the architecture firm, which generated over £20,000 of receivable R&D tax credits. This relieved the architecture firm of the worry of not being able to recoup their expenditure and allowed them to continue pushing innovation and new technologies in the architecture industry. The director of the architecture firm was pleased with our guidance throughout the process, as we provided a clear understanding of what was required, and the benefits that could be gained.

digitisation

making tax digital (MTD)

The UK government has announced further changes to the launch date of Making Tax Digital (MTD) for Income Tax. The scheme will be introduced in a phased approach based on two new income thresholds. MTD for Income Tax Self-Assessment (ITSA) with a planned start from April 2026, with businesses, self-employed individuals, and landlords having income over £50,000 being mandated to join first. Subsequently, those with income over £30,000 will be mandated from April 2027.

This phased approach provides smaller businesses with lower income an additional year to prepare for the transition.

Talk to Jamie about cloud accounting software to support you with the MTD transition.

check your eligibility and apply now

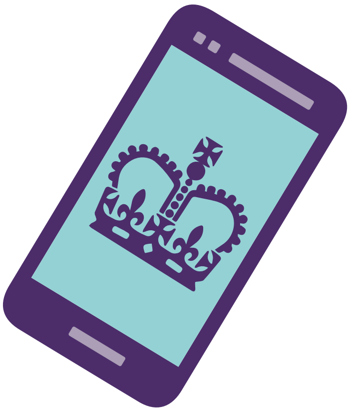
Apply now at www.gov.uk/government/news/final-opportunity-for-businesses-to-access-help-to-grow-digital-scheme

help to grow scheme

The UK Government has expanded the Help to Grow: Digital scheme, allowing businesses with one or more employees to access a 50% discount on software worth up to £5,000 (excluding VAT) on approved software purchased for the first time. Only one software product can qualify for the discount, and only the first 12 months of software costs are covered. The business must be incorporated and trading for at least 12 months.

The scheme includes:

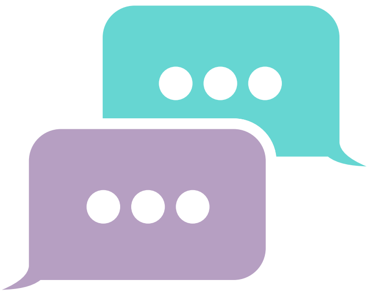
- *additional software in the form of eCommerce software that can help businesses sell online and reach new markets*
- *one-to-one advice on how best to adopt digital technology (service live later this year)*



hmrc's app and new texting service

HMRC's app was launched over a year ago and is gaining more downloads as it is being used to:

- pay self-assessment tax bills
- claim a refund if too much tax paid
- report Tax credits changes and the annual renewal completed
- check your tax code
- find your national insurance (NI) number and unique taxpayer reference (UTR)
- update HMRC if you change address
- get an estimate of tax payable
- use HMRC's tax calculator to work out take-home pay after income tax and national insurance contributions



text service

HMRC's new text service is being trialled to improve communication with taxpayers who prefer to use their mobile phones. The service enables the sending of text messages to taxpayers who call the HMRC helpline for a routine matter that could be more efficiently resolved using HMRC's digital services.

Jamie McLachlan
business management accountant
+ digitisation expert

jamie@ammu.uk

navigating the cost-of-living crisis:

practical ways to support your business and employees

The cost-of-living crisis is affecting everyone: businesses and their employees. By taking proactive steps during these challenging times, businesses can help ease the impact of the crisis and emerge stronger in the long run with loyal employees.

Lucy Handley
accounts + advisory manager
lucy@ammu.uk

building a resilient business

1. Ensure you have real-time financial information at your fingertips, and zero in on those major business costs and explore where there might be room to cut back. Use a cloud-based system such as Xero to access information anytime from any device.
2. Look at your service offering and stock sales - consider cutting underperforming items, reducing waste, increasing prices or diversifying. Look into apps to track income and costs by project.
3. Make informed decisions about the future of your business with a well-crafted budget and forecast. Apps like Futurli, Syft, and Float make this easy to do – plus they integrate seamlessly with Xero and QuickBooks. Your accountant can help explore these further.
4. Review payment terms with suppliers – discuss credit terms with suppliers but remember everyone is feeling the pinch so delaying paying a supplier (especially a small company) can potentially damage their business.
5. Review your current costs, are they really essential? Do you still need to subscribe to a business magazine you never read?
6. Review payment terms with customers to incentivise payments on day 1 or on time and highlight late payment penalties. Automated credit control apps such as 'Know-it' that links with bookkeeping software can help to manage accounts receivable.
7. Can you cut back? If you have an office, look at your energy usage E.g. ensuring unused lights and plugs are off.
8. Review your supply chain and ensure you are getting the best price and service.
9. Funding - local councils and Scottish Enterprise may be able to provide grants or interest-free loans to give your business a financial boost or help with growth such as digitising any of your operations.
10. Look into R&D Tax Credits which are a key part of the UK government’s strategy to support businesses and reward innovation. Talk to us about your eligibility.

supporting employees

11 Inflation is predicted to fall so a one-off payment could help staff cope with immediate financial pressures without committing a business to higher longer-term salary bills.

12 Linking pay more closely to performance means that a salary rise at least partly pays for itself by increasing business income.

13 Education about budgeting and financial decision making helps employees make their money go further and understand the longer-term consequences of potential money-saving moves.

14 Offer flexible working arrangements to reduce travel costs or buy back extra holidays to accommodate personal life and reduce business costs during quieter periods.

15 Employers could even provide additional benefits in kind that they can access more cheaply than individual employees, for example gym membership or discounted goods and services.

16 A business may be able to provide medical insurance for employees at a lower cost than employees taking out their own policies. There are also business benefits of keeping employees healthier and shortening sickness absences.

17 Setting up a cycle-to-work scheme gives employees the chance to save public transport costs and may provide a tax advantage depending on how it is set up. It also gives rise to potential health benefits for employees.

ammu
accounting matters

At ammu accounting our unique blend of Chartered Accountants, Chartered Management Accountants, Tax experts and payroll experts enables us to support you, your business and employees with everything you need during the cost of living crisis and beyond. Visit ammu.uk to find out more.

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amas murrison limited
company number SC440863
VAT registration 156218022

ayrshire:
(registered address)
8 Miller Road
Ayr KA7 2AY
01292 388 031

chartered accountants

chartered management accountants

glasgow:
10 Newton Terrace
Glasgow
G3 7PJ
0141 290 0262

email:
info@ammu.uk

www.ammu.uk