Tax increases ahead
April brings tax freezes and NICs rise

Shield your inheritance
Strategies to protect your legacy

Freeport tax breaks
Are these sites a boost for business?

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Business Update

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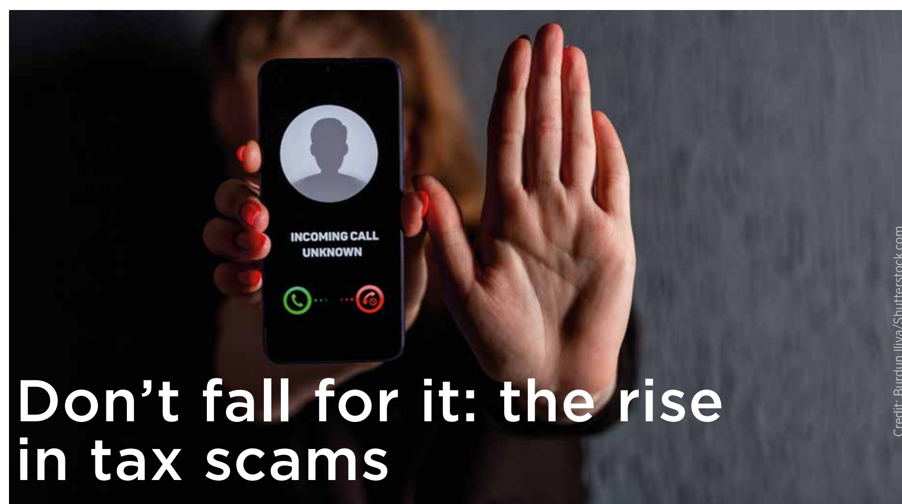

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Don't fall for it: the rise in tax scams

Increased online spending during the pandemic has brought with it a corresponding rise in the number of people falling victim to financial scams. Many scams are designed to fool people making online payments, but incidences of tax-related frauds are also rising.

Push payment scams

The Financial Ombudsman has reported a substantial increase in the number of complaints concerning authorised push payment scams. These are scams where a person is tricked into making a bank transfer into the account of someone posing as a genuine payee.

A worrying new development involves the use of taxpayers' Government Gateway credentials by companies offering to make tax relief claims on the taxpayers' behalf.

You need to be particularly careful when it comes to property transactions, because these are an obvious target given the high sums involved. It is always a good idea to make a small test transaction first.

Other push payment scams might induce you to set up a safe account because your bank account has been 'compromised'; ask you to pay for goods and services that don't exist (be particularly wary of adverts on fake, but legitimate looking, websites); or offer an investment opportunity that is too good to be true (the company name will often be similar to that of a genuine investment organisation).

Tax-related scams

Tax-related scams evolve. A worrying new development involves the use of taxpayers' Government Gateway credentials by companies offering to make tax relief claims on the taxpayers' behalf.

In one example, the refund company said they would claim employment expenses, but then used log-in details to obtain relief under the enterprise investment scheme (EIS). This generated a large tax refund from which the company took their commission. On discovery of the illegitimate EIS claim, HMRC demanded the full amount be repaid.

Legitimate tax advisers can file returns as your agent, so any request for your Government Gateway username and password should set alarm bells ringing.

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TAX

Year-end planning for tax changes

The new tax year, which starts on 6 April 2022, sees the start of the 1.25% rise in national insurance contribution (NIC) rates and income tax on dividends. It will apply to all earnings over £9,880 a year from employment or self-employment, and to dividend income above the £2,000 annual dividend allowance.

The end of a tax year is generally a good time to consider any measures to reduce your tax and these forthcoming increases add to the potential benefits of year-end tax planning. If you have control over the timing of your income, you should be in a good position. If you are likely to pay tax at a lower rate this year than next, you could try to bring forward income by ensuring a bonus or dividend is paid before 6 April 2022. You could likewise bring forward income to avoid the 1.25% NIC or dividend tax increase. If you are in the opposite situation, you could similarly delay income.

Couples who are married or in a civil partnership may be able to reorganise their financial affairs between them to ensure both can use their personal tax allowances plus tax-free dividend and savings limits, and avoid or minimise the amount of income taxed at the highest rates. A person who is in business may be able to transfer income to a spouse or partner by employing them on a salary, or taking them into partnership and sharing income. If you employ your spouse or civil partner you could also make a contribution to their pension scheme.

Company directors who are also shareholders may wonder whether the 1.25% NIC and dividend tax increase makes a difference to the question of whether to withdraw income as a bonus or a dividend. The 1.25% rise also applies to employer's NICs, which will go up from 13.8% to 15.05% – a double hit for director/shareholders. This adds to the advantage of paying dividends instead of bonuses, provided you are not caught by the personal service company rules.

VAT

MTD extends on VAT and penalties regime changes

Making tax digital (MTD) – the requirement for digital VAT returns and record keeping – will be extended to businesses below the VAT registration threshold from 1 April 2022.

About 1.1 million businesses with taxable turnover below the £85,000 VAT registration threshold are voluntarily registered, generally to enable them to reclaim VAT on expenditure. Businesses with taxable turnover above £85,000 have had to comply with the MTD rules since April 2019.

From their first VAT period starting after 31 March 2022, voluntarily registered businesses and landlords will have to use third-party software to submit VAT returns directly to HMRC's MTD system using digital links. An important benefit – for businesses and HMRC – is that digital record keeping reduces the scope for errors. Businesses that cannot go digital can apply to continue using non-digital means to submit VAT returns.

Penalty regime changes

The introduction of a new penalty regime for VAT late returns and payments, which was due to start in April 2022, has been postponed to January 2023. At present a default surcharge of between 2% and 15% is charged regardless of how late the payment or return is. From the first VAT period starting after 31 December 2022, there will be separate penalties for late returns and late payments. The late returns penalties will be points based. A fixed penalty of £200 will be charged only after a business has reached the points threshold. The new late payment penalties will be proportionate to the amount of tax owed and how late the payment is. Late payments will also incur interest.

The same penalty regime will apply to income tax self-assessment taxpayers with business or property income over £10,000 a year, who will have to submit digital quarterly updates through MTD from the 2024/25 tax year, and to all other self-assessment taxpayers from 2025/26.

Basis period due to end

Another change for self-employed individuals and partners is the forthcoming abolition of the basis period rules. A business's profit or loss for a tax year is currently the profit or loss for the year up to the business's accounting date in the tax year. From 2024/25 they will be taxed on the profit or loss arising in the tax year itself, regardless of the accounting date, with transitional arrangements in 2023/24.

BUSINESSES

New Covid-19 business support package

A new support package has been announced to assist businesses impacted by the Covid-19 Omicron variant.

Around 200,000 businesses in the hospitality and leisure sectors in England, such as restaurants, hotels and pubs, are eligible for one-off grants of up to £6,000 on a per-property basis. Businesses must be solvent to qualify. The amount of grant is dependent on the property's rateable value. The scheme will close for applications on 28 February, with payments made by 31 March at the latest. Grants may be paid automatically, but check your local authority website in case you need to register to apply.

UK-wide funding available

Extra funding has been made available to the devolved administrations so they can provide similar support.

Further resources

English local authorities have received £100 million of discretionary funding to support other businesses, such as those who supply the hospitality and leisure sectors. Additional funding is available to support theatres, museums and orchestras.

TAX

Shielding your inheritance

The government has now ruled out substantial reform of inheritance tax (IHT). The nil rate band is frozen at £325,000 until 5 April 2026 – the level it has been since 6 April 2009. The residence nil rate band is also stuck at £175,000 until April 2026. So what measures can you take to ensure your legacy will pass on as you wish?

IHT changes were rumoured for some time. A report from the Office of Tax Simplification (OTS) in July 2019 made several recommendations to reform the structure of IHT, in particular on the taxation of lifetime gifts and on exemptions for businesses. But in a delayed response on 30 November 2021, the Treasury announced that the government would not proceed with any major changes.

One OTS proposal has resulted in simplified reporting requirements for a larger proportion of low value and exempt estates, where no IHT is due. For deaths after 31 December 2021, the limits on assets held in trust, and on specified chargeable transfers in the seven years before death, below which full IHT accounts do not have to be delivered to HMRC, increased from £150,000 to £250,000. The changes will reduce the reporting requirements for 90% of non-taxpaying estates requiring probate or, in Scotland, confirmation.

Although 94% of estates pay no IHT, the amount the government raises from it is growing. This is partly because of the freezing of the nil rate bands, but also because of increasing property valuations and a higher volume of wealth transfers during the Covid-19 pandemic. The Treasury's response revealed that IHT is forecast to raise £6 billion in 2021/22, up from £5.4 billion in 2020/21.

Reduced exposure

There are nevertheless ways you can mitigate your liability to IHT that need not involve any complex arrangements. Writing a will and reviewing it regularly not only enables you to optimise use of the IHT exemptions but also to ensure your beneficiaries benefit from your estate as you intend.

Credit: Monkey Business/Shutterstock.com

Complex family structures and changing personal relationships make this particularly important. For example, many people don't know that partners who cohabit without marrying or entering into a civil partnership do not automatically benefit from the other's estate under the intestacy rules, nor do stepchildren. And if you marry after making your will, it is automatically revoked and you will need to make a new one.

Another way of reducing tax on your estate is to make lifetime gifts. The accountancy firm UHY Hacker Young says that taxpayers saved £30 million in IHT last year through the £3,000 annual IHT gift exemption and the separate small gifts exemption, which allows people to make gifts of £250 a year to an unlimited number of individuals.

For deaths after 31 December 2021, the limits on assets held in trust, below which full IHT accounts do not have to be delivered to HMRC, increased to £250,000.

Managing retirement costs

Taking measures to reduce exposure to IHT may not be enough. Research by the investment managers Fidelity International has found that 40% of people are delaying their retirement, spending less, or downsizing their property so that they can afford to pass on an inheritance. However, many of them have not made any financial plans about the best way to fund an inheritance, or indeed for meeting unexpected costs such as long-term care. Taking good advice at all stages in life is important to help you meet your goals.

HEALTHCARE

Credit: Marish/Shutterstock.com

Care cost rules changed in England

A cap of £86,000 on the amount anyone in England has to spend on personal care costs over their lifetime will be introduced in October 2023. However, new details on how the cap will operate have attracted criticism.

The government has said that support payments from local councils will not count towards the cap, just the amount that someone contributes themselves towards their personal care, that is, help with such things as washing, dressing and eating.

Self-funders

People with assets of over £100,000 will not be eligible for financial support from their local authority. If self-funders have eligible needs, the local authority must provide an independent personal budget (IPB). The IPB will be used to calculate the amount that will count towards the cap. Self-funders will reach the cap quite quickly.

Other people

People with assets of between £20,000 and £100,000 will be means tested for financial support to determine what they can afford to pay from income plus a means-tested 'tariff' contribution from assets. People with assets below £20,000 will no longer have to contribute from their assets, only from their income.

However, everyone will still remain responsible for their daily living costs – such as food, utility bills and accommodation – whether in a care home or living at home. The initial value of these is set at £200 a week. Also, any top up payments, for example for a premium room, will not count towards the cap.

TAX

The promise of freeports?

Credit: Nuttawut Uttamaharad/Shutterstock.com

England's first three freeports officially opened in November. Freeports and their designated tax sites benefit from various incentives and tax cuts worth millions, but it remains uncertain whether they will deliver the promised boost to the UK economy.

Freeports and designated tax sites

The Humber, Teesside and Thames freeports are now open for business. Designated tax sites are quite small areas within each freeport, with three separate sites located within each of these three freeports. Individual freeport websites include maps showing each freeport boundary, with tax sites highlighted. Future freeports will be situated in East Midlands Airport (the only inland freeport), Felixstowe and Harwich, Liverpool City Region, Plymouth and South Devon, and the Solent.

Tax site advantages

The suite of tax breaks available cover:

- **NICs:** New hires working at least 60% of the time at a single tax site qualify for relief from April 2022. There is a 0% rate of employer NICs on annual earnings up to £25,000.
- **Capital allowances:** New plant and machinery used primarily in a tax site qualifies for a 100% deduction. This is only worthwhile if either the 130% super-deduction or the 100% annual investment allowance is not available.
- **Structures and buildings allowance:** Qualifying buildings situated within a tax site can be written off over ten years rather than the usual 33⅓-year period.
- **Stamp duty land tax:** The purchase of land and buildings situated within a tax site attracts full relief. The land and buildings must be used for a qualifying commercial purpose, with residential property excluded.
- **Business rates:** Full relief will be available for all new businesses and certain existing businesses where they expand. Relief will apply for five years from the point at which relief is first given.

The government published guidance at the end of October 2021 regarding when goods can be moved into, or stored in, a freeport.

TAX

HMRC clarifies taxing cryptoassets

HMRC is contacting taxpayers who they believe hold cryptoassets, advising them of the potential capital gains tax (CGT) implications. Many will be unaware that simply exchanging one type of token for another is a disposal for CGT purposes.

It is estimated that more than two million people in the UK hold cryptoassets, so it's no surprise that HMRC is concerned about lost tax revenue. Although certain transactions will be taxed as income, most are subject to CGT; HMRC is quite adamant that buying and selling cryptoassets is not akin to gambling for tax purposes. There is a CGT disposal if you:

- sell tokens (even if the proceeds are not withdrawn from the exchange);
- exchange one type of token for a different type of token;
- use tokens to pay for goods or services; or
- make a gift of your tokens to another person (unless it's to your spouse or civil partner).

Government tracking

Even though cryptoassets have a reputation for avoiding scrutiny, HMRC has more information than you might expect:

> *Example*
>
> An investor invests in a new token using some of their Ether tokens. The new token increases in value, so the investor converts back to Ether. Both transactions are disposals, so CGT will be due if the £12,300 annual exemption is exceeded. There may be no funds to pay this bill, but any further sale of Ether to realise cash will be another disposal – meaning more tax.
>
> However, there is no disposal if, for example, you simply move tokens between different wallets.

- HMRC receives, and can request, information from various crypto exchanges, with these powers extending to exchanges outside of the UK.
- The government has the ability to track cryptoasset transactions, with this data then compiled into a single database. However, there are still some ways to remain anonymous.

Remember that cryptocurrencies are not regulated and they are high risk. With a recent steep rise in cryptocurrency losses leading to personal bankruptcy, caution is advised.

NEWS IN BRIEF

News round up

December fuel rate changes

From 1 December 2021 HMRC's advisory fuel rates all increased by 1p or 2p per mile, although the over 2,000cc LPG rate is up 3p. The fully electric car rate has increased from 4p to 5p.

Temporary extension to AIA £1 million allowance

The annual investment allowance limit was due to revert back to £200,000 from 1 January 2022, but will now remain at £1 million until 31 March 2023. Within this limit, expenditure on plant and machinery qualifies for a 100% deduction.

Rates relief continues in Scotland

The Scottish Budget on 9 December 2021 held tax rates and froze the higher and top rate bands for 2022/23. The 19% starter and 20% basic rate bands increase with inflation. The 50% rates relief for the retail, hospitality and leisure sectors now includes the first three months of 2022/23. The Small Business Bonus Scheme relieves all rates for 2022/23 on Scottish businesses with a rateable value below £15,000.

Don't miss out on CTFs

HMRC is urging teenagers to check if they have a pot of money unclaimed in a Child Trust Fund. It is more than a year since the first account holders turned 18, meaning funds can be withdrawn or transferred into an adult ISA.