STRAIGHT TALKING BUSINESS ADVICE FROM
ENSORS CHARTERED ACCOUNTANTS

AUTUMN/WINTER 2021

BUSINESS E+

A BRAVE NEW WORLD

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I don't think many people would have predicted that, 18 months past the first lockdown, we would be in the economic position that we are now. I certainly didn't. I expect however that most business owners would have taken this position with both hands, had they been offered it at the time.

That has to be a good thing for sure – things could certainly have been a lot worse – but I can't help but think that we are in somewhat of a bubble and there are clearly some critical issues facing businesses that are already threatening to burst it.

High levels of inflation in wages, supplies and distribution costs are probably the most obvious at present. How businesses manage this and react in terms of passing on these additional costs, will not only determine their financial success but, with ever increasing costs of consumer products, will ultimately hit us all in the pocket.

Another issue to look out for is how cash and working capital is managed as business grows back and beyond pre-pandemic levels. This is exaggerated because most world economies are experiencing the same impact on a macro-economic scale.

Continued overleaf ➤

Ensors

Making you more than just a number

A BRAVE NEW WORLD *continued*

Working capital tends to come under greatest strain when businesses and economies grow, so we need to be on the look-out for "over trading" signals. Some practical tips for businesses to prevent issues include preparing rolling quarterly cash flow forecasts and staying on top of regular management accounts – that way you can see where you are going as well as where you are right now.

With my financial health warning out of the way, I will now focus on some positives.

Our Corporate Finance team continue to see very high levels of activity with lots of business sales and acquisitions either already complete or due to complete before 2021 ends. This is inevitably being fuelled by high levels of liquidity, strong appetite to fund good deals and business owners taking this time to address their own personal financial goals. There has been a lot of discussion about how employees want different work-life balances post-pandemic, but the same applies to business owners too.

We have also recently had a pretty positive Budget from the Government which included a significant commitment to public spending and investment. There weren't many obvious references to taxation, it felt more like an Autumn Statement, but there are certainly some issues to be aware of.

In this issue, we pick up on some of those including Katie Varney's article covering the new Residential Developer Tax, changes to R&D reliefs and the Annual Investment Allowance extension to name a few. Yvonne Graham also highlights the hidden tax cost for us all in her piece on "fiscal drag" – it doesn't grab many headlines (which is almost certainly why it is popular with the Treasury) but not increasing annual allowances and thresholds for the effects of inflation has a huge impact on the amount of tax we pay over a prolonged period. Continuing the tax theme, but not Budget related, Helen Carey picks up on some common questions and issues to look out for in terms of VAT post-Brexit.
It has been great to cautiously and safely recommence our "in person" events again recently. Our ever popular Budget Breakfast seminars saw over 180 guests attend across multiple locations and the atmosphere was excellent. We also welcomed many of you at the recent opening of our new Ipswich office – we were blessed with a near perfect evening with which to show off our new roof terrace before the sun went down. Our new office provides a great environment for our Ipswich team and clients to return post-Covid, and is a significant upgrade on the previous property. We are now looking to roll out similar schemes across the firm with the next location on the horizon being Cambridge, where we have recently committed to a much larger and modern office space to enable us to service the growth that we have and continue to see there.

Whilst we are making use of technology wherever we can to improve efficiency, lessen environmental impact and enhance our client service, we are fully committed to being a firm that is people focused. Having great places to train, work and meet with clients is part of that commitment.

NEWSBITES

The tax consequences of…

Selling Development Land

The sale of development land is, by its very nature, complex and the numbers involved are often substantial.

There are a large number of different taxes involved and they do not necessarily combine cleanly with the commercial aspects of any sale. In addition, there are a number of tax traps lurking and, while reliefs can be available, these are reliant on getting the right advice in place early in the development process and implementing that advice effectively.

Quite simply, the whole position needs to be considered and viewed holistically to ensure you don't pay more tax than you need to.

For a summary of the factors involved please see our blog online 'selling development land' **https://www.ensors.co.uk/blog/** and for further advice please contact Robert Leggett, Corporate Tax Partner, at **robert.leggett@ensors.co.uk**

Personal Contract Purchase Arrangements

PCP vehicle financing arrangements clearly offers customers flexibility, but the position for business purchases is not as simple as it first appears. There are implications for accounting records and taxation liabilities that should be considered before the decision to enter a PCP arrangement is made.

For further information please see our blog online 'Personal Contract Purchase Arrangements' **https://www.ensors.co.uk/blog/** and for further advice please contact Robert Leggett, Corporate Tax Partner, at **robert.leggett@ensors.co.uk**

Cryptocurrency Tax advice

Whether you have dipped your toe in the water or dived headfirst into the world of cryptocurrency you will be aware this is an everchanging and ever expanding world. Not only from the aspect of daily new investment opportunities but also from a tax perspective.

Many of you holding (or hodling) may not be aware of the tax implications surrounding the world of cryptocurrency. Are you mining? Daily trading? Transferring from one asset to another? Or are you a hodling whale?

Whichever you are, you may meet a requirement to report these activities to HMRC. HMRC have statutory powers to request information from crypto exchanges on taxpayers who hold crypto assets and therefore have access to information on profits made on cryptocurrency. These profit are either taxable to corporation tax, income tax or capital gains tax depending on the nature of the profit.

If you believe you may have a reporting requirement and would like further advice on this please contact Louisa Newman, Tax manager, at **louisa.newman@ensors.co.uk**

POST BREXIT VAT
COMMON MISTAKES

Since the end of the transitional period on 1 January 2021 some businesses have not been dealing with VAT on the import and export of goods correctly. We have summarised some of the more common issues below.

Helen Carey
VAT Director
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1.

MOVEMENT OF GOODS TO THE EU AND VAT REGISTRATION

Often businesses are unaware that a single shipment of goods into an EU Member State can trigger an EU VAT registration obligation. This will not usually be the case if the customer acts as importer.

Registering for VAT overseas, particularly belatedly, can be costly. If the customer is responsible for the import and associated cost, this should be clear on contracts and customs declarations, with the correct Incoterms being used. Instructions to freight forwarders and shipping agents should also be clear. If the goods have already been moved and customs paperwork complete, the requirement to VAT register may have been triggered and advice is required.

2.

ACCOUNTING FOR IMPORT VAT IN THE UK ON GOODS PURCHASED OVERSEAS

If a business imports goods into the UK from overseas, it is likely it will be required to account for import VAT. VAT registered businesses can account for import VAT on importation or they may be able to account for import VAT on their VAT return using Postponed VAT Accounting (PVA). PVA allows the business to declare import VAT and reclaim it as input tax on the same VAT return (subject to the usual VAT recovery rules). This can provide a cash-flow benefit.

Businesses using PVA must ensure they account for import VAT correctly and will have to register online to download the relevant PVA statements.

3.

IMPORT DOCUMENTATION – EVIDENCE OF IMPORT VAT PAID

To support the reclaim of import VAT on a VAT return, the owner of the goods must hold a C79 certificate or PVA statement in its name. If the correct details have not been used at import (for example the agent's details have been provided instead of details of the business buying the goods) this evidence will not be available. As a result the owner of the goods will not have acceptable evidence to support their import VAT claim.

This again highlights the importance of providing clear instructions to freight forwarders and shipping agents and ensuring that import and export declarations are properly completed.

Yvonne Graham
Tax Manager
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Katie Varney
Tax Partner
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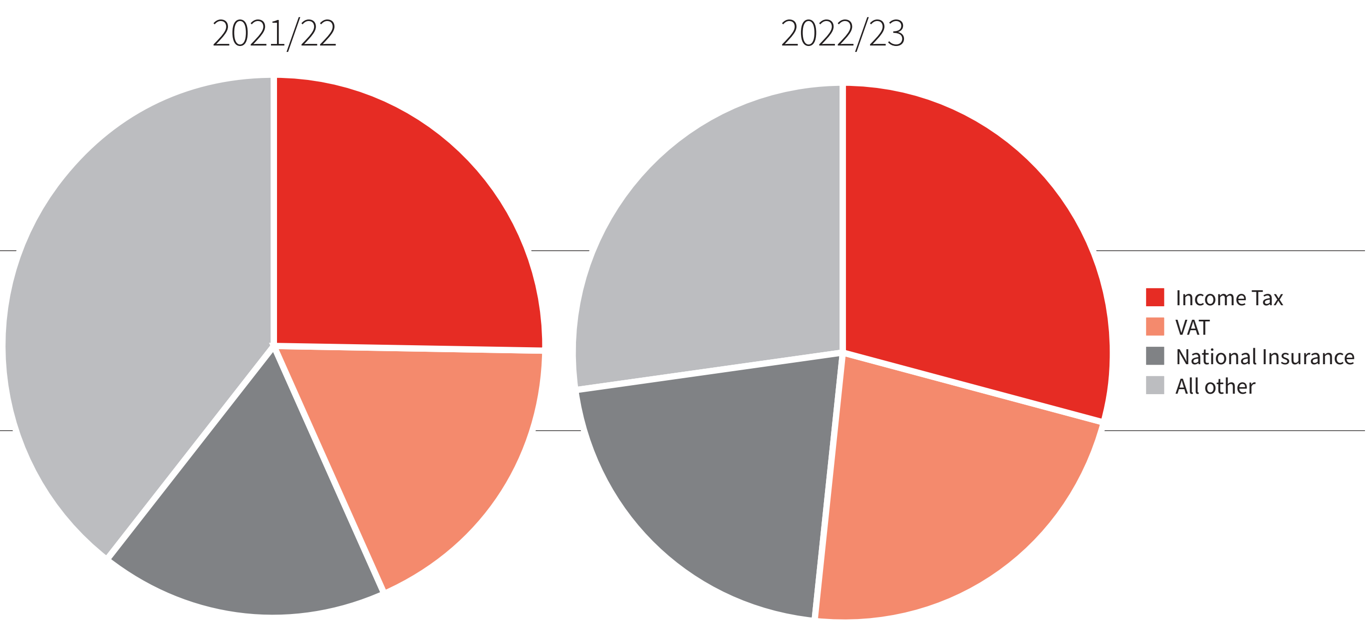
Budget Round-up

Amidst all the new spending announcements in the Budget, there was, surprisingly, no explanation of how these are to be funded.

There were no explicit tax increases and the Chancellor didn't feel the need to remind us that he is freezing income tax rates and allowances for the next few years, nor that there will be an increase in National Insurance (NI) rates and the rate of tax on dividends from April 2022 (the new Health and Social Care Levy will be charged as additional NI from April, before changing its branding as an entirely new tax from April 2023).

The charts below show **predicted tax receipts** for the current year and next year, broken down into Income Tax, VAT and NI plus all other taxes.



Other taxes include, among others, Corporation Tax, Excise Duties, Council Tax, Business Rates and Capital Taxes (Capital Gains Tax and Inheritance Tax). As shown in the graphs, the predicted take from these other taxes as a percentage of all receipts will fall as the yields from Income Tax, VAT and NI increase.

Income Tax and NI are vital for the Exchequer, and together they account for more than 40% of all tax receipts in the UK. We already know about the new Health and Social Care Levy, so most of the predicted rise in NI receipts can be explained by that. But Income Tax receipts are predicted to increase by nearly 8%, with no changes to either the rates or allowances apart from an increase in the rate of tax on dividend income, to match the higher NI for the Health and Social Care Levy.

Clearly, inflation will partially explain this, but especially in the case of Income Tax this is not the whole story.

Successive Governments have a track record of introducing tax bands which do not increase in line with inflation. For example, the threshold for the higher rate of 40% is currently £50,270 and is to be frozen until 2026 so, as wages increase more and more people are being dragged beyond this threshold, meaning the rate of tax on their increased income could double from 20% to 40%.

Other tax bands have simply never been increased since they were introduced. Where income is between £100,000 and £125,140 the personal allowance is withdrawn gradually, which gives an effective tax rate of up to 60%. The £100,000 starting point for this was introduced in 2010 and has never been increased.

Also, the additional rate of 45% is applied when taxable income exceeds £150,000, and this threshold too has not changed since it was introduced ten years ago.

As a result, Governments do not need to do anything to increase tax revenues: inflation does the work for them, and they don't need to run the risk of any damaging headlines in the press.

Corporate & Business NEWSBITES

Given that the Spring Budget in March of this year contained a multitude of Corporate and Business Tax announcements, it is, perhaps, unsurprising that there was little in the way of major change revealed in the Autumn Speech. There were, however, a few key points that may be of relevance to your business.

R&D Tax Reliefs

There were two reforms to R&D Tax Reliefs announced in the Budget, one of which is a welcome change, whilst the other will see a reduction in the amounts that some companies are able to claim. The good news, is that from 1 April 2023, the definition of Qualifying Expenditure is being expanded to include data and cloud computing costs, whilst the bad news is that, from the same date, there is likely to be a restriction on relief to only include expenditure incurred in the UK.

Cultural Tax Reliefs

The 'cultural tax reliefs' provide welcome tax breaks for companies operating as Theatres, Orchestras, Museums and Galleries. The tax relief for qualifying companies in the museum and gallery sectors was originally due to expire in March 2022, but this has now been extended for a further two years until 31 March 2024, and the headline rates for all cultural reliefs will be increased significantly, albeit temporarily, with effect from Budget Day.

Residential Property Developers Tax

This new measure was first announced in February as a means of ensuring that the largest property developers make a fair contribution to help pay for building safety remediation. Coming into effect on 1 April 2022, property developers will see an additional tax charged at 4% on residential property development profits exceeding an annual allowance of £25 million. It is, however, important to note that this limit is not per company – if your property development business is part of a larger group, the group will only have one annual allowance to be allocated between its companies as it chooses.

Shipping

The UK's Tonnage Tax regime allows qualifying companies to choose to pay tonnage tax on a fixed notional profit, based on the net tonnage of their ships, rather than on their actual profits arising from shipping activities. Under the existing rules, companies that elect into the regime must do so for a minimum of ten years, meet various conditions and must comply with 'flagging' rules. The reforms announced in the Budget, will, amongst other minor changes, remove the EU flagging rules now that the UK has left the EU, and will reduce the minimum 'lock-in' period from 10 years to 8 years to align more closely with shipping cycles.

Capital Allowances

The annual investment allowance (AIA), which provides 100% tax relief in the year of acquisition for eligible assets, had previously been increased temporarily from £200,000 to £1 million, but this was due to end on 31 December 2021. The increase will now extend for a further 15 months until 31 March 2023 for both Income Tax and Corporation Tax. As always when the AIA changes, there will be transitional rules to determine the AIA available for accounting periods spanning the date of change.

Getting your digital house in order – the latest on Making Tax Digital

Robert Leggett
Tax Partner
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The transition to Making Tax Digital (MTD) was originally announced back at the 2015 Budget. MTD, as originally envisaged, was to transform tax administration so that by 2020 income tax, VAT and corporation tax would all require digital record keeping with quarterly updates being submitted online.

Since then, MTD has been repeatedly pushed back, and currently the digital record keeping requirements only apply in respect of VAT, and then only for businesses subject to compulsory registration. MTD for corporation tax will now not happen before 2026, and in September, the Government announced a further postponement of MTD for income tax.

But what do you need to be aware of over the next few years?

VAT

From April 2022, any voluntarily VAT registered businesses who have not already chosen to come within MTD, must comply with the requirements, keeping digital records and filing via the software. These smaller businesses may need to adopt new software.

INCOME TAX

MTD for income tax has been postponed until April 2024, with general partnerships coming into scope from April 2025. Partnerships with a corporate member and LLPs will be later, but we don't know when.

This seems a long way off, but just over two years may not actually be long given the changes which are afoot.

MTD for income tax will apply to individuals and partnerships who have self-employment and/or gross rental income in excess of £10,000 per year.

These taxpayers will be required to keep digital records, and to file quarterly submissions to HMRC from their software, along with an end of period statement.

For established trading businesses the digital record keeping requirement may not be that onerous, as they may already be using compatible software. However, many smaller businesses and many landlords do not, in my experience, keep records so regularly up-to-date, and the move to using software and making regular filings could be a big upheaval.

BASIS PERIOD REFORM

Alongside MTD, the Government has been consulting on reform of "basis periods" for taxing sole traders and partnerships from April 2024.

We currently use a "current year basis", which means businesses will be taxed based on their accounting period which ends in the personal tax year (which runs to 5 April each year), with special rules for years of commencement and cessation. This often means that a business is being taxed on very historic profits.

For example, a business with a 30 April 2020 year end would have those profits taxed in the year to 5 April 2021, with the balancing payment of tax due on 31 January 2022. The new proposal will introduce a "tax year basis". This will mean taxing profits that arise in the tax year itself. This is simple for businesses using a 31 March or 5 April year end, but for those that do not, it will either mean changing year end, or apportioning profits from two different accounting periods, perhaps with the need to use provisional figures and amend them later.

For businesses whose year ends do not currently coincide with the tax year, the move to the new rules will accelerate when tax is paid, creating a cash flow implication. To assist with this the Government proposes an election to allow any excess profits arising in the year of transition to be spread over a period of up to 5 years.

As ever, preparation for the changes will be key. Those smaller businesses about to come within MTD for VAT for the first time must make a plan for compliance now. On the longer term changes we await further developments, but businesses may want to start factoring in MTD and basis period reform to their business decisions. As ever, the Ensors team are on hand to assist.

Q&A with **Mark Upton**

As a Chartered Accountant and licensed Insolvency Practitioner, Mark is one of the leading business recovery professionals in East Anglia. He specialises in personal and corporate insolvency work, including formal assignments, pension covenant reviews and independent business reviews, as well as restructuring and turnaround advice and assistance to companies, lenders and other stakeholders. With a focus on turnaround and restructuring, Mark's focus is on assisting businesses work through their financial difficulty wherever possible and appropriate and works closely with all stakeholders.

Why did you choose to go into Accountancy?

To be honest I probably fell into it rather than chose it!
I worked in the procurement department of an engineering firm after finishing university but decided to make applications to accountancy firms whilst I was there. Ironically, given what I do now, the engineering company went into receivership just as I was leaving.

Why did you choose Ensors?

The culture, the philosophy of the firm and the people.
I had worked in larger firms previously, but it was immediately clear to me that Ensors had all the technical qualities and attributes of a larger firm whilst retaining the environment for all of the staff to develop and grow.

What do you really enjoy about your job?

Given that I am mainly dealing with businesses and individuals in financial distress, there have been very many challenges along the way. But the enjoyment is obtained from making a difference and helping people and businesses turn their lives around.

What is the most unusual task you have been asked to carry out?

I was appointed Administrator of a company and one of the first things we had to do was work out what we were going to do with the company parrot!

If you could invite any three people to dinner who would they be and why?

Nelson Mandela – you just have to, such an extraordinary man.

David Lloyd – to provide some entertainment, cricketing tales and wit.

John Swift – to try and persuade him not to leave Reading FC in the next transfer window!

Accounting & Tax seminars

We are pleased to announce that we will once again be hosting our ever-popular Accounting & Tax seminars in February 2022.

These events are relatively technical in content and should be of particular interest to accountants in industry, financial staff and business owners. They will qualify for CPD where this is applicable.

Phil Frost and Mark Morton from Mercia Group Limited will be our speakers for the event and will guide you through current accounting, financial reporting and tax practices. They are both experienced financial lecturers with a wealth of technical knowledge.

SEMINAR DETAILS

Date: Wednesday 9 February 2022
Venue: Wherstead Park, Ipswich, Suffolk, IP9 2BJ

Date: Thursday 10 February 2022
Venue: Imperial War Museum, Duxford, Cambridgeshire, CB22 4QR

Registration for both seminars is at 8.30am for a 9am start. Breakfast rolls, pastries and plenty of coffee will be available on arrival and during a short comfort break at 10.45am. The seminar will finish at 1pm with questions and answers.

To secure your place please email **jandira.neto@ensors.co.uk**

For a FREE consultation with any of the Ensors team contact Kristie Holiday on 01473 220090 or kristie.holiday@ensors.co.uk

For further information on any of the articles in this newsletter and contact details please visit **www.ensors.co.uk**

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