Review

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The rocky road to net zero

This year's COP24 climate summit in Glasgow follows hot on the heels of the latest report on the planet's future from the UN's Intergovernmental Panel on Climate Change (IPCC).

The conference and report have pushed the UK's drive to reach net zero by 2050 back up the agenda. However, the route to net zero appears far from clear.

Code Red

The IPCC's report has been described as 'a Code Red for humanity' as it highlights how human activity is changing the climate in unprecedented and sometimes irreversible ways. The landmark study warns of increasingly extreme heatwaves, droughts and flooding and a key temperature limit being broken in just over a decade.

But scientists say a catastrophe can be avoided if the world acts fast.

There is hope that deep cuts in emissions of greenhouse gases could stabilise rising temperatures. The Confederation of British Industry (CBI) says that the report must put to bed any remaining doubts as to the scale of the climate crisis.

It called for COP26 to be the trigger for more urgent action from countries around the world and said joint efforts by governments, businesses and consumers are required. The CBI stated that while the UK government must take the lead by establishing the policy and tax frameworks to make it possible, businesses must play a vital role.

Carbon footprint conundrum

However, a worrying recent survey conducted by the British Chambers of Commerce (BCC) found that carbon footprints remain a mystery to the vast majority of UK businesses. In fact, only 11% of businesses are measuring their carbon footprint.

The research also showed that only 13% of businesses have set targets to reduce their emissions – down from the figure of 21% recorded when firms were surveyed before the pandemic in February 2020.

The findings also show that 22% of businesses don't fully understand the term 'net zero,' and almost a third have yet to seek advice or information to help them develop a net zero roadmap or improve their environmental sustainability.

Penalised for going green

Meanwhile, the Federation of Small Businesses (FSB) has warned that firms are being penalised with higher business rates bills for greening their premises.

The FSB has written to the government to highlight steps that should be taken to secure green investment as part of the business rates review that is due this autumn. It says the government should stop penalising investments aimed at improving sustainability, such as solar panels, insulation, ventilation, recycling facilities and bike sheds. These additions typically cause a property's value, and by extension its rates bill, to increase.

Low carbon economy

The good news for businesses is that the UK's low carbon economy is now worth more than £200 billion according to research by data firm kMatrix, and is continuing to grow.

Experts say the sector not only has the potential to help tackle the climate crisis but also create sustainable jobs and improve people's quality of life – with cleaner transport, reduced air pollution and better insulated homes.

But they warn that if the UK is to make the necessary rapid and fair transition to a low carbon economy, the government must mobilise all sections of society behind a national programme of transformation.

kMatrix reports how low carbon schemes and projects around the UK are not only helping to reduce emissions but are also improving communities and creating jobs.

Travelling the road to net zero

As we travel down the road to net zero, tax laws may change, while new funding streams become available for eligible businesses and projects.

As your accountants we can help with both your tax and finance requirements: please contact us.

Inside this issue

- Income tax administration to get a shake-up
- Naming and shaming the minimum wage offenders
- Business Round-up
- Tax Tip
- Reminders for your diary

Income tax administration to get a shake-up

It's not just technical tax talk – recent proposals could have a major impact on income tax liabilities.

The government is currently discussing proposals for what's called income tax basis period reform, something entailing fundamental change for unincorporated businesses. There are also discussions on whether the UK tax year itself should change. A year end of 31 December or 31 March, rather than 5 April, has been suggested.

It's not often that the tax administration framework gets an overhaul, and many of the suggestions need to be seen in the context of the move towards Making Tax Digital for income tax (MTD for ITSA). This will take effect in three stages, starting from 6 April 2024 for most self-employed businesses and landlords, and 6 April 2025 for partnerships with only individuals as partners. Other partnerships would enter later. The recently-published regulations stipulate that fixed quarters, rather than quarters based on the individual accounting year of the business, will be used to report to HMRC. This puts the spotlight on the choice of accounting year end, and it may be prudent to review this as part of your MTD preparation.

Basis period reform, if implemented as it stands, also has a bearing on the choice of year end. It would end the present system whereby calculations are based on the accounting year of the individual business. Instead, profits (or losses) assessed would be those occurring in the actual tax year, regardless of accounting year end. The new tax year basis would apply from April 2024 at the earliest. There would be a transitional year (2023/24 at the earliest) in which payment of tax would be accelerated. Businesses without a 31 March/5 April year end would potentially face higher tax bills, and those with higher taxable profits in 2023/24 because of the change would be able to elect to spread the 'additional' profit over a period of up to five years.

Businesses with accounting year ends other than 31 March or 5 April would see additional complexity to tax calculations on an ongoing basis and potentially a need to submit estimated returns to meet filing deadlines. A change of accounting year end might be the optimal solution here. Many businesses would also want to consider the practical implications of the transitional year on tax bills.

No genuine simplification

However, the Tax Faculty at the Institute of Chartered Accountants in England and Wales (ICAEW) argues that implementing such changes to income tax basis period would 'not provide any genuine simplification to the UK's tax system'.

Instead, it says such reforms would be likely to increase costs, complexity and uncertainty for those businesses affected. It could also damage the UK's attractiveness as a place for the location of international service firms, the ICAEW added.

The ICAEW highlights that those businesses not following the tax year are likely to have very good reasons for doing so, including aligning with 31 December, which is the international standard for the tax year end.

The response also stresses the considerable difficulties that the proposed change would pose for seasonal businesses, agricultural firms and GP practices.

Whatever last-minute adjustments to timetabling or smallprint there may be, change is very much in the air.

Naming and shaming the minimum wage offenders

The government recently took the step of naming and shaming almost 200 UK companies that had broken National Minimum Wage (NMW) laws.

Following investigations by HMRC, the named firms had to repay £2.1 million to over 34,000 workers and were fined an additional £3.2 million.

Breaching NMW laws

Last year the number of workers HMRC helped to reclaim lost earnings rose to over 155,000 across the UK. HMRC recovered more than £16 million in pay that was due to them and also issued more than £14 million in penalties. Although not all NMW underpayments are intentional, it has always been the responsibility of all employers to abide by the law.

The employers named by the government fell foul of NMW laws:

- 47% wrongly deducted pay from workers' wages, including for uniforms and expenses
- 30% failed to pay workers for all the time they had worked, such as when they worked overtime
- 19% paid the incorrect apprenticeship rate.

Poor excuses

In addition to naming and shaming offenders, HMRC revealed some of the most 'absurd' excuses given by employers for not paying their employees the NMW.

HMRC's top five 'ridiculous' excuses for flouting the law are:

1. 'She does not deserve the NMW because she only makes the tea and sweeps the floors.'
2. 'The employee was not a good worker, so I did not think they deserved to be paid the NMW.'
3. 'My accountant and I speak a different language – he does not understand me, and that is why he does not pay my workers the correct wages.'
4. 'My employee is still learning so they are not entitled to the NMW.'
5. 'It is part of UK culture not to pay young workers for the first three months as they have to prove their 'worth' first.'

The National Living Wage and the NMW

Anybody working aged 25 or over and not in the first year of an apprenticeship is legally entitled to the National Living Wage (NLW).

Despite its name, this rate is essentially a NMW for the over 24s. The government is committed to increasing this every year.

The NLW rate changes every April, while the NMW rates have traditionally been revised in October. However, since April 2017 the NMW and NLW cycles have been aligned so that both rates are amended in April each year. Employers will need to make sure they are paying their staff correctly as the NLW will be enforced as strongly as the NMW.

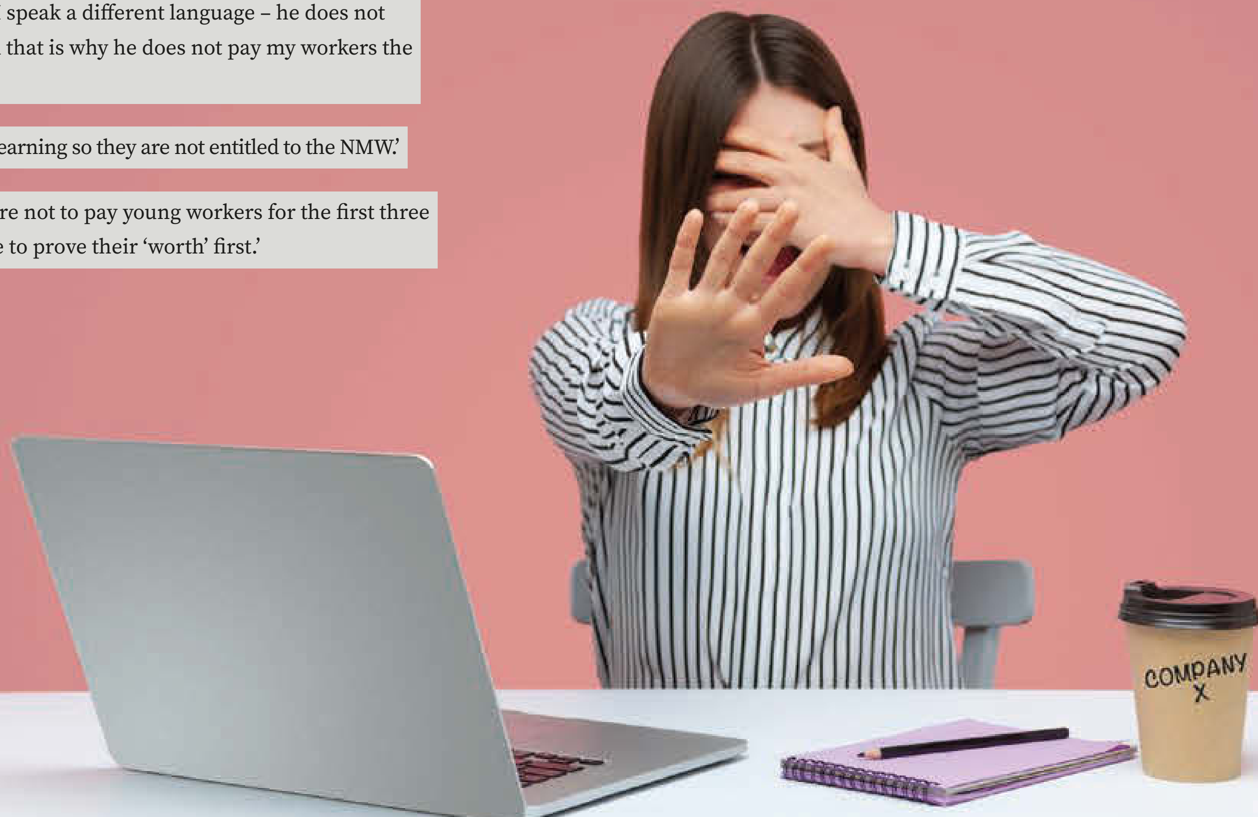
The table below shows the NMW and NLW rates applying from 1 April 2021:

	Apprentices*	16 and 17	18 - 20	21 - 22	23 and over
NMW	£4.30	£4.62	£6.56	£8.36	-
NLW	-	-	-	-	£8.91

*Under 19, or 19 and over in the first year of their apprenticeship

Calculating the NMW and NLW

Calculating the NMW and the NLW can prove to be complex. Please contact us to discuss any concerns you may have.



Business Round-up

Government announces rise in NICs to fund new Health and Social Care Levy

National insurance contributions (NICs) and dividend tax rates will rise by 1.25% in 2022 to fund a new health and social care package. The increase is put on a permanent footing from 6 April 2023 as a separate tax, the Health and Social Care Levy. NIC rates then revert to current levels. Workers over state pension age, who are currently exempt from NICs, will be liable to the Levy – but not the temporary increase in NICs.

From 6 April 2022, NICs rise by 1.25% for employees (Class 1 contributions), the self-employed (Class 4 contributions) and employers (Class 1, 1A and 1B secondary contributions). Also from April 2022, dividend rates rise to 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for additional rate taxpayers. These measures apply to all the UK, and have particular impact on higher earners in Scotland.

The proposals bring major changes to the way social care is funded in England. They mean that from October 2023, no eligible person starting adult social care should contribute more than £86,000 over their lifetime. Where assets are less than £20,000, contributions may be required from income, but not savings or the value of the home. Means-tested support will be available where assets fall between £20,000 and £100,000. Social care is funded differently elsewhere in the UK.

HMRC outlines changes to late payment penalty regime

HMRC has published a paper outlining the changes to the late payment penalty regime for taxpayers. Initially the changes will apply to VAT and income tax self assessment (ITSA). The changes will see interest charges and repayment interest harmonised to bring VAT in line with other tax regimes, including ITSA.

Under the new regime, there are two late payment penalties that may apply: a first penalty and then an additional or second penalty, with an annualised penalty rate. All taxpayers, regardless of the tax regime, have a legal obligation to pay their tax by the due date for that tax. The taxpayer will not incur a penalty if the outstanding tax is paid within the first 15 days after the due date. If tax remains unpaid after day 15, the taxpayer incurs the first penalty.

The changes will apply to VAT taxpayers for accounting periods beginning on or after 1 April 2022; to ITSA taxpayers with business or property income over £10,000 per year (who are mandated for Making Tax Digital for ITSA (MTD for ITSA)) from the tax year beginning 6 April 2024; and for all other ITSA taxpayers from the tax year beginning 6 April 2025.

Tax Tip

Deciding on a year end

It's important to choose a year end that suits your business. If your trading is seasonal, is there a more convenient time to close off your accounting records? If you have stock, what time of year is best for stocktaking?

From a tax perspective, for unincorporated businesses, choosing a year end at the beginning of the tax year would mean you have longer to pay any tax due.

Meanwhile, incorporated businesses may need to consider the timing of other taxes. If you are a director who completes a tax return, you may not want a year end which coincides with the self assessment deadline.

We can help you choose a year end that is suitable for your business. Please get in touch for more information.

Reminders for your diary

November 2021

2 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 October 2021.

19 PAYE, Student loan and CIS deductions are due for the month to 5 November 2021.

December 2021

1 New Advisory Fuel Rates (AFR) for company car users apply from today.

19 PAYE, Student loan and CIS deductions are due for the month to 5 December 2021.

30 Online filing deadline for submitting 2020/21 self assessment return if you require HMRC to collect any underpaid tax by making an adjustment to your 2022/23 tax code.

31 End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 December 2020.

January 2022

1 Due date for payment of corporation tax for period ended 31 March 2021.

14 Due date for income tax for the CT61 quarter to 31 December 2021.

19 PAYE, Student loan and CIS deductions are due for the month to 5 January 2022.

PAYE quarterly payments are due for small employers for the pay periods 6 October 2021 to 5 January 2022.

31 Deadline for submitting your 2020/21 self assessment return (£100 automatic penalty if your return is late) and the balance of your 2020/21 liability together with the first payment on account for 2021/22 are also due.

Capital gains tax payment for 2020/21.

Balancing payment – 2020/21 income tax and Class 4 NICs. Class 2 NICs also due.

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