



TAX BRIEFING

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GOING DIGITAL IN ADVANCE OF MTD

From 6 April 2023 all unincorporated businesses will have to keep their business records in a digital format and submit quarterly reports derived from those records to HMRC using MTD-compatible software.

These are the basic obligations under making tax digital for income tax self assessment (MTD ITSA).

The start date of MTD ITSA is less than two years away so it is a good idea to start preparing now. However this digitisation is not as daunting as you may think.

Spreadsheets qualify as a digital format and HMRC will continue to accept them as a digital record for the foreseeable future. A taxpayer who records all of their business income and expenses on a spreadsheet and uses bridging software to read the relevant totals from that spreadsheet and submit them, without rekeying, to HMRC will meet their MTD ITSA obligations.

More complex businesses may find that they need to link several pieces of software to comply with the MTD regulations.

We can advise you on the different forms of accounting software that can help your business get ready for MTD

Example: a car hire firm has an automated booking system that generates the order and sends the invoice to the customer. It uses a separate system to record the expenses of the business. Under MTD the booking system needs to be digitally linked to the expenses recording system, perhaps by both systems being digitally connected to the accounts production software which also submits the MTD reports to HMRC.

We can advise you on the different forms of accounting software that can help your business get ready for MTD when it starts in 2023.

CHANGE TO TAX YEAR BASIS

Unincorporated businesses which draw up accounts to a date other than on or between 31 March or 5 April may need to prepare for larger than normal tax bills for 2022-23.

This is because the Government is proposing a change to the basis on which profits are taxed, from the 'current year basis' to the 'tax year basis' in 2022-23, ready for MTD for income tax to commence on 6 April 2023. This proposed change will not affect companies.

For example, the Hill Farm partnership's accounting year ends on 30 September. In the tax year 2021-22 the Hill Farm partners are taxed on the profits for the accounting year to 30 September 2021. For the tax year 2022-23 the partners would have to report to HMRC the profits arising in the 18-month period from 1 October 2021 to 5 April 2023, the usual twelve months to 30 September and the extra period to the end of the tax year.

From this total, overlap profits can be deducted to calculate a liability for the year. Where this results in extra profits

being taxed compared to what would have been taxed in a normal year, those excess profits can be spread over a maximum of five years.

HMRC is not asking businesses to change their accounting year end. But where the accounting period does not match the tax year, an apportionment of profits from two sets of accounts will be needed to calculate the figures required for each tax year. It may therefore be easier to draw up accounts to the tax year end (or to 31 March).

These figures and associated potential year end change will need to be considered in detail and we will be happy to talk you through which options are likely to be best for you.





CHECK YOUR TAX CALCULATION

Individuals who are taxed under PAYE and who do not complete an annual tax return may receive a tax calculation (on form P800) from HMRC covering the previous tax year.

If you have received such a tax calculation, please check it carefully and send a copy to us to check it for you. HMRC does make mistakes and the computer generated calculation may contain structural errors.

A common error is where the taxpayer has significant savings or dividend income in addition to some salary or pensions income. In this case the savings rate band (0% tax on up to £5,000 of savings) and the savings allowance (0% tax on up to £1,000) may both come into play.

The law allows the taxpayer to set their personal allowance against their income in any order, as best suits the individual, and to take advantage of these two reliefs for savings. However the PAYE computer has been programmed to allocate the personal

allowance in this order:

1. non-savings income (employment, profits and pensions);
2. savings income;
3. dividends.

The law allows the taxpayer to set their personal allowance against their income in the best order

It may be better for you to set your personal allowance first against non-savings income and then against dividends, before savings income, to leave the maximum amount of savings to be covered by the savings allowance. We will be able to check whether the HMRC calculation is in your favour.

Such an error may have existed for some years, so if it applies to you we will help you review your tax position back to 2015-16.

MONEY BACK FOR WORKING FROM HOME

If an employer has asked an employee to work from their own home, it can pay a tax-free allowance of £6 per week to compensate for any additional costs incurred.

These costs may include additional electricity, gas or water consumed while at home in working hours. If the employee is using their own telephone, the employer can also reimburse for the cost of business calls made.

Where the employer does not pay a working from home allowance and the employee does not have a choice about working from home for some of the working time, the employee can claim the working from home deduction of £6 per week from HMRC (see: www.gov.uk/tax-relief-for-employees/working-at-home).

Anyone who made a claim for the working from home allowance for the tax year 2020-21, if they are still working from home, can make another claim now for the tax year 2021-22.

The working from home deduction is worth £1.20 per week in cash terms for basic rate taxpayers and £2.40 per week for higher rate taxpayers.

HOW TO GET AN INCOME TAX REFUND FROM LOSSES

Many businesses have made large losses in the tax year 2020-21 which have eclipsed the profits made in the previous year and even the year before that.

Those pandemic trading losses can be used to generate a tax refund by setting them against profits made from the same trade up to three years earlier.

received. The first three SEISS grants were paid in 2020-21 so must be set-off against the trading loss from that year.

To calculate the trading loss to carry back you need to include any Covid-19-related grants received, such as SEISS, CJRS, or business support grants. The SEISS grants are treated as part of your income for the tax year in which they were

You can make a standalone claim to carry back losses as soon as your accounting year has finished and we





can help you with that. You do not have to wait until you have all the other details required for your 2020-21 tax return to claim the loss.

The claim can set the loss against profits in all three tax years: 2019-20 to 2017-18 but the set-off must start with 2019-20 with only unused losses being carried back further.

There are some additional conditions to

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meet in certain sectors. All businesses need to show that losses arose from a commercial trade which was carried on with a view to making a profit. Losses from letting property cannot be carried back at all.

Carrying back the loss does not actually change the figures on your tax returns for the earlier years. Instead the loss set-off creates a standalone tax credit for you to use in the current year.

HOW TO CARRY BACK CORPORATE LOSSES

If your company suffered badly under the Covid-19 pandemic you can at least claim a tax repayment where the accounts show a loss and the company made profits in earlier years.

Where the loss exceeds the profit made in the previous year, the excess loss can be carried back to set against profits from the two preceding years. This extended loss carry-back only applies to losses arising in accounting periods that end between 1 April 2020 and 31 March 2022. The amount of losses that can be carried back is capped at £2m per year of loss.

In certain situations you do not have to wait until the corporation tax return is finalised for the loss period to make a claim. Claims for the two earliest years exceeding £200,000 must be made in the corporation tax return. HMRC has opened an online portal to claim those corporate losses and we can help you make that claim. Ideally the finalised and approved company accounts would be submitted with the loss claim but if final accounts are not available management accounts for the loss period will do.

Where the company is part of a group a nominated group company must submit a written loss carry-back allocation statement showing which companies in the group are claiming the allowable losses.

SUPER CAPITAL ALLOWANCES

Companies can now claim 'super' capital allowances on the purchase of new machinery and plant and to a lesser extent on certain new fixtures and fittings.

These super allowances give the company a deduction of 130% of the cost in the year of purchase for plant and machinery and a 50% deduction for the cost of qualifying fixtures and fittings within commercial buildings. We can help you to determine which fixtures will qualify.

These super allowances give the company a deduction of 130% of the cost in the year of purchase

The super capital allowances only apply to expenditure incurred by companies between 1 April 2021 and 31 March 2023. The main corporation tax rate is due to increase to 25% on 1 April 2023 and this allowance is an incentive to invest before that date.

If your company is about to purchase a new delivery van for £50,000 it will be able to claim a deduction against profits of £65,000 in the year of purchase. But beware; the super allowance cannot be claimed in the year the business stops trading.

Unincorporated businesses cannot claim the super capital allowances but they can claim the 100% annual investment allowance on most items of plant and equipment, including on the purchase of second-hand equipment.

There are strict conditions for these new allowances; the main one being that the item acquired must be brand new (not second-hand) and cars do not qualify. Also, the equipment must not have been acquired in order to be hired-out.

You need to be able to identify separately each item which was subject to a super capital allowance claim as if it is sold later some of the allowance may have to be clawed back.





WHAT TO INCLUDE ON YOUR VAT INVOICE

HMRC will block recovery of VAT on invoices that do not clearly state what goods or services were supplied.

We have heard that HMRC officers are using this power to query the validity of invoices, particularly in the construction sector and from employment agencies.

Where your business supplies labour or staff your customers will be rightly annoyed if HMRC says that they cannot reclaim VAT because your invoice description was not detailed enough.

An invoice for labour should, as a minimum, state the number of workers; the number of hours (or days) worked; the dates of the work; and the site address where the workers were supplied. HMRC would also like the invoice to include details of the nature of the work undertaken but this can be

To avoid HMRC raising questions about your sales invoices, populate your invoices with a little more detail provided by way of a cross reference to other documents such as timesheets that show the workers' names or supporting schedules detailing what was done.

To avoid HMRC raising questions about your sales invoices and to maintain a good relationship with your customers, populate your invoices with a little more detail and cross reference where possible to contracts or timesheets.

VAT CHANGES FOR HOSPITALITY SECTOR

The hospitality and tourism sector has been enjoying a reduced rate of VAT (5%) since 15 July 2020.

From 1 October 2021 the 5% VAT rate will increase to 12.5% and on 1 April 2022 it will revert to the normal standard rate of 20% This rate applies to most supplies made by hotels, tourist attractions, members' clubs and most events venues. It also applies to the food and drink served in those premises and hot takeaway food and non-alcoholic drinks.

From 1 October 2021 the 5% VAT rate will increase to 12.5% and on 1 April 2022 it will revert to the normal standard rate of 20%. These rate rises provide hoteliers and event organisers with two opportunities to promote advance payment for events, hotel rooms and even meals.

HMRC has confirmed that any advance payments or non-returned deposits must carry VAT at the rate applicable when the payment is taken and not the rate applicable when the event occurs or the room is actually used.

If a hotel sells tickets to its Christmas event at £180 per head (including 12.5% VAT of £20). It could offer a £12 discount to those who pay in full for their tickets before 1 October 2021 as the ticket price including 5% VAT is £168.

If a guest cancels their Christmas booking the hotel should give them a credit note based on the VAT rate originally charged, or a full refund.