2021-22

YEAR END TAX
REVIEW

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Taxes and wages are rising

This autumn, the Chancellor announced that the rates of most classes of National Insurance Contributions (NIC) would temporarily increase by 1.25 percentage points for the year starting 6 April 2022, in order to raise funds for the NHS and social care.

These NIC rate increases will be replaced by the Health and Social Care Levy (HSCL) from 6 April 2023, which will also be set at 1.25% of income. The HSCL will apply to the earned income or trading profits of people who are working beyond state retirement age, unlike Class 1 employees' NIC and Class 4 that is payable by the self-employed.

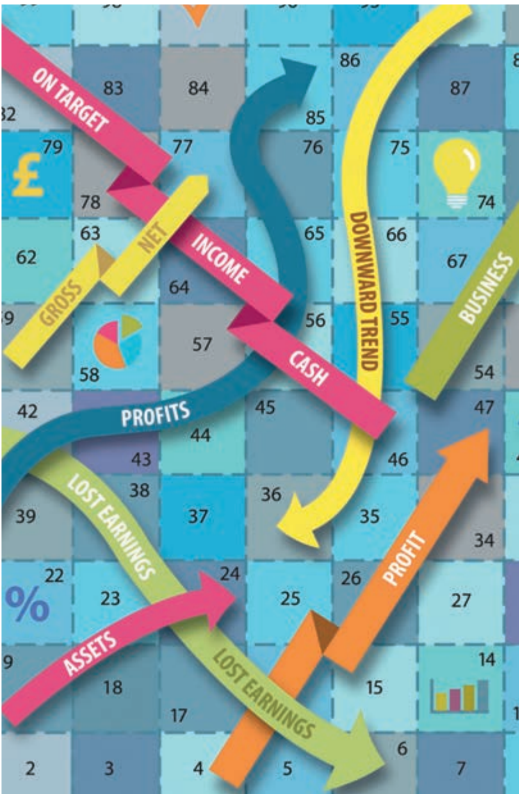
To ensure that taxpayers who take their income in the form of dividends also pay their fair share of tax, all the tax rates applicable to dividends will also rise by 1.25 percentage points from 6 April 2022. The combination of these two rate rises will have a significant effect on the tax and NIC payable by shareholders of family companies.

All employers need to budget for increases in the rates of National Living Wage and National Minimum Wage from 1 April 2022.

Also from 1 April 2022, all VAT-registered businesses will be required to submit their VAT returns using MTD-compatible software and to keep their VAT records in a digital format. HMRC is introducing a new system of penalties to encourage taxpayers to comply with MTD and to pay their VAT on time.

We recommend you undertake an annual review of your financial affairs, in order to check that you are not paying more tax than you need to and whether the structures you set up in the past are still appropriate. Between now and the end of the tax year (5 April 2022) is a good time to assess whether you have claimed all the relevant allowances and are as well defended against high tax charges as you can be.

Of course, the personal circumstances of each individual must be taken into account in deciding whether any particular plan is suitable or advantageous, but these suggestions may give you some ideas. We are happy to discuss them with you in more detail.



Claim for your company's losses

Companies can take advantage of an extended carry back period for trading losses arising in accounting periods that end between 1 April 2020 and 31 March 2022.

The trading losses from these periods can be carried back to set against total profits of accounting periods ending in the previous three years.

There are two £2 million caps (one for each financial year in which the loss is generated) for the losses carried back to the two earliest years of the three.

Claims for losses can be submitted as soon as the accounting period has ended, as long as the loss can be quantified appropriately and supported with draft accounts or management accounts.

Your company does not have to finalise its accounts for the year or submit its corporation tax return before making a claim.

HMRC will accept loss claims for up to £200,000 for this extended carry back period outside of the corporation tax return. Larger loss claims must be made on the corporation tax return.

Remember any covid business support grants the company has received form part of its trading income for the accounting period, so will reduce any trading loss.

ACTION POINT!

Can your company claim extra loss relief to generate repayments of tax?

Benefits-in-kind

Many employees were required to work at home in 2021. Their employers may have helped facilitate this by providing equipment or paying to boost their home internet service. Generally, these costs are not taxable on the employee if there is no significant private use of the asset or service.

Other benefits, such as company cars, remain taxable even if the employee was furloughed. We can help you check which benefits are taxable and which are tax-free in 2021/22.

In some cases, an employee can avoid being taxed on a benefit if they 'make good' the value of the benefit by reimbursing their employer. There are strict time limits for doing this.

All reimbursements of taxable non-payrolled benefits for 2021/22 must be made by 6 July 2022, which aligns with the date for submitting the forms P11D.

The dates for making good on payrolled benefits-in-kind provided in 2021/22 are:

- 1 June 2022 for the value of road fuel used
- 5 April 2022 for all other benefits

The deadlines for making good do not apply to interest payable on beneficial loans and overdrawn directors' loan accounts. Where such loans exceed £10,000 at any point in the tax year there is a taxable benefit if insufficient interest is paid. This taxable benefit can be avoided if interest at least equal to the Official Rate is reimbursed, where the borrower is contractually obliged to pay it. The Official Rate for 2021/22 is 2%.

Despite this exclusion for beneficial loans, most people should try to pay any interest due on a loan by the 6 July following the tax year, to avoid any doubt as to whether a benefit arises at the time the P11D form is being prepared.

ACTION POINT!

Check which benefits are tax-free for 2021/22 and, to avoid P11D issues on other benefits, meet the deadline for making good the benefit.

Prepare for higher dividend tax

To balance the increase in NIC payable on salaries and self-employed profits, the tax you pay on dividends will also increase by 1.25 percentage points from 6 April 2022.

The dividend allowance has been frozen at £2,000; you pay zero tax on dividends which fall within that allowance. Any additional dividends are charged to tax at a rate dependent on which tax band they fall into (see table).

If you have surplus cash held within your own company, you may wish to consider paying out a higher dividend to the shareholders before 6 April 2022, rather than later. Where different shareholders in your company hold slightly different classes of shares the dividends paid out can be tailored to the shareholder's needs.

The company needs to have sufficient retained profits to extract as dividends and you should first check that the cash is not needed for other purposes, such as paying tax bills or investment in plant.

We can calculate how much you can extract from your company as dividends in 2021/22, to beat the dividend tax rise that applies from 6 April 2022. However, it's also important that bringing forward dividends into 2021/22 won't push the recipients into higher tax bands.

ACTION POINT!

Have you used all your basic rate band and dividend allowance for 2021/22?.

Dividends falling within:	2022/23	2021/22
Basic rate band	8.75%	7.5%
Higher rate band	33.75%	32.5%
Additional rate band	39.35%	38.1%

Excited about electrics

The taxable benefit for having the private use of an electric company car is currently just 1% of list price. From 6 April 2022 the taxable benefit will rise to 2% of list price; it will then be fixed at that level until April 2025. However, even at 2% of list price, this is a bargain, as the company will cover the capital cost of the car, the insurance and any repairs or servicing.

If you want a hybrid car, those models that can drive at least 130 miles on electric power only also have a taxable benefit of just 2% of list price. Driving an electric van is even more beneficial, as there is zero taxable benefit for the driver!

Where a business buys a new electric car or van, it can claim 100% of the cost as a capital allowance in the year of purchase. For an electric car to qualify for this 100% First Year Allowance it must be acquired brand new (not second-hand) before 1 April 2025.

Companies that acquire brand new vans can claim a super-deduction of 130% of the price, if the van is acquired before 1 April 2023.

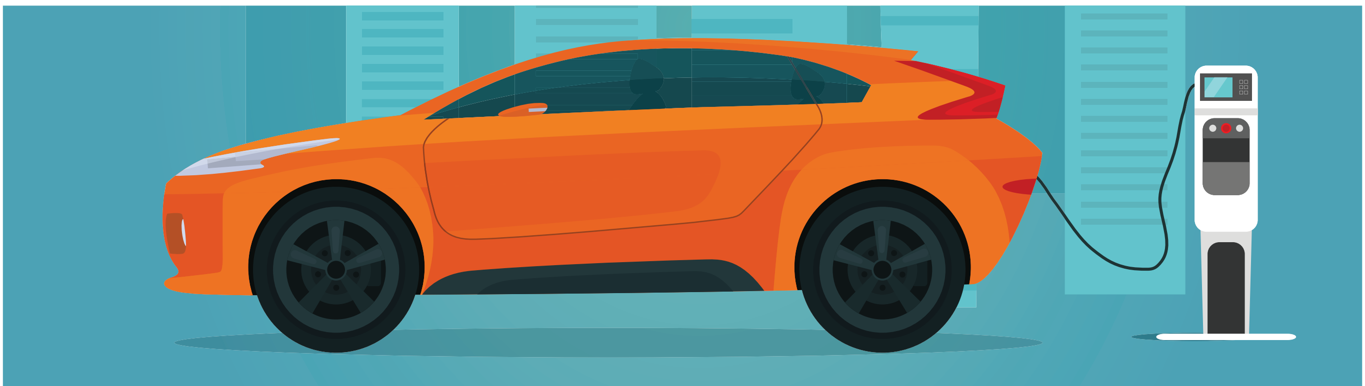
Where the business installs electric vehicle charging points before 31 March 2023, it can claim 100% of the cost in the year of purchase. There are also Government grants available for individuals who install electric vehicle charging points at their home.

Where employees are permitted to freely charge up electric vehicles at work, there is no taxable benefit for the use of that electricity. Drivers of electric company cars who pay for their own charging can claim a tax-free allowance from their employer of 4p per business mile driven.

Drivers who use their own electric cars for business journeys can claim the normal mileage rates of 45p per mile for the first 10,000 miles and 25p for any additional business miles driven in the tax year.

ACTION POINT!

Consider the tax incentives for electric or hybrid company cars.



Give and save

Giving to charity under Gift Aid can result in a lower tax bill for the donor.

Making a Gift Aid donation will reduce your tax bill for the year in which the donation is made if your total income is above the 40% threshold (£50,270 for 2021/22). Taxpayers resident in Scotland can save tax with Gift Aid donations if their total income, including earnings, is above the 21% threshold (£25,296 for 2021/22). Alternatively, you can shift the tax benefit back one year by telling HMRC on your tax return. This can be useful if your marginal tax rate was higher last year than in the current tax year.

To carry back the Gift Aid donation, it must be made before you file your tax return for the earlier tax year. Say you make a Gift Aid donation of £2,000 on 21 December 2021. If you submit your 2020/21 tax return after that date (it's due by 31 January 2022) you can include a claim in that return to carry back the £2,000 donation you made on 21 December 2021, which will reduce your 2020/21 tax liability.

Gift Aid can reduce your income used to calculate the clawback of Child Benefit (income over £50,000) and the reduction in personal allowance (income over £100,000). It can also increase your higher rate or additional rate threshold, which determine whether you receive a Personal Savings Allowance of £1,000, £500 or nil.

To make a valid Gift Aid donation, you must declare that you will pay sufficient tax to cover 25% of the value of your gift in the year the gift is made (or in the previous year if a carry back claim is being made). If you give £800 under Gift Aid, you must pay income tax and/or CGT of at least £200; this is the amount of tax that the charity reclaims from HMRC.

ACTION POINT!

Check the level of your charitable donations this year before you complete your next tax return.

Review your mix of income

All interest you receive is taxable, unless it is from an ISA, but banks and building societies don't deduct tax from interest paid to individuals. For most taxpayers the rate of tax payable on that interest is 0%, so no tax is in fact due.

This zero tax rate applies where your savings income falls within your Savings Rate Band (SRB), which is worth up to £5,000, or within your Personal Savings Allowance (PSA), which is worth £1,000 for basic rate taxpayers or £500 for higher rate taxpayers. Any savings income which falls outside the SRB or PSA is taxed at your marginal income tax rate (currently 20%, 40% or 45%).

The available SRB depends on how much taxable income you receive, other than interest and dividends. Examples include salary, pensions, trading profits or rent. If you can control the type of income you receive, you can reduce the total tax you pay for the year, just like Harry in the example below.

ACTION POINT!

Review your mix of income from your company to utilise your savings allowance for 2021/22.

Example

Harry has £150,000 of capital deposited in a bank at 0.6%, so he receives £900 of interest per year. After deducting his personal allowance (£12,570) from his salary of £18,000 he has £5,430 of taxable income, which is deemed to use up his SRB. He is a basic rate taxpayer, so has a PSA of £1,000.

2021/2022	**Non savings**	**Savings**	**Tax payable**
Salary/Interest	£18,000	£900	
Personal Allowance	(12,570)		
Taxed @ 20%	5,430		£1,086
PSA (max £1,000)		(900)	
Taxed @ 20%		NIL	NIL
Total tax payable			1,086

Suppose instead that Harry lends £150,000 to his company, which pays him interest at a commercial rate of 3.5% (i.e. £5,250) under a written agreement. The company uses the money for developing a business property. Harry also reduces his salary to £13,650, so that his total income is still £18,900. Reducing his salary frees up some starting rate band to set against his interest income – see below.

2021/2022	**Non savings**	**Savings**	**Tax payable**
Salary	£13,650		
Interest		5,250	
Personal Allowance	(12,570)		
Taxable @ 20%	1,080		216
		5,250	
SRB (5,000-1,080)		(3,920)	
PSA		(1,000)	
Taxable @ 20%		330	66
			282

Harry's tax bill has been reduced from £1,086 to £282 on the same level of income. The company must deduct tax at 20% from the interest it pays him but this can be reclaimed by Harry.

Working at home allowance

Where you are required to work at home, your employer can pay you a tax-free allowance of £6 per week (or £26 per month). This allowance is to cover the additional costs incurred by using your home as a workplace, such as heat, light, metered water, insurance and broadband fees.

If your employer doesn't pay this allowance, but you are required to work at home for at least some of your working time, you can claim the same amounts as tax deductions from HMRC.

You don't need to provide evidence of the additional home expenses incurred if you claim up to £6 per week. Where the additional costs exceed this value, you can claim for the actual expenses incurred, but you will be required to have proof in the form of receipts, bills or contracts.

A claim for home working expenses for 2021/22 can be submitted online, or as part of your self-assessment tax return, or using form P87. Claims for earlier years may be submitted on tax returns or form P87 and they must reach HMRC within four years of the end of the tax year to which they apply.

ACTION POINT!

Can you claim a tax deduction for working at home?