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CHARTERED ACCOUNTANTS

NEWS UPDATE - 13 FEBRUARY 2023

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New energy bill support scheme for businesses

If your employer pays for the fuel in your company car, it may cost you more than you expected. A new business energy support scheme is set to run from 1 April 2023 to 31 March 2024 but will be less generous than the scheme currently in effect. Businesses with energy costs below £107/MWh for gas and £302/MWh for electricity will not receive any support.

The current scheme runs until 31 March 2023 and is based on fixed prices. The new scheme will instead provide a discount on wholesale prices.

The new discount

Businesses will receive a unit discount of up to £6.97/MWh unit discount on gas bills, with a discount of up to £19.61MWh on electricity bills. The discounts only apply above a threshold level of £107/MWh for gas and £302/MWh for electricity.

- At first glance that might not seem too bad, but energy billing is in kWh. When converted – two pence off a kWh of electricity and just over half a penny for gas – the reduction can be seen as much less generous.
- Many smaller firms are struggling to pay energy bills even with existing support. For a typical retail store, the total reduction over the 12 months under the new scheme will be just £400.
- As for the current scheme, the discount will not be available to businesses on existing fixed-price contracts agreed prior to 1 December 2021.

Although businesses do not need to take any action or apply for the new scheme, they should be aware of how the changes from 1 April 2023 will impact their cash flow forecasts.

Energy and trade-intensive businesses

A higher level of support will be provided to businesses in sectors identified as being the most energy and trade intensive. Similar to the current scheme, the discount for these businesses will reflect the difference between government-supported prices and wholesale prices.

Businesses may need to register for this additional support.

A full list of eligible energy and trade-intensive sectors can be found from the link below:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1128021/230104_ETII_List_for_gov.uk.pdf

Profit withdrawal changes for 2023/24

Owner-managers have historically benefited by withdrawing profits by way of dividends, rather than taking director's remuneration, due to the national insurance contribution (NIC) saving. However, tax changes taking effect from April 2023 will mean this approach may no longer be such an attractive option.

From 1 April 2023, the current 19% rate of corporation tax will only be available for the first £50,000 of profits. On profits between £50,000 and £250,000, the effective rate will be 26.5%, with 25% payable thereafter. As far as personal tax is concerned for 2023/24:

- The tax-free dividend allowance will be cut from £2,000 to £1,000; and
- Dividend tax rates are not reduced by 1.25% in line with the reduction to NIC rates.

Case study

The profit withdrawal decision will differ from owner-manager to owner-manager, but let's take the situation where company profits are forecast to be £150,000 for the year ended 31 March 2024 and the owner-manager wants to withdraw £50,000 either as dividends or director's remuneration (this will be their only income). The company does not have any other employees.

- Dividend: After allowing for corporation tax, a dividend of £36,750 can be taken. Income tax on this will be £2,028, so net of tax income is £34,722.

- Remuneration: After allowing for employer NICs, gross remuneration of £45,040 will be paid. After income tax and employee NICs, the net of tax income is £34,650.

There is virtually no difference between the two options. However, the remuneration option would be better if some or all of the £5,000 employment allowance was available to set against employer NICs. At higher levels of income, dividends have the advantage – for example, some £1,793 more in net of tax income for a £100,000 withdrawal – but again, the availability of the employment allowance could swing this around.

The employment allowance is not available if a director is the sole employee. This can be rectified by employing a family member and paying them at least £9,100 a year. The salary must of course be justified.

Forecast

Directors who want to take regular monthly or quarterly dividend payments will need a fairly accurate forecast of company profits. This might be difficult, but directors – assuming they have sufficient funds to live on – have the option of waiting until towards the end of the tax year before deciding on a profit withdrawal strategy, as the tax position will not change.

Higher Scottish rates of income tax mean the remuneration option is more expensive for Scottish taxpayers. It is assumed that rates of NIC will remain unchanged for 2023/24.

Tax rates and allowances for 2023/24, along with some useful tax calculators, can be found from the link below:

https://www.uktaxcalculators.co.uk/tax-rates/2023-2024/

Scottish income tax information can be found from the link below:

https://www.gov.scot/publications/scottish-income-tax-2023-2024/

Tax warnings for online sellers, influencers and content creators

HMRC's latest wave of 'nudge letters' – used to prompt a response from the recipient – has been targeted at online sellers, influencers and content creators warning them that they may not have paid enough tax.

It is likely HMRC has obtained information from various online platforms and is using this as the basis for the nudge exercise. The wide range of recipients illustrates the scope of HMRC's data analytics capabilities, as they have managed to identify people running blogs or social media accounts that include sponsorship.

Although any profit from online activity is taxable, there is an exemption if annual gross trading income does not exceed £1,000.

Certificate of tax position

Any online seller who receives a nudge letter is asked to complete a certificate of tax position within 30 days.

If the seller has undeclared income, HMRC recommends making a voluntary disclosure using its online Digital Disclosure Facility. Once HMRC is informed of the intended disclosure, they will send an acknowledgement letter. Outstanding tax must be paid within 90 days from the date of this letter.

If the seller does not need to inform HMRC of any additional income, they either have to declare that all income from online marketplace sales has been correctly declared or explain the reason why income need not be declared. This could be because of the *de minimis* £1,000 exemption, or if income is less than the personal allowance of £12,570.

Tax position alternatives

Unlike the self-assessment tax return, there is no legal requirement to complete and return the certificate of tax position. However, non-completion will inevitably attract more attention from HMRC.

If an online seller's tax affairs are not straightforward, it will probably be better to respond by letter instead. A more detailed explanation of the seller's tax affairs can then be given. Professional tax advice, is, of course, essential.

A step-by-step guide for any online sellers, influencers and content creators who need to set themselves up as self-employed can be found from the link below:

https://www.gov.uk/set-up-self-employed

21st century Revenue – HMRC's app & new texting service

HMRC's app was launched a year ago and is gaining in popularity as it is being used to pay self-assessment tax bills. A more recent HMRC innovation is a new service for texting replies to taxpayers who make contact by mobile phone.

Using the app

The HMRC app can be downloaded from either the App Store (Apple devices) or the Google Play Store (Android devices). It is then just a matter of:

- Following the instructions to complete the app settings; and
- Signing in using your Government Gateway (only required for first-time use).

In addition to paying self-assessment tax bills, the HMRC app can be used to claim a refund if too much tax has been paid. Other uses include:

- Tax credits: Changes can be reported, and the annual renewal completed. The app shows the amount of tax credit payments and when they will be made.
- References: You can check your tax code and easily find your national insurance (NI) number and unique taxpayer reference (UTR).
- Update: You can let HMRC know if you change address.
- Tax details: You can get an estimate of tax payable and use HMRC's tax calculator to work out take-home pay after income tax and national insurance contributions.

Despite some negative reviews, the HMRC app currently has a 4.5 rating on the App Store, and a 4.7 rating on the Google Play Store.

New texting service

Only launched 19 January, HMRC is trialling the sending of text messages to taxpayers who call their helplines about a routine matter that could be better resolved using HMRC's digital services. Although some callers will be given the choice of holding for an adviser, other calls will be automatically disconnected after a message explaining a text message has been sent. The message might point towards information on the gov.uk website, which can help with the enquiry, or to the webchat service.

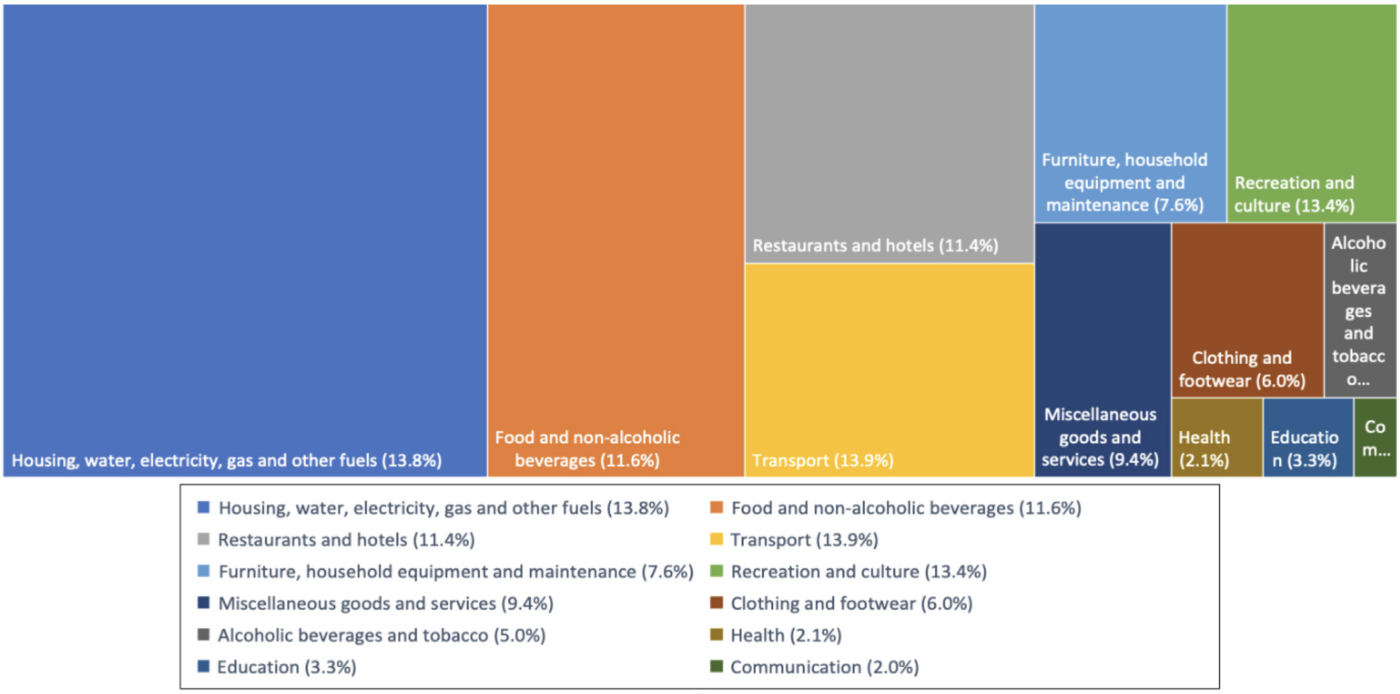
The HMRC app can be found here for Apple users:
https://apps.apple.com/app/apple-store/id514561561

and here for Android users:
https://play.google.com/store/apps/details?id=uk.gov.hmrc.ptcalc&referrer=utm_source%3Dgovuk&pli=1

The inflation puzzle of 2022

Annual inflation in 2022 was 10.5%, but not all components rose by double digits.

2022 Inflation Components



Source: ONS.

Annual inflation, as measured by the Consumer Prices Index (CPI), was 10.5% in 2022 against 5.4% in 2021. The official CPI calculator, the Office for National Statistics (ONS), says that the last time inflation was as high was in 1981. But what drove the inflation indices to four-decade highs last year? As is often the case, a simple economic question does not lead to a straightforward answer.

The hierarchy graph above offers a visual response:

- The ONS CPI inflation 'basket' contains 12 categories, each with different weights (see figures in brackets) based on typical household expenditure. In 2022, the second largest category of spending, Housing, water, electricity, gas and other fuels, recorded an increase of 26.6%. Unsurprisingly, the star performer was gas prices, which rose 128.9% across 2022. That alone was worth a 1.8% rise in the CPI. Electricity prices jumped by 65.4%, adding another 1.3% to the CPI.

- The next largest contributor to inflation, with a slightly smaller weighting in the basket, was Food and non-alcoholic beverages, which rose by 16.8% over the year. The ONS says this category's annual inflation has increased for 17 consecutive months (from -0.6% in July 2021) and is now at 1977 levels. It accounted for 1.95% of CPI inflation.

- In 2022, the category with the largest weighting in the CPI basket, Transport, played a less significant role in terms of overall inflation (0.9% on the CPI) than it did last year. Over the year, the category's inflation was 6.5%. In June, annual transport inflation was nearly 15%, driven by the rise in petrol and diesel prices. As these fell back, so too did the transport inflation rate.

- The category with the lowest inflation (2.0%) was also the one with the second lowest basket weighting – Communications – so did little to counter the sharp rises elsewhere.

The two main causes of 2022 inflation – food and gas prices – help to explain why inflation is expected to drop sharply in 2023. Both rose in response to the war in Ukraine and as that is now a year ago, prices should start to stabilise – indeed wholesale gas prices have fallen from their peaks.

The consensus is for the annual CPI number to end the year around 5%, less than half of 2022's level but still enough to mean any long-term financial plans need to build in the value-eroding effects of inflation.

Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk