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CHARTERED ACCOUNTANTS

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Business rates loophole on second homes closing

Owners of holiday lets and second homes in England have been able to avoid council tax by registering their properties as businesses. However, from April 2023, small business rates relief will only be available if a property is let out for a minimum of 70 days a year. If you let out a second home, you may want to start planning now.

In the vast majority of cases, registering a property as a business has meant that small business rates relief is available, meaning no business rates are payable. Business registration has been possible for properties available to let for 140 days or more in a year, even if little or no realistic effort is made to attract lettings.

Changes from 1 April 2023

To benefit from business rates after next April, owners will have to:

- Prove that a property is available as self-catering accommodation for 140 days a year, with this test met for the coming year and also the previous year; and
- Actually rent out the property as self-catering accommodation for a minimum of 70 days a year.

It will be necessary for property owners to provide evidence, such as the website or brochure used to advertise the property, letting details and receipts.

Wales already applies similar criteria, with Scotland making changes from April 2022.

For the purpose of accounting for those 70 days, both council and business rates look at the property's status at the end of a day. For example, if a property is let from Friday evening to Sunday morning, it is treated as let for two days using the occupancy for the Friday and Saturday nights.

New lets

There are no special rules being introduced for newly available lets, so a new let will be liable to council tax until the property has been available for 140 days and actually rented out for 70 days. Business rates will not be available until both criteria are met, subject to the property being advertised as self-catering accommodation for 140 days in the coming year.

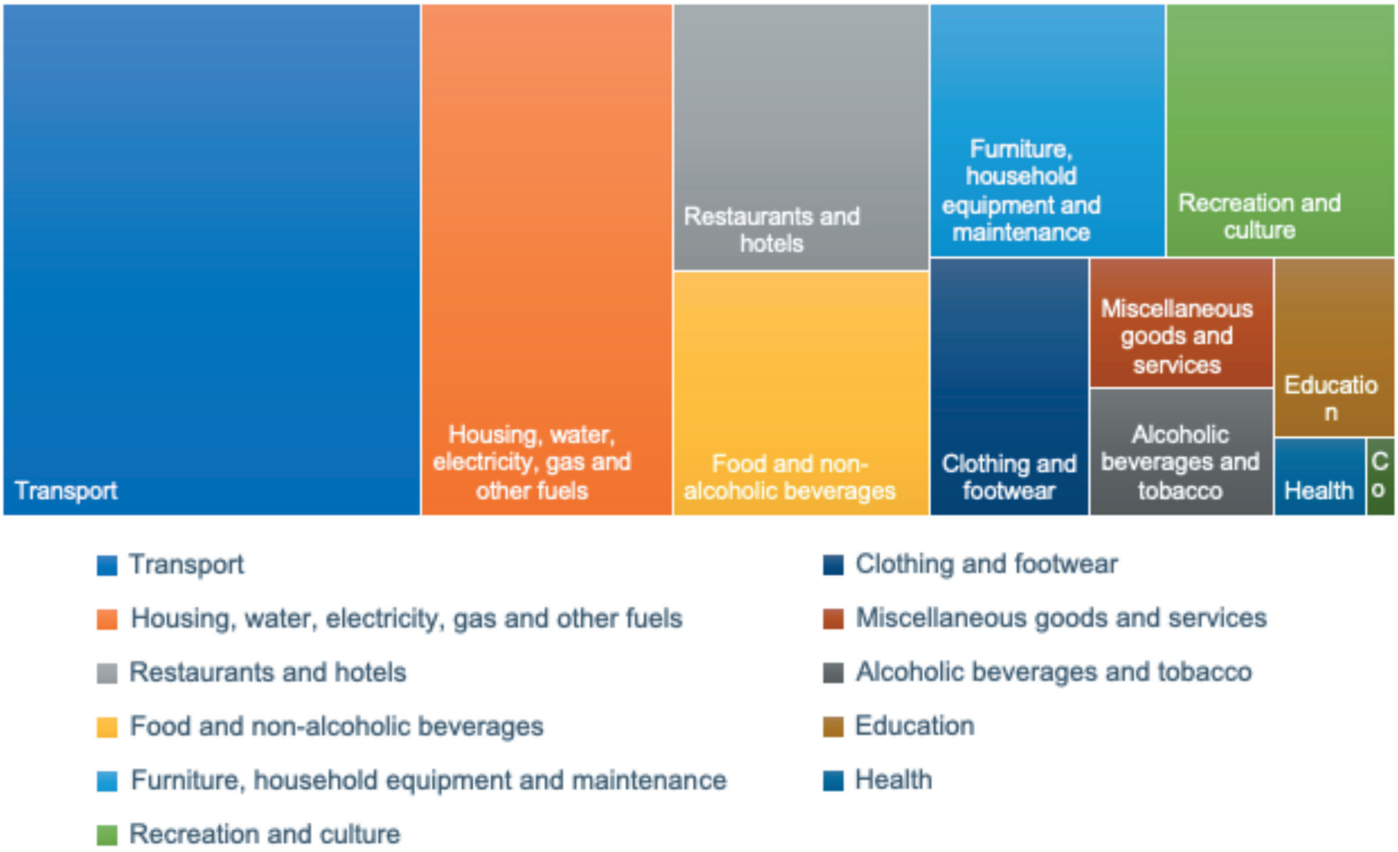
The government's press release on closing the tax loophole on second homes can be found from the link below:

https://www.gov.uk/government/news/gove-closes-tax-loophole-on-second-homes

The patchwork effect of rising inflation

2021 ended with inflation sitting at 5.4%, but it may not have felt like that to you.

2021 INFLATION COMPONENTS



You may have caught the food campaigner Jack Monroe on TV and radio interviews recently highlighting how the uneven effects of inflation on the most basic foodstuffs can have a disproportionate effect on lower income groups. Her intervention has prompted the ONS to look beyond the average in more detail at 'individual inflation rates'.

Annual CPI inflation in the UK for 2021 was 5.4%, a sharp increase from a year earlier, when it was just 0.6%. The jump, which took the inflation measure to its highest level in almost 30 years, was by no means unique to the UK. Across 2021, in the US, inflation rose from 1.4% to 7.0% while in the Eurozone the change was from –0.3% to +5.0%.

Sectors

Whether inflation felt like 5.4% to you is another matter. The hierarchy chart above shows how the dozen price categories that make up the CPI contributed to that headline inflation figure. The standout sector, accounting for nearly a third of overall inflation, was transport. Drill down into that and you will find three sub-sectors with annual inflation exceeding 25%: fuel and lubricants; second-hand cars and air flights. If you did not buy a second-hand car and did not fly in 2021 – as many people did not – then two of those three passed you by.

The second largest inflation driver was what might be described as the home sector – housing, water, electricity, gas and other fuels. It was those last three that were the main problem, with household fuel bills rising by 22.7%. If you were lucky enough to have a fixed-term contract for your utilities – and your supplier survived 2021 – then again, the change recorded by the CPI statisticians would have been irrelevant to you. On the other hand, if your bargain fixed-term deal (or its supplier) ended in 2021, then your utility bills might have risen much more than implied by the CPI.

Each to their own

The lesson to learn from all this data is that inflation as measured by the CPI is unlikely to be the inflation that you experience. Your mix of spending probably does not match the CPI 'shopping basket' and will change over your lifetime. For example, in retirement, expenditure on commuting will generally disappear but outlays on recreation activities may well increase.

Your financial planning should always take account of inflation. The unexpected jump in 2021 could mean that it needs to be reviewed – either based on the CPI or your personal circumstances.

Keeping it in the family – tax-saving salary strategies

An easy way to reduce a business's tax bill – and also increase the amount of funds withdrawn from the business – is to put a family member on the payroll. Of course, the salary must be for genuine work, with any tax saving dependent on the overall tax position.

Such salary arrangements are most beneficial if they are in place from the start of a tax year, so right now is a good time to be looking at 2022/23.

When does this work?

Paying a salary to a spouse, partner or child at university makes sense if the recipient is not using their personal allowance. A tax-free salary can be paid, with the business or company receiving a corresponding deduction in calculating their trading profit. For a sole trader, the saving could be as high as 63.25% if caught in the personal allowance tax trap.

However, there will also be a saving if the recipient is using their personal allowance but has a lower marginal tax rate than their self-employed spouse, partner or parent. With a company, there is currently no advantage to taking a salary in this situation, but there will be from April 2023 when higher corporate tax rates come into effect.

One important point to remember is that the salary must actually be paid out for the work, so it should be payrolled and transferred into the family member's personal bank account.

How much to pay?

There are two main restrictions:

- The amount of salary must be commensurate with the work done; HMRC will refuse a tax deduction if no work or little work is undertaken. Work will obviously depend on the recipient's skill set, but bookkeeping, payroll, marketing, or website maintenance might be options.
- Keeping the national insurance contribution (NIC) cost to a minimum. With employee and employer NICs set to be 13.25% and 15.05% respectively from April, these can easily wipe out any tax saving. An annual salary for 2022/23 of between £6,396 and £9,880 will mean no employee NICs and will also give the recipient a year's contribution towards the State pension. Paying up to the annual personal allowance of £12,570 can work if employer NICs are covered by the employment allowance.

HMRC's approach to allowing a deduction for salary paid to dependents and close relatives can be found from the link below:

https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim47105

What is a ‘reasonable excuse’ for tax penalties?

Having a reasonable excuse can be a get-out-of-jail-free card if you are charged a tax penalty. However, there is no statutory definition of the term, and what might constitute a reasonable excuse for one person may not for another. With more individuals and businesses incurring tax penalties due to Covid-related disruptions, HMRC has recently updated its guidance.

The use of a reasonable excuse only removes the penalty – it does not absolve the taxpayer from the tax or any late-payment interest.

Covid-related disruptions

HMRC will usually accept the use of a reasonable excuse for a return or late payment because of the impact of Covid-19. As is always the case with reasonable excuse, the excuse must have existed on or before the date on which the obligation should have been met.

It is also essential that the failure to meet the conditions is rectified without unreasonable delay once the reasonable excuse ends.

For example, if a business is late submitting its quarterly VAT return because the person responsible had to isolate – this should be accepted as reasonable excuse provided the return is submitted as soon as possible after the person returns to work.

What doesn’t count

HMRC’s updated guidance provides some examples of what will not usually amount to a reasonable excuse:

- Pressure of work;
- Lack of information; and
- Lack of a reminder from HMRC.

Lack of funds and reliance on a third party also do not normally count, although there are exceptions. For example, the First-Tier Tribunal held that a taxpayer had a reasonable excuse for the late payment of a capital gains tax liability because the sale proceeds had not been received.

Illness

Illness and domestic problems do not count as valid excuses unless very serious. HMRC expects suitable arrangements to be put in place if a person knows in advance that they will be in hospital or convalescing.

Similarly, the illness of a partner or a close relative will only be accepted as an excuse if the situation took up a great deal of time and resources.

HMRC guidance on what to do if you disagree with a tax decision – including reasonable excuse – can be found the link below:

https://www.gov.uk/tax-appeals

Boost your business with the Help to Grow: Digital scheme

The government's recently launched Help to Grow: Digital scheme has two aspects: impartial advice and guidance about how digital technology can boost a business's performance, plus a potential discount worth up to £5,000 towards the cost of buying approved software.

Announced last March ahead of the 2021 Budget, the scheme aims to combat problems of cost and lack of knowledge, often seen as barriers to adopting new digital technologies.

Advice and guidance

The new scheme will help small and medium-sized businesses adopt digital technologies. On the Help to Grow: Digital website you can find:

- Guidance and tools to help understand which digital technology is best suited to your business;
- A software comparison tool;
- Checklists to help you assess whether you're ready and how to integrate new software; and
- Case studies about similar businesses.

Discount

A 50% discount, capped at £5,000 (excluding VAT), is available towards the retail cost of approved software that helps a business to build customer relationships and increase sales, or to manage accounts and finances. Only one software product can qualify for the discount, and only the first 12 months of software costs are covered.

Additional software products, including e-Commerce software, are expected to become available for Help to Grow: Digital discounts soon.

The eligibility criteria includes:

- Being incorporated and trading for at least 12 months;
- Having between five and 249 employees; and
- Purchasing the approved software for the first time.

Examples of how digital technology can help a business include automatic invoice generation, expenditure tracking, reaching new customers through data collection, using automation to reduce time spent on administration, and storing information in one central, accessible location. Cloud services are increasingly popular, yet many small business owners do not use them.

The new digital initiative sits alongside the Help to Grow: Management scheme launched last year. This provides 12 weeks of management training for just £750. Courses are run at leading business schools across the UK.

More information about the Help to Grow schemes can be found from the link below:

https://helptogrow.campaign.gov.uk/

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