

# Huddart

Chartered Accountants and Business Advisors

## Exciting Announcement!

We are delighted to inform you that we have merged with another firm of Chartered Accountants, namely Horsfield & Smith, who are based in Bury.

### What does this mean for you?

You won't notice any difference. The only change being that we can offer a wider range of services to our clients and prospective clients.

We hope you will join us in celebrating this fantastic business opportunity.



## Explaining the Health and Social Care Levy and National Insurance change

Change to the National Insurance (NI) regime makes major demands on employers. It amounts to much more than making sure payroll systems are crunching the right numbers.

With NI contributions in an unusual state of flux, explaining all the ups and downs is likely to mean significant employee communication is needed, as well.

The first change is a one year, 1.25 percentage points increase to Class 1 employer and employee NI contributions from 6 April 2022. This means that where an employee paid contributions at 12% in the year to 5 April 2022, payment is now at 13.25%. A further change takes place from 6 April 2023. The NI charge drops back to earlier levels, and is replaced by the Health and Social Care Levy (HSCL).

This is a standalone 1.25% levy, applying to earnings chargeable to Class 1 employer and employee contributions. It will be reported as a new item through payroll, and itemised separately on payslips. The Levy has wider impact than the NI increase: the NI increase doesn't apply to employees over state pension age, whereas the HSCL does. The HSCL will be administered and collected by HMRC.

You may have been contacted by HMRC, which is asking payroll software providers and employers to use specific payslip messaging between 6 April 2022 and 5 April 2023, to explain the initial NI increase. Neither messaging, nor wording is mandatory, and given the complexity and pace of change, you might

want to consider your own communications strategy, rather than simply adopting HMRC's. This may be particularly relevant if you are in one of the devolved nations, where health care funding operates differently.

The Spring Statement created change to NI rules from 6 July 2022. This impacts the Class 1 Primary Threshold (the point at which employees start paying Class 1 NI contributions), and aligns it with the income tax personal allowance. As the adjustment comes part way through the tax year, the full uplift for employees won't be felt until April 2023, but the government estimates that a typical employee will still save over £330 in the year from July.

The new threshold is equivalent to £12,570 pa, rather than the current £9,880 pa. Company directors and the self-employed are also impacted by change to NI rates and thresholds, and the introduction of the HSCL.

**Do please contact us with any queries on the recent and forthcoming changes, or payroll procedure generally.**

## IR35 and off-payroll: 2022 matters

It's now a year since major change to the off-payroll working (OPW) rules. The OPW regime requires a decision on employment status to be made for tax purposes, broadly analogous to the decision required by the IR35 regime for those working through an intermediary, typically a personal service company.

The government's aim is that those working 'like' employees, but through an intermediary, pay roughly the same income tax and National Insurance contributions as employees, and 2021 saw the responsibility for making the employment status decision pass from contractor to client in medium and large sized organisations.

Contractor engagements with small organisations remained unchanged.

HMRC compliance has changed from 6 April 2022. Initially, it operated a 'light touch' approach, meaning penalties were not charged for inaccuracies relating to the new rules, unless there was evidence of deliberate non-compliance. This grace period is now over.

Contractor or hirer, wherever you fit on the spectrum, we recommend taking stock of your position. Making a status determination is always a finely balanced decision, whoever it falls to.

**Do please contact us for an OPW/IR35 health check to reduce risk and increase business confidence.**

## Money off your software costs

The government's Help to Grow: Digital scheme offers a 50% discount, to a maximum of £5,000, on a range of approved software.

Open to applications since January 2022, the deal runs for three years, with the aim of increasing adoption of digital technologies. Discounts currently cover particular digital accounting and customer relations management (CRM) software, though other products, such as e-Commerce software, are anticipated in due course. Discounts apply to total product price, excluding VAT, and it's important to check the terms and conditions thoroughly.

Business structure matters: this is an offer for small and medium sized companies, not sole traders or partnerships.

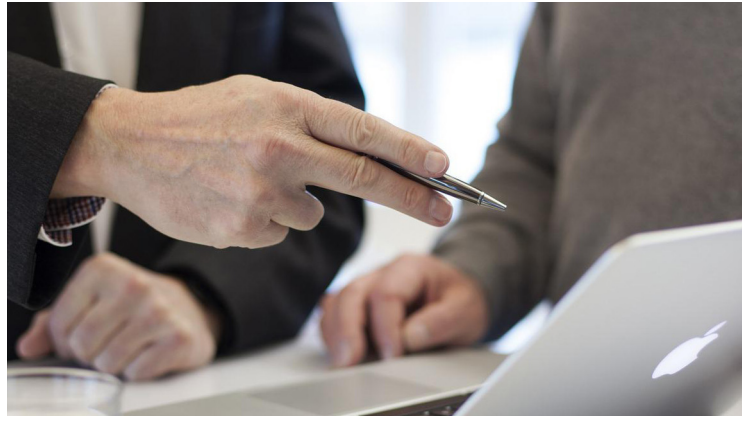
To be eligible, businesses must:

- have a registered office in the UK and be registered at the relevant Companies House;
- have been actively trading for over 12 months prior to date of application, and have an incorporation date of at least 365 days prior to the application date;
- have a total of between 5 and 249 employees;
- be purchasing the approved software for the first time (though the scheme does cover certain clearly defined upgrades).

Application is made online on the Help to Grow website, which also lists eligible software products. Fraud and verification checks form part of the process, and businesses must keep relevant records for at least six years following any purchase. These have to be made available to the Department for Business, Energy and Industrial Strategy if required. The discount counts towards the total threshold for small amounts of financial assistance or de minimis state aid that a business can receive in a three year period.

# Basis period reform: it could impact your tax bill

Tax year 2023/24 brings important adjustments to the way tax liability is calculated for unincorporated businesses. The change is called basis period reform.



## Do I need to know about this?

Yes, if you operate as a sole trader or in partnership, and your accounting year end is anything other than 31 March or 5 April (or any date between the two). Basis period reform will affect all unincorporated businesses using year ends different from these.

## What's actually happening?

In a nutshell, there's a change from what is called the current year basis of assessment to the tax year basis.

With the tax year basis, you are taxed on the profits earned in the tax year, without any reference to your accounting year end. At present, your profit or loss is calculated with reference to your accounting year ending in the tax year: your 'basis' period.

## Why is it changing?

The new system is being brought in because of another major change: Making Tax Digital for Income Tax Self Assessment (MTD for ITSA). This is scheduled to begin for most sole traders and landlords from 6 April 2024. Partnerships don't enter MTD for ITSA until later: but they are impacted by basis period reform.

## When?

The tax year basis begins properly from 6 April 2024. Change, however, begins in the tax year before this - that's the year from 6 April 2023 to 5 April 2024: the transition year.

## So?

Add basis period reform to MTD for ITSA and you have two big changes landing together at the same time: the impact of this could be considerable, and we shall be pleased to help you review the best strategy going forwards. Unless, for example, there are particular business or other reasons to keep your current year end, there may be a case for looking at changing the accounting year end to 31 March or 5 April, in order to get the best outcome from basis period reform and MTD for ITSA. Then there's the impact on tax bills to consider. Calculating your tax bill in the transitional year will be different. It will use two sets of figures: the first using 12 months running from your last set of accounts: and the second using the profit for the period running from the end of your normal accounting period to 5 April 2024.

Introducing this second part to the mix means bringing additional profits into charge to tax. Depending on your year end, it could bring up to 11 months' more profit into charge. This is likely to result in higher tax bills in 2023/24. There are other practical implications, as well, in terms of needing two sets of figures to work out transition figures.

## What should I do about it?

Talk to us. We can advise on possible mitigation strategies and the tax reliefs available. There is a new relief, called spreading relief, allowing you to spread transition profits over a period of up to five years. You may also have access to overlap relief. The position here can be complex with partnerships, where each partner stands to have a different amount of overlap relief available. Things will also be more complex where there are losses.

## Value added

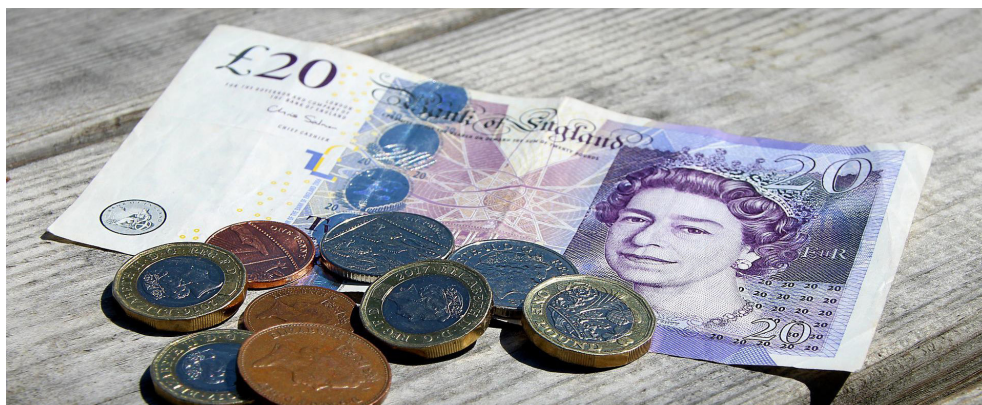
Basis period reform and MTD for ITSA, combined, bring significant change. Some strategies are time sensitive: the timing of change to accounting year end, for example, could affect availability of spreading relief.

**Do please get in touch to discuss outcomes for your business.**

# Employers: risk assess your minimum wage payment

New minimum wage rates took effect from 1 April 2022. There is, however, much more to minimum wage compliance than simply taking an annual increase on board.

Minimum wage compliance falls to HMRC, which takes its responsibilities very seriously, and penalties can be charged for even inadvertent errors.



## HMRC Checks

HMRC carries out checks on employers as part of its compliance procedure, visiting business premises to inspect records, and also to engage directly with workers to make sure they're receiving what is legally due to them.

Employers are selected for checks either because of HMRC research, which might alert it to potential issues within a particular sector or local area, or because it's had a complaint that employees are being underpaid. It does not have to tell employers why their records are being checked, nor give details of information it has received.

From an employer perspective, checks are bound to create additional work, quite apart from the damage to employee relations likely to follow. There is also liability to arrears of pay or penalties if things have gone wrong, and it's worth noting that arrears are due at the wage rate in force at the time they are discovered, rather than the rate when the error was made. This may represent a significant increase. Sanctions can include possible criminal prosecution if it's found that an employer has deliberately broken the law, although this is rare. There is also the now well established practice of public 'naming' by the Department for Business, Energy and Industrial Strategy.

## Risk Zone

Minimum wage legislation used to be something that tended mainly to impact lower paid employees. The net has since widened considerably. With the minimum wage rate for those aged 23 and over now at £9.50 per hour, the number of employees with pay at about this level will be significantly increased. We recommend monitoring the position even for employees with pay above the minimum, to ensure there's nothing that would tip their pay below the required threshold. Deductions from wages are a particular danger area. It is permissible to make a deduction for accommodation taking pay below the minimum wage, but the maximum is determined by what is called the accommodation offset. Other deductions, even if agreed with workers and of benefit to them, are illegal if they reduce pay below the minimum wage. Salary sacrifice arrangements, for instance, need care: it's the figure after the sacrifice that has to be checked against the minimum wage. Key in HMRC compliance activity for some years to come, will be the interaction of the Covid-19 furlough scheme, flexible furlough in particular.

**We can help you review minimum wage compliance. Please don't hesitate to get in touch.**

