



# Fairhurst

Accounting for your potential

# Newsletter

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## Cost management: striking the balance

*Adjusting to the new economic climate may tempt you into focusing on additional cost cuts or consolidating pandemic changes to manage cash flow and finances. But it's worth bearing in mind the law of unintended consequences before you get carried away with savings.*

The impact on business quality and, of course, employees is key. Measured, early action should mean you don't get forced into more drastic measures if the business's cash position deteriorates.

### Customers

Customer experience can easily be adversely impacted when the finance or accounting department is driving cost savings. Making these decisions can be tough, and it is all too easy to prioritise internal operations over customer service. However, this could be an opportunity to outshine competitors who have neglected their customers by, for example, trimming back after-sales services.

### Employees

Staff perks may seem an easy target, but you should consider the impact on morale and efficiency. For example, free drinks and snacks mean that employees are less likely to leave the premises during breaks, and they will be more inclined to work late if there is an urgent job to be finished. And cutting the quality of workplace refreshments, for example, can be a false economy, leaving colleagues feeling undervalued when basic pay rises may also feel the squeeze.

### Centralisation

When faced with a crisis, there can be a tendency to centralise spending decisions. You might think this makes sense because a tighter control can be maintained over budgets. However, many business studies show the opposite is in fact the case. Centralisation means decisions can end up being made with outdated information and with little awareness of local needs, creating discontent among both customers and employees delivering services. Front-line staff who see their decision-making powers removed can become demotivated.

Cost cutting definitely has a role to play but needs careful planning and consideration of all the potential implications.

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## New penalties for late payments

*The new late payment penalties regime will start rolling out from April 2022 for VAT taxpayers, followed by income tax self-assessment (ITSA) taxpayers. The late payment penalties are a potential problem for businesses that struggle to pay within 30 days.*

The regime will affect VAT return periods beginning on or after 1 April 2022. It will be extended to include self-employed workers and landlords with annual turnover exceeding £10,000 from 6 April 2024, and other ITSA taxpayers a year later.

### Late payments

There is no penalty if payment is made within 15 days of the due date. If paid within 15 to 30 days, the penalty is 2% of the outstanding tax, with a further 2% penalty if tax is still unpaid after 30 days. In addition, a daily penalty at the rate of 4% p.a. on the balance outstanding is charged from day 31. However, penalties are not charged if there is reasonable excuse.



### Stop payments escalating

A business can avoid any further penalties accruing by entering into a time to pay arrangement with HMRC.

■ **VAT:** The revisions are very different compared to the current default surcharge system where the level of penalty is dependent on previous defaults. The new penalties will apply separately to each late payment, and should therefore be much fairer. Businesses have incurred a substantial default surcharge for being just a day or two late when submitting a VAT return, but this will not happen given the new 15-day grace period.

■ **ITSA:** The new penalties will hit much earlier, but the level of penalty is lower.

HMRC will take a light-touch approach regarding the initial 2% penalty for VAT during the first year.

### Interest

The interest rules for VAT are to be aligned with those for ITSA. Regardless of whether any late payment penalties are charged, interest will therefore be incurred from the due date until payment is made. A time to pay arrangement will not stop interest accruing.

## New tax rises and end of the triple lock

*The 1.25% increases in national insurance (NIC) and dividend tax rates announced in September are scheduled to start in April 2022. But from April 2023 the NIC increases will become a separate Health and Social Care Levy, and NIC rates will revert to previous levels.*

Creating a new Levy, distinct from NICs, enables the tax to apply to the earnings of people above state pension age, who are exempt from NICs.

The NIC rise applies to employer and employee NICs as well as self-employed Class 4 contributions. Employees will therefore pay 13.25% on earnings between the primary threshold and the upper earnings limit, currently £9,568 and £50,270 a year. Self-employed people will pay 10.25% on business profits within the same band. The 2% rate on employee earnings and business profits above the upper limit will increase to 3.25%. For employers the 13.8% rate will go up to 15.05%.

The dividend tax rates from April 2022 will be 8.75% on income falling within the basic rate band, 33.75% on higher rate income and 39.35% on additional rate income. These rates will continue because the Levy will not be charged on dividend income. The tax-free £2,000 dividend allowance will remain.

For company owners deciding whether to take a bonus or a dividend, the changes add slightly to the tax advantage of dividends. This is because on a bonus the 1.25% increase is paid twice – by the employer and the employee. However, as at present, the individual's overall tax position, as well as non-tax considerations, must be taken into account.

### Triple lock suspension

The government has also suspended the pensions triple lock. The state pension for 2022/23 will now be determined by the higher of September's inflation and 2.5%. The increase might otherwise have been over 8% because of the effect on earnings of the furlough scheme.



## Advisory fuel rates

The government's clean fuel agenda increased advisory fuel rates for company car users by at least 1p per mile for all petrol and diesel vehicles from 1 September 2021. The increase reflects the rise in fuel prices over the June to August quarter.

### Limited scope

The rates are used only where employees are reimbursed for business travel in their company cars or where employees have to repay the cost of fuel used for private travel. The rates for petrol and diesel vehicles are shown in the table below.

Petrol vehicles advisory fuel rates		Diesel vehicles advisory fuel rates	
1400cc or less	12p	1600cc or less	10p
1401–2000cc	14p	1601–2000cc	12p
Over 2000cc	20p	Over 2000cc	15p

### Electric and hybrid vehicles

The advisory rate for fully electric cars is unchanged at 4p. Hybrid cars are treated as either petrol or diesel cars for advisory fuel rates. If the rates are used, the employer need not apply for a dispensation to cover the payments made.

# Managing new office relations

*Employers have been welcoming their workforces back on site, but ongoing concerns around vaccination and employees' rights may need a new approach. As hybrid working becomes more mainstream, careful and robust policies around health and wellbeing are crucial for its success.*

As more people have come to focus on work-life balance in the last 18 months, there are changing expectations from employees on a number of issues.

## Regular Covid-19 testing

There is no reason why you cannot implement a policy requiring regular Covid-19 testing as a condition for workplace attendance. This could be achieved by buying tests and setting up workplace testing, paying an approved provider or asking employees to arrange their own testing.

You should have a clear plan in place on how positive test results will be managed. For example, should everyone attending the workplace be tested, or just employees?

## Vaccination policy

Insisting on employees being vaccinated as a condition of workplace attendance is a more contentious issue, especially if just a few are opposed.

Although there is no legal reason why you cannot adopt a full vaccination policy, it is a risky approach to take. Along with potential legal claims, it could also result in the resignation of key personnel. It may be more practical to discuss concerns and encourage employees to get vaccinated. Some workplaces offer time off during work hours to do so.

## Hybrid working

Although the sudden transition to homeworking was difficult for most employers, many businesses also discovered unexpected benefits. Staff are often more productive and there can be huge property cost savings. However, there are some basic questions that need answering before making hybrid working the norm:

- Does it work for your clients, customers, and business overall?
- Will employees be allowed to work remotely full-time, or will they be required on site for a certain number of days?
- Is there a risk of staff feeling isolated, particularly new recruits, or losing motivation if the 'whole-firm' feel is lost?
- Are your IT systems, communication tools and video conferencing equipment up to scratch?
- And the obvious question – is this what your employees want?

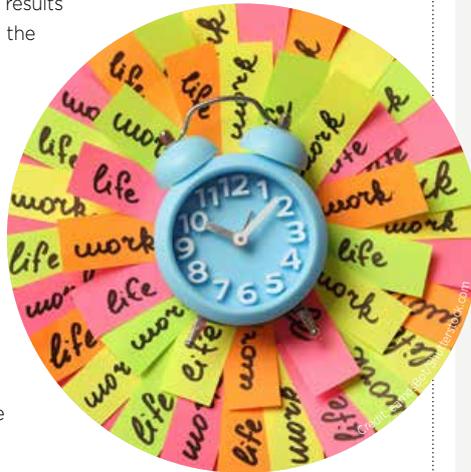
## Broader policies

More focus on work-life balance has led to changing employee expectations on old and new issues.

**Sick leave:** Many employees are understandably worried about their health and safety with the return to work. Allowing worried staff to work from home is one solution, at least over the shorter term. Paying full pay during sickness can be expensive, but consider doing so (if you are not already) for at least a certain number of days.

**Menopause:** There is a rising number of employment tribunal cases where the menopause has been cited as proof of unfair dismissal. The majority of women want better employer support if they are struggling to stay in work while experiencing symptoms. You need to have a work culture that recognises the difficulties and provides support.

**Mental health:** Working hours became longer since the start of the pandemic, leaving a large number of employees dealing with significant stress. Research indicates that staff are more concerned about their mental health than they are about their physical health. Creating a supportive work environment where help is available is becoming an increasingly important recruitment and retention benchmark.



*A supportive work environment is an increasingly important recruitment and retention benchmark.*



# Jointly held assets

*For spouses and civil partners, income from jointly held assets is normally shared equally for income tax purposes, even if actual ownership differs. This can be quite advantageous where spouses pay tax at different rates.*

A spouse with a lower tax rate could be given, for example, a 5% share of rental property, and 50% of the property income would then be taxed at their lower tax rate. The saving can be quite worthwhile where one partner pays at the additional rate and the other only at basic rate.

There are several non-tax factors to consider before transferring ownership of assets, however, so professional advice is recommended.

Relevant property might include land and buildings, savings accounts, certain shareholdings and intellectual property. Income from furnished holiday lets, close company shareholdings or property held as beneficial joint tenants does not qualify for this scheme.

## Declaration of beneficial interests

There are some instances when a couple will want to be taxed on their actual interests. This will be the case if a lower tax rate spouse owns more than 50%.

The 50% deeming rule can be overridden by making a declaration of beneficial interests and sending this to HMRC, along with evidence of the actual ownership split. A declaration continues for subsequent tax years but cannot be backdated.

## CGT and IHT

There is less scope for tax planning when it comes to capital gains tax and inheritance tax because the actual share of ownership is always used.

