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TAX BULLETIN

Welcome to our monthly Tax Bulletin. In this issue we cover a number of recent tax changes and things to be aware of in the future. As usual contact us if you wish to discuss any matters further.

September 2021

NEW HEALTH AND SOCIAL CARE LEVY

The Prime Minister Boris Johnson announced on Tuesday 14 September that the proposed increases in National Insurance Contributions and dividend tax would raise £36bn for frontline services in the next three years and be the "biggest catch-up programme in the history of the NHS".

Currently, anyone in England with assets over £23,250 must pay for their care in full resulting in many families having to sell the family home to pay care fees. The proposals announced by the Prime Minister will limit the amount that anyone in England will need to spend on their personal care in their lifetime to £86,000 from October 2023.

Also from October 2023, anyone with assets of less than £20,000 will not have to make any contribution for their care from their savings or the value of their home, ensuring those with the least are protected. Anyone with assets of between £20,000 and £100,000 will be eligible for some means-tested support, helping people without substantial assets.

Those above State Pension Age who are earning or self-employed will start paying NIC and the new Health and Social Care Levy from 2023/24.

PROPOSED NIC AND DIVIDEND RATES

It is proposed that there will be a 1.25% rise in National Insurance Contributions (NICs) from April 2022 paid by both employers and workers and will then become a separate tax on earned income from 2023 – calculated in the same way as NIC and appearing on an employee's payslip. Note that the 1.25% increase applies to the Class 4 contributions paid by the self-employed on their profits as well as the Class 1 contributions paid by employees increasing the rates to 10.25% and 13.25%. The employers Class 1 rate will increase from 12.8% to 14.05% however many small businesses are able to set off a £4,000 employment allowance against their employers NIC liability.

Many workers operating through personal service companies to whom the new "off-payroll" working rules apply will also be caught by the proposed measures.

The 1.25% additional levy doesn't just apply to national insurance contributions, it is proposed that the income from share dividends, earned by those who own shares in companies, will also see a 1.25% tax increase. This would mean that after the £2,000 tax free dividend allowance the rate of tax would be 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for those with income in excess of £150,000 a year.

AUTUMN BUDGET SET FOR 27TH OCTOBER

The government has confirmed that a full Spending Review (SR) will be held alongside the Budget on 27 October, and published its overall spending 'envelope' – the total pot of money to be allocated between departments.

CLAIMING BACK STATUTORY SICK PAY PAID TO EMPLOYEES DUE TO CORONAVIRUS (COVID-19)

The Coronavirus Statutory Sick Pay Rebate Scheme will repay 'small' employers (ie those with less than 250 employees on 28 February 2020) the Statutory Sick Pay paid to current or former employees who were off work due to coronavirus.

HMRC have updated the guidance to confirm that employers can only claim for employees who were off work on or before 30 September 2021.

The online service you could use to claim back Statutory Sick Pay (SSP) is now available for employers or their agents to use.

LAST MONTH FOR CJRS "FURLOUGH CLAIMS"

The Government are pulling the plug on support to employers for furloughed staff at the end of September as they anticipate that the economy will be back to normal by October. The grant claims for employees furloughed in the month of September are 60% of the employee's usual pay up to a maximum cap of £1,875. Make sure that you make your final claims for the month of September by 14 October and make any adjustments by 28 October 2021.

The end of furlough may be the trigger for many businesses to assess their staffing levels going forward and many may be considering making the tough decision about which staff to make redundant.

DEALING WITH REDUNDANCIES CORRECTLY

Remember that there are key steps that need to be followed as far as employment law is concerned. It is also important to treat any payments on termination of employment correctly for tax and national insurance purposes. In genuine redundancy situations the first £30,000 paid on termination of employment is tax free but many employers get this wrong.

The £30,000 includes statutory redundancy pay and any enhancement from the employer as well as continuing benefits such as private health insurance

The excess is subject to income tax and employers' national insurance.

5% RATE ON TOURISM AND HOSPITALITY ENDS 30 SEPTEMBER

The temporary 5% VAT rate that has applied to supplies made in the tourism and hospitality sector since the start of the pandemic comes to an end at the end of September. The rate then increases to 12.5% from 1 October until 31 March 2022 when it reverts to the standard rate.
For those businesses operating in this sector this will mean an amendment to their accounting software and possibly prices. Note that the 20% rate continues to apply to the sales of alcohol.

Where deposits and other payments are taken before 30 September 2021 the 5% rate would apply to that supply as that would be the tax point for the supply.

BIG TAX BILLS FOR THE SELF-EMPLOYED IN 2022/23

Draft legislation has been published to change the basis periods for the assessment of self-employed profits to coincide with the tax year. The proposed new rules provide that from 2023/24 onwards profits or losses will be apportioned to tax years where the period of account does not coincide with the tax year. This is intended to coincide with the start of Making Tax Digital for income tax.

The
transitional rules proposed for the previous 2022/23 tax year could result in large tax bills for some sole traders and partners, particularly those with an existing 30 April year end. The profits of year ended 30 April 2021 would be taxed in 2021/22 under the current rules with 2023/24 taxing profits arising between 6 April 2023 and 5 April 2024 under the new rules. But what about 2022/23?

The profits taxed in 2022/23 would be those for year ended 30 April 2022 plus the period 1 May 2022 to 5 April 2023 - in total 23 months profits!

The good news is that there would be a deduction for 11 months "overlap relief" which typically arose when profits were taxed twice at the start of the business - but those will often be much lower than the extra 11 months being taxed in 2022/23!

The transitional provisions allow the taxpayer to elect to spread the excess profits over the next 5 tax years to smooth out the excessive tax bill.

DIARY OF MAIN TAX EVENTS

September/October 2021

Date	What's Due
05/10	Deadline for notifying HMRC that need to be within Self Assessment for 2020/21 (if not already)
14/10	Final date for CJRS Furlough grant claims for September 2021

Please contact a member of our team if you would like to discuss any of the issues raised.
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