New Year Message—March 2022

Stewart Martin

Managing Partner

FOREWORD

How is your Greek alphabet? Do you know how many letters there are in it? No, me neither, but searching the internet the results come to 24 with Omicron arriving at number 15, almost two thirds down the list.

One year on from our last New Year Message and lockdown seems like a distant memory, most of the population have been vaccinated not twice, but three times and life appears to be returning to normal.

During the very first lockdown the concern was job retention, pressures on prices and what, if any, parts of the economy would still be left after Covid had come and gone. Today the newspapers are full of price rises, supply issues, staff and skill shortages and the emerging crisis in Ukraine.

Ongoing regulation with Brexit has added to the burden for many dealing with trade with Europe, where once importing or exporting goods to Europe was simple, now appears to be a task only the bravest would tackle. Hopefully common sense will prevail and a more simplistic approach with far less paperwork and regulation will win over the burden that is in place now.

Edmund Carr is very pleased to confirm that this year we have become the key sponsors for the Havens Hospices' Cycle the Countryside event to be held on 1 May 2022 (previously known as Pedal for the J's). Full details of the event can be obtained from us or by visiting our website. We are very excited to get involved in this worthwhile event and hope we can assist in raising much needed funds.

Should you wish to dust off your lockdown cycle then I may well see you on the day, please do get involved if you can, there are 3 rides on the day, one each for every level of ability.

The firm, together with our financial services arm EC Financial Services Ltd continue to grow and prosper. New trainees arrived in the spring of last year together with a small number of new staff. Some were replacements for retired long serving employees and the remainder as a result of internal growth.

We are very pleased to announce that Stephen Drain, who many of you will know, will step up to partner on 1st April 2022, we wish him well in his new role.

Four of our team (so far) are looking forward to the arrival of either their first or second child, we wish them well on what will be a very exciting time of life for them.

We continue to invest in technology, rolling out a new fee payment system, Apxium, to make the payment process as smooth as possible and are constantly looking to improve all that we do, for the benefit of our clients in the future.

Thank you for your continued support and custom, we look forward to working with you in 2022 and beyond.

Below are some topical areas which we hope you find of interest. Should you have any questions please feel free to contact us.

INCREASE IN NATIONAL INSURANCE CONTRIBUTIONS

From 6 April 2022, it has been confirmed that the government are pressing ahead with the previously announced increase in National Insurance contributions. This will see employees, employers, and the self-employed, who pay National Insurance based on their profits, paying 1.25% more in contributions.

The rate at which employees start paying National Insurance for 2022/23, is £9,880 per annum or £823 per month. The contribution rate will increase from 12% to 13.25%. There is an upper limit of £50,270 and any earnings above this will be subject to a 3.25% deduction, an increase from 2%.

The rate at which employers start paying National Insurance for 2022/23 is £9,100 per annum or £758 per month. The contribution rate will increase from 13.8% to 15.05%

Some examples of how the increases will impact:

Annual salary	21/22 Employees NI	22/23 Employees NI	Increase of	21/22 Employers NI	22/23 Employers NI	Increase of
£20,000	£1,251	£1,340	£89	£1,540	£1,640	£100
£30,000	£2,451	£2,665	£214	£2,920	£3,145	£225
£40,000	£3,654	£3,990	£336	£4,300	£4,650	£350
£50,000	£4,851	£5,315	£464	£5,680	£6,155	£475

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If you think this information might be useful to a friend or colleague, please pass it on.

This increase, from a National Insurance point of view, is for one year only. From 6 April 2023 a new Health and Social Care Levy is introduced. This will be a separate tax but based on the same rates as the National Insurance increase. There will be a new group of employees who will be subject to this tax who will not be affected by the National Insurance increase, and that is anybody of state pension age that is still working.

CHARITIES UPDATE

2021 continued to be a challenging year for Charities and not for profit entities. Despite this, the 2021 results we are currently seeing posted by our charity clients are possibly better than expected. This is due to a combination of factors including: Continuance of Local & Central Government support of grants and loans, although the majority of these came to an end during the year. Some support has also been received from charitable foundations, where it is hoped that these sources and support will continue; managing costs, where possible; the rapid development of online working and technology; and charity trustees and personnel becoming even more savvy in techniques and online fund raising during lockdowns and restrictions.

Ray Crace

In some cases, reserves have built up where charities have been unable to spend funds. This requires explanation in the reserves policy section of the Trustees' Annual Report.

The latest update to the Charity Commission's 'Coronavirus (Covid 19) guidance for the charity sector' was issued on 28 January 2022.

As we approach the Spring shoots of 2022, there is hope that fundraising can return to the 'old' more personable ways, but to continue with some of the new tricks learnt over the last two years.

The Charities Bill has passed its third reading in the House of Lords. When enacted, the Bill will simplify certain activities that trustees can undertake, such as amending governing documents, having access to a much wider pool of professional advisors on land transactions, more flexibility to make use of a 'permanent endowment', and others. There is plenty of detail of the Bill online.

We have considerable experience within this sector. We also have substantial back up, if required, by being members of the UK200 Group. This also extends to the education sector, where we also have significant expertise and influence. In total, UK200 firms support almost 1,500 charities and around 500 independent schools and academies.

- Partners with expertise in charities are Colin Barker, Ray Crace and Sandra Morrell. Those for academies and schools are Stewart Martin, Sandra Morrell and Tom York. We are supported by experienced managers in these sectors.

TAX INVESTIGATION SERVICE

Colin Barker

Our insurance backed tax investigation service comes up for renewal on 1 April 2022. We are in the process of setting up a new portal for clients to use to renew through our insurers, Markel, who are a market-leading provider and have an excellent reputation within the accountancy profession. Other clients, who currently do not use the service, will also have the opportunity to subscribe for the service.

The premiums charged by Markel to us have increased slightly as claims for dealing with HMRC enquiries have increased and this will be reflected in our fees for the service. However, our fees for this service represent a very small percentage of the likely cost of dealing with an enquiry from HMRC and therefore many will feel that this is a price worth paying for some peace of mind. The service even covers enquiries into approved Coronavirus Job Retention Scheme grants and Self-employment Income Support Scheme payments and this is an area where HMRC have indicated that they are likely to be raising enquiries.

Subscribers to the service also get access to a Business Help Line and a new Law Hub (with templates and guidance on everyday legal issues around employment, health and safety, cyber and data, debt and insolvency).

We expect to be in contact with clients in early March with details of the service and how to sign up.

WORKING FROM HOME

The pandemic has affected our lives in many ways and we certainly hope we are through the worst of it but for office based businesses, the opportunity to offer employees hybrid working is well and truly here to stay. There are certainly positive and negatives from offering employees the opportunity to work from home but not offering this may work against you as an employer. Below are some points to consider:

Positives

- Reduced commuting time for employees resulting in a cost saving for them
- Potential reduced overheads for the business
- Employees being more willing to be flexible to get a job done

Negatives

- Monitoring staff output
- Monitoring staff morale
- Investing in new technology/software

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If you think this information might be useful to a friend or colleague, please pass it on.

Questions

- What is the best split of time between being in and away from the office?
- Does one size fit all, some departments may not work well from home?
- How to integrate new employees into the work place?

Tom York

All of the above issues can be overcome and for some businesses it has meant looking at their systems and improving them. Technology is continuously evolving and such investments can open up the opportunity to take advantage of some of the current tax allowances available.

MAKING TAX DIGITAL FOR VAT (MTD)

VAT registered businesses that are not already registered for MTD because their taxable turnover is below the VAT registration limit will need to file digitally through MTD for VAT return periods commencing on or after 1 April 2022, when this becomes mandatory for all VAT registered businesses.

Businesses affected will need to keep records digitally and file their VAT Returns using compatible software. If you need assistance with registering or advice on how to comply with the changes please contact us.

CORPORATION TAX

Alison McDowall

The main rate of corporation tax is due to rise to 25% from 1 April 2023 for companies with profits over £250,000. For companies with profits of £50,000 or less they will continue to pay the 19% rate which will now become the small profits rate. Profits between £50,001 and £250,000 will be taxed at the main rate but marginal relief will apply, which gradually increases the effective rate of corporation tax.

The £250,000 and £50,000 limits mentioned above will be reduced where there are associated companies. Companies are associated if one company controls the other, or both companies are controlled by the same person or persons. Dormant companies are excluded.

For more details of how this change impacts your company or companies please contact us.

Companies investing in qualifying new plant and machinery between 1 April 2021 and 31 March 2023 are able to benefit from a super-deduction of 130% on those that ordinarily qualify for the main 18% writing down allowance, and a first year allowance of 50% on those that ordinarily qualify for the special 6% writing down allowance.

SALARY V DIVIDENDS

With the recently announced tax changes to national insurance and dividend tax from 2022/23 and corporation tax from 2023/24, the decision of whether to draw a salary or dividend from your business may well change in future. In the past, the most tax-efficient way of extracting profit from your company has been a combination of salary and dividends, usually with a nominal salary up to the national insurance level and any additional amounts taken as dividends. The impact of these tax changes, particularly the corporation tax rates moving from 19% to a figure of up to 25% for companies with profits over £50,000, should be considered to ensure future profit extractions are still most tax efficient.

The answer to this question will vary depending on the company's profit levels and the individual's own income position but we have looked at some examples which show what the impact of these tax increases could be on your bottom line and to see whether any change in profit extraction method should be considered.

Example 1: Company with profits of £50,000 per annum where profits fully extracted and sole director/shareholder with no other income

	2021/22		2022/23 onwards	
	Salary only £	**Dividend only £**	**Salary only £**	**Dividend only £**
Profits	50,000	50,000	50,000	50,000
Corporation tax	Nil	9,500	Nil	9,500
Salary	45,009	Nil	44,650	Nil
Dividend	Nil	40,500	Nil	40,500
Employer NI	4,991	Nil	5,350	Nil
Income tax	6,488	1,944	6,416	2,269
Employee NI	4,253	Nil	4,607	Nil
Net income	34,268	38,556	33,627	38,231

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Example 2: Company with profits of £100,000 per annum where profits fully extracted and sole director/shareholder with no other income

	2021/22		2022/23		2023/24 onwards	
	Salary only £	**Dividend only £**	**Salary only £**	**Dividend only £**	**Salary only £**	**Dividend only £**
Profits	100,000	100,000	100,000	100,000	100,000	100,000
Corporation tax	Nil	19,000	Nil	19,000	Nil	22,750
Salary	88,946	Nil	88,110	Nil	88,110	Nil
Dividend	Nil	81,000	Nil	81,000	Nil	77,250
Employer NI	11,054	Nil	11,890	Nil	11,890	Nil
Income tax	23,010	12,664	22,672	15,894	22,672	12,229
Employee NI	5,657	Nil	6,582	Nil	6,582	Nil
Net income	60,279	68,336	58,856	65,106	58,856	65,021

In each example the tax position is worse from 2022/23 onwards compared to 2021/22 under both the salary and dividend routes. However, taking more profits as dividends will still be most tax efficient as the higher NIC rates more than counter the extra dividend tax. A combination of the two is likely to remain the best option. Due to the overall tax increases it may be sensible to look at other methods of profit extraction such as making employer pension contributions or bringing in family members as directors or shareholders. Any such decisions need to be thought through carefully. If you think a review of your own position would be beneficial, please contact your partner who will be happy to advise further on this.

YEAR END TAX PLANNING

Debbie Wakefield

As we approach the end of the tax year it is important to review whether there are any available tax planning opportunities.

With the dividend rate increasing from 6 April 2022 by 1.25%, those with limited companies may wish to bring the declaration of dividends forward to the current tax year in order to save some tax. Care will need to be taken to ensure this action does not take you into a higher tax band in the current year. There is also the £2,000 annual tax-free dividend allowance to utilise if you have not already done so.

The other main allowances and tax reliefs to consider include making pre year end pension contributions, utilising any available capital gains exemptions and making gift aid contributions. There are also other tax efficient investment options that can be considered such as Enterprise Investment Schemes, Venture Capital Trusts and Seed Investment Schemes.

If you would like to assess whether any of these options would be beneficial for you, please speak to your contact partner.

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March 2022
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