New Year Message—February 2023

Stewart Martin

Managing Partner

FOREWORD

Sometimes you need to look back and reflect on the past, while also looking forward to the future. With this in mind, I am saddened to announce the death of the founder of Edmund Carr, Kenneth Edmund Carr, who died at the age of 95 peacefully on 19 January 2023.

Ken established the firm in 1953 as a sole practitioner but was unable to use the name Ken Carr as there was already a firm of Chartered Accountants with that name established. The first office (one room), was in Bank Chambers, near the Chelmsford Cathedral. He then moved to 67 New London Road, employing a secretary, before that building was demolished by the Parkway Road.

A further move followed to 13 Railway Street towards the end of the 1960s, at which time Malcolm Hamlyn joined as a partner, followed by Michael Vandome in the early 1970s.

Edmund Carr remained there until 1982, before moving to its current location at 146 New London Road and later expanding into 148 New London Road.

Ken retired on 31 March 1990 leaving Malcom, Michael and David Drain as the remaining partners.

A great number of accountants owe Ken a great deal of gratitude for him taking a chance of employing and training many a young student, me included.

Ken was very much old school, every working paper had to be just right, and if you ever got called into his office late on a Friday evening to run through a job you were lucky to get out in one piece!

For all that, Ken was a very fair person, and never held any grudges, he could shout at you one minute and then move on just as quick the next.

Ken kept a close eye on the progress on the firm even after his retirement and was proud of all of its continued achievements. Our thoughts go out to his ongoing family, his vision and leadership has helped mould the firm to what it is today. I am sure he would be very pleased.

PAYROLL

The last 12 months has seen some large changes in the payroll department in both the personnel and software we use to process payroll for clients.

As we enter 2023, the transfer over from our old payroll system will be complete and we will move fully to the new BrightPay software from April 2023 which we believe offers many advantages.

Although not all of these advantages will be relevant to all our clients, here are a few key changes.

- Payslips will be uploaded to our new employee self-service portal and will remain there indefinitely without time limit. This can be accessed online or through an App.
- Payslips can also have your own company logo added.
- BrightPay can be set up to upload the processed payroll journals directly into Xero, QuickBooks and other online cloud accounting packages. Users of traditional desktop software can have a CSV file emailed to them for importing into their accounts packages.
- We can build and tailor specific monthly reports and have these uploaded to the employer portal, BrightPay Connect for use when needed.
- Employees can request annual leave through their self-service portal. They can view their own personal annual leave calendar and their remaining days. Once approved the leave will be automatically added to the employee calendar and synchronised to the payroll software.

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- Payroll data can be sent through the Connect portal for processing and review. Once processed the approval process can all be carried out online through the employer dashboard.
- Clients can view HMRC payment amounts due for the tax year.

We will be rolling out these features, and many others, over the next few months, if you would like further details or wish to become an early adopter please contact us.

TAX INVESTIGATION SERVICE

Our insurance backed tax investigation service comes up for renewal on 1 April 2023. Last year we set 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. Renewals through the portal proved to be popular and so we plan to continue with that again this year and would encourage more clients to use the portal. Clients who currently do not use the service, will also have the opportunity to subscribe for it.

Colin Barker

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 price worth paying for some peace of mind. The increase in our fees for the service will be well below the current headline rate of inflation.

Subscribers to the service also get access to a Business Help Line and a 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.

CHANGES TO AUDITING STANDARDS

Stephen Drain

There have been major changes to International Standards on Auditing (ISA) for audits with periods beginning on or after 15 December 2021.

The first of our audits affected by this change are now in progress.

After a lot of high-profile cases where fraud has been retrospectively identified but not previously picked up in an audit, the Auditor's role in identifying fraud and error has been clarified.

The Auditor's role is to "obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud, including identifying and assessing risks of material misstatement, and obtain sufficient appropriate audit evidence. Owing to the inherent limitations of an audit there is an unavoidable risk that some material misstatements may not be detected". The risks of inherent limitations are increased where there is deliberate concealment.

Director's responsibilities towards tackling fraud has remained unchanged.

Furthermore, the International Auditing and Assurance Standards Board (ISAAB) has issued guidance to auditors to be "iterative and dynamic" when understanding the entity and its environment, the system of internal controls and how these affect the risk of material misstatement.

As Auditor's we must develop a risk assessment at the planning stage and revise this as we progress through the audit.

We will need to have a more in depth discussion with our clients during the planning stage to obtain more details on controls and the entity and environment in order to assist with our assessment.

There is a greater focus on professional scepticism, and as a result our testing may need to be adapted to have a greater focus on areas where there could be a deficiency in control, a higher risk of fraud or a higher risk of material misstatements.

The scale of the change in our audit work will vary for each audit and we will be in touch to discuss any changes to our approach.

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Alison McDowall

MAKING TAX DIGITAL FOR INCOME TAX (MTD ITSA)

Late last year the government announced that the introduction of MTD ITSA has been delayed and will now be introduced in phases from 6 April 2026.

The first phase will be Self-employed individuals and landlords with turnover over £50,000 from April 2026. The next phase will be Self-employed individuals and landlords with turnover over £30,000 from April 2027. Other dates are yet to be confirmed.

Those affected will need to keep records digitally and file returns using compatible software. As a firm we are looking at the software solutions that are available to assist us with helping our clients to comply with the changes when they eventually come in. We will be writing to all clients affected in due course.

BASIS PERIOD REFORMS

For sole traders, partners of trading partnerships and members of LLPs who do not prepare accounts to 31 March or 5 April there are changes coming as to when that income is taxed. From the 2024/25 year these business owners will change to a tax year basis of taxation.

As an example, for a sole trader who prepares accounts to 31 December in the 2022/23 year, they would be taxed on the profits for the year ended 31 December 2022. In the 2024/25 tax year they would be taxed on the profits for the period 6 April 2024 to 5 April 2025. The 2023/24 will be a transition year with special rules applying.

Some businesses may choose to change their accounting date while others, such as farming businesses, may choose to keep their accounting date for commercial reasons. We are contacting all clients affected by these changes to discuss whether a change of accounting date is appropriate, and the impact on their tax position.

CORPORATION TAX CHANGES

Debbie Wakefield

From 1 April 2023 the main rate of corporation tax is due to rise from 19% to 25% for companies with profits over £250,000. There is some relief for smaller companies where the 19% remains for profits up to £50,000 per annum and a marginal increase in corporation tax for profits between £50,001 and £250,000. The effective rate of corporation tax in the £50,001 to £250,000 threshold actually works out at 26.5%. Once profits are above £250,000 all profits are taxed at 25%.

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.

It's clear that the majority of companies will be impacted by these forthcoming changes. The following are some examples of areas businesses may wish to consider in order to mitigate the effect of the increased rates:

- If possible, where the effective rate of corporation tax after 1 April 2023 is more than 19%, companies could look to accelerate profits or defer costs so that more profits are taxable in the 2022 financial year rather than after 1 April 2023
- Where a company has made a loss review whether it would be more beneficial to carry this forward rather than back in order to potentially obtain a relief at a higher rate
- Owner managed businesses could review their profit extraction method to see whether taking a higher level of salary or making employer pension contributions is beneficial in order to reduce company profits
- The impact of associated companies on the corporation tax rates could be considered to determine whether any restructuring would be beneficial

If you would like specific advice on how these changes will impact your business and whether there are any opportunities to mitigate these tax increases please contact us.

SALARY V DIVIDENDS

Historically dividends have been a more tax efficient remuneration option for owner managed companies rather than bonuses, particularly for those taxpayers with income in the higher and additional rate bands. However, the combined impact of the increase in the rate of tax on dividend income, which came into effect from April 2022, and the increase in the main rate of corporation tax from April 2023, may mean this is no longer the case.

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The forthcoming increases in corporation tax will have a significant impact on the effective rate of profit extraction using dividends. This is because dividends do not attract corporation tax relief. Although the dividend taxation rates remain lower than the rate on salary income, at 8.75% for individuals paying tax at the basic rate, 33.75% at higher rates and 39.35% at the additional rate of income (compared to 20%, 40% and 45%), the corporation tax rates also need to be taken into account to work out the overall effective tax rate. Where increased corporation tax rates apply, the effective rates where profits are extracted by way of dividend are now not always lower than those where a salary is taken.

Set out below are the effective rates of taxation combining corporation tax, national insurance and income tax. These figures assume that the dividend allowance of £1,000 has already been used and company profits fall into the 25% tax rate.

Effective tax rates:	**2022/23 tax year**		**2023/24 tax year**	
	Salary	Dividend	Salary	Dividend
Basic rate taxpayer	40.25%	26.09%	40.25%	31.56%
Higher rate taxpayer	49.03%	46.34%	49.03%	50.31%
Additional rate taxpayer	53.43%	50.88%	53.43%	54.52%

As you will see from this summary, where income is subject to the basic rate of taxation then dividends are still the most tax efficient route in 2023/24. Many clients may therefore continue to be better off taking a low salary and remaining profits as dividends. However, for higher and additional rate taxpayers the gap has now been closed putting an end to the tax savings that may have been made previously.

There are, of course, other factors which should be taken into account when looking at profit extraction, including:

- There may be a benefit in taking a salary for pension contribution purposes as well as for mortgage purposes
- Directors may wish to consider making employer pension contributions as part of the remuneration strategy
- If the company is involved in research and development then it may be better to pay a salary rather than dividends to maximise any R&D tax claim
- For director shareholders over state retirement age employees' NI would not be payable so they would be better off taking a salary from the company
- The impact of the tax rules for individuals with income between £100,000 and £125,140 where their personal allowance is withdrawn £1 for every £2 over £100,000 should be considered so that the are able to preserve their personal allowance where possible

The above is a simplistic summary of the tax position which will vary for each taxpayer depending on their specific situation. If you would like to discuss your own position in more detail please contact us.

CAPITAL GAINS ANNUAL EXEMPTION REDUCTION

In the Autumn Statement delivered in November last year, the Government introduced changes to the annual tax-free exemption. As it currently stands, the first £12,300 of capital gain that an individual makes in a tax year is exempt from capital gains tax. From 6 April 2023 this annual exemption is due to reduce to £6,000 per year for individuals and from 6 April 2024 this will be halved to £3,000 per annum. These changes will impact individuals who dispose of assets for a gain as more of this will be subject to capital gains tax. Those who are able to do so may wish to consider bringing the disposal of assets forward into the 2022/23 tax year in order to utilise the higher level of annual exemption before this is reduced.

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