

BASIS PERIOD REFORM

Move to tax year basis

If you are a sole trader or an individual partner in a partnership, from 2024/25 onwards, you will be taxed on the profits for the tax year (the tax year basis) rather than, as now, on the profits for the accounting period ending in the tax year (the current year basis). If you prepare your accounts to a date other than 5 April or 31 March (which is treated as equivalent to the tax year) or a date in between, you will need to apportion your profits from two accounting periods to arrive at the profits for the tax year.

To move from the current year basis to the tax year basis, the 2023/24 tax year is a transitional year. The profits taxed in 2023/24 are those for the period from the end of the basis period for 2022/23 (i.e. the accounting period ending in the period from 6 April 2022 to 5 April 2023) to 5 April 2024. Where the accounting period does not align with the tax year, profits for more than 12 months may be taxable in 2023/24. Relief for any unrelieved overlap profits is also given in 2023/24. These are profits that were taxed twice in the early years or on a change of accounting date.

To prevent traders from being hit with a very high tax bill in 2023/24 without having the benefit of higher profits from which to pay the bill, the additional profits assessed in that year (i.e. those from the end of the previous accounting period to 5 April 2024, less any overlap relief) are spread over 5 tax years from 2023/24 to 2027/28 inclusive. Where this is not beneficial, an election can be made for profits not to be spread.

We can explain what the move to the tax year basis means for you and discuss whether a change of accounting date would be beneficial.

EXTENDED LOSS RELIEF

Claim deadlines for loss relief

Individuals and companies can both benefit from an extended carry back period for certain losses, which may be useful in generating a tax repayment. The extension only applies to losses incurred in a limited window. To take advantage of the extended carry-back rules, the relief must be claimed by the relevant deadline.

For income tax purposes, the extended carry-back is available for a 2020/21 loss or a 2021/22 loss. The loss for a tax year is the loss for an accounting period ending in that tax year. The extended carry back rules mean that in addition to the usual rules for relieving the loss against income of the same or a previous tax year, to the extent that any of the loss remains available, it can be carried back against profits of the same trade for two further years, setting the loss against the later of those years first.

The claim will normally be made in your self-assessment tax return. The deadline for making a claim for a loss in the 2020/21 tax year is 31 January 2023 and the deadline for making a claim for a loss in the 2021/22 tax year is 31 January 2024. However, where the claim affects more than one tax year, it can be made outside the tax return. When making the claim, the name of the business, the period for which the loss is made, the amount of the loss and how the loss is to be used should be specified.

For corporation tax purposes, a loss for an accounting period that ends between 1 April 2020 and 31 March 2022 benefits from the extended carry back. This enables the loss for the period to be carried back against profits of the same trade for the previous three years, rather than the previous year. The loss is set against the profits of a later year before those of an earlier year. The claim must be made within two years from the end of the accounting period in which the loss which is being carried back arose.

Speak to us to find out whether it will be beneficial to make a claim under the extended carry back rules.

CAPITAL ALLOWANCES

Permanent increase in AIA limit

The Annual Investment Allowance (AIA) is a capital allowance which provides immediate relief for qualifying expenditure up to the AIA limit. The limit will now remain at £1 million, rather than reverting to £200,000 from 1 April 2023.

As a result, you may wish to reassess your capital expenditure plans. Where cashflow is tight, it is no longer necessary to incur the expenditure before 31 March 2023 to benefit from the £1 million limit.

We can help you maximise relief for your capital expenditure.

Super-deduction and 50% first-year allowance for companies

Companies are able to benefit from two additional first-year allowances for qualifying expenditure incurred in the period from 1 April 2021 to 31 March 2023.

The first is a super-deduction available for most expenditure that would otherwise benefit from main rate writing down allowances at the rate of 18%, although cars are excluded. Where the expenditure qualifies for the super-deduction, the first-year allowance is given at the rate of 130% of the qualifying expenditure. A balancing charge may apply on the disposal of the asset.

Where available, the super-deduction is advantageous and will provide a better rate of relief than that given by the AIA.

The second temporary allowance is a 50% first-year allowance for qualifying expenditure that would otherwise qualify for a writing down allowance at the special rate of 6%. The first-year allowance is given at the rate of 50% of the qualifying expenditure. It is not available for expenditure on cars. As with the super-deduction, a balancing charge may apply.

We can advise whether capital expenditure will qualify for either of these time-limited allowances and whether it may be beneficial to incur capital expenditure on or before 31 March 2023 in order to benefit.

CORPORATION TAX

Corporation tax reforms

The planned corporation tax reforms are going ahead. From 1 April 2023, the rate of corporation tax that you pay will depend on the amount of your taxable profits.

If you are a standalone company with profits of more than £250,000 you will pay corporation tax at a rate of 25% from 6 April 2023. A small profits rate of 19% applies where the profits of a standalone company are £50,000 or less. Where profits are between £50,000 and £250,000, the effective rate is between 19% and 25%. In this band, corporation tax is payable at the rate of 25% as reduced by marginal relief.

If your company has associated companies, the £50,000 and £250,000 limits are divided by the number of associated companies plus 1. The limits are also proportionately reduced where the accounting period is less than 12 months.

If your accounting period straddles 1 April 2023, you will need to apportion your profits and work out the corporation tax separately for the period before 1 April 2023 and the period on or after 1 April 2023.

We can explain how the changes to the rules impact on the amount of corporation tax that you will need to pay.

INCOME TAX

Additional rate threshold to fall

The additional rate threshold is to fall from £150,000 to £125,140 from 6 April 2023. The personal allowance and basic rate band will remain unchanged, at respectively, £12,570 and £37,700, until 6 April 2028. The tax rates are also unchanged for 2023/24, remaining at 20%, 40% and 45%.

The reduction in the additional rate threshold will increase the tax payable by those with income in excess of £150,000 by £1,243.

Where income in 2023/24 is likely to be between £125,140 and £150,000, consideration should be given to whether it is possible to advance income so that it is taxed in 2022/23 at 40% rather than in 2023/24 at 45%.

We can explain what the reduction in the additional rate threshold means for you and discuss whether it is beneficial to make pension contributions or charitable donations.

DIVIDEND TAXATION

Reduction in dividend allowance

The dividend tax rates were increased by 1.25% from 6 April 2022 as part of a package of measures to fund health and adult social care. Despite the cancellation of the Health and Social Care Levy, the dividend tax rates will remain at 8.75% where the dividends fall within the basic rate band, at 33.75% where the dividends fall within the higher rate band and at 39.35% where the dividends fall within the additional rate band.

Dividends sheltered by the dividend allowance are tax free. The dividend allowance is set at £2,000 for 2022/23. However, it is to fall to £1,000 for 2023/24 and to £500 for 2024/25.

If you operate your business as a personal or family company and extract profits in the form of dividends, this will affect you.

All taxpayers regardless of the rate at which they pay tax are entitled to a dividend allowance. In a family company situation, it is advisable to assess whether any shareholders have not fully used their dividend allowance for 2022/23 and, where this is the case, consider whether it would be beneficial to pay a dividend on or before 5 April 2023 to take advantage of the remaining allowance.

We can help you formulate a tax-efficient profit extraction strategy and explain the impact of the reduction in the dividend allowance.

CAPITAL GAINS TAX

Reduction in annual exempt amount

The capital gains tax annual exempt amount is the amount of net gains that can be realised each tax year before capital gains tax is payable.

The annual exempt amount is set at £12,300 for 2022/23. It is to fall to £6,000 for 2023/24 and to £3,000 for 2024/25.

Where you are planning to dispose of assets which will realise a chargeable gain, consideration should be given to the timing of the disposal.

Speak to us to find out how the reduction in the annual exempt amount will impact on the amount of capital gains tax that you will need to pay.

BUSINESS RATES REVALUATION

Transitional relief

Business rates are charged on non-domestic properties. The rateable value of non-domestic properties is revalued from 1 April 2023 to reflect the April 2021 value.

Transitional relief is available to limit the amount by which bills can increase each year. This has the effect of phasing in higher bills.

The cap depends on the rateable value of the property, and also whether the property is in London.

Where transitional relief is available, it is given automatically by the council.

Speak to us to find out whether you are eligible for transitional relief, and also whether any other reliefs apply.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.
