



## Client Bulletin

July 2023

### SELF ASSESSMENT

#### ***Payments on account***

Payments on account are advance payments towards your next Self Assessment bill. You will need to make payments on account if you complete a tax return and your last tax bill under Self Assessment (ignoring any Class 2 National Insurance that you paid) was £1,000 or more, unless at least 80% of the tax that you owe is collected at source, for example, under PAYE.

Each payment on account is 50% of the previous year's tax and Class 4 National Insurance liability. You must make the first payment on account by 31 January in the tax year (together with any balancing payment for the previous tax year). The second payment on account is due by 31 July after the end of the tax year. If you have payments on account to make for 2022/23, you must make your second payment by 31 July 2023.

It may be that you now know that your payments on account are too high because your income in 2022/23 is less than it was in 2021/22. If this is the case, you can reduce your payments on account to the correct level. This can be done online via your personal tax account or by post on form SA303.

It is important not to underpay or to pay late as interest is charged on payments which are not made in full and on time.

We can check whether your payments on account are at the correct level.

#### ***Self Assessment threshold***

If you pay all your tax under PAYE, from 2023/24 onwards you will only need to complete a Self Assessment tax return if your income is £150,000 or more. For 2022/23 and previous years, you will need to file a tax return if your income is more than £100,000.

However, even if your income is below the threshold, you will need to file a tax return if you have untaxed income, you are liable to the High Income Child Benefit Charge, you have income from self-employment of more than £1,000 or income from property of more than £1,000 or you are a partner in a business partnership. You will also need to file a tax return if you have chargeable gains to report.

We can let you know if you need to file a return.

### UNINCORPORATED BUSINESSES

#### ***Taxable profits for 2023/24***

The rules that govern which profits are taxable for a particular tax year are changing. If you are a sole trader or an individual partner in a partnership, from 2024/25 you will be taxed on

the profits for the tax year regardless of the date to which you prepare your accounts. You will no longer be taxed on the profits for the accounting period ending in the tax year.

To move from the old basis to the new basis, the 2023/24 tax year is a transitional year. Unless you prepare your accounts to 31 March, 5 April or a date in between (all deemed to be equivalent to the tax year), you will be assessed on more than 12 months' profits for 2023/24. The profits for the transition year are those from the end of the accounting period assessed in 2022/23 to 5 April 2024. If you have overlap profits from the early years of a business or when you changed your accounting date, relief is given in 2023/24 by deducting these profits.

To prevent an unusually high tax bill in 2023/24, the profits relating to the period from the accounting date to 5 April 2024, less any overlap relief, are taxed over five years, from 2023/24 to 2027/28 inclusive, unless you elect for this treatment not to apply. As you may have higher bills for 2023/24 to 2027/28 as a result of the transition you may need to plan ahead and put money aside to ensure that you can pay the tax that you owe.

We can explain what the reforms mean for you and the impact on your taxable profits for 2023/24.

### ***Tax year basis from 2024/25***

From 2024/25 unincorporated businesses are taxed on the profits corresponding to the tax year. This means that for 2024/25, the profits that are taxed are those for the period from 6 April 2024 to 5 April 2025, regardless of the date to which you prepare your accounts. A year end of 31 March is treated as being equivalent to the tax year.

If your accounting date is other than 31 March or 5 April (or a date in between) you will need to apportion the profits for two tax years to arrive at the profit for the tax year. To make life easier, you may wish to change your accounting date to 31 March.

We can explain what the new tax year basis means for you and help you decide whether it would be beneficial to change your accounting date.

## **HELP PAYING YOUR TAX BILLS**

### ***Time to Pay Arrangements***

Many people are struggling financially as a result of the cost of living crisis. If you are unable to pay a tax bill, you may be able to set up a Time to Pay Arrangement to pay what you owe in instalments.

There are various ways in which this can be done.

If you owe tax under Self Assessment which you will struggle to pay, you may be able to set up a payment plan online.

You can do this if you are within 60 days of the payment deadline, you have filed your latest tax return, you owe £30,000 or less and you do not have any other payment plans or debts with HMRC.

If you do not meet these requirements, you may still be able to set up an instalment plan, but you will need to contact HMRC.

You may also be able to set up a payment plan if you owe employer's PAYE or VAT, and it may be possible to set up a plan online.

If you are struggling to pay your tax debts, we can help you to find a solution.

## PENSION SAVINGS

### ***Higher annual allowance and abolition of lifetime allowance charge***

Saving for a pension can be tax-efficient as you are able to benefit from tax relief on contributions to registered pensions schemes up to certain limits. The limits have been relaxed.

The annual allowance restricts tax relieved pension savings to the amount of the available annual allowance for the tax year. Individuals are also limited by their earnings and can make tax-relieved contributions up to 100% of their earnings or, if higher, £3,600. Employer contributions are not subject to the earnings limit, but do count towards the annual allowance.

The annual allowance is set at £60,000 for 2023/24, having previously been set at £40,000. However, it is reduced where both threshold income exceeds £200,000 (broadly income excluding pension contributions) and adjusted net income (broadly income including pension contributions) exceeds £260,000. For 2023/24, the allowance is reduced by £1 for every £2 by which adjusted net income exceeds £260,000 until the allowance is reduced to the minimum level of £10,000.

Unused annual allowances can be carried forward for up to three years, but the current year's allowance must be used first. For 2020/21 to 2022/23, the annual allowance was £40,000, the adjusted net income taper threshold was £240,000 and the minimum allowance was £4,000.

The lifetime allowance, set at £1,073,100, placed a limit on lifetime tax relieved pension savings. Charges no longer apply if lifetime pension savings exceed this limit, and the allowance itself is to be abolished. However, the 25% tax free lump sum that can be taken when the pot is accessed is now capped at £267,275.

If you have previously accessed a money purchase pension having reached age 55, your annual allowance for 2023/24 is £10,000.

We can explore tax efficient pension saving options with you.

## FAMILY AND PERSONAL COMPANIES

### ***Tax efficient profit extraction***

If you operate your business through a personal or family company, you will need to extract the profits if you want to use them personally outside your company. There are various ways to do this, some more tax efficient than others. The optimal strategy will depend on your personal circumstances.

A popular strategy is to take a small salary and to extract further profits as dividends. This will be tax efficient if your personal allowance is not used elsewhere. It will also be beneficial to take a salary of at least £6,396 if you do not have the requisite 35 qualifying years to give you a full state pension.

For 2023/24, if your personal allowance is available, it will be tax-efficient to take a salary that is equal to the personal allowance of £12,570. As this is also the primary threshold for National Insurance, you will not pay any employee contributions on your salary.

If your company does not qualify for the National Insurance Employment Allowance, it will need to pay employer contributions to the extent that your salary exceeds the secondary threshold of £9,100. These are payable at a rate of 13.8%. However, if your company qualifies for the Employment Allowance, there will be no secondary Class 1 National Insurance to pay.

Once you have paid a salary of £12,570, it is more tax efficient to extract further profits as dividends. These will be tax-free to the extent that they are sheltered by the dividend allowance, set at £1,000 for 2023/24. Thereafter, they are taxed at the appropriate dividend rate – 8.75%, 33.75% or 39.35% depending on the tax band in which they fall.

We can help you formulate a tax efficient profit extraction strategy for 2023/24.

## EMPLOYERS

### ***Have you claimed the Employment Allowance?***

If you are an employer, you may be able to claim the National Insurance Employment Allowance to reduce the amount of employer's (secondary) Class 1 National Insurance that you pay.

You can only claim the allowance if your secondary Class 1 contributions for 2022/23 were less than £100,000 and you are not otherwise excluded from claiming the allowance. Companies where the sole employee is a director (which may affect you if you operate a personal company) do not qualify for the Employment Allowance.

The allowance is set at £5,000 for 2023/24 (capped at your secondary Class 1 liability for the year where this is lower). It is not given automatically and must be claimed through your payroll software.

If you have yet to claim the allowance for 2023/24, we can determine whether you qualify and help you claim.

## CAPITAL GAINS TAX

### ***Reduced annual exempt amount***

The annual exempt amount for capital gains tax is a tax-free allowance for capital gains tax purposes. Net gains up to the annual exempt amount can be realised free of capital gains tax.

The annual exempt amount fell to £6,000 for 2023/24 from £12,300 in 2022/23. It is to fall further, to £3,000 for 2024/25.

If you are planning disposals that may realise a chargeable gain, it may be worthwhile to make the disposal before 6 April 2024. This could save you up to £840 in capital gains tax.

We can help you plan disposals in a tax-efficient manner.

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*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.*

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