Bird Simpson

Client Briefing

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Managing new office relations

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New penalties for late payments

The new late payment penalties regime will start rolling out from April 2022 for VAT taxpayers, followed by income tax self-assessment (ITSA) taxpayers. The late payment penalties are a potential problem for businesses that struggle to pay within 30 days.

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The regime will affect VAT return periods beginning on or after 1 April 2022. It will be extended to include self-employed workers and landlords with annual turnover exceeding £10,000 from 6 April 2024, and other ITSA taxpayers a year later.

Late payments

There is no penalty if payment is made within 15 days of the due date. If paid within 15 to 30 days, the penalty is 2% of the outstanding tax, with a further 2% penalty if tax is still unpaid after 30 days. In addition, a daily penalty at the rate of 4% p.a. on the balance outstanding is charged from day 31. However, penalties are not charged if there is reasonable excuse.

A business can avoid any further penalties accruing by entering into a time to pay arrangement with HMRC.

- **VAT** The revisions are very different compared to the current default surcharge system where the level of penalty is dependent on previous defaults. The new penalties will apply separately to each late payment, and should therefore be much fairer. Businesses have incurred a substantial default surcharge for being just a day or two late when submitting a VAT return, but this will not happen given the new 15-day grace period.

- **ITSA** The new penalties will hit much earlier, but the level of penalty is lower.

HMRC will take a light-touch approach regarding the initial 2% penalty for VAT during the first year.

Interest

The interest rules for VAT are to be aligned with those for ITSA. Regardless of whether any late payment penalties are charged, interest will therefore be incurred from the due date until payment is made. A time to pay arrangement will not stop interest accruing.

Late submissions

Under a points-based system, taxpayers will receive a point each time they miss a VAT or ITSA regular submission deadline. A £200 penalty is then charged once a points threshold is reached.

> “*The new penalties will apply separately to each late payment, and should therefore be much fairer.*

New tax rises and the end of the triple lock

The 1.25% increases in national insurance (NIC) and dividend tax rates announced in September are scheduled to start in April 2022. But from April 2023 the NIC increases will become a separate Health and Social Care Levy, and NIC rates will revert to previous levels.

Creating a new Levy, distinct from NICs, enables the tax to apply to the earnings of people above state pension age, who are exempt from NICs.

The NIC rise applies to employer and employee NICs as well as self-employed Class 4 contributions. Employees will therefore pay 13.25% on earnings between the primary threshold and the upper earnings limit, currently £9,568 and £50,270 a year. Self-employed people will pay 10.25% on business profits within the same band. The 2% rate on employee earnings and business profits above the upper limit will increase to 3.25%. For employers the 13.8% rate will go up to 15.05%.

The dividend tax rates from April 2022 will be 8.75% on income falling within the basic rate band, 33.75% on higher rate income and 39.35% on additional rate income. These rates will continue because the Levy will not be charged on dividend income. The tax-free £2,000 dividend allowance will remain.

For company owners deciding whether to take a bonus or a dividend, the changes add slightly to the tax advantage of dividends. This is because on a bonus the 1.25% increase is paid twice – by the employer and the employee. However, as at present, the individual's overall tax position, as well as non-tax considerations, must be taken into account.

Triple lock suspension

The government has also suspended the pensions triple lock. The state pension for 2022/23 will now be determined by the higher of September's inflation and 2.5%. The increase might otherwise have been over 8% because of the effect on earnings of the furlough scheme.

Managing new office relations

Employers have been welcoming their workforces back on site, but ongoing concerns around vaccination and employees' rights may need a new approach. As hybrid working becomes more mainstream, careful and robust policies around health and wellbeing are crucial for its success.


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As more people have come to focus on work–life balance in the last 18 months, there are changing expectations from employees on a number of issues.

Regular Covid-19 testing

There is no reason why you cannot implement a policy requiring regular Covid-19 testing as a condition for workplace attendance. This could be achieved by buying tests and setting up workplace testing, paying an approved provider or asking employees to arrange their own testing.

You should have a clear plan in place on how positive test results will be managed. For example, should everyone attending the workplace be tested, or just employees?

Vaccination policy

Insisting on employees being vaccinated as a condition of workplace attendance is a more contentious issue, especially if just a few are opposed.

Although there is no legal reason why you cannot adopt a full vaccination policy, it is a risky approach to take. Along with potential legal claims, it could also result in the resignation of key personnel. It may be more practical to discuss concerns and encourage employees to get vaccinated. Some workplaces offer time off during work hours to do so.

Hybrid working

Although the sudden transition to homeworking was difficult for most employers, many businesses also discovered unexpected benefits. Staff are often more productive and there can be huge property cost savings. However, there are some basic questions that need answering before making hybrid working the norm:

- Does it work for your clients, customers, and business overall?
- Will employees be allowed to work remotely full-time, or will they be required on site for a certain number of days?
- Is there a risk of staff feeling isolated, particularly new recruits, or losing motivation if the 'whole-firm' feel is lost?
- Are your IT systems, communication tools and video conferencing equipment up to scratch?
- And the obvious question – is this what your employees want?

> **“** *Creating a supportive work environment where help is available is becoming an increasingly important recruitment and retention benchmark.*

Broader policies
More focus on work–life balance has led to changing employee expectations on old and new issues.

- **Sick leave** Many employees are understandably worried about their health and safety with the return to work. Allowing worried staff to work from home is one solution, at least over the shorter term. Paying full pay during sickness can be expensive, but consider doing so (if you are not already) for at least a certain number of days.

- **Menopause** There is a rising number of employment tribunal cases where the menopause has been cited as proof of unfair dismissal. The majority of women want better employer support if they are struggling to stay in work while experiencing symptoms. You need to have a work culture that recognises the difficulties and provides support.

- **Mental health** Working hours became longer since the start of the pandemic, leaving a large number of employees dealing with significant stress. Research indicates that staff are more concerned about their mental health than they are about their physical health.

Creating a supportive work environment where help is available is becoming an increasingly important recruitment and retention benchmark.

News in brief...

Protecting against non-compliant umbrella companies

Many contractors have turned to umbrella companies to handle their administrative arrangements. However, some are more reputable than others. The government has drawn up a package of measures with the intention of protecting contractors from non-compliant umbrella companies.

Working from home tax relief

A full year's tax relief, worth £124.80 per year for a higher-rate taxpayer, can be claimed by all employees if they are told to work from home for just one day during 2021/22. If you have returned to the workplace you can still benefit.

Live events reinsurance

The government-backed Live Events Reinsurance Scheme running until September 2022 has its detractors, but it will help event organisers plan with more confidence. Insurance should be more readily available since insurers are reimbursed if an event is cancelled due to government Covid-19 restrictions.


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Claiming extended loss relief

The rules for setting business losses against earlier profits were temporarily extended in the first Budget of 2021 in March.

Normally businesses can only set losses against the profits of the previous year. However, trading losses of unincorporated businesses for the tax years 2020/21 and 2021/22 can additionally be carried back against profits of the two previous years. Companies benefit from three-year carry back for losses in accounting periods ending between 1 April 2020 and 31 March 2022.

Losses carried back must be set against more recent years before earlier years. The carry back of losses to earlier tax years is capped, adding a layer of complication.

Carry back maximum varies by year

For companies the maximum losses that can be carried back beyond one year for accounting periods ending between 1 April 2020 and 31 March 2021 is £2m. A separate £2m cap applies for losses of accounting periods ending from 1 April 2021 to 31 March 2022.

Specific rules apply for groups

Groups are subject to a group cap of £2m for each period. Where group losses are capped, a nominated company must submit an allocation statement to HMRC showing which companies have been allocated amounts of the £2m cap. Group losses are not capped if no company in the group carries back £200,000 or more, even if total claims exceed £2m.

For unincorporated businesses there was already a limit on trading losses that can be carried back against general income, namely the higher of £50,000 or 25% of adjusted total income. This has not changed.

The extended rules allow unrelieved trading losses of tax years 2020/21 and 2021/22 to be carried back and set against profits of the same trade for three years before the tax year of the loss. This relief is capped at £2m for each of these tax years.

Claims are normally made in a tax return but stand-alone claims are possible.

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Making tax digital shifts again

Big changes are coming for the way in which businesses keep their records and report to HM Revenue & Customs. From April 2022 all VAT-registered businesses will have to keep digital VAT records and send returns using Making Tax Digital (MTD) compatible software.

The rollout of MTD to income tax, recently delayed until 6 April 2024, will have an even greater impact. Self-employed individuals and landlords with total business and/or property income above £10,000 a year will have to keep MTD-compatible digital records and submit quarterly updates to HMRC.

Individuals will have to send HMRC updates at least quarterly for each business and any rental income, as well as end of period statements (EOPS) for each income source. The EOPSs must be sent by 31 January after the end of the tax year. These will produce an estimate of their tax liability.

Also by 31 January each year they must submit a single final declaration covering all their income. These will replace the self assessment tax return, except for individuals who have to report other income or claim certain deductions.

Sole traders will enter MTD at the start of their first accounting period following 5 April 2024. HMRC will give notice to file under MTD based on figures in the 2022/23 tax return. The VAT and income tax MTD schemes are separate and traders registered for MTD for VAT will have to register separately for income tax. It is estimated that 4.3 million self-employed individuals and businesses will have to start reporting under MTD during 2024/25. Early preparation will be imperative.

Separately, the government is consulting on a proposal under which – from 2024/25 – a

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business's profit or loss for a tax year is that arising in the tax year itself, regardless of its accounting date. This would eliminate the need for special calculations at the start and end of a business, but also result in earlier payment of tax for many. If this proposal goes ahead, the start date of MTD for all individuals above the turnover threshold will be 6 April 2024.

> *“MTD for income tax, delayed until 6 April 2024, will mean individuals will have to send HMRC updates at least quarterly for each business.*

Balancing cost management

Adjusting to the new economic climate may tempt you into focusing on additional cost cuts or consolidating pandemic changes to manage cash flow and finances. But bear in mind the law of unintended consequences before you get carried away with savings.

The impact on business quality and, of course, employees is key. Measured, early action should help to avoid more drastic measures if your cash position deteriorates.

Customers

Customer experience can easily be adversely impacted when the finance or accounting department is driving cost savings. Making these decisions can be tough, and it is all too easy to prioritise internal operations over customer service. However, this could be an opportunity to outshine competitors who have neglected their customers by, for example, trimming back after-sales services.

Employees

Staff perks may seem an easy target, but you should consider the impact on morale and efficiency. For example, free drinks and snacks mean that employees are less likely to leave the premises during breaks, and they will be more inclined to work late if there is an urgent job to be finished. And cutting the quality of workplace refreshments, for example, can be a false economy, leaving colleagues feeling undervalued when basic pay rises may also feel the squeeze.

Centralisation

Centralising spending may allow a tighter control over budgets, but decisions may be made with outdated information and with little awareness of local needs, creating discontent among both customers and employees delivering services. Front-line staff who see their decision-making powers removed can become demotivated.

Cost cutting definitely has a role to play but needs careful planning and consideration of all the potential implications.

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