eNews
OCT/NOV 2022

Forrester Boyd
CHARTERED ACCOUNTANTS

TAX

Start planning for accounting basis changes

Changes are coming for how self-employed individuals and partnerships calculate their taxable profits and return them to HMRC.

At present, the profits of a tax year are generally based on the profits of the accounting period ending in that tax year, with special rules for the opening and closing years of a business.

From the 2024/25 tax year, businesses will be taxed on the profits arising in that tax year, calculated by time-apportioning profits of the accounting periods that fall within the tax year. Businesses that cannot finalise the accounts needed for the second part of the tax year in time will have to file returns based on provisional figures and revise them once final figures are available. Businesses can avoid this complication by changing their accounting date to 31 March or 5 April – both dates are treated as aligned with the tax year so avoiding apportionment.

Under transitional rules, taxable profits for 2023/24 will be based on the period from the end of the 2022/23 basis period plus a transition component running from the end of this 12-month period up to 5 April 2024. Any unrelieved overlap profits – generally those that arose in the business's opening years – will be deducted. Should this calculation result in higher profits than for the normal 12 months, the transitional period additional profits can be spread over a period of five years.

> *Making Tax Digital for Income Tax (MTD) generally starts on 6 April 2024 for sole traders and 6 April 2025 for general partnerships.*

The change runs alongside the implementation of Making Tax Digital for Income Tax (MTD). Businesses will have to use MTD-compatible software to keep digital accounting records, send quarterly digital reports to HMRC of receipts and expenses and provide a digital 'end of period statement' to finalise the year's taxable profit. MTD will generally start on 6 April 2024 for sole traders and from 6 April 2025 for general partnerships.

With just 17 months to go, time can run quickly, so allow plenty of time to plan through the implications of these changes.

TAX

VAT portal closing for Making Tax Digital

His Majesty's Revenue & Customs (HMRC) has confirmed that from 1 November 2022 businesses will no longer be able to use the online VAT account to file quarterly or monthly returns.

The only option will be to use software compatible with Making Tax Digital (MTD) to keep VAT records and file returns. Businesses that file annual returns will be able to use their online VAT account until 15 May 2023.

MTD was extended to voluntarily registered businesses below the VAT registration threshold from 1 April 2022, but not all have signed up.

Businesses that fail to do so may face a default surcharge or, from January 2023, late submission penalties and interest. HMRC has advised that businesses yet to sign up to MTD should first choose MTD-compatible software suitable for their needs, permit it to work with MTD, then sign up to MTD and use it to file returns.

Software discounts may be available

The government recently expanded the 'Help to Grow' software discount scheme to include businesses with at least one employee. The scheme offers a 50% discount on digital technology of up to £5,000 but still excludes the very smallest businesses.

Businesses that are exempt from MTD will still be able to use the online portal. You should apply for an exemption as soon as possible if it is not reasonable or practical for your business to use computers, software or the internet.

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BUSINESS

Energy costs support revised

The revised energy price guarantee announced in October has capped electricity and gas prices for six months from 1 October 2022, but the government has now indicated that support from April 2023 will be more targeted.

For households, the Energy Price Guarantee will reduce the unit cost of electricity and gas so that energy bills for an average usage household in Great Britain over this winter are around £700 lower than they would otherwise have been; reducing bills by roughly a third. It is the unit price that is capped, so the size of your actual bill will depend on your usage.

The Energy Price Guarantee comes in addition to the £400 discount to households under the Energy Bills Support Scheme which is being paid, in Great Britain, in six monthly instalments from October. Households in Northern Ireland will receive similar support. Both forms of

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support are given automatically through energy bills.

For non-domestic customers such as businesses and charities, the Energy Bill Relief Scheme will provide a discount on gas and electricity prices broadly equivalent to the Energy Price Guarantee for domestic users. The scheme will similarly run from 1 October 2022 until 31 March 2023. It will apply to fixed contracts agreed on or after 1 December 2021, and also to variable tariffs and flexible contracts. It will be applied to bills automatically.

The government has rolled back from the initial two-year cap and is reviewing how it can help with energy bills from 1 April 2023. Chancellor Jeremy Hunt said on 17 October that support for domestic users will target "those in need", adding that "any support for businesses will be targeted to those most affected … and better incentivise energy efficiency".

Energy prices are likely to rise significantly when the Energy Price Guarantee ends, so all energy users are advised to use the next five months to identify ways in which they can protect themselves against high energy prices. One way of reducing costs is by installing energy saving materials (ESMs), such as wall, floor or loft insulation, and photovoltaic (solar) panels. Installing these in residential accommodation in England, Wales or Scotland is zero-rated for VAT.

TAX

Accounting for residential property sales

Disposals of UK residential property on which CGT is payable must be reported to HMRC via a UK property account since April 2020. Latest HMRC statistics show that although an improvement on 2020/21, approximately 20% of property returns were still late for 2021/22.


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The reporting deadline throughout 2020/21 was 30 days from completion, which, together with a lack of publicity from HMRC, explains why some 28% of the 90,000 property returns for that year were filed late. The extension of the reporting deadline to 60 days from 27 October 2021 helped alleviate the problem for 2021/22, when 26,500 out of 137,000 reports were late.

Property return

A property return is still required in most cases even if a gain has been declared on the taxpayer's self-assessment tax return.

- The submission of a tax return does not remove the in-year reporting requirement, so late filing penalties continue to accrue.
- Taxpayers who declare a property disposal on their tax return – without submitting a property return – cannot report the disposal using an online property account. They have to contact HMRC and request a paper version of the property return.

Lateness	Penalty
One day	£100
Over three months	£10 per day for up to 90 days
Over six months	Greater of £300 and 5% of the CGT due
Over 12 months	Greater of £300 and 5% of the CGT due

Taxpayers who are more than 12 months late filing a property return therefore face a penalty liability of at least £1,600.

Any taxpayers unaware of the in-year reporting requirement will generally be reliant on their conveyancing solicitor to enlighten them. Solicitors are, however, not tax experts. Please get in touch if you may be affected.

TAX

Trusts registration penalties loom

The trust registration deadline of 1 September has passed, yet many trusts – perhaps up to a million – have still not registered with HMRC's trust registration service, thereby risking a penalty.

Previously, registration only applied if a trust was liable to tax, but the requirements now cover virtually all trust arrangements; including bare trusts.

It is easy to be caught out given a trust can exist without those involved realising it, such as where relatives directly hold stocks and shares for a minor; though you are not required to register Junior ISAs and cash accounts held for minors. The trust arrangement need not be in writing.

Although HMRC is taking a soft touch approach to late registration, trusts should still register as soon as possible. The penalty is £5,000 if the late registration is due to deliberate behaviour on the part of the trustees. Newly created trusts need to register within 90 days.