

Tax E-News

Welcome to our latest monthly tax newswire. We hope you enjoy reading this newsletter and find it useful. Contact us if you wish to discuss any issues further.

February 2022



WILL THERE BE A MINI BUDGET ON 23 MARCH?

Whilst most of us were wrapping our Christmas presents on 23 December 2021, the Chancellor of the Exchequer, Rishi Sunak, commissioned the Office for Budget Responsibility (OBR) to produce an economic and fiscal forecast for Wednesday 23 March 2022.

The main Budget is scheduled for Autumn each year, but it is anticipated that the Chancellor will take the opportunity to make a number of tax announcements.

Many are hoping that the Chancellor will zero rate VAT on domestic power to ease the burden of households struggling to pay their energy bills. Now that the UK has left the EU, we are free to set our own VAT rates and the Prime Minister made this one of his key Brexit promises!

HMRC HAVE PUT BACK TAX RETURN DEADLINE

Normally self-assessment tax returns need to be submitted by 31 January, otherwise there is an automatic £100 late filing penalty. Don't panic however, as HMRC have recently announced that provided 2020/21 tax returns are received by the end of February, the late filing penalty will not be applied. Filing late will, however, extend the period during which HMRC may open an enquiry into your return.

YOU ALSO HAVE LONGER TO PAY YOUR PERSONAL TAX

2020/21 income tax, CGT, class 2 and 4 NIC liabilities normally need to be paid by 31 January 2022. However, HMRC have recently announced that provided the tax is paid by 1 April 2022, there will be no penalty, although interest accrues from 1 February 2022 at 2.75%.

If you need longer to pay, then you will need to agree a payment plan with HMRC.

NEW VAT PENALTY REGIME DELAYED TO JANUARY 2023

A new, and arguably fairer, system for determining penalties for late returns and late payment of VAT was due to be introduced from April 2022. However, it has been recently announced that the start has been delayed until January 2023. The same system will also apply to returns under MTD for income tax and those penalties will now start in April 2024.

Under the new regime taxpayers will accumulate points for late submissions, and only after reaching a certain threshold will an automatic penalty be imposed. The threshold will depend on how regularly the taxpayer is required to submit a return.

PLANNING TO SELL YOUR BUSINESS IN 2022?

Now that the economy is starting to recover, this could be a good time to think about selling your business. Remember that under the current capital gains rules, the first £1 million of an individual's gains potentially qualify for a 10% rate of tax, provided business asset disposal relief applies. We can check whether or not you and other business owners qualify for this generous relief. Note that the £1 million limit applies to all disposals during an individual's lifetime.

If your business is worth more than £1 million, you might want to consider the transfer of shares to other family members, although they will need to satisfy the conditions for business asset disposal relief for at least 2 years prior to any sale.

PASSING ON YOUR BUSINESS TO THE NEXT GENERATION

If you do not wish to sell your business but are looking to reduce your involvement, you may be considering passing on your business to the next generation, or maybe your management team.

Where you are passing on the business or some of your shareholding, there are generous tax reliefs that facilitate the transfer of ownership without tax charges arising. These tax reliefs are currently available on the transfer of a trading business although it may also be possible to pass on an interest in an investment business with careful planning. We can of course discuss your plans with you to ensure that you are able to take advantage of all available tax reliefs.

WHAT ABOUT A MANAGEMENT BUY-OUT?

If your family are not interested in taking over your business, have you considered selling the business to your management team?



In a typical management buy-out the existing management would set up a new company which would then raise finance to acquire your current business, so this is essentially the same as a sale to a third party, except the management team will know quite a bit about your business already. They would still nevertheless need to carry out due diligence and require you to provide warranties and indemnities as in a third party sale.

An increasingly popular alternative to the classic management buy-out referred to above would be to sell your company to an Employee Share Ownership Trust (ESOT).

SALE OF COMPANY TO EMPLOYEE SHARE OWNERSHIP TRUST

This alternative to the classic management buy-out enables the shareholders of a trading company to sell their shares free of CGT to a trust set up for the benefit of the employees. This has become more popular as an exit route since the lifetime limit for CGT business asset disposal relief (formerly entrepreneurs relief) was reduced from £10 million to just £1 million.

This tax break has recently been used by the owners of a number of well-known companies including Richer Sounds and Riverford Organics, and is similar to the structure in place at John Lewis.

Like business asset disposal relief, the company must be a trading company. The outgoing shareholders are only allowed limited participation in the company following the disposal of their shares. There are a number of other conditions that need to be satisfied. If you are interested in going down this route, contact us to discuss whether it would be suitable for you or your company.

COMPANY BUY BACK OF SHARES AS AN ALTERNATIVE EXIT

Another potential exit for shareholders would be for the company to buy back their shares. This would normally be taxed on the shareholder as a dividend unless certain conditions are satisfied resulting in the payment being taxed as a capital gain.

Clearly CGT treatment is preferable as the rate could be just 10% compared to up to 38.1% on dividends.

Consequently, HMRC need to be satisfied that the share buy-back benefits the company's trade, and a large cash payment may be difficult to justify if that depletes cash flow. With careful planning it may be possible to stage the buy back over a number of years, but it is recommended that you get advance clearance from HMRC to confirm capital treatment.

DIARY OF MAIN TAX EVENTS FEBRUARY / MARCH 2022

Date	What's Due
01/02	Corporation tax payment for year to 30/4/21 (unless quarterly instalments apply)
19/02	PAYE & NIC deductions, and CIS return and tax, for month to 5/02/22 (due 22/02 if you pay electronically)
28/2	Extended deadline for filing self-assessment tax return for 2020/21 without incurring late filing penalty.
01/03	Corporation tax payment for year to 31/5/21 (unless quarterly instalments apply)
19/03	PAYE & NIC deductions, and CIS return and tax, for month to 5/03/22 (due 22/03 if you pay electronically)

Please contact a member of our team if you would like to discuss any of the issues raised.