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BUSINESS NEWS

APRIL 2024

Welcome to the April edition of business news.
We hope you find our selection of financial tips and updates useful!
To discuss any of the topics in more detail, please do get in touch.

NEW £5,000 EXTRA ISA ALLOWANCE TO BOOST UK BUSINESSES

The Individual Savings Account (ISA) allowance was kept at £20,000 once again in the Budget – it hasn't changed since the 2017/18 tax year – but the Chancellor did add to the ISA stable for those who are interested in investing solely in UK companies. The UK ISA – which is also being called the 'British ISA' or 'Great British ISA' allows investors to put an extra £5,000 into an ISA that supports UK businesses.

The aim is to help boost the London Stock Exchange, according to some commentators, but whether this will be effective remains to be seen.

Jason Hollands, Managing Director of Bestinvest, the online investment service owned by wealth manager Evelyn Partners, said: "The 'British ISA' is undoubtedly a victory for the City stockbrokers and bankers who have

TOPICS

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lobbied hard for it amid a drought in IPO and deal fees and a worrying sapping of companies listed in London to New York.

“However, I am doubtful it will drive anything like the increased flows into UK equities being talked about. Proponents claim it might drive £200 billion extra cash into UK equities over five years, but it is hard to reconcile such a figure with the fact that the existing, larger ISA £20,000 allowance attracted a lesser amount into Stocks & Shares over the last five years according to data disclosed by HMRC.”

Mr Hollands added that a relatively modest number of people currently fully use their existing £20,000 allowance and a logical step for those who will be in a position to do so and also make use of the ‘British ISA’ “will be to commit less to UK equities in their main allowance to compensate”.

THE END OF THE P11D IS EXPECTED IN 2026

The P11D form which has been used to process ‘benefits-in-kind’ such as loans for season tickets and company cars will no longer be used after April 2026, as HMRC will ask businesses to deal with all these benefits through the payroll instead.

HMRC announced earlier this year that the regime for dealing with the taxation of benefits-in-kind would change as it works to simplify the tax system. HMRC plans to automate the processing of these claims through the payroll instead, which should mean these claims are processed more quickly for employees.

What changes have been decided?

Even though HMRC is planning much further ahead than has happened in the past, it still needs to produce guidance after working with industry experts. There are still some complexities that will need to be resolved before all benefits can be dealt with through the payroll. But once this is complete, it should simplify the tax affairs of 3m people and reduce the need for them to contact HMRC.

The administrative burden should also be reduced for thousands of employers, according to HMRC, as it will remove the need for 4m end-of-year returns to be submitted. The guidance “will be made available in advance of 2026,” HMRC said.

Employers will need to be ready to change their systems to deal with these changes and should keep a close eye on the employer bulletins from HMRC as they appear, and stay in close contact with their accountants so they are ready.

Let us help you

If you need any help with changing your payroll systems to get ready for the P11D changes in 2026, please get in touch and we will be happy to offer you the help and guidance you need.

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PAYROLL REMINDERS FOR APRIL

1 MINIMUM WAGE RATES INCREASE ON 6TH APRIL

It is important to remember that the minimum wage pay rates are increasing with effect from 1 April 2024. Failing to increase to the new rates can result in penalties being charged.

The new minimum wage payment rates are set out below:

	2023/24 rate	2024/25 rate
National Living Wage 21 and over (previously 23+)	£10.42	£11.44
18 to 20	£7.49	£8.60
Under 18	£5.28	£6.40
Apprentice	£5.28	£6.40
Accommodation Offset	£9.10	£9.99

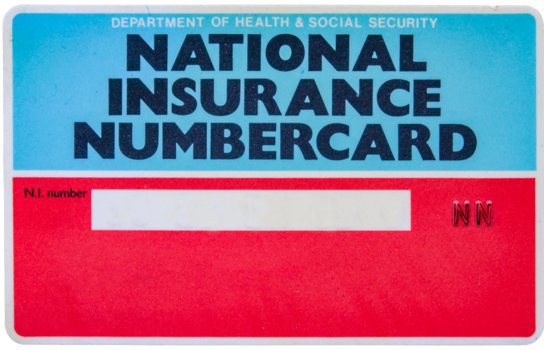
2 NATIONAL INSURANCE RATE REDUCING FROM 6 APRIL

From 6 April 2024, the 2% cut in employee national insurance contributions will come into effect. Employees will now be deducted 8%, rather than 10%, on monthly earnings between £1,048 and £4,189. A 2% deduction on earnings above this amount continues to apply. There is no change to the rate of employers' national insurance, which stays at 13.8% on monthly earnings above £758.

It is important that your payroll software is up to date so that it deducts the right amount of national insurance from your staff.

You may need to check with your payroll software provider, or you may need to update your software to make sure that the calculations will be made correctly.

If you need any help with this or any other aspect of your payroll, please call us. We will be happy to help you!



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COULD THE VAT ANNUAL ACCOUNTING SCHEME BE GOOD FOR YOUR BUSINESS?

VAT-registered businesses normally submit their VAT returns and payments to HM Revenue and Customs 4 times a year. However, HM Revenue and Customs also offer an Annual Accounting Scheme for businesses with a taxable turnover of £1.35 million or less.

How does the Annual Accounting Scheme work?

Eligibility: Businesses with an estimated taxable turnover of £1.35 million or less can usually join the scheme.

Annual VAT Return: Instead of filing quarterly VAT returns, you submit only one VAT return annually. The return covers the entire accounting period, usually 12 months.

Payments: Your business would make either nine monthly or three quarterly interim payments towards its VAT bill throughout the year. These payments are based on an estimate of what the annual VAT bill will be.

Adjustments: At the end of the accounting period, you deduct the VAT payments already made from the amount of VAT shown to be owing on the VAT return. If there's a shortfall, you pay the remaining amount. If there's been an overpayment, you can either offset the amount against the following year's liability or request a refund.

Application: You apply through HMRC. Once in the scheme you stay until such time as you voluntarily leave, or your business goes over the turnover threshold.

Why might the scheme be good for you?

Reduced administrative work: You only have to submit one VAT return annually, instead of four.

Improved cashflow management: The predictable schedule of making fixed monthly or quarterly payments, rather than fluctuating payments each quarter, can help with budgeting and financial planning.

Less chance of a penalty: With just one VAT return to submit in a year there is less chance of missing a filing deadline, which could result in a financial penalty.

Consistency in VAT reporting: If your business has relatively stable or predictable VAT liabilities, the scheme offers consistency in VAT reporting, simplifies the compliance work, and reduces the need for frequent adjustments.

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Why might you not want to use the scheme?

Potential overpayment: Under the scheme, the monthly or quarterly payments are all fixed in advance based on an estimate. If the actual VAT liability is lower than estimated, then you will be overpaying VAT throughout the year and tying up funds that could be used elsewhere.

Cash flow impact: While the scheme offers a predictable payment schedule, this may cause a strain on cash flow if you have fluctuating or seasonal sales.

Lack of flexibility: Similarly, if you have a significant increase or decrease in sales, then there is limited flexibility in adjusting VAT payments throughout the year. You may therefore find yourself with a heavy final payment or running into cash flow problems.

Loss of interest on overpayments: If you find you have an overpayment at the end of the year, no interest will be paid on the refund, whereas interest could have been gained by holding the funds elsewhere.

As you can see, whether or not the annual accounting scheme could work for you depends on your business. For some businesses, the scheme can offer significant benefits, whereas others may find that traditional quarterly VAT reporting better suits their requirements.

We can help you

Please contact us if you would like to take a further look at the VAT annual accounting scheme and we would be happy to help you!

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INTERNAL AUDIT - IS IT JUST FOR BIG BUSINESS?

In the world of small and medium sized businesses, where every decision can make or break success, the role of internal audit can often be underestimated. However, internal audit does not just have to be a luxury reserved for large corporations. It is a crucial tool that can also help small and medium sized businesses to navigate uncertainties and mitigate risks.

Here are six reasons why internal audit can be worth considering for your business.

RISK MANAGEMENT

Businesses of all sizes face risk, from financial mismanagement to inefficiencies in the way they operate. Internal audit, whether of the finances or of procedures, helps to identify risks early on. This allows you to proactively implement effective controls and procedures to mitigate them.

ADAPTING TO CHANGE

Regularly assessing processes and controls means that the business will be frequently measuring itself against changes that are occurring in the business world. This ongoing evaluation helps to ensure that your business stays agile and responsive to change.

PREVENT FRAUD

The smaller the business, the more devastating fraud can be. Internal audit plays a crucial role in detecting and preventing fraudulent activities by checking on the finances and any internal controls.

STRATEGIC DECISION-MAKING

Internal audits can contribute to providing you with reliable information/insights about the business in areas not easily seen in the day-to-day business information. This can help explain patterns in business data, or provide an insight into something that is currently hidden from business management.

IMPROVE BUSINESS PROCESSES

By conducting systematic reviews, internal auditors can pinpoint bottlenecks, streamline workflows, and enhance the operational efficiency of the business. Optimising the business can reduce costs and boost productivity, helping your business stay competitive.

INCREASE IN EMPLOYEE RESPONSIBILITY

Depending on business size, a full-time internal auditor may not be feasible, so, perhaps task an employee(s) to devote part of their working time to internal audit work. Objectively stepping back from their normal day-to-day work will make them more aware of the need to consider risks and efficiencies in all their work.

In conclusion, internal audit can be an extremely helpful tool for small and medium sized businesses looking to thrive in today's competitive marketplace. It can help you proactively manage risks, streamline processes, prevent fraud, make informed decisions, drive continuous improvement, and develop your staff. Ultimately internal audit can help you to achieve your business goals. For help on this matter, we're happy to talk it through.

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FURNISHED HOLIDAY LETTINGS TAX RULES SET TO CHANGE IN 2025

The tax regime for Furnished Holiday Lettings (FHLs) is set to be abolished from April 6, 2025, with some key tax breaks being removed by the Chancellor in the Spring Budget on March 6 in a move which could raise as much as £300m extra in tax each year. The changes will make it much harder for individuals providing holiday lets to reclaim some of the key costs associated with their letting business, and could make it more difficult to make these types of lettings profitable.

Around 127,000 properties in the UK were reported as FHLs on the 2019/2020 tax returns, but the measure is designed to encourage those offering their properties for rent as FHLs to instead offer them for long-term rent. These measures could have the desired effect, or it could result in some of those landlords affected deciding to sell up instead as it is expected the regime would bring FHLs in line with the tax treatment of long-term rental properties, but the draft legislation surrounding this change hasn't yet been announced.

Even so, experts predict the changes could make a big dent in an FHLs current profits. At present, interest on mortgages on FHL properties can be deducted from the rental income for individuals. From April 6, 2025, interest on mortgages for businesses operated by individuals could no longer be deducted if the regime is aligned with longer-term rental property. Instead, a 20% tax credit would be given against the owner's tax liability, which for higher rate taxpayers will reduce the tax relief for interest to 20%, rather than 40%.

What else will change?

FHLs owned by individuals currently enjoy a lower capital gains tax on their sale as they are classified as trading assets which are subject to business asset disposal relief when they are sold. This means that where the FHL qualifies, with gains up to the lifetime limit of £1m, they would be taxed at 10%.

From April 6, 2025, the business asset disposal relief won't be available on FHLs owned by individuals, so they will face CGT of 18% of profits in the standard rate band, or 24% for profits in the higher rate band once the property is sold.

Also, under the current regime, FHLs would qualify for CGT rollover relief if a "replacement qualifying asset" is bought with the proceeds of the sale. But this benefit will also be removed from April 6, 2025.

Are there other allowances that will be removed?

Other changes that allow the offset of running costs could also impact the profitability of FHLs. Under the current regime, any expenditure on an FHLs can get tax relief as capital allowances. This will also be removed from April 6, 2025, although there may still be a way of reclaiming the cost of replacing domestic items against profits. Landlords can claim tax relief for replacing broken furniture and other domestic items under the Replacement of Domestic Items Relief, but this doesn't apply to furnishing a property at the start, only for items that need to be replaced.

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Toby Tallon, Tax Partner at professional services and wealth management group Evelyn Partners, said: "For second homeowners who like to make extra money out of their holiday home by putting it on AirBnB while they are not using it, it will simply make this a less lucrative 'side hustle'. If that is a make-or-break issue for them and they don't want to be long-term private landlords, then we could see some of these properties being sold.

"Recent changes to other areas of tax have benefitted FHL owners, which may have influenced the Government in its decision to withdraw the benefits. FHLs qualified for capital allowances, so the full expensing change last year increased tax deductions available to owners. During the pandemic, FHLs that paid business rates became eligible for grants targeted at small businesses. The rules to qualify for business rates rather than council tax were tightened in 2023. For those registered for VAT, they were also eligible for the temporary reduced rate of VAT for hospitality businesses."

None of these changes will apply to FHLs owned through a company structure, so these properties would not be affected. We will have to wait to see the draft legislation until we know exactly what the impact of the changes will be on individuals running FHLs.

We can help you

If you own an FHL and want to find out what your options are before the rules change, then please get in touch with us and we will be happy to help you.

HOW SHOULD YOU RESPOND TO A CYBER INCIDENT

The National Cyber Security Centre (NCSC) has recently published a guide for CEOs (and by extension all business owners) on responding to a cyber incident.

A cyber incident can occur in various forms and often result in financial loss, reputational damage, legal consequences, and disruption to your normal business operations. Examples can include ransomware attacks, phishing scams, data breaches, or perhaps an employee misusing, intentionally or otherwise, their access.

The immediate aftermath of a cyberattack can be challenging, and there will be difficult decisions to make as you try to limit the impact on your business, customers and staff over the following weeks and months.

The guide published by NCSC helps businesses to know what to do, both at the start of an incident and throughout it.

A copy of the guidance can be viewed here: https://www.ncsc.gov.uk/guidance/ceos-responding-cyber-incidents

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THE ESSENCE OF A GOOD BUSINESS STRATEGY IS CHOOSING WHAT NOT TO DO.

Resource allocation is a fundamental consideration in any business strategy. Businesses operate within finite constraints, such as time, finances, or human resources. Choosing what not to do enables a more focused allocation of resources towards activities that align with the overarching goals of the business. This distribution amplifies the impact of strategic initiatives and ensures optimal utilisation of limited resources.

A clear strategy will help to ensure the effectiveness of decision-making processes. When businesses commit to their strategy, they can make informed choices that reinforce their competitive advantage. Deciding what not to pursue helps in avoiding dilution of efforts and prevents the scattering of resources across unrelated or unnecessary activities, ensuring a streamlined and coherent strategic approach.

Risk management is another key consideration where choosing what not to do can influence the success of the firm's strategy. The temptation to chase every opportunity may lead to overextension and increased vulnerability. A prudent strategy involves assessing potential risks and consciously avoiding activities that could amount to nothing more than a distraction for the management team.

The essence of a good business strategy also lies in maintaining clarity of purpose. By defining what the business stands for and its unique value proposition, companies can carve out a distinct identity in the market. Choosing what not to do helps in avoiding activities that deviate from this core identity, preserving brand integrity and customer trust.

A good business strategy typically involves setting a clear and simple goal or vision. Although the strategy itself may be easy to articulate, actually implementing the behaviours and activities necessary to deliver it requires the deployment of the firm's resources in a focused and consistent manner. Choosing what not to do is therefore of great importance in order to ensure the success of any business strategy.

Thank you for reading!

We hope you have enjoyed this month's business newsletter.
If you wish to discuss any issues further, please don't hesitate to get in touch!

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