

# TAX BRIEFING

SPRING 2022



SPECIALIST TAX CONSULTANCY AND PROVIDER OF CORPORATE STRUCTURING SERVICES FOR INDIVIDUALS, FAMILIES AND PRIVATE COMPANIES

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## MTD FOR VAT IS COMPULSORY

For VAT periods starting on and after 1 April 2022 all VAT records must be recorded digitally and returns must be submitted under the Making Tax Digital (MTD) regime.

If you are not already submitting your VAT returns using MTD-enabled software you need to take action.

Review how you record your VAT transactions - using a spreadsheet is acceptable under MTD. However, you will need software to transmit the VAT return data to HMRC without retyping or copying and pasting the figures. There is plenty of choice in the market, from cloud-based systems to relatively simple bridging software that will connect to spreadsheets.

The next stage is to sign-up for MTD with HMRC. Although you are already VAT registered there is a separate mechanism to get into the MTD system.

If you pay your VAT by direct debit you must leave five days after the due date for your last VAT return

**If you are not already submitting your VAT returns using MTD-enabled software you need to take action**

before signing up for MTD. But do not delay after this as you need to be in the MTD system at least seven days before your first MTD VAT return is due.

Do not assume that you can ignore MTD; HMRC can impose nasty penalties if you refuse to comply, such as £400 for failing to submit the VAT return in the correct format.

If your turnover is relatively low and you do not expect it to increase, it would be sensible for you to deregister to avoid the MTD regime.

Sole traders will also have to file quarterly and annual income tax reports using MTD software from 6 April 2024 and most partnerships will join the MTD regime from 2025.

## NEW MTD FILING PENALTIES

Filing VAT returns using making tax digital (MTD)-compatible software will be compulsory for all VAT registered traders for periods beginning on or after 1 April 2022 unless HMRC agrees that the taxpayer is exempt.

To encourage taxpayers to file their MTD reports on time the Government is introducing a new system of points-based penalties for late filing.

One point is awarded for each late filing. When you reach a certain points threshold a £200 penalty will be imposed. The threshold depends on the submission frequency of the return:

Submission frequency	Penalty threshold	Period of compliance
Annual	2 points	24 months
Quarterly	4 points	12 months
Monthly	5 points	6 months

For quarterly returns the fourth point triggers the £200 penalty. Every late submission after that penalty is imposed will trigger another £200 penalty but additional penalties will not add further points to the points slate.



Each point will expire after two years starting from the month after the month in which the late filing occurred.

The points slate can only be wiped clean if the taxpayer achieves both:

- zero late submissions for a period of compliance (see table); and
- all returns for the previous 24 months have been filed, even if filed late.

Appeals can be lodged against all points and penalties levied by HMRC.

## DECLARE YOUR COVID-19 GRANTS

**T**he Covid-19 support grants (CJRS, SEISS and Eat Out to Help Out) are taxable and should be declared on your business' tax return.

For corporation tax (CT) you must report amounts received in the accounting period covered by the return, not grants claimed for the period and paid in a later period.

The first CJRS grants were paid in April 2020 but the CT return forms were not amended to include special boxes to report those grants until September 2021. If your CT return was submitted before the new version of the form was released the grant figures will not be easy to spot.

If HMRC cannot match the reported CJRS grant on the CT return to the amount paid to the company it will write to request an explanation.

If you receive such a letter please talk to us as soon as possible. It is important to take the letter seriously and reply within 30 days, as failure to do so may trigger a formal tax enquiry into your business.

We will either amend the CT return to include any omitted Covid-19 grant income or confirm to HMRC that all grant income has been included within reported income.

## TAX ON PPI INTEREST

Do you remember those annoying 'claim back your PPI' adverts? Thousands of people received repayments, which included interest calculated at 8% on the PPI premiums refunded.

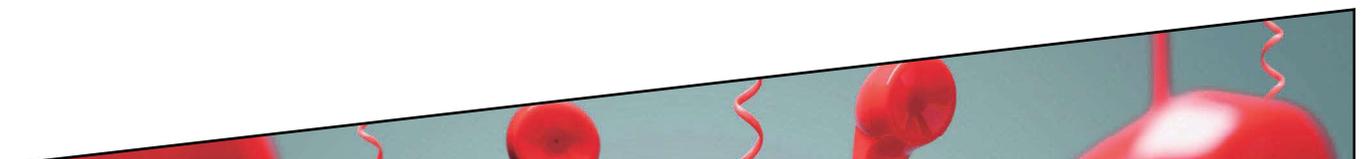
Where the PPI settlement was paid after September 2013 the bank or insurance company should have deducted tax at 20% from the interest element. This was correct but if the interest received is covered by the taxpayer's savings allowance of £1,000 or £500 that tax can be reclaimed.

This is turning into another potential scam as 'tax refund companies' are persuading taxpayers to submit refund claims for the tax deducted and some keep a large slice of the refund. HMRC is also getting overwhelmed with claims.

If you received a PPI settlement, the interest element and tax deducted should have been declared on your self assessment tax return for the year in which you received the money. We can help you amend your earlier tax

return to declare any PPI interest and claim a tax refund.

If you are not within the self assessment system you need to claim the tax refund on a form R40. This can be done online by signing in through Government Gateway or by post, but an online claim will be processed quicker. Do not under any circumstances let anyone else use your Government Gateway credentials to claim a tax refund on your behalf.





## BENEFITS OF ELECTRIC VEHICLE

The fuel crisis last September has encouraged many people to consider buying an electric car.

Drivers of company-owned electric vehicles will find it particularly rewarding as the taxable benefit for using an electric company car is currently just 1% of its list price and there is zero taxable benefit for using an electric company van.

The taxable benefit for electric cars is due to double from 1% to 2% of list price on 6 April 2022 but then it will be frozen at that level until at least 6 April 2025.

If the company pays for the electricity to power the vehicle, either through a charging point at work or by providing a payment card for the employee to use at public charging points, there is no taxable benefit for the use of that electricity. Where the employee charges a company vehicle at home

they can claim 5p per mile for business journeys driven from 1 December 2021 (previously 4p per mile).

If your electric car is in your own name you can still claim the standard 45p per mile for business journeys (up to 10,000 miles per year) and you will have zero road tax (VED) to pay.

Where your company has the cash available to buy an electric car it can get a 100% deduction for the cost in the year of purchase with electric vans currently qualifying for a 130% deduction.

There are also government grants of £2,500 available for the cheaper electric cars and for installing charging points.

## ADVISORY FUEL RATES

The price of road fuel has increased significantly in the last few months and HMRC has responded by raising all the advisory fuel mileage rates for company cars from 1 December 2021.

If you pay for the fuel in your company car your employer can reimburse you for the cost of business journeys in that car at the following mileage rates tax free:

Engine size	Up to 1400cc	1400- 2000cc	Over 2000cc
Petrol	13 p	15P	22p
LPG	8p (9p*)	10p	15p
Diesel	11p	13p	16p
Electric	5p	5p	5p

\*The LPG mileage rate for the smallest cars was reduced from 1 March 2022.

As diesel engines tend to be bigger, the division between rates is set at 1600cc rather than 1400cc.

## CRYPTOASSETS ARE TAXABLE

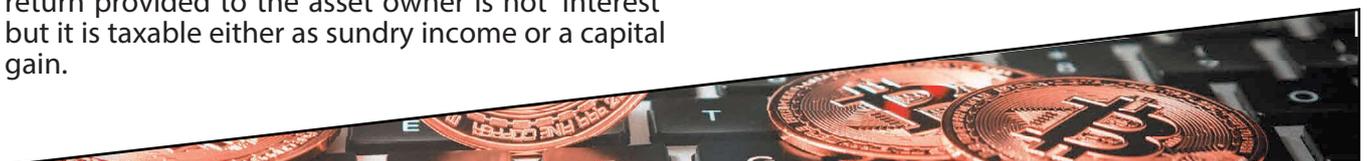
In uncertain times people instinctively look for alternative ways to invest and some may choose cryptoassets such as Bitcoin and non-fungible tokens.

If you decide to go digital with your investments, think about how the profit or loss you make on these assets will be taxed. HMRC does not consider cryptoassets such as Bitcoin to be a form of money or currency, so the special tax rules that apply to holding and lending money do not apply to cryptoassets.

Where cryptoassets are lent or 'staked' (lent to a platform which lends on to various borrowers) the return provided to the asset owner is not 'interest' but it is taxable either as sundry income or a capital gain.

**For every sale or exchange of cryptoassets a gain or loss must be calculated**

HMRC is unlikely to consider transactions in cryptoassets as trading, so by default the transactions are capital and any profits must be taxed as capital gains. This means that for every sale or exchange of cryptoassets a gain or loss must be calculated.





This can create serious practical problems as crypto-transactions are often automated and carried out in vast numbers over short periods. You need to extract the necessary transaction data from the digital exchanges and digital wallets you use so that each transaction can be analysed into a capital gains tax computation. We are not aware of any software

that will do this yet so this information gathering can be time consuming and expensive.

Finally, HMRC is aware of cryptoasset transactions as it receives information about customers from digital exchanges.

## VALUATION OF LET PROPERTY

**W**hen an individual dies everything they own is valued to calculate the inheritance tax (IHT) due on their estate.

These assets include the deceased's main home and any let properties they may own.

period on the lease or licence at the date of death, as a longer outstanding lease period will generate a higher discount on the vacant possession value than a shorter lease term.

All of the assets must be valued based on a deemed transfer at open market value immediately before the deceased's death. It is the condition of the assets as they existed at the date of death that is important, not the value at some later date after any pre-sale adjustments have been made.

**We can help you with the IHT forms at this difficult time, so please get in touch**

Where the property is jointly owned, only the proportion of the value attributable to the deceased should be included in the estate. It is crucial to find out whether the property is owned as joint tenants ('joint owners' in Scotland) or as tenants in common ('common ownership' in Scotland). The executors also need to know the relationship between any joint tenants as this determines the valuation method.

Where a let property has a tenant in occupation at the date of death the value of that property for IHT purposes is the tenanted value - how much the property could be sold for with the tenant in residence - not the 'with vacant possession' value. This value should also take account of the unexpired

period on the lease or licence at the date of death, as a longer outstanding lease period will generate a higher discount on the vacant possession value than a shorter lease term.

## INTEREST ON LATE PAID TAX

**A**ll late paid tax now carries interest at 3%. Where the tax has been outstanding for more than six months a 5% surcharge on the outstanding amount may also apply.

Surcharge rates of up to 15% can apply for VAT paid just one day late. If you can only pay some of your tax bills it often makes sense to prioritise the VAT but we can help you decide.

assume that the repayment would be off-set against the tax due and prevent any further interest running. Unfortunately this is not how the tax rules work. The tax repayment for 2020-21 is generally off-set against the outstanding tax, but only with effect from the final deadline for submitting the tax return: 31 January 2022 for the 2020-21 tax return.

A first step when faced with a tax bill you cannot pay should be to contact HMRC and make an arrangement to spread the bill over a number of months. This is called a Time to Pay agreement and can be done online if you owe HMRC less than £30,000. Where the debt is greater than £30,000 or you need more than a year to pay, you need to speak to an HMRC officer and provide more information. We can help you with that.

If your 2020-21 tax return was submitted earlier than 31 January 2022 we can ask that HMRC treats the effective date of the repayment off-set as the date when your tax return was logged as received by HMRC. This should remove much of the interest charged.

If you have income tax still outstanding from 2019-20 but you are due a tax repayment for 2020-21 you might





## USE YOUR BASIC RATE BAND

**P**ersonal tax rates have been held steady for a few years, so it made no difference whether you extracted funds from your company in one tax year or the next.

This is no longer the case as on 6 April 2022 the tax payable on dividends and the national insurance contributions (NIC) due on your salary will both increase by 1.25 percentage points. The basic rate band - where income tax is charged at the lowest rates - has been frozen at £50,270 until 6 April 2026 (different rates and thresholds apply in Scotland).

If you are planning to take cash out of your company it makes sense to maximise the amount which is taxed at lower rates before 6 April 2022. Currently you can extract the following amounts free of tax and NIC in 2021-22:

- £2,000 of dividends; and
- £9,568 of salary.

Further salary or bonus up to £12,570 is tax-free but it will carry NIC at 12% (13.25% from April 2022).

**We can help you work out the most tax efficient ways to extract money from your company**

Dividends above £2,000 are taxed at 7.5% if they fall within your basic rate band but from 6 April 2022 the tax will be charged on that income at 8.75%. Dividends in the higher rate band are currently taxed at 32.5% rising to 33.75% from 6 April 2022.

If you are planning significant expenditure in 2022 it may make sense to extract the funds that you need before April, if this does not push you into a higher tax band.

We can help you work out the most tax efficient ways to extract money from your company.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. No one should act on such information without seeking appropriate professional advice.