JOURNALENTRY

Summer 2022

THE CHALLENGES OF CHANGE

Welcome to the latest digital edition of Journal Entry. Our theme is the challenge of change. Although change is a constant in everyday life, the degree of change we have all encountered during the past two years goes way beyond what we would normally expect. COVID-19, Brexit, the invasion of Ukraine, rising fuel and energy costs, all of these have combined to bring about the greatest disruption we have experienced since the second World War. With so many external factors influencing how we live and the decisions we make, business owners need to be resilient to face the ongoing challenges and drive their organisations forward.

Developing robust contingency plans helps to mitigate risk. Regular management accounts deliver data-driven insights, allowing a concise understanding of an organisation's financials and performance that enables agile decision-making. Tracking key performance indicators and supply chain trends can also help predict fluctuations in the market so you can adjust your strategies accordingly while protecting your business.

Workforce engagement and empowerment helps build a positive culture within a business. This is crucial if circumstances require that staff need to adapt. If you promote a mindset that embraces change, challenges are easier to overcome.

Stakeholder engagement is also important. Building relationships with key clients and suppliers can help identify potential issues ahead of time but can also lead to further partnership activity or new business opportunities. Flexibility is key in this ever-changing landscape.

In this edition we look at practical ways that we can reduce your tax liability, boost income and mitigate rising costs. One of our tax specialists explores planning changes to income sources and the wealth team discuss the impact of inflation on asset returns.

We hope you find this edition useful. If you need advice on any aspect of contingency planning for your organisation, please get in touch with me at **acroxford@thomsoncooper.com** or by contacting the partner or advisor who normally looks after your affairs.

ANDREW CROXFORD
Senior Partner

Meet The Team Gary Stirling, Financial Planner

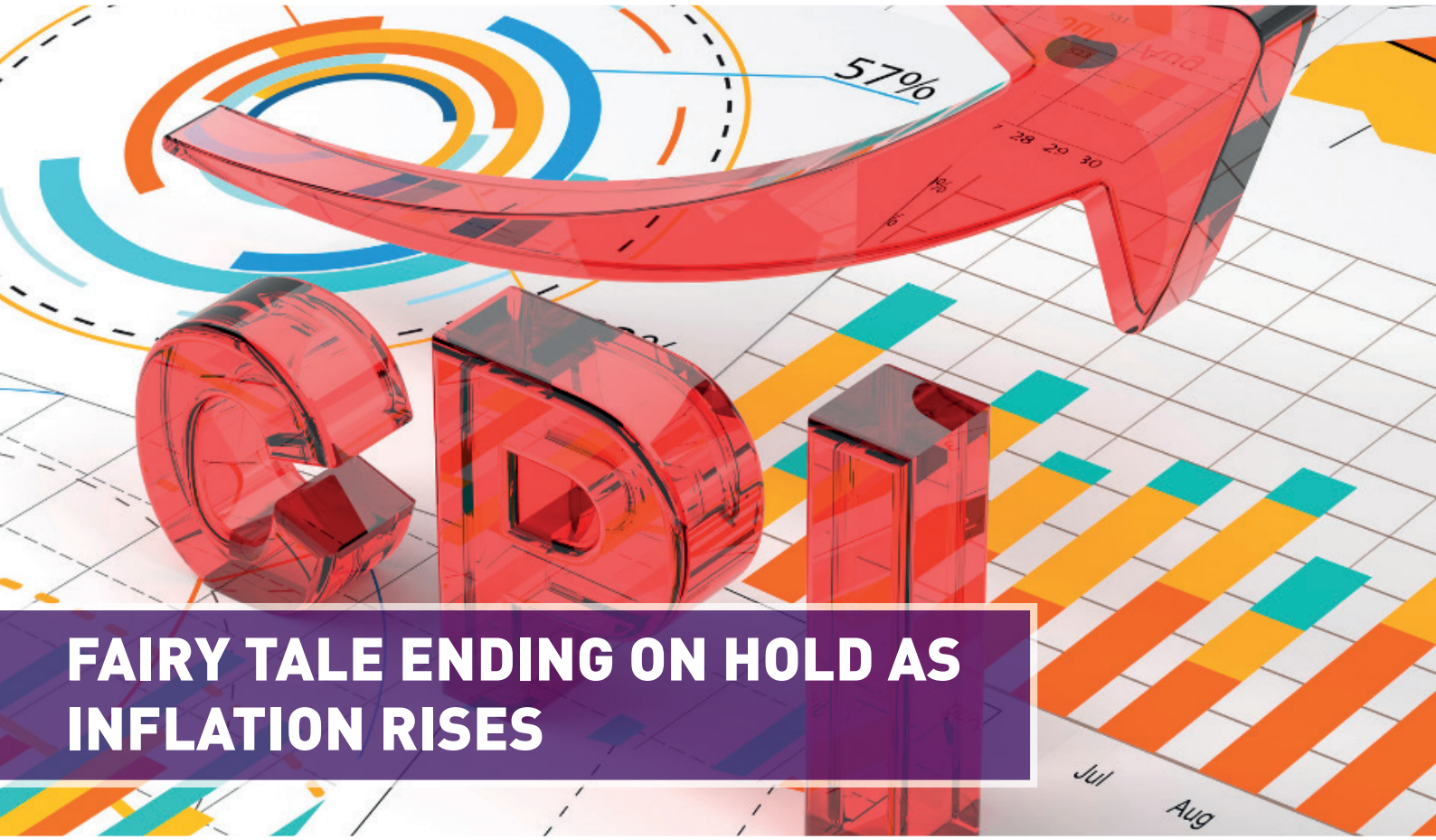
Gary joined the Thomson Cooper wealth team in March as a Financial Planner. He is a specialist in individual and corporate financial planning including wealth management, key business protection and retirement planning strategies.

Gary is a Member of the Chartered Insurance Institute and holds multiple professional qualifications including a Diploma in Financial Planning, Certificates in Mortgage Advice, Life & Pensions, Regulated Customer Care and an Award in Long Term Care Insurance. He is also currently progressing toward Chartered Status.

Joining the financial services industry in the late nineties, Gary gained valuable experience working with leading pension and investment providers. Then, as a Company Director, he ran his own independent financial advice firm for over 10 years. Laterally, he worked as a Senior Financial Planner for Condies Wealth Strategies where he advised both individual and corporate clients.

Gary looks forward to using his experience to help create viable and effective solutions for existing and prospective clients of Thomson Cooper, and to promote our services throughout Fife and Central Scotland. Please contact Gary at **gstirling@thomsoncooper.com**

GARY STIRLING
Financial Planner



FAIRY TALE ENDING ON HOLD AS INFLATION RISES

Let's face it, nobody likes it when prices go up. Over the last few months, prices have risen at the petrol pumps and the cost of our weekly shopping has increased too. Combine these with the energy price cap and subsequent price increase has led to much discussion on increased inflation. But what is inflation and how does it impact on your assets, such as cash deposits, ISAs, and pensions?

The increase in goods and services mentioned above is one way that inflation impacts us. To the economist, inflation is a persistent rise in the general level of prices in an economy over a particular period of time.

Why is it important? Well, if inflation is running too high, the economy maybe overheating and conversely, if inflation is very low (and prices are falling) then this may indicate that the economy is heading for recession. Therefore, inflation is important as it acts as the 'canary in the coal mine' for how well an economy is performing. The ideal scenario is that inflation runs neither too hot, nor too cold, which is often referred to the 'Goldilocks economy' and why the Bank of England has an inflation target.

So inflation is important to economists and policy makers alike, as increased inflation leads to a decline in purchasing power of the money in people's pocket.

How is inflation measured?

It follows that for inflation to be monitored, it must be measured. Inflation in the UK is measured using a number of indices. Most of us will be familiar with the Retail Prices Index (RPI) and the Consumer Prices Index (CPI). Historically RPI was the favoured index however since 2003, CPI is the preferred measure. The main difference between the two is that RPI includes the cost of housing (mortgages, council tax etc) whereas CPI does not. This difference led to RPI running much hotter than CPI.

CPI is measured using a basket of some 700 plus goods and services that government statisticians feel represent how a typical household spends its money. This basket is reviewed and is updated as consumer behaviour changes. For instance, in 1947 the basket included wild rabbit and household mangles whereas the latest basket includes meat-free sausages, canned pulses and antibacterial surface wipes. Dropping out of the latest basket were men's suits, doughnuts and coal.

All this data is collated and used to estimate how prices have risen over the last year.

What causes inflation?

Inflation occurs as businesses raise their prices based on the level of demand in the economy. There are various factors in play which push and pull inflation demands and expectations, which requires a whole new article!

What does it mean for my investments?

Inflation is bad news for cash savers, where persistent increases in prices erodes the real purchasing power of their savings.

For those invested in the stock market either directly or through their ISA and pensions, the companies they ultimately invest in may well outperform inflation, but this is, of course, not a certainty. Those companies that can pass on the rising costs to their customers should weather the storm better than those who are unable to do so.

What are the best assets to invest in?

Inflation-linked bonds offer a rate of interest linked to the rate of inflation. As inflation rises so does the value of the bond's value and interest payments. Property can be useful too, especially where rental income is linked to inflation. As inflation rises, investors often rush to gold which has historically been seen as a haven in times of uncertainty.

The bottom line

With inflation recorded at 7% in March 2022, investors may be tempted to rotate into inflation busting strategies. However, many commentators feel that this inflation is a temporary spike due to post pandemic supply and demand issues and the dreadful events in the Ukraine. As with all investments, there are no guarantees and holding a well-diversified portfolio for the longer term is preferable to making large inflation pressured investment calls with your money.

If you would like to discuss your investments please contact Richard Libberton at **rlibberton@thomsoncooper.com**

Happy New Payroll Year

What's new and what's not!

It is the start of the new tax year and as always there are a few updates to rates and thresholds for employers to note.

Employment Allowance

What is it?

Employment allowance is a form of tax relief available to eligible employers which can reduce employer national insurance liabilities.

Who is eligible?

Eligible employers are businesses or charities where employers' class 1 national insurance liabilities are less than £100,000 per annum.

How much and what's the change?

The employment allowance has increased this year by £1,000. Rising to **£5,000** from £4,000.

National Insurance Contributions

How much and what's the change?

The new tax year sees an increase of 1.25% for all working age employees, employers and the self-employed.

Most employees will rise from 12% to 13.25% on earnings above the primary threshold of £9,880 per annum. Employer national insurance will rise from 13.8% to 15.05% on earnings above the secondary threshold of £9,100 per annum.

National Minimum Wage

The national minimum wage has increased at all age bands and must take effect for the first pay period from 1 April 2022. The revised rates are as follows:

Category	2022/23	2022/21
Aged 23+	£9.50	£8.91
Aged 21 - 22	£9.18	£8.36
Aged 18 - 20	£6.83	£6.56
Aged under 18 (but above compulsory school leaving age	£4.81	£4.62
Apprentices aged under 19	£4.81	£4.30
Apprentices aged 19 and over, but in the first year of their apprenticeship	£4.81	£4.30

What's unchanged?

Personal Allowance The personal allowance is unchanged from tax year 2021/22 and remains at £12,570. This gives rise to a standard tax code of S1257L.

Auto Enrolment Minimum Pension Contributions The minimum pension contributions remain 3% and 5% for employers and employees respectively.

If you would like payroll assistance please contact Elaine or Gail at **ecromwell@thomsoncooper.com** or **gwilkinson@thomsoncooper.com**

IDEAS TO MITIGATE THE RISE IN CORPORATION TAX

From 1st April 2023 Corporation Tax (CT), a tax levied on company profits, will rise by almost 40% to a maximum *interim rate* of 26.5%. Only a maximum of £50,000 profits in each tax year will qualify for the Small Companies Corporation Tax rate of 19%. The Small Companies rate only applies to companies which are not "close investment holding companies", these are most commonly property investment companies and will bear tax at the mainstream rate of 25%.

The reintroduction of the "associated company" rules abolished in 2013 means that the band of profit subject to the 19% rate is reduced depending on the number of companies under common control. For example, a Mrs A operates a business through a company and makes £150,000 per annum before tax. Her spouse, Mr B, also operates a business through his own company but makes a more modest profit of £50,000 before tax. In the current tax year to 31st March 2023 the total CT payable is 19% of £200,000 or £38,000.

If both companies earned the same level of profit in the year to 31st March 2024, then the total CT bill rises by £7,500 to £45,500. If both companies are deemed "associated" then the total tax bill rises by a further £3,275 to £48,875.

For periods which straddle the rate change rises, then the profits are usually split according to the number of days in the accounting period (the "pro-rata"). For example, a company with a year-end of 30th September 2023 would have 6 months profits taxed at 19% and 6 months at the new, higher rates.

What can you do to mitigate the effect of the rise in CT?

- Amalgamate business activities. Mrs A and Mr B would save £3,275 p.a. assuming the scenario above repeats.
- If you have a straddling accounting period end date and earn most of your profits in the period to 31st March 2023 consider changing your year-end date.
- Profits from the sale of capital assets such as buildings are not subject to "pro-rata" and fall into the CT accounting period in which they are actually made. The later the sale, the more likely that the profits will be subject to the increased rates of CT.
- Time pension contributions to maximise the CT savings.
- Time plant & machinery investment to delay the relief until the post 1st April 2023 accounting period (but bear in mind the reduction in the Annual Investment Allowance (AIA) and the end of the "super-deduction" of 130%).

As you can imagine, many of these suggestions require careful consideration and planning. If you require additional information surrounding this issue please email Scott Hallesy at shallesy@thomsoncooper.com

HOW TO REDUCE YOUR TAX BILL?

If you are an employee:

- Paying into a pension scheme can save you tax. Contributions to your employer's pension scheme can be made from your gross pay before any tax is charged. If your employer has a scheme in place these could be made by way of Salary Sacrifice, saving tax and national insurance.
- What about switching to a low-emission company car? With the low rates available for an electric car, it could be time to switch and reduce your P11D benefit.

If you are the owner/shareholder of a limited company.

- If you have made a loan to the company, the company could be paying you interest? If you are a basic rate taxpayer, you can earn £1,000 of interest before paying tax or £500 if you are a higher rate taxpayer.
- Use your dividend allowance if the company is profitable and has distributable reserves. The first £2,000 of dividends are tax free, then 8.75% for basic rate taxpayers and 33.75% for higher rate taxpayers.
- Make use of the 130% super deduction for capital allowances for companies on any 'new' plant & machinery if you are considering investing in capital expenditure.

Self Employed

- If investing in capital expenditure, utilise the Annual Investment Allowance for capital allowances on eligible assets. This won't apply to cars.
- If you use a car solely for business purposes, consider going electric. You may be able to claim 100% capital allowances.
- Make sure you are utilising all the loss reliefs available. There is a temporary 3 year carry back due to Covid.

If you're an investor

- Utilise the nil rate band of £1,000 of interest if basic rate or £500 if you are a higher rate taxpayer, not forgetting the £2,000 dividend allowance.
- You also have a capital gains tax allowance of £12,300 which can be utilised each year.
- If you invest in ISA's, you don't pay capital gains tax when you sell the shares held within an ISA.

Landlords

- Rent-a-Room scheme allows you to receive up to £7,500 in rent each year from a lodger, tax-free.
- Make sure you are claiming all the expenses that you can claim against your rental income e.g. letting agency fees, factoring fees, cleaning, insurance, replacement of domestic items, etc.
- You can no longer claim the full deduction for loan interest on mortgages for let properties, but you can still claim a 20% tax credit on mortgage interest.

Charitable Donations

- If you are a higher rate taxpayer, you can claim back the difference between the higher rate and basic rate on any gift aid donations. This can be done through your self-assessment tax return. So, remember to keep a note of all gift aid donations made!

If you need advice on any of the suggestions outlined here, please email **info@thomsoncooper.com**.

Don't be an **April Fool**

It seems as though Making Tax Digital (MTD) has been around forever. April 2019 (the start date of digital filing of VAT returns) seems a lifetime ago, even more so with the disruption of the coronavirus pandemic. The MTD roadmap is well underway with Making Tax Digital Income Tax and Self-Assessment (ITSA) coming in to force for 6 April 2024, partnerships from April 2025 and corporation tax from April 2026.

However, the most recent phase of the digital journey involves VAT registered businesses. Previously, it was mandatory for VAT registered businesses above the VAT threshold to be registered for MTD and submitting returns through compliant software. From 1 April 2022, it is now mandatory that all VAT registered business are signed up for MTD and submit returns through compliant software.

You may have heard or viewed the various adverts that the likes of Sage, QuickBooks and Xero that advertise MTD complaint software, but what does that mean? Essentially MTD replaces the need to log into your HMRC online services account and "hard type" your VAT return figures for boxes 1 – 9. As a result, manual records are no longer compliant. Spreadsheets may still be ok if you use bridging solutions within software. However, in most instances processing directly on the software as opposed to submitting spreadsheets via bridging solutions will have additional benefits and efficiencies. It will also ensure that you are using compliant software for the next phase of MTD be it ITSA, partnership or corporation tax.

If you have not yet signed up for MTD VAT, do not panic, there is still time. The first VAT return that must be MTD compliant is for the first period ending from 6 April 2022. For example, if your last VAT return period ended 31 March, the first MTD compliant return will be 30 June.

If you require assistance either in signing up for MTD, sourcing complaint software or training; Thomson Cooper is here to help. We have a dedicated team of Online Accounts Specialists. Please contact Arran at **aanders@thomsoncooper.com**

April 2022
Making Tax Digital for VAT applies to all VAT-registered businesses

April 2024
Making Tax Digital for Income Tax applies to self-employed businesses and landlords with annual business or property income above £10,000

April 2026
Making Tax Digital for Corporation Tax may come into effect

5 SIMPLE STEPS TO HELP REDUCE THE COST OF LIVING

As the annual rate of inflation increased to 7% in March, mainly due to the effects of the Russian invasion of Ukraine, fuel prices and energy bills also increased. As budgets are squeezed, here are some helpful tips to reduce your costs.

1. Switch off and standby

Switching devices off instead of keeping them on standby or idle could save £40 a year. Almost all electrical appliances can be turned off at the plug without upsetting their programming or you may want to think about getting a standby saver or smart plug that allows you to turn all your appliances off in one go.

2. Turn it down

Turning down your thermostat by one degree could save £80 a year. Aim to keep it at a lower temperature around 17 degrees as that can make all the difference. Or as your Granny would say – put on a jumper!

3. Shop around

It can really pay to shop around for insurance. With a bit of research through comparison sites you could find a cheaper deal, then use that as leverage to negotiate with your current provider to get their premium down or just change if the cheaper option provides the same cover.

4. Cut your fuel costs

Having a lighter vehicle load can help contribute to saving fuel. The lighter the vehicle, the more fuel efficient it will be so make sure your boot is as empty as it can be. Tyre pressure can also affect fuel efficiency so it's important to check that regularly.

5. Track your spending

Manage your money and set a budget as this will help you understand your spending habits, monthly income and overall financial position. Households spend around £500 a year on subscriptions, so if you're not getting your money's worth – ditch them!

However, if you do find yourself struggling with problem debt, at Thomson Cooper we are always here to help. Our specialist debt advice team provides free advice to help you find the right solution to deal with personal or business debts. If you would like to discuss any personal or business debt issues, Senior Insolvency Manager, Ian Brown can be contacted at **ibrown@thomsoncooper.com**

AND FINALLY

"There is nothing permanent except change"
Heraclitus

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