JOURNALENTRY

Autumn 2022

FIGURING IT OUT

Welcome to the latest digital edition of Journal Entry. Our theme of this edition is 'Figuring it out'. It's fair to say that the last couple of months has been extremely challenging. As if Covid and Brexit weren't disruptive enough, trying to keep track of Prime Ministers, Chancellors, inflation and u-turns has felt like a full-time job. Business owners also need to keep track on how these issues impact on the figures and finances within their own business.

Cashflow and contingency

Figuring out the key data relevant to your own business is crucial. Regular management accounts provide ongoing information about an organisation's performance, allowing up to date analysis of the factors that are impacting on profitability. Scenario planning can be useful, taking into account the internal and external factors you can control, and those you can't (but may need to navigate regardless). Consider the risks and develop contingency plans to protect your business.

The need to manage cashflow during these uncertain times is paramount. We've got a good solution for that outlined later in the newsletter so keep reading.

What else is creating problems? The latest Quarterly Economic survey from British Chambers of Commerce (BCC) has reported some worrying trends, including a decline of key economic indicators and faltering confidence within the business community. What is the cause of this dip? The Scottish Chambers of Commerce report that members believe jobs are one of the key issues creating pressure on businesses.

Attracting and retaining staff

Recent figures released by the Office for National Statistics (ONS) show the unemployment rate is sitting at 3.5% which is the lowest since 1974. This is partly due to a significant level of economic inactivity (adults who are not currently working) sitting at 21.7%, with those on long-term sick absence increasing to an all-time high.

There are a staggering 29.7 million payrolled employees on record as of September 2022, yet the number of vacancies is sitting at around 1.25 million. Labour shortages are being felt across the board. Competition is fierce with employers having to increase packages to secure the best talent. Despite average regular pay growing by 5.4%, inflation continues to outstrip wage increases, putting pressure on employers and employees alike.

So how do you attract and retain staff within this environment? Employee benefits have long been used to strengthen employment packages. Naturally, the majority of these have tax implications for either employer or employee.

Traditional benefits include company vehicles and salary sacrifice opportunities for things like pension contributions and private medical insurance. Since the pandemic, hybrid working models have become popular to enable a more flexible approach to a work/ life balance. Another shift has been to increase death in service cover.

Employers are becoming more creative, providing options like discount code packages and subsidised savings clubs. Others focus on well-being and lifestyle benefits, like access to mindset coaching, holiday trading and electric bike clubs. What a company can offer will largely depend on the nature of the business, size, budget, etc. If you are new to this or want to develop your existing package, we can give advice on the tax implications. Of course, employers can only do so much. Businesses need increased action on investment in workforce training at Government level so there are enough skilled candidates to fill the growing need in our economy.

We hope you find this edition useful. If you need advice on any area covered this newsletter, 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

STOP PRESS! We are running our first large-scale in-person events post pandemic on Monday 21 November. We would be delighted to see you there. FULL DETAILS ON PAGE 2

Autumn Statement Briefing Event 2022

The recent revolving door of Prime Ministers and Chancellors, mini-budgets, back tracks and reversals have caused major disruption to the UK economy. So when the latest Chancellor Jeremy Hunt announced the Autumn Statement, which was due on 31 October, would be postponed until 17 November, the nation hoped they had dodged a Halloween horror show. Unfortunately, the rumour mill suggests that might not be the case. Will Kwarteng's tax giveaway be replaced by swathes of spending cuts?

Join us for a concise summary of the current tax situation, illustrated by clear examples. In addition, we will provide an overview of other significant changes in the tax regime that will impact both individuals and companies. **THIS IS NOT TO BE MISSED!**

Autumn Statement Briefing & Networking Lunch, Dunfermline

Monday 21 November 2022
at Carnegie Conference Centre,
Halbeath Road, Dunfermline,
KY11 8DY

11.00 – 11.30	Registration and coffee
11.30	Presentation
13.00 – 13.30	Networking lunch

Autumn Statement Briefing, Edinburgh

Monday 21 November 2022
in the Hanover Suite at InterContinental Edinburgh The George, 19-21 George Street, Edinburgh, EH2 2PB

15.30 – 16.00	Registration with coffee and biscuits
16.00 – 17.30	Presentation

The events are **FREE** to attend, offering valuable insights for your business as well as excellent networking opportunities.

To book a place for yourself and any colleagues you feel may also benefit from attending visit **www.thomsoncooper.com**, or our LinkedIn and Facebook pages or call 01383 628800. The deadline for registering is Friday 18 November.

Tax Team

We recently welcomed experienced tax professional Keith Hunter to our team. Keith's appointment reflects the increasing demand the firm has experienced for tax-related advice from individuals and business owners across Fife and the Lothians.

Keith has more than 15 years of experience in the industry, latterly as Senior Tax Manager with Johnston Carmichael, and brings specialist skills in personal and employment taxes. This follows a period as an Officer with HM Revenue & Customs where he was involved in various aspects of PAYE and Self-Assessment. Keith has been a Chartered Tax Advisor (CTA) for over 10 years.

Keith has extensive experience providing robust personal and employment tax advice to entrepreneurs, business owners, international private clients and landed estates, amongst others. He has specific knowledge in many specialist areas including remuneration structuring, transactional taxes including applicability of Business Asset Disposal Relief (BADR) and other associated reliefs, secondments to and from the UK and many other schemes and reliefs.

On joining us Keith commented, "I am excited to be working with the team to assist clients navigate the complex and constantly changing tax legislation to maximise their tax position and keep them compliant, particularly during this challenging economic climate. Thomson Cooper has a diverse portfolio so the scope of my tax knowledge will be put to good use. I look forward to meeting with new and future clients, as well as keeping in touch with my Edinburgh connections."

KEITH HUNTER

Keith can be contacted at khunter@thomsoncooper.com

BASIS PERIOD REFORM

Imminent basis period reform means that all unincorporated businesses will report on profits and losses based on the tax year (1/6 April – 31 March/5 April) instead of being taxed based on when the accounting year-end falls. While this reform comes into play in 2024, things will begin to change from April 2023.

There is no obligation for a business to change their accounting date to align with the tax year although those who continue with a different accounting period will need to apportion profits/losses and potentially need to use provisional figures in the tax return where accounts are not yet prepared, and then amend later.

By way of example, for the current tax-year (2022/23), where a business has a 31 January accounting year-end, they currently have a full 12 months from the end of the accounting period (31 January 2023) and when the profits are assessed to tax (by 31 January 2024).

In 2024/25, the members of that business (whether sole-traders or partners) will be assessed to tax on:

a) 10 months of profits for the accounting period ending 31 January 2024 (i.e. 1 April 2024 to 31 January 2025) **and**

b) 2 months of the year ended 31 January 2026 (i.e. 1 February 2025 to 31 March 2025).

As 2 sets of accounts would be required in order to file the tax return by 31 January 2026, what was previously a 12-month lag is now gone. In all likelihood, it will not be possible to meet the filing deadline with final figures and a provisional tax return will need to be filed. This presents the opportunity for HMRC to impose penalties where the final figures end up being more than the provisional ones.

To transition from the existing basis period method to the tax-year basis from 2024/25, 2023/24 will act as a transition year. Businesses with an accounting period differing from the tax-year end will be taxed on more than 12 months of profit, although this will potentially be reduced by any available overlap profits that arose upon commencement of the business. There will be a choice to tax these additional profits up-front or to spread them over the next 5 years.

There is a plethora of reasons – both commercial and practical – as to why a business chooses an accounting period that differs from the tax-year. Agricultural businesses typically choose a year-end shortly after main harvest in order to make stock provisions more effective. Many businesses appreciate the opportunity to defer tax liabilities and filing deadline to the fullest extent possible.

We would be happy to discuss the merits of changing your businesses' accounting date in readiness for the rules changes or advise on the impact of the transitional rules on your profits/liabilities in 2023/24 and the decision whether or not to elect to spread profits.

Contact Keith Hunter at
khunter@thomsoncooper.com

MAKING TAX DIGITAL FOR

Income Tax Self Assessment

Following on from our summer update about Making Tax Digital for VAT (MTD) we are now just 18 months away from the first -landing of MTD ITSA. This short article will focus on what we know about how it will work.

What is MTD ITSA?

MTD ITSA is the next phase of HMRC's road map and focuses on Income Tax Self Assessment. MTD ITSA will replace the way earnings are reported to HMRC meaning the traditional annual Self Assessment tax return will cease to exist.

Who will it effect?

The first landing of MTD ITSA will affect sole traders and landlords with a combined turnover over £10,000. This will come into effect from April 2024 but like MTD VAT it is advantageous to get your house in order before the deadline comes into effect and MTD ITSA becomes mandatory. If you don't already have MTD compliant software you want to start looking at compliant solutions and begin processing your next financial year to ensure you feel confident before ITSA becomes mandatory.

How will it work?

MTD ITSA will replace the way in which earnings are reported to HMRC but how will it work? Instead of one annual submission there will be at least six. The six submissions will consist of the following:

- 4 quarterly submissions for **each** business
- 1 annual End of Period Statement for **each** business
- 1 annual Final Declaration for the **individual**

The filing date for the quarterly submission are listed below:

Filing Period	Deadline
Quarter 1 ending 5 July	5 August
Quarter 2 ending 5 October	5 November
Quarter 3 ending 5 January	5 February
Quarter 4 ending 5 April	5 May

The End of Period Statement is essentially an individual tax return for each business. This is where accounting adjustments and reliefs can be claimed if they have not been adjusted during the year. The End of Period Statement is made up to the 5 April and is due for filling the following 31 January.

Similarly the Final Declaration consolidates all forms of income into one submission which again is due the following 31 January.

On submission of a quarterly return, the taxpayer will receive back from HMRC an estimate of their tax liability. This will be reported within the taxpayer's MTD software.

There are still a number of areas relating to MTD ITSA to be clarified by HMRC. We will update our clients as we learn more but if you would like to know more about suitable software solutions or how our specialist outsourcing department can help with your accounting admin, please get in touch.

Contact Elaine Cromwell
ecromwell@thomsoncooper.com

CASH FLOW APP **FUTRLI**

Following on from the Coronavirus pandemic, we are now in a cost-of-living crisis and business, like individuals, are increasingly wanting to see where they will be in the future in terms of cash.

Why Forecast?

Let us for a moment use a real-life example outside of the accounting train of thought. Why do we observe the weather forecast? Most likely to understand what the weather is most likely to do at some point in the future. For example, if we are due to head out for the day and noticed that there is a 60% chance of rain forecasted, we will likely a take a rain jacket on our travels or not put the washing out!

Now let's relate that back to a business context. Forecasting will allow you to make business decisions in the future based on predictions but before the events happen. Essentially cash flow forecasting allows you to estimate what your cash reserves will be at some point in the future. By using cash forecasting, strategic business decisions can be made.

That all sounds great, you want to know where you're going to be in six months. So how do you it? You don't need a crystal ball or an elaborate spreadsheet (that you need an advanced degree to operate), you need Futrli.

Futrli Predict

Futrli is a cash forecasting tool which accurately predicts future daily cash flows. It is updated on a live basis and daily cash flow forecasting is available within minutes and will continually update once set up. The app "plugs-in" to your accounting software, QuickBooks Online and Xero. Unlike some of its competitors, it is unique as it not only provides you with a cash flow forecasting tool, it also gives you projections based on your Profit and Loss and Balance Sheet accounts. Furthermore, it can incorporate the accruals concept too – meaning you can relate it back to your accounting information.

With Futrli you get 5-way forecasting:

1. **Profit and Loss cash**
2. **Profit and Loss accrual**
3. **Balance Sheet cash**
4. **Balance Sheet accrual**
5. **Cash Flow forecast**

Within Futrli you can build in scenarios such as "I need to employ another member of staff to meet current demand, can I afford this and what costs are involved?"

As with everything however, the software is only as accurate as how up to date your core accounting software is. The app costs around £30 per month and we can help you get started or add forecasts to the services we provide already.

To get started, drop me a line and I will set up a demo. Arran Anders **aanders@thomsoncooper.com**

ARRAN ANDERS

SUPER DEDUCTION

With the cost of living rising, businesses are also feeling the pinch. However, is there anything they can do to lower their tax bill?

If you are needing to invest in new equipment to make your business more efficient now maybe the time to make that all important investment due the to the availability of the 130% super deduction.

Key points to consider for eligibility for the super deduction are that:

- The assets acquired must be **new** and **unused**.
- It only applies to contracts entered into after 3 March 2021.
- It can cover capital expenditure on qualifying plant and machinery up until 31 March 2023.
- There is no upper limit on how much you can claim.
- It is only available to companies.
- There is a claw back of relief where the asset is sold prior to 31 March 2023.

For each piece of plant purchased the company will be able to obtain an extra 30% deduction from their profits.

Even if the asset does not qualify for the super deduction because it is second hand, the company will still be able to claim the Annual Investment Allowance (AIA) and claim 100% of the cost against their profits in the year of purchase.

Regarding AIA

- The AIA allows businesses to deduct the full value of the first £1 million of qualifying expenditure from its taxable profits in the year of expenditure. Writing Down Allowance (WDA) is claimed on any expenditure exceeding this amount.
- The AIA can be claimed on second hand assets.
- AIA is available to sole-traders and partnerships as well as limited companies. But it not available to mixed partnerships (where one of the partners is a corporate entity).

Qualification for the super deduction and the AIA differs, and the interaction between the two. Where both can be claimed, careful consideration is required to ensure that tax relief is maximised.

Additionally, where trading losses arise as a result of claiming the super deduction or AIA, the taxpayer may be able to carry those losses back to obtain relief and create a repayment where tax has been paid in the previous year, or for companies, pass them to other group companies. Alternatively, the losses can be carried forward and relief obtain at 25% for accounting periods after 31 March 2023 when the corporation tax rate increases to 25%.

The availability of the super deduction ends on 31 March 2023 so if you are thinking of investing in new assets please get in touch and we can advise you on the reliefs available to you.

Contact Fiona Mitchell at **fmitchell@thomsoncooper.com**

Investing in **VOLATILE TIMES**

The recent turbulent events in markets have given investors quite a fright. Against a backdrop of political uncertainty, rising inflation as a direct result of Putin's invasion of the Ukraine and increasing interest rates to combat this inflation, all have led to slower economic growth prospects and increased volatility in the markets.

Volatility for those who have stocks and shares portfolios, perhaps through ISAs and private pensions, means that their values have risen and fallen sharply and erratically over the course of the last few months. So, what does this mean for the long term and is there anything that can or should be done?

First, investors should reflect on their long-term goals and give some thought as to their original investment objective. Is this still on track or will it require revisiting? Secondly, investors should be aware that such volatility is not uncommon and downturns (and subsequent recoveries) in the market are a part of the investment journey. Events such as the Global Financial Crisis of 2008 and the Covid downturn in 2020 immediately spring to mind as examples.

There is the temptation to sell everything and move it into cash, which could be an option for those investors concerned about the value of their assets. However, one must be cognisant of such factors as emotion and herd mentality; is this anxiety driven by fear and not rational thinking and would one sell because other investors have decided to do so and thus follow the herd? There is another danger too, selling to cash would require one to 'time' the market i.e., to speculate on when is the best time to sell and consequently when to re-enter once the perceived risk has passed. This timing of the markets is notoriously difficult to achieve successfully, with risks of missing out on the best days seriously impacting performance. Also, investing in cash in a high inflation environment will seriously erode purchasing power in future years.

Instead, investors should consider the asset spread of their pensions and ISAs and ensure that they have a wide range of asset classes across several regions and sectors. This rule of 'diversification' provides a broad spread of assets, which can be a major factor in reducing volatility in portfolios. This helps ensure that the overall risk has a wider spread. Furthermore, investing in volatile times could be advantageous for those considering deploying their money into the markets as they could well participate in any subsequent recovery.

These are certainly uncertain and volatile times, but one should remember that all things come to pass, and this period of time will also come to pass. We may even see another PM before long and who knows where that will lead us!

Richard Libberton is a Chartered Financial Planner and can be contacted on **rlibberton@thomsoncooper.com**

Managing debt during the **COST-OF-LIVING CRISIS**

Trying to balance the household budget can often be difficult. And right now everyone is finding that their incomes aren't going as far as they used to, due to the rising cost of living. This uncertainty can cause feelings of worry and concern about how bills are going to be paid and debts are serviced. But there are some things you can do to help.

As a first step, it can be really helpful to create a household budget showing your income and outgoings.

This can be a bit daunting but it's an important thing to do as it will let you see how things stand and what steps you may need to take. If this feels too overwhelming then break it down by thinking of your income on one day and then moving on to the household bills the next.

Once you have calculated what is coming in and what is going out it will be easier to see where money savings can be made and if any *disposable income *(the amount you have left over after taking expenditure from income) is left over this can be used to pay towards any debts.

It's also worth checking if there are any additional benefits you are entitled to such as the £400 government vouchers towards your electricity costs if you have a pre-payment meter.

Money Saving Expert provides some excellent suggestions and tips on how to save money during the cost-of-living crisis **www.moneysavingexpert.com/tips/2022/04/06/**

For more information on completing a budget and starting to deal with your debts here is a link to our debt self-help guide: **Debt Self-Help Guide | TC Debt Solutions** which also includes a budget example.

If you find that you are still worried about problem debt please contact Ian Brown at **ibrown@thomsoncooper.com**

BOUNCE BACK LOANS IN INSOLVENCY

The Bounce Back loan scheme helped small and medium-sized businesses to borrow between £2,000 and £50,000, at a low-interest rate, guaranteed by the Government.

The loans were made on the condition that they were not to be used for personal purposes, but could be used, for example, to purchase a company asset such as a vehicle, if it would provide an economic benefit to the business.

A certain rate of default was always expected, especially given the lack of traditional credit underwriting for the scheme.

The majority of businesses who used the scheme took out the loans honestly and used them for the purpose intended. Inevitably, some people saw it as 'free money' and obtained the loans fraudulently. HMRC continues to pursue those it believes were not entitled to the loans they obtained, and the government has invested over £100m in a task force to combat fraud in the HMRC administered Covid 19 schemes, including the bounce back loan schemes.

For legitimate business owners, however, some have found that having taken out a bounce back loan to survive the pandemic, as the world gets back to 'normal', the reality is that their markets have changed, and their business is either no longer viable or there has been a significant downturn in their marketplace.

For those who have acted fraudulently The Insolvency Service and HMRC were granted new powers to tackle unfit directors who dissolve companies improperly leaving outstanding debts, including bounce back loans or tax.

The Ratings (Coronavirus) and Directors Disqualification (Dissolved Companies) Act 2021, came into force on the 15th of Dec 21, allowing retrospective investigation and action to be taken against directors who abused the company dissolution process.

The Insolvency Service has powers to investigate directors of companies that enter a form of insolvency, including administration and liquidation. They may also be instructed to investigate live companies where there is evidence of wrongdoing.

If misconduct is found, directors can face sanctions including being disqualified as a company director for up to 15 years or, in the most serious of cases, prosecution.

The Business Secretary can also apply to the court for an order to require a former director of a dissolved company, who has been disqualified, to pay compensation to creditors who have lost out due to their fraudulent behaviour.

If a director has liquidated their business properly then they have nothing to worry about. The ones we are reading about in the headlines are those who thought they could get away with it unnoticed.

For more information contact: Richard Gardiner, **rgardiner@thomsoncooper.com** Head of our Corporate Recovery and Debt Solutions department.

IR35 – GROUNDHOG DAY?

The contractor sector is currently reeling from the cancellation of the cancellation of the 2017 and 2021 off-payroll working rules. The cherry on the top is that they may be reviewed again in Jeremy Hunt's Autumn Statement on 17th November.

The first thing to say is that as of the date of publication, the personal service company (PSC) rules colloquially known as the "IR35" rules stay the same, as do the off-payroll rules. Both sets of rules are commonly referred to as the IR35 rules in any event, despite the differences between them.

The IR35 off-payroll workers' tax rules aim to prevent workers and recruitment agencies from positioning an intermediary between engagers and workers to avoid or reduce the worker's income tax and National Insurance contributions (NICs). Such workers would typically use their own PSC as the intermediary.

To prevent them doing this, the original IR35 rules required the worker's PSC

to pay income tax and NICs through the PAYE system on amounts it received for the worker's services.

The tax authorities believed that compliance with the IR35 rules was poor in its early years and so the administrative requirements of the regime have therefore been developed further, first for public sector engagers in 2017, and then for large and medium-sized private and third sector engagers in 2021.

For affected engagers, the new rules have moved the responsibility for determining if there is a deemed employment arrangement, and for the operation of PAYE to collect tax and NICs, from the worker's PSC to the engager. Since 2021, engagers have also been required to issue a "status determination statement" (SDS) for relevant engagements and operate an appeal process where necessary.

From this writer's point of view the problem with both sets of rules is that it is almost impossible for an engager or a service provider to determine accurately if the engagement they are reviewing is caught by either set of rules. The HMRC's status determination tool has been developed over the decades but more often than not provides no decision. It would be useful if we either had no rules or a very prescriptive set of rules otherwise it really will be a case of "the more things change, the more they stay the same".

Contact Scott Hallesy at **shallesy@thomsoncooper.com** if you require more information on this issue.

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