# JOURNALENTRY

**Spring** 2023

## GETTING PERSONAL

**Welcome to the latest edition of Journal Entry. Our theme of this edition is 'Getting Personal'.**

Since 2020, we've been on a challenge rollercoaster. Just when we think the worst dip is over, another twist comes thundering round the corner. It has been a white-knuckle ride for many business owners, with energy price increases proving to be the greatest threat for some so far.

With so many external factors impacting our businesses that we have little influence over, concentrating on what we can control on a personal level can be a positive process. In this edition we are focusing on individual control, being organised and making plans in all areas of our personal and business financial life.

### Auto-renew or not?

When was the last time you really looked at your spending, in particular memberships and subscriptions? When you are busy these can be overlooked and the auto-renew kicks in. Memberships and subscriptions in isolation might not have a large cost but combined could represent a meaningful sum. Are you really making the most of them? Have your needs changed and a different level or package would be more suitable? What could you do without, and not miss that much? This could be a useful exercise for personal and family items that then opens a wider review into your business-related expenditure.

### A bit on the side

The term 'side hustle' has become more widespread in recent years. And with the digital revolution, starting a micro business is a much more viable option, with social media for marketing and apps like Etsy for managing sales. Turning your hobby or passion into a money spinner could bring a real sense of satisfaction and build transferrable skills to use in the day job. Just ensure that any income generated is considered in your overall tax liability.

You could commit some time to mentoring or volunteering so that others within your local community can benefit from your knowledge, skills and experience. This can be very rewarding, especially meeting new people and knowing that you are making a difference.

### The Power of Planning

So many areas of business planning can be applied to personal planning when it comes to managing finances. Budgeting, thinking about certain scenarios (like children going to university) and factoring in some contingency funds for emergencies will help you feel better prepared. You can check out our article on pre year-end tax planning to ensure you have taken advantage of any allowances available. There are also articles on bonds and credit files that may be of interest, along with tax, outsourcing and employer updates.

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

# Steven Sim promoted to Associate

**We are delighted to announce the promotion of Steven Sim to our senior leadership team as an Associate.**

Steven qualified as a Chartered Accountant in 2013, followed by 7 years working in practice before joining the firm in 2020. Steven, originally from Dundee, specialises in delivering accountancy and taxation expertise to small and medium-sized businesses, helping them meet their regulatory requirements, and adding value to assist in their growth plans. He is based in our Edinburgh office.

Steven commented: "We have a great team at Thomson Cooper. I look forward to the challenge of supporting and developing our range of business services as well as expanding on my client-facing duties."

Outside of work, Steven enjoys spending time out on the golf course and playing football.

Senior Partner Andrew Croxford said: "I am delighted to announce Steven's promotion. Steven has proven to be a considerable addition to our team and has built strong relationships with clients during his time at the firm. Delivering career development for our team has always been a priority at Thomson Cooper. We believe that Steven will make a significant contribution to the growth of the firm, becoming an integral part of the Thomson Cooper team as we continue to develop our client base in Edinburgh."

**STEVEN SIM**
Associate

# PRE YEAR-END TAX PLANNING


**With another tax year-end approaching, and the dawn of a new one, are you and your family taking advantage of available tax planning opportunities?**

We outline below some areas of basic planning which can be reviewed before the end of the tax year to check you are maximising available allowances and reliefs.

## Income Tax

The overall income tax burden across a family can be reduced by ensuring allowances and lower rate bands are fully utilised. Spouses can, where it is possible, take steps to split their income (e.g. by transferring income-producing assets) to make more efficient use of their allowances or basic rate band, or to mitigate the High Income Child Benefit Charge.

Where a spouse does not fully utilise their personal allowance, it may be possible to transfer 10% of it to the other spouse. The income composition of each should be considered to check that a tax saving is possible this way.

In Scotland, from April 2023, the higher and top rates of tax are increased to 42% and 47% respectively. Furthermore, the threshold at which the 47% rate kicks in is reduced to £125,140 from April 2023. For those with incomes between £100,000 to £125,140 there would be an effective 63% marginal rate of tax owing to the tapering of personal allowance entitlement within this band.

Individuals may therefore wish to accelerate income or delay reliefs where beneficial.

## Capital Gains Tax

Utilising the annual allowance is the cornerstone of planning at this time of year and an opportunity to take investment profits tax free. The annual exempt amount (i.e. the amount of gains able to be realised without a tax liability arising) is £12,300 for the current tax year and reduces to £6,000 in 2023/24 then £3,000 in 2024/25. If the allowance is unused it is lost i.e. it does not roll forward.

Spouses jointly selling a residential rental property can therefore potentially save over £3.5k by accelerating a sale pre-5 April 2023.

If one spouse does not have any assets pregnant with gain in their own name, then a transfer from the other partner may be made without incurring a tax charge.

Whilst utilising the allowance is good planning there may be no inclination to be out of the market. Tax rules prevent a gain being realised where the same investment is bought back immediately, although an individual can utilise either their spouse, SIPP or ISA to stay in the market.

## Savings

The ISA allowance for 2022/23 is £20,000 and does not rollover from one year to the next if unused.

## Inheritance Tax

The annual Inheritance Tax gift exemption of £3,000 should be used before the year-end if you are considering making gifts to family or friends. You may also utilise any unused element of the 2021/22 exemption, which will be lost if not used by 5 April 2023.

In addition, it is always worthwhile ensuring your will is up-to-date and reflects your wishes. Also reviewing whether gifts from income or gifts of surplus assets would be appropriate and/or whether your investment portfolio could have more IHT friendly products.

## Pension Contributions

There is likely to be significant merit in utilising annual pension allowances, particularly for higher earners. The maximum contribution that may be made for 2022/23 without incurring an income tax charge is £40,000, although this may be restricted depending on your overall level of income.

You may be able to make additional contributions if you have not used your allowances for the previous three tax years. Contributions must be made before 5 April 2023 if tax relief is to be claimed in 2022/23.

Please get in touch if you would like to discuss any of the above or any other tax-planning queries you may have. Contact Senior Tax Manager Keith Hunter at **khunter@thomsoncooper.com**

# What happened to Bonds in 2022 and why is this important to the average private investor?

To say the events in bond and fixed interest markets during 2022 were challenging is an understatement. The backdrop was a very bleak outlook of persistent high inflation and rapidly rising interest rates, combined in the UK with a change of Prime Minister and Chancellor in very short order which in turn resulted in a loss of fiscal credibility for the Government.

For the past two decades, returns from equities (shares) and bonds have been negatively correlated; when one rises, the other falls. This has been to the benefit of those investors who have typical multi-asset portfolios, who have previously been able to achieve diversification which can reduce portfolio risks and limit losses in times of market distress. Hence the popularity of the 60/40 portfolio (60% equities and 40% bonds) asset allocation which makes up many of the balanced portfolios the average investor favours.

However, because of high inflation and rising interest rates, the price of bonds fell sharply in 2022 in addition to the market turmoil post the invasion of Ukraine. In September alone, in the 10-year gilt market we saw an effective 13.3% drop in value for what is supposed to be a safe asset. This all meant that investors with typically cautious to balanced portfolios saw their investments fall in value significantly more than in the past which was concerning as there appeared to be no real 'safe haven'. This was particularly damaging to those investors in automatic Lifestyle portfolios who saw their retirement pots reduced at exactly the wrong time.

### What is the future for bonds in 2023?

The first months of 2023 have seen markets recovering from the turmoil of last year and continued the relative calm seen in the last quarter. Lower gilt yields and tighter credit spreads have helped short-dated sterling credit to perform well, which should in turn benefit the fixed interest assets within many portfolios.

Inflationary pressures are also expected to ease over the year to more realistic levels, which in turn means that Central Banks could be less hawkish with their interest rate strategies towards the end of the year. This, in addition to some economists' belief that the UK is either going to miss a recession or it will be shallower than first thought hoped, could mean that we see a return to our fixed interest assets behaving as the balancing assets they have been in the past.

If you need help with your investments, please contact Head of Wealth Management Bruce Hendry at **bhendry@thomsoncooper.com**

The information contained within this article is for information only purposes and does not constitute financial advice or recommendations. Thomson Cooper cannot assume legal liability for any errors or omissions it might contain. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

# NATIONAL MINIMUM WAGE CHANGES FROM APRIL 2023

**The National Living Wage and the National Minimum Wage rates will increase from 1 April 2023 as follows:**

- For those aged 23 and over (National Living Wage): from £9.50 to **£10.42** an hour (note this used to apply to only those aged 25 and over)
- For 21 and 22 years olds the rate increases from £9.18 to **£10.18** an hour
- 18 to 20 year-olds: from £6.83 to **£7.49** an hour
- 16 and 17 year-olds and apprentice rate: from £4.81 to **£5.28** an hour
- The accommodation offset (i.e. the maximum amount an employer who pays NMW and who provides live-in accommodation to staff is allowed to deduct from daily pay) increases from £8.70 to **£9.10** per day.

Please note the rates apply to each and every pay period. For example, if a worker is weekly paid, they must receive at least the minimum wage for the hours worked in a week, if they are monthly paid, it must apply on average to the hours worked in that month. It is not permissible for higher earnings in one pay period to balance out earnings below the minimum wage in the next.

Please get in touch with Partner Elaine Cromwell at **ecromwell@thomsoncooper.com** if you have any queries.


**The main rate of corporation tax will increase from 19% to 25% with effect from 1 April 2023.**

This increase in the main rate of corporation tax will affect companies with annual profits in excess of £50,000. For small companies with profits of less than £50,000 they will continue to pay corporation tax at 19%. For companies with profits between £50,000 and £250,000 they will be paying a marginal rate of 26.5%. Companies with profits in excess of £250,000 will pay 25%.

For companies with an accounting period of less than 12 months these bands will be reduced on a time basis. If the company is part of a group or has associated companies these bands will be divided by the number of companies that make up that group or are associated. For example, if there are 10 companies that are associated, the £250,000 will reduce to £25,000 so that when the profits exceed £25,000 in each company, they will be paying corporation tax at 25%.

With the change in rate of corporation tax, brings back the associated company rules. So, from 1 April 2023 companies will need to consider whether they are associated with another company. These rules can be complex but they will be associated if:-

- One of the two companies has control of the other.
- Both companies are under the control of the same person or persons.

Control may be defined as holding the greater part of the share capital, holding the greater part of the voting power or being entitled to the greater part of the assets on a winding up. Also, an associated company can be located anywhere in the world.

With this in mind, from April 2023 companies that were not previously associated for tax purposes, may now be associated.

This may therefore be the time for companies to review their group structure and assess whether they are associated with any other companies. It may be time to amalgamate some companies to reduce the number of companies in the group.

If your company's profits fall within the marginal rate of £50,000 to £250,000 it might well be worth considering if the company can invest in plant & machinery to bring its profits below £50,000 or could the company make employer pension contributions to reduce profits?

There are a number of planning opportunities to consider with the 1 April 2023 looming.

Please get in touch and we can advise you on any options available to you.

Contact Corporate Tax Manager Fiona Mitchell at **fmitchell@thomsoncooper.com**

## Get your books and records **in shape**

**Fed up of having a manic January just after the Christmas holidays and getting a last minute "surprise" when you see your tax bill? Then here are some top tips to avoid the same situation next year.**

In the run up to most of us breaking up for Christmas, HMRC gave us all an early Christmas present and delivered the news that MTD ITSA had been postponed. However, this shouldn't mean that we should stick our head in the sand until ITSA rears its head again in the future. This is the perfect time to get your book-keeping in shape. If you currently use online accounts software that is great. However, if you currently haven't moved over from your manual records we have a few tips that could save you a lot of time and effort.

### Capture your receipts

Fed up with having to keep small receipts and invoices for years on end? Or misplacing them when your accountant asks for them? By simply using any of the receipt capture tools that are already in your software you can quickly take a snap of the receipt and your accounts software will do the rest. The receipt is electronically tagged to the transaction which is fully compliant with HMRC, so no need to worry about keeping it now and handing in to your accountant at the end of the year.

### Connect your bank and automate

By connecting your bank to your accounting software you can keep on top of the reconciliation of transactions more frequently. Why not set up some bank rules for recurring items and save time focussing on what you want to do? By keeping on top of the reconciliation on even a weekly basis there is no need to spend weekends compiling your information together.

### Do it regularly

By keeping on top of your book-keeping on a regular basis the information will be up to date. Effectively meaning your accounts and tax return will be ready to prepare. For example, if we use a year-end in line with the tax year, the information will be readily available and give you a window of 10 months to submit and pay. By completing the tax return earlier in the year as opposed to the last minute, any tax liabilities can be forecasted and saved for – so no more nasty surprises!

If you would like to find out more about tips and tricks or online accounts in general, please get in touch with Online Accounts Specialist Arran Anders at **aanders@thomsoncooper.com**

# CREDIT FILE FAQS

### Will a Debt Arrangement Scheme (DAS), Trust Deed and Sequestration (bankruptcy) affect my credit rating?

Yes. A DAS is recorded on the DAS register and a Trust Deed/Bankruptcy is recorded on the Register of Insolvencies; both are public registers open to anyone free of charge. If you participate in any of the above debt solutions, then your details will be recorded on the relevant register. Creditors and credit reference agencies check these registers on a regular basis and will likely update your credit file to reflect the information included therein.

### Who are the main credit reference agencies?

There are 3 main credit reference agencies in the UK:

- TransUnion
- Equifax
- Experian

### What does a credit reference agency do?

Credit reference agencies collect and record information about your borrowing and financial behaviour. Lenders use this information to make a fair and responsible decision about whether or not to give credit to you.

### Can I access my credit file for free?

Yes, there's no need to pay to access your credit file. There are various credit reference agencies online that offer free credit reports.

### How long before credit reference agencies are notified?

Your credit file is normally updated within three to six months, however this can vary depending on your creditors and the credit reference agencies. Your Money Adviser/ Trustee has no influence over your credit rating as this is a matter for the credit industry.

### How long will a default be recorded for?

Defaults are recorded on your credit file and will remain there for 6 years.

### If I enter a DAS and repay my debts in full, can creditors still record a default?

Yes. Defaults are recorded when you break the terms of your original agreement with your creditor.

### Is a decree the same as a default?

No. Decrees are the Scottish equivalent to money judgments known as county court judgments (or CCJs) in England and Wales. Details of Scottish decrees are supplied by the sheriff courts to The Registry Trust.

Decrees are only removed from the Register if they are recalled by the court, entered in error or paid in full within one calendar month of the date of decree. The Registry Trust notify credit reference agencies of all decrees, recalls and dismissals on a regular basis and the credit reference agencies update your credit file accordingly. Decrees/ CCJs will remain on your credit file for six years from the original judgment date.

### What happens if a creditor does not record a default at the beginning of my debt solution?

If you disagree with the information held on your credit file, you can write to credit reference agencies and ask for it to be changed. However, we would recommend that you contact the creditor in the first instance to try and resolve the issue. If the query is not resolved by the creditor or the credit reference agencies, you have the right to escalate it to the Financial Ombudsman Service.

You can also add extra information about your situation to your credit file. This is called a notice of correction and may help you if you apply for credit in the future.

### How long after completion will my credit file be updated?

It is unlikely that your credit file will be immediately updated on completion of your debt solution and, unfortunately, there is no way to speed up this process. Creditors will be notified on completion of a DAS, Trust Deed or Sequestration.

Details of a Trust Deed or Bankruptcy should be removed after 6 years.

If you require more information, visit www.tcdebtsolutions.com or email Senior Insolvency Manager Ian Brown at **ibrown@thomsoncooper.com**

## AND FINALLY


> "To improve is to change; to be perfect is to change often" Churchill



**THOMSON COOPER ACCOUNTANTS**

3 Castle Court | Carnegie Campus | Dunfermline | KY11 8PB
**T: 01383 628800 E: info@thomsoncooper.com**

22 Stafford Street | Edinburgh | EH3 7BD
**T: 0131 226 2233 E: info@thomsoncooper.com**

**GET IN TOUCH**

LIKE US

TWEET US

FOLLOW US

**www.thomsoncooper.com**