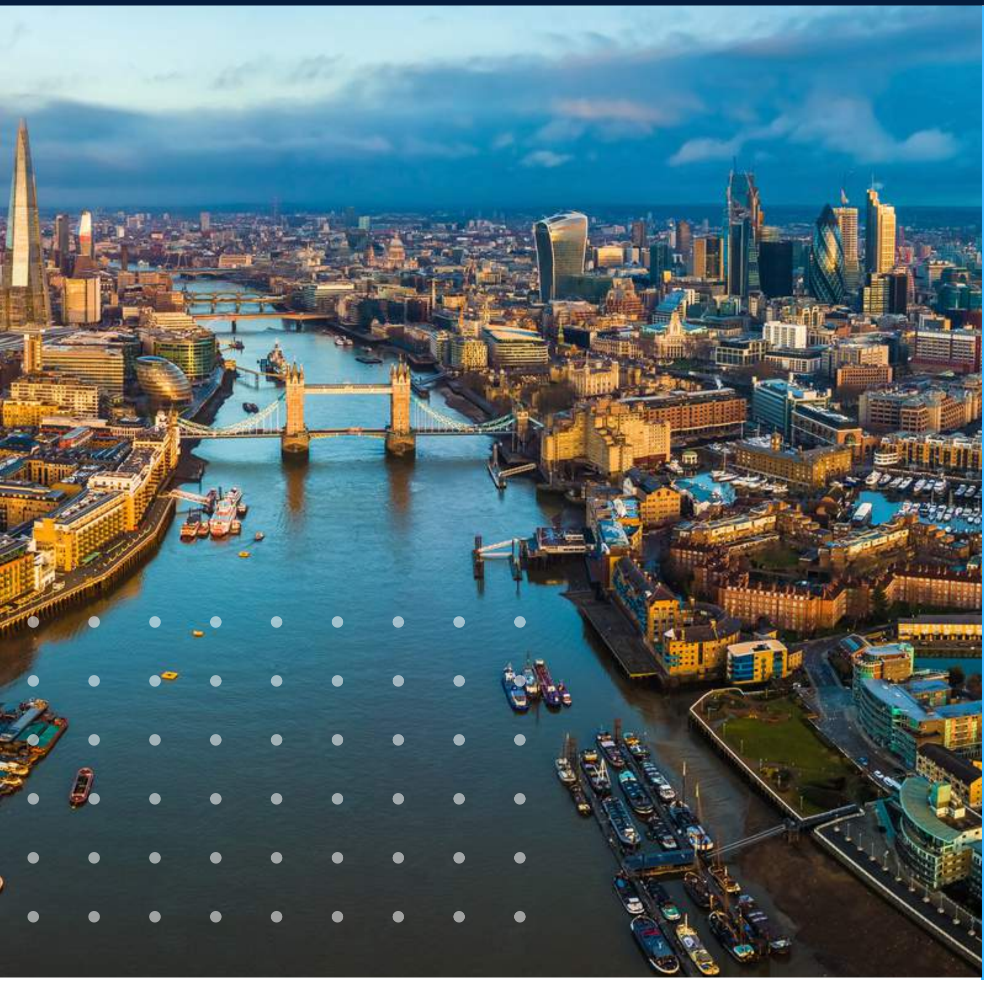
RPG CROUCH CHAPMAN

Real-Time

Summer 2023



In this issue

Are you still tax efficient in 2023?

Your tax strategy will only stay robust if you keep it up to date and this is especially true if your personal circumstances change. However, even if everything else in your life is constant, tax legislation is always evolving, and 2023 is no exception. You'll need to examine your tax affairs regularly to ensure that you are tax efficient.

We asked our tax team to set out what we can all do to improve our tax efficiency.

Make use of your personal tax allowance
Most individuals in the UK don't need to pay income tax on the first £12,570 they earn each year. This is called a personal allowance. Higher earners, however, lose £1 of this allowance for every £2 they make over £100,000, with additional rate taxpayers earning above £125,140 losing their personal allowance altogether.

If you make more than £100,000 annually, you may be able to reclaim your personal allowance by paying further into your pension pot. This allows you to hit two birds with one stone: helping you save up for retirement while you reduce your income tax liability. In some cases, effective tax relief of 60% can be secured this way.

Claim marriage allowance
If you're married or in a civil partnership and earn less than your partner, you may be able to use marriage allowance to reduce your partner's tax bill.

Marriage allowance lets you transfer £1,260 of your personal allowance to your spouse or civil partner. To benefit from this tax break, the lower earner must usually make less than £12,570 a year, while the higher earner's total income should be no more than £50,271 a year.

Claiming marriage allowance could save you up to £252 as a couple each tax year. It may even be possible to backdate your claims by up to three years.

Use your personal savings allowance
Many individuals in the UK can receive some interest from their savings entirely tax-free. If you don't exceed the personal allowance threshold or pay the basic rate of tax, you won't need to pay tax on the first £1,000 you make from savings interest.

This falls to £500 for higher-rate taxpayers, while additional-rate taxpayers must pay tax on all interest on savings.

Take advantage of your annual ISA allowance
You usually pay no tax on interest earned from Individual Savings Accounts (ISAs). All individuals have an ISA allowance of £20,000 a year, regardless of earnings, making this a tax-efficient way to reduce your personal tax bill.

There are four main types of ISAs in the UK:
- cash ISAs
- stocks and shares ISAs
- innovative finance ISAs
- lifetime ISAs

If you're considering switching ISAs or opening a new one, we'd recommend speaking to an independent financial adviser.

Think about your estate plan
It's never too early to think about your estate plan. A good inheritance tax strategy can protect your family's financial future and give you more control over your assets after you're gone. Actions you can take to reduce your inheritance tax liability may include:
- distributing your assets during your lifetime
- setting up a trust
- donating to charity
- transferring your basic tax-free allowance to your surviving spouse.

Inheritance tax law can be complicated, so we'd recommend working with a professional to help you navigate the tax system. We always recommend that you seek specialist tax advice because nobody wants to overpay their tax bill — but, at the same time, you need to stay compliant.

If you are wondering whether your affairs are still tax-efficient, contact us today for a review.

Letting a room in your home Rent-a-Room Scheme)

Have you considered letting a room in your home? Do you like the idea of letting a room and the additional income but worry about the tax implications? Are you unsure of the tax exemptions that might or might not be available to you?

We asked our tax team to take a look at the tax implications of letting out a room in your home, and the tax breaks that might, or might not be available.

If you have one or more spare rooms in your home, you may consider renting them out to generate additional income. If you let a furnished room in your home, you can take advantage of the rent-a-room scheme to earn up to £7,500 tax-free each year. The rent-a-room scheme does not apply where a room is let unfurnished, although, you can benefit from the £1,000 property income allowance if let unfurnished.

Key dates
If your rental income from letting furnished rooms in your own home exceeds £7,500 and you want to use the scheme to calculate your taxable profit, you will need to elect to do so no later than the first anniversary of 31 January following the end of the tax year to which the election relates (i.e. by 31 January 2026 for 2023/24).

Rent-a-room scheme
The rent-a-room scheme can be used by individuals who let out one or more furnished rooms in their own home.

Under the HMRC scheme, if the gross rental income that you receive from letting furnished accommodation in your own home is less than the rent-a-room limit, you can enjoy that income tax free and you do not need to tell HMRC about it. The exemption applies automatically and does not need to be claimed.

The rent-a-room limit is set at £7,500 where one person receives the income. Where income is received by two or more people, each has a rent-a-room limit of £3,750, irrespective of how many people share the rental income.

Gross rental receipts include rental income before deducting expenses, plus any amounts received for the provision of services (such as meals, cleaning and laundry) and also any capital allowance balancing charges.

The scheme can also be used if you run a guest house or a B&B.

Rental income in excess of the rent-a-room limit
You can still benefit from the scheme if your gross rental receipts are more than your rent-a-room limit. Where this is the case, you have a choice of how you calculate your taxable profit and you can choose the method that is most beneficial to you.

Under method A your taxable profit is calculated in the usual way (i.e. total receipts less deductible expenses and any capital allowances) and you pay tax on your actual profit.

Under method B, instead of deducting your actual expenses and capital allowances, you deduct the rent-a-room limit from your gross receipts.

If your actual expenses and capital allowances are less than the rent-a-room limit of £7,500 or £3,750 (as applicable depending on whether the receipts are shared), method B will provide the best result.

However, if you wish to method B, you will need to elect to do so by the first anniversary of the 31 January following the end of the tax year to which the election relates (i.e. by 31 January 2026 for 2023/24). The election can be made in your tax return.

Expenses exceed receipts
The rent-a-room scheme is not beneficial if your expenses and capital allowances exceed your rental income as you will lose the benefit of the loss. Where this is the case, calculate the loss in the normal way so that it is available to offset against future rental profits from letting a furnished room in your home. However, to claim the loss, you will need to complete a tax return, even if your rental income is less than £7,500.

Letting a room – unfurnished
The rent-a-room scheme only applies if you let furnished rooms in your home. If you let unfurnished rooms you can instead benefit from the property allowance. This allows you to earn rental income of up to £1,000 a year tax-free. If your rental income does not exceed £1,000, you do not need to tell HMRC. If your rental income is more than £1,000, you can deduct the £1,000 allowance rather than your actual expenses and capital allowances if this results in lower taxable profit.

However, if you make a loss, it is better to calculate it in the usual way so that it is available to set against future taxable profits.

Letting a room – capital gains tax implications
Letting a furnished room under the rent-a-rooms scheme does not compromise the availability of private residence relief. However, if you let an unfurnished room, the gain attributable to the let will not qualify for private residence relief. This may not be a problem if the resulting gain is sheltered by the annual exempt amount (although this has been reduced to £6,000 for 2023/24 and is to fall to £3,000 from 2024/25). If you occupy the property with the tenant, you may be eligible for lettings relief.

If you would like to discuss the benefits of letting a room in your home and the relevant tax implications and exemptions, please contact us, a member our team is waiting to take your call.

By Richard Marsh
Email rmarsh@rpgcc.co.uk

Richard is RPGCC's Senior Partner and Head of Tax with 20 years of tax experience. Richard has an array of experience spanning the full range of Private client and owner managed business issues. Richard specialises in:

- International tax
- Expat taxation
- Tax efficient remuneration
- Capital Gains tax planning & Entrepreneurs relief
- Inheritance Tax & Trusts
- Business/Group Structures
- EIS and SEIS
- Share schemes and share valuations
- Corporate tax compliance
- Capital Allowances

Employee Share Schemes

As an employer, there are many ways you can reward and incentivise your staff, from Christmas parties to team lunches. But one of the most attractive options is an employee share scheme. Employee share schemes allow you to give some (or all) of your employees a stake in your business. Not only are share schemes a great way to show your appreciation for your team's hard work, but they also give staff a vested interest in your success.

In recent years, more and more companies have chosen to start an employee share scheme. By the end of the 2021 tax year, 16,330 companies were operating a scheme – a 6% increase from the year before.

What are employee share schemes, and why do employers offer them?
As the name suggests, an employee share scheme allows you, as director of your company, to give shares to your employees. This could include just the upper management or the whole team.

There are many reasons you may decide to start up your own scheme. Maybe you're looking to attract new staff, or retain the ones you currently have: either way, a share scheme is an effective way to motivate staff and maintain a rewarding work environment.

Not only are share schemes good for your employees, but for you as well. If you provide one through an HMRC-approved scheme, you could take advantage of some attractive tax reliefs. As your scheme will be wholly and exclusively for business purposes, you may be able to deduct any costs associated with the scheme from your corporation tax bill. You can also provide shares without incurring employers' National Insurance contributions (NICs) if you meet certain criteria.

Other advantages of an employee share scheme include the following:
- supplementing salaries if your company is relatively new or cash-flow
- aligning the interests of your employees and shareholders
- motivating your current employees by providing a shared goal.

Before you decide whether to start an employee share scheme or not, there are some disadvantages to consider:
- shares are unpredictable, and their value can fluctuate, meaning employees could become dissatisfied
- if you award too many shares, you could lose the majority shareholding
- there are admin costs when setting up your scheme and running it.

Tax incentives of employee share schemes
As mentioned, share schemes can be a tax-efficient way of rewarding your employees' hard work. Some schemes will allow you to provide shares without paying employers' NICs, while others will only incur capital gains tax (CGT) on the employee.

Even if a share scheme falls outside the scope of income tax, your employees will have to pay capital gains tax if they sell their shares. The rate of CGT they pay could be lower than their income tax rate, depending on how much said employee has earned before selling their shares.

Types of employee share scheme
As with most Government schemes, there's more than one to choose from. It's important to pick the one that will benefit you and your employees the most.

The first decision to make is whether you want to offer the share scheme to key employees or the whole team.

Employee Share schemes for key employees
While many companies will want to provide a share scheme for every employee, it's not always feasible – especially for new or smaller companies.
By offering your senior employees, such as upper management or department heads, a share scheme, you can motivate them to hit targets based on KPIs or the overall quality of their work. The main schemes for key employees are:
- the enterprise management incentive (EMI)
- the company share option plan (CSOP)
- growth shares.

Employee share schemes for all employees
If you're in a position where you can easily provide a scheme to each employee in your company, you have two main schemes to choose from. These are:

- the share incentive plan (SIP)
- the save-as-you-earn scheme (SAYE).

Only some companies will be eligible to offer certain schemes. Each scheme has certain criteria you have to meet before joining. Deciding factors include:

- number of employees
- the overall value of your company assets
- your annual profit.

How do I set up an employee share scheme?
If a share scheme sounds like a good idea for your company, there are a few steps to take before you can start handing out shares to your team.

1. Seek professional advice
Before embarking on an employee share scheme you should seek specialist professional advice. A member of our team would be happy to help. They can help you decide on which scheme would be best for you and your team taking into account current circumstances.

2. Check your eligibility
Before starting the setup process, you'll first have to check if your company or employees are eligible for your preferred scheme.

3. Design your scheme
Now that you've chosen your scheme, you next need to decide how it'll work. You'll have to decide: which employees you'll include, how many shares you're going to offer, when you'll distribute the shares, how employees will earn their shares.

4. Authorise the scheme
Even if you're the director of the company, you'll still have to gain authorisation from your existing shareholders before starting your scheme.

Remember, some shareholders may be concerned about their stake in the company and its value if you're offering your employees part of the company.

5. Register with HMRC
The final step in your employee share scheme setup will be registering your scheme with HMRC. Any new tax-advantaged scheme has to be declared by 6 July following the tax year of establishment.

You cannot register the following schemes after 6 July:

- SIPs
- SAYE
- CSOPs.

You can register your share scheme on the Government website with your Government gateway ID.

Employee share schemes give you an excellent opportunity to motivate and incentivise your team. Not only do they offer a generous benefit, but they can be a very tax-efficient way to reward your employees.

If you would like to speak to a member of our tax team regarding Employee share schemes and how you might set up a scheme to reward and incentivise your team, please contact us or telephone 020 3697 7147.

Underpaid State Pension

Could you be at risk from an underpaid State Pension?

We asked our Tax Partner, Tim Humphries to tell us more.

Between 1978 and 2010, parents who took time off work to care for their children were granted National Insurance credits to compensate for any gaps in their National Insurance record. This program was initially known as Home Responsibilities Protection (HRP), enabling parents to accumulate entitlement to the state pension even without active employment.

This system was replaced from 6 April 2010 so that now National Insurance Credits are awarded based on a claim for child benefit.

Currently, the full state pension is only paid out to individuals with a minimum of 35 years of complete National Insurance contributions. Those with less than 35 qualifying years (or NI credits) will not receive the full amount.

So, could you have an underpaid State Pension?

HMRC has recently announced that the current system has not accurately recorded HRP credits for some mothers. Consequently, women who took time off work to raise their children have been underpaid their state pension throughout their retirement in certain cases.

To address this issue, the Department of Work and Pensions (DWP) is collaborating with HM Revenue & Customs to assess the extent of the problem and determine the amount wrongfully denied to affected individuals.

If you were entitled to HRP between 1978 and 2010, it is strongly advised that you review your National Insurance record to ensure that you received the correct NI credits you were entitled to. You can perform this check yourself by visiting the GOV.UK website: https://www.gov.uk/check-national-insurance-record.

If you would like to speak to a member of our Private Client Tax Team regarding National Insurance, self-assessment or any area of private client tax, you can contact us online or telephone us on 020 3697 7147.

By Tim Humphries
Email thumphries@rpgcc.co.uk

Tim is a Tax Partner with almost 20 years' experience in mixed tax roles. Tim specialises in Owner-Managed Businesses and international private clients.

Tim works with clients in a wide range of sectors such as property, technology, professional services as well as private clients. Tim's niche areas of expertise are:

- Tax due diligence
- Structuring and restructuring
- Expert witness in litigation and criminal proceedings
- International corporate structuring advice (setting up UK subsidiaries of overseas/US parent company)
- Advice to individuals coming to the UK on how to structure their affairs.

3 Things all successful small businesses should do

The world of business is ever-changing, and in order to succeed, you need to be able to adapt to changes. But what 3 things should successful small businesses do and how?

There are a few key things that every business owner should focus on to get the results they want. Let's delve into those and see how they can help your business thrive.

Stay organised
Successful business owners wear many hats, meaning they have to balance a lot of tasks at the same time. But without planning and organisation, how do you know that you're prioritising correctly? How can you be certain you haven't let something fall through the cracks?

Organisation is great for a number of reasons.
First, it saves time. If your business isn't properly organised, tasks can pile up, paperwork gets lost and you waste valuable time on finding information that should be readily available.

That's especially damaging if the paperwork in question is receipts, expenses and invoices, as it's easy to miss out on an allowable expense you could have used to lower your tax bill if you don't have the evidence to back up your claim.

Meanwhile, without a system that monitors your cashflow, it's easy to miss unnecessary repeated expenses that drain your finances. And if you don't have a proper invoice system, how can you expect to get paid on time for your hard work?

But a lack of organisation is worse than all that, as it can affect your customers, too. For example, a poor billing system can result in your clients being overcharged, which could cause them to choose a competitor next time.

What can you do to get better at organisation?
Before you write up yet another to-do-list or stick another post-it note above your monitor, consider investing in accounting software to help with your financial management; whilst project tracking software is great for your core tasks.

Alternatively, consider hiring an accountant and bookkeeper to help you with your financial management. Then, you can pour all your time into organising the rest of your business.

Understand the competition
To succeed in business you need to understand your competition. This means researching their products, services and pricing strategies. By understanding your competition, you can identify gaps in the market and find ways to differentiate yourself from them.

Generally speaking, there are three options you can choose to differentiate your business from the competition:
- offer an equivalent service or product for lower price
- offer a better product or service for the same price
- offer a seriously better service or product for a premium price.

Don't forget about marketing, which can help make a business unique by creating a distinctive brand identity that sets it apart from its competitors.

The basics of marketing include:
- identifying and communicating what makes your business unique to help customers understand why they should choose you
- creating a brand personality — tone of voice, visual style, etc — that helps make your business stand out
- building a marketing strategy to make the audience aware of the brand — this could include everything from email campaigns to blogging and attending industry events.

Be creative
Creativity is essential in business, especially in today’s fast-changing business landscape.

First, creativity is an important quality you need if you want to differentiate yourself from your competitors. After all, only unique products, services and marketing campaigns can capture the attention of your target audience. Therefore, you need to be able to explore new ideas and think outside the box to stay ahead of the curve.

Meanwhile, you’ll constantly come up against challenges in business, many of which you won’t have experienced before. Therefore, you need to be a good problem-solver, which a healthy dose of creativity will help with.

Then there’s dealing with your customers, which creativity can also help with, as it can help you engage with people in new and exciting ways. By creating unique and memorable experiences, you can then build stronger relationships with customers and generate more loyalty over time.

If you are looking for business advice that can help you take your business to the next level, we are happy to help.

By Wes Mason
Email wmason@rpgcc.co.uk

Wes is a Partner in our Business Services Department. Wes is regularly involved in all aspects of advising owner-managed businesses with a particular emphasis on structuring and holistic tax planning.

Wes' portfolio covers a variety of industry sectors including property investment and development, online businesses and financial traders.

Please contact Wes if you would like to discuss:
- Business structuring and restructuring
- Property investment
- Personal tax planning and compliance
- Corporate tax planning and compliance
- Tax efficient remuneration
- EIS, SEIS and VCT’s

Property investment portfolios and VAT

Managing a mixed-use property portfolio can be a rewarding venture, offering both residential and commercial opportunities. However, navigating the complexities of such portfolios, particularly when it comes to Value Added Tax (VAT) obligations, requires careful planning and attention to deadlines.

We asked our VAT Partner, Kelly Eland to look at mixed-use property portfolios, the implications of VAT on these investments, and the importance of meeting the 7 August deadline for the 30 June 2023 period.

Understanding a mixed-Use property portfolio
A mixed-use property portfolio comprises properties that combine both residential and commercial elements. These portfolios offer diversification, as they can generate income from various sources, such as rental units, retail spaces, offices, or leisure facilities. The combination of residential and commercial aspects adds versatility to the portfolio, making it an attractive option for investors seeking multiple revenue streams.

VAT in a mixed-use property portfolio
Value Added Tax is a consumption tax imposed on the value added at each stage of production and distribution. In the context of mixed-use property portfolios, VAT obligations arise when renting out commercial spaces or providing services subject to VAT. Residential properties, on the other hand, are typically exempt from VAT unless there are specific circumstances, such as furnished holiday lettings.

VAT obligations can significantly impact the financial aspects of managing a mixed-use property portfolio. Failure to comply with VAT regulations can result in penalties, interest charges, and potential damage to your reputation as an investor. Therefore, it is crucial to understand and meet the applicable VAT deadlines.

The importance of the August 7 deadline for the 30 June 2023 period
In many jurisdictions, including the United Kingdom, VAT returns are submitted periodically. The deadline for submitting VAT returns for the 30 June 2023 period is 7 August 2023. Failing to meet this deadline can have serious consequences, including financial penalties and potential scrutiny from tax authorities.

To ensure compliance, consider the following actions:

1. Record Keeping: Maintain accurate and up-to-date records of all income and expenditure related to your mixed-use property portfolio. This includes rental income, expenses, and VAT payments.

2. VAT Returns: Complete and submit your VAT return for the relevant period by the August 7 deadline. Ensure that all VAT calculations are accurate, taking into account any applicable exemptions or reduced rates. If you are making both standard-rated and exempt supplies, you may also need to consider partial exemption. This is a method of apportioning VAT on costs incurred to taxable and exempt supplies and calculates how much overhead VAT you are entitled to recover (unless your exempt input VAT is de minimis (under £1,875 a quarter) you will not be able to recover all VAT incurred on costs).

3. Seek Professional Advice: Given the complexities of VAT regulations, it is advisable to consult with a qualified accountant or tax adviser. They can provide guidance on VAT obligations specific to your mixed-use property portfolio, ensuring compliance and minimizing the risk of errors.

4. VAT Planning: Proactive VAT planning can help optimize your portfolio’s financial position. Consider seeking expert advice to identify opportunities for VAT reclaims, potential exemptions, and other strategies to minimize VAT liabilities.

Managing a mixed-use property portfolio presents a unique set of challenges, particularly when it comes to VAT obligations. Understanding the implications of VAT and meeting the applicable deadlines is essential to ensure compliance and maximise the benefits of your investments.

Managing a mixed-use property portfolio presents a unique set of challenges, particularly when it comes to VAT obligations. Understanding the implications of VAT and meeting the applicable deadlines is essential to ensure compliance and maximise the benefits of your investments.

By maintaining accurate records, seeking professional advice, and submitting VAT returns by the 7 August deadline for the 30 June 2023 period, you can navigate the complexities of VAT regulations with confidence. Ultimately, adhering to these obligations will protect your investment interests and contribute to the long-term success of your mixed-use property portfolio.

If you would like help with any area of VAT, or anything mentioned in this article, please contact us on 020 3697 7147, or visit our website and contact us through webchat, where you can leave a message outside of office hours.

By Kelly Eland
Email keland@rpgcc.co.uk

Kelly is RPGCC's VAT Partner. Kelly is a VAT professional with over 20 years of experience.

Kelly has experience of working both in practice and as an in-house VAT adviser for large corporate businesses.

Kelly focuses on VAT planning and VAT advisory work and specialises in VAT exemptions and reliefs.

VAT is a complex area of tax and Kelly works with our clients to break the subject down to make it clear and easy for businesses to deal with.

A Message from the Partners at RPGCC

For many this will be the first time that you have received a newsletter such as this from us. Like many industries professional services is changing and we, like everyone else, must embrace change. As much as we wish to hang on to our past, and celebrate our legacy, we also need one foot in the future.

Today, we need to be able to interact with you, our valued clients and contacts, in short, you expect more from us than just a great service.

We hope you enjoy reading the Summer issue of Real-Time. We will share this newsletter every season, however, our digital newsletter will be sent monthly, by email, straight to your inbox. If you would like to ensure you receive this please contact our Head of Marketing Kay, on kmerryman@rpgcc.co.uk.

Have a lovely Summer, and please remember, if you need us, we are only a phone call or a click away.