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# JULY NEWSLETTER

## Combating the cost-of-living crisis

**Following the stresses caused by the COVID-19 pandemic and Russia's invasion of Ukraine, many businesses and households are under extreme pressure from rising inflation rates and soaring energy prices.**

**Here, we take a look at the measures put in place by the government to help companies and families cope with the cost-of-living crisis.**

### Rising inflation

The UK has experienced the highest level of inflation in 40 years in the past few months, with the Consumer Prices Index (CPI) rising by 9.1% in the 12 months to May 2022. Data published by the Office for National Statistics (ONS) showed hikes in prices for everyday food and non-alcoholic drinks during May. Economists expect the rate to stay within the 9%-10% range in the coming months before leaping again in October when the next adjustment to the energy price cap is implemented.

Rising inflation levels, combined with other factors, helped the cost of living skyrocket for many households in the UK.

### Measures for businesses

**Windfall tax**

Chancellor Rishi Sunak announced that a 25% Energy Profits Levy will be introduced for oil and gas companies in response to the 'extraordinary profits' they have made as a result of the cost of energy crisis. The Levy will increase the headline rate of tax on oil and gas companies' profits from 40% to 65%.

The Energy Profits Levy will apply to profits arising on or after 26 May 2022: companies with accounting periods that straddle this date will need to apportion their profits.

Confirming that the new Levy is temporary, the government said that it will be phased out once oil and gas prices 'return to historically more normal levels'. A sunset clause applies to the Levy, which will remove the tax after 31 December 2025.

Additionally, the Levy includes a new 80% investment allowance in order to incentivise investment. The allowance means that companies will receive a 91p tax saving for every £1 they invest, which the government hopes will provide an incentive to invest.

The Energy Profits Levy does not apply to the electricity generation sector. However, the government stressed that it is consulting with the power generation sector to 'drive forward energy market reforms and ensure that the price paid for electricity is more reflective of the costs of production'.

The government expects to raise around £5 billion from the tax in the first year, which it stated will go towards easing the burden on families in the UK.

### Measures for households

The Chancellor also announced a £15 billion package of support for UK households, made available from 26 May 2022. The Energy Bills Support Scheme, which was set to provide eligible households with a one-off £200 loan to help families with soaring energy bills, will see the support double to £400 and be given as a grant.

Government publications state that energy suppliers will deliver the grant to households with a domestic electricity meter over six months, starting from October. Customers who pay by direct debit or credit will see the money credited to their account, and customers with pre-payment meters will see the grant applied to their meter or given as a voucher.

The government will also provide a one-off payment of £650 for households on means tested benefits. According to the government, eight million households stand to benefit.

In order to support people who require additional help, the government is also providing an extra £500 million in local support via the Household Support Fund. This fund will be extended from October 2022 to March 2023.


**Inside this issue**

# Talking about capital allowances

**What comes next for capital allowances? The enhanced Annual Investment Allowance (AIA) and super-deduction come to an end on 31 March 2023 and the government is discussing the next step, prior to the Autumn Budget.**

With the current regime less favourable than some other countries', the government has put various options on the table. They include increasing the permanent level of the AIA; increasing the rates of writing down allowances; introducing general first-year allowances for qualifying expenditure on plant and machinery; introducing an additional first-year allowance or introducing permanent full expensing.

The proposal as regards the AIA is to increase it permanently to £500,000. As you know, the AIA allows most businesses to deduct the full amount of qualifying expenditure, up to a set level, to arrive at taxable profits. It can be claimed on most plant and machinery expenditure, but not expenditure on cars.

It is worth noting that the AIA is currently due to drop back to £200,000 from 1 April 2023 and if your business has an accounting period that straddles this date, you may need to consider the impact of the transitional rules that will apply. In such cases, the timing of capital expenditure will be particularly important. To effect maximum relief, expenditure will be best incurred before 31 March 2023, and in some circumstances, a claim to the super-deduction (available only to incorporated businesses) may be preferable. If you are looking at significant capital expenditure, do please talk to us about the most tax efficient way to achieve it.

Planning is always important to get the optimal result when investing in your business. We should be delighted to guide you through any forthcoming change to the rules on capital allowances, or help you maximise the opportunities still available under the current temporary provisions.

# SPOTLIGHT ON DIVERSITY IN THE WORKPLACE

**Promoting workplace diversity and inclusion is an important factor when running a business. Creating an inclusive and welcoming environment for employees goes a long way to helping workers achieve their potential and only serves to add value to a company.**

**Here, we take a look at diversity in the workplace and consider how a business can implement an effective and successful workplace diversity strategy.**

## Defining diversity and inclusion

To understand and create a diverse workplace, we must first define the term. The Cambridge Dictionary defines 'diversity' as 'the fact of many different types of things or people being included in something'. Diversity in the workplace can refer to many different characteristics that employees may have, including protected characteristics, such as race, age, gender and sexual orientation, as well as individuals' experiences, skills, personalities and traits.

'Inclusion' may be defined as 'the act of including someone or something as part of a group, list, etc., or a person or thing that is included'. Inclusive workplaces are those with established fair policies that enable a diverse workforce to collaborate together in an effective manner.

## The benefits of a diverse workplace

There are a range of benefits associated with ensuring your workplace is diverse and inclusive. Diverse businesses are often more attractive to potential employees: candidates want to work for firms with solid employment practices. Diverse firms also speak to a wider market; and reflect demographics in a more accurate manner.

Additionally, establishing inclusive workplace cultures helps to ensure employees feel valued and respected. The Chartered Institute of Personnel and Development (CIPD) speculates that culture affects organisational performance, and as such businesses will wish to put effort into molding their workplace culture into one that highly values diversity and inclusivity.

## Diversity strategies and management

The CIPD urges businesses to 'examine their own people management practices and diversity data to understand where barriers lie'. Doing so will permit firms to take appropriate action and develop a coherent diversity strategy.

Any strategy implemented should be backed by the business's values and the behaviour of managers within the firm. A business may wish to create a written diversity and inclusion policy, although this is not currently a legal requirement.

Businesses should seek to implement an effective diversity strategy to ensure fair people practices. Establishing workers' roles and responsibilities and offering flexible working are also important factors to consider when implementing your diversity strategy.

Business leaders must take into account that managing diversity and ensuring inclusivity requires ongoing work and improvement, and that guidelines may need to be drawn up in order to enable managers to appropriately handle the business's diversity requirements.

**Creating a diverse workforce is crucial for promoting inclusivity and equal opportunities. You may wish to consider your own diversity strategy and how it affects your business.**

# Controlling national insurance costs

**National insurance contributions (NICs) rose in April 2022, but the latest swing of the pendulum brings better news: an increase in the amount that can be earned before NICs are due.**

## Good news, bad news?

The new rules take effect from 6 July 2022. They mean that while employees have been able to earn £190 per week before paying Class 1 NICs between 6 April and 5 July 2022, from 6 July 2022, they will be able to earn up to £242.

Because the figures have been adjusted part-way through the 2022/23 tax year, the full annual benefit won't actually come through until the next tax year, 2023/24. It's only then that payment of NICs will start when earnings reach £12,570 per year – the figure that you will have seen in the headlines when the measure was first announced.

For some people, the July 2022 change will counteract the April increase. It won't, however, do so for everyone. Employees earning more than about £35,000 are still likely to pay more in NICs than in 2021/22, even after the July change.

The next development to come is the introduction of the Health and Social Care Levy (HSCL) as a standalone charge in 2023. This will not change the overall equation for anyone paying NICs at present, but it will affect a wider range of employees. This is because employees over state pension age do not pay NICs, but they will need to pay the HSCL.

## Salary sacrifice

For employers caught between unwelcome inflationary pressures and the need to retain staff, is there anything that can be done to keep NICs costs in check?

The short answer is yes. A salary sacrifice arrangement can still be a useful tool to chip away at a rising NICs bill.

In outline, a salary sacrifice arrangement is an agreement to vary an employee's terms and conditions of employment, reducing entitlement to cash pay in return for a non-cash benefit. The tax and NI savings do not apply in relation to all benefits, but pension contributions and employer-provided pensions advice; ultra-low emission vehicles; cycles and cycling safety equipment, including the cycle to work scheme; and employer-provided childcare are all benefits where substantial savings can be made. Because pay is calculated after the 'sacrifice', the arrangement decreases the amount assessed to tax and NICs. Both employer and employee benefit from the NICs saving.

To obtain the intended tax advantage requires close attention to detail. Salary sacrifice arrangements must be set up correctly, creating the appropriate change in the terms of the employment contract. This is an area that sometimes causes concern. Another area where care is needed is where salary is close to the minimum wage level. Salary sacrifice arrangements must not reduce cash earnings below minimum wage rates, and the position will need monitoring here.

### Working with you

**We should be delighted to advise further, giving you confidence that your arrangements will withstand HMRC scrutiny.**

# Business Round-up

## HMRC issues £14 million in penalties for minimum wage offences

HMRC issued 580 penalties totalling over £14 million for minimum wage offences during 2020/21, according to a report released by the Department for Business, Energy and Industrial Strategy (BEIS).

The penalties given out for National Minimum Wage (NMW) and National Living Wage (NLW) offences have dropped by £4.5 million from the year before, which saw 992 penalties worth £18.5 million.

Last year, the Low Pay Commission (LPC) – which advises the government on minimum wage rates – released a report that said more needed to be done to build workers' confidence in the enforcement regime and to support employers to comply with the rules.

The BEIS's report says that HMRC has adapted its communications to make it clear to workers that they have the option to remain anonymous if they make a complaint, and that they can report a previous employer for minimum wage breaches.

It also says it will be more transparent about the most common minimum wage breaches it finds, which include deductions from workers' pay and unpaid working time, to help organisations remain compliant.

The report said: 'The BEIS therefore publishes an educational bulletin with each naming round to help raise awareness of minimum wage rules and improve compliance. Bulletins include analysis of the most common breaches in each naming round; examples to ensure understanding of how such breaches can be avoided; and links to the government's 'Calculating Minimum Wage' guidance for further details.'

## FSB finds one in three business owners suffered COVID-related mental health decline

Research carried out by the Federation of Small Businesses (FSB) has found that 34% of small business owners had their mental health adversely impacted by the coronavirus (COVID-19) pandemic.

The FSB's survey also found that 24% of respondents currently have a mental health condition such as anxiety, depression or post-traumatic stress. 16% of small business owners report having a mild mental health condition; 6% stated that they have a moderate mental health condition; and 2% said that they have a severe mental health condition.

Commenting on the issue, Tina McKenzie, Policy and Advocacy Chair at the FSB, said: 'Whether it's the migrant entrepreneur suffering post-traumatic stress, the aspiring start-up creator wrestling with depression as they struggle to find work, or the thousands of business owners who feel isolated and hopeless because of late payment, policymakers should reflect on the challenges faced by entrepreneurs during this Mental Health Awareness week.

'By building on, and promoting access to, the support that's already available to business owners and their teams, the government can make a real difference to mental wellbeing.'

# Reminders for your diary

## August 2022

2 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 July 2022.

19 PAYE, Student loan and CIS deductions are due for the month to 5 August 2022.

## September 2022

1 New Advisory Fuel Rates (AFR) for company car users apply from today.

19 PAYE, Student loan and CIS deductions are due for the month to 5 September 2022.

30 End of CT61 quarterly period.

## October 2022

1 Due date for payment of Corporation Tax for period ended 31 December 2021.

5 Deadline for notifying HMRC of new sources of taxable income or gains or liability to the High Income Child Benefit Charge for 2021/22 if no tax return has been issued.

14 Due date for income tax for the CT61 quarter to 30 September 2022.

19 Tax and NICs due under a 2021/22 PAYE Settlement Agreement.

PAYE, Student loan and CIS deductions are due for the month to 5 October 2022.

Small employers PAYE quarterly payments due for the pay periods 6 July to 5 October 2022.

31 Deadline for submitting 'paper' 2021/22 self assessment returns.

# Tax Tip

## Forming a limited company

If you are self-employed you may want to consider forming a limited company. A limited company can be an effective way to shelter profits, especially if immediate access to them is not required.

Profits paid out as salaries, dividends or bonuses are often liable to the top tax rates, whereas profits kept in the company will be taxed at 19%.

Funds retained by the company can be used to buy assets or provide for pensions, both of which can be eligible for tax relief.

**We can help you set up a company – please contact us for more information.**