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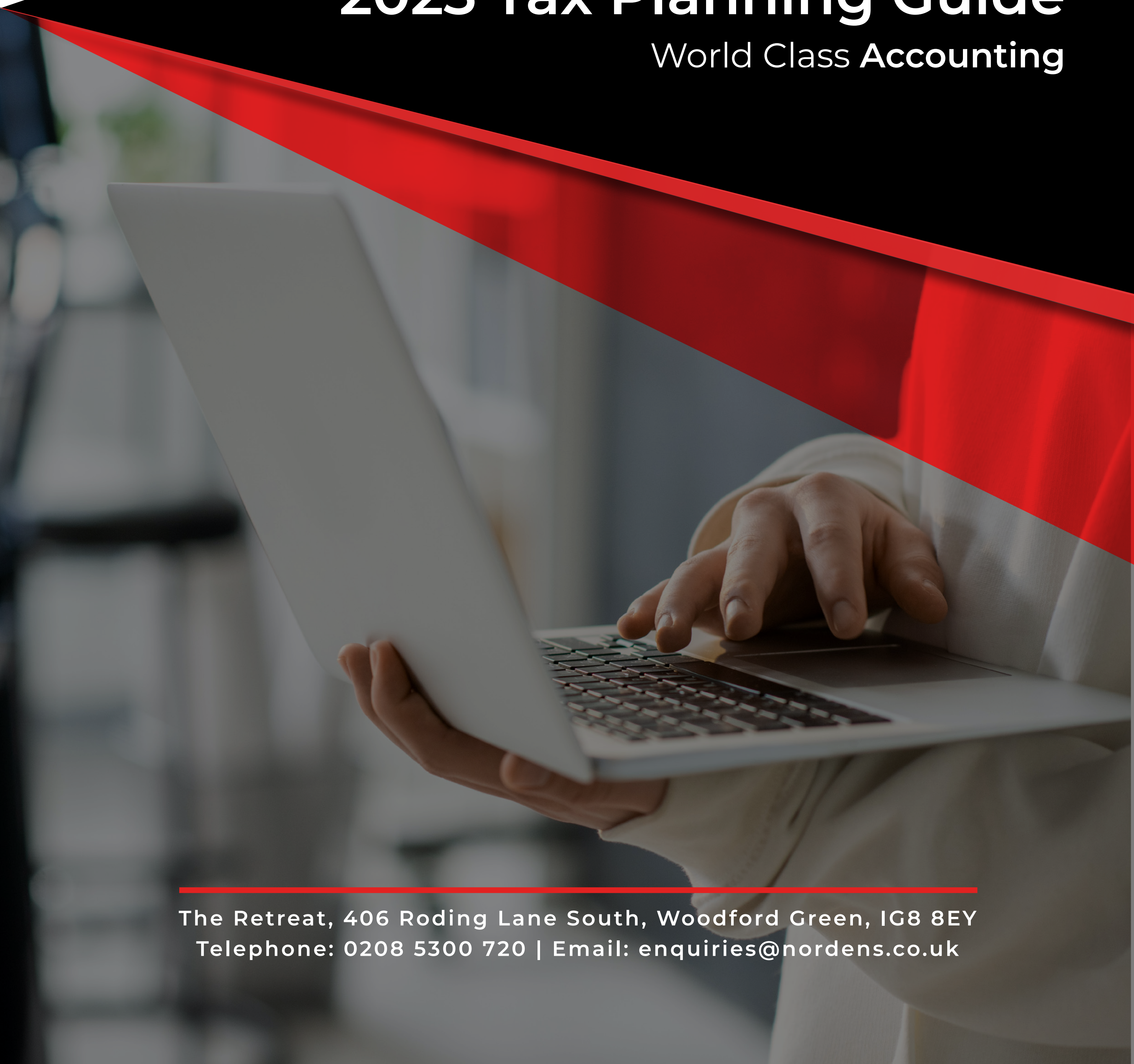
2023 Tax Planning Guide

World Class **Accounting**



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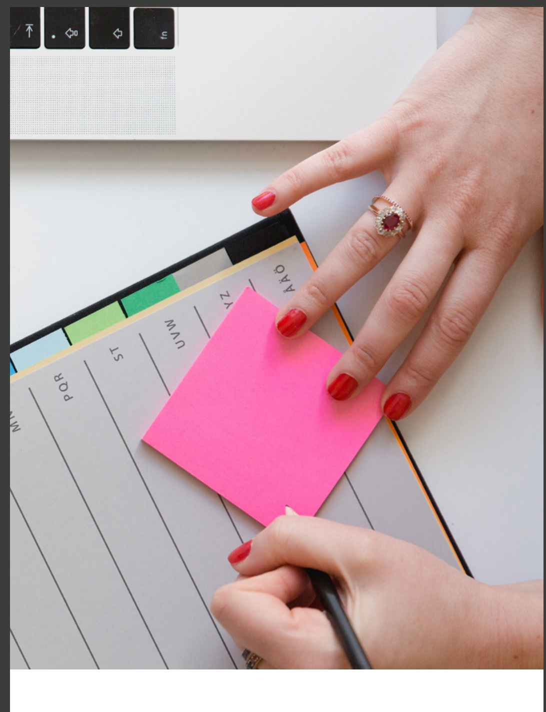
INTRO

Nordens are an award-winning accountancy and consultancy practice, covering all of the financial basics and beyond. We work as one integrated team to deliver exceptional and tailored services in audit and accounting, as well as tax, financial advisory, consulting and HR services.



A large sense of doom and gloom symbolises the start of 2023. From energy bills spiking to record highs, to the UK economy in disarray as inflation hits double figures, it's fair to say that previous years have been more hopeful and optimistic. Consolidating and securing your finances has never been a bigger priority than now. Whether you're a business owner, sole trader, stay at home parent or even an overseas citizen, it's crucial to plan for the tax year ahead and grow yours', or your family's, future wealth.

Nordens' 2023 Tax Planning Guide offers a comprehensive overview of the key allowances and reliefs available for the year ahead, whilst also disclosing some vital tax planning tips to help maximise your assets, as well as loved ones

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Nordens Tax Planning Guide

I've been with Nordens for nearly two years now, where I feel completely at home in the Nordens family. It has been my pleasure to work with such incredible individuals and I look forward to building upon our successes in the years to come. The UK is currently in the midst of severe economic turmoil which is likely being experienced by every household and family across the nation. An estimated £50 billion black hole is attempting to be recouped by the Chancellor, Jeremy Hunt, through reforms, cuts and legislation changes. Planning your finances has arguably never been as important.

I have been working in tax for over 18 years now, and during this time I have faced many challenges which although difficult, have been overcome. However, the last two years have posed some of the most challenging times I have ever seen, with many businesses going out of work and energy giants making billions in profits whilst people struggle to heat their homes. We have all faced challenges over this period of uncertainty, and it hasn't been easy but although the above seems bleak, I have also seen many businesses thrive and succeed. We are now looking at moving into easier times and hopefully we'll all be able to get back some resemblance of the lives we used to know.

Moving forward there's no doubt we are going to be transitioning into a period of rebuilding our economy. After seeing the increase in taxes across the board, which may not be the most welcoming news, I do believe however it is important in order to regenerate and protect against any future crisis scenarios. Making Tax Digital (MTD) has once again been frustratingly delayed as HMRC are still trying to get their house in order. Still, my advice would be to prepare for this now and not wait until the deadline is looming again.

I have also seen this is now a great time to start thinking about your estate and putting inheritance tax (IHT) planning in place. HMRC have recently released figures showing that they have received vastly more of the aptly named death tax than they were expecting to during the last year. This shows many individuals are not putting into place enough planning if any at all. We'll cover this and much more later on in our guide. We'll also look at personal savings and investment, pensions, The Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS), Corporation Tax, R&D claims, what energy bill support is available for businesses, as well as a full breakdown of the tax rates and thresholds for the year ahead.

We hope that this guide can be of good use to you and your business in the year ahead, and we wish you the best of luck over the coming 12 months.

Yours sincerely

Adam Truluck

Adam Truluck,
Nordens Tax Manager

Income Tax

Income Tax is the basic form of tax for which UK taxpayers are subject to. If you're employed, then income tax will automatically be deducted from your payslips, however you might also be taxed on other income sources such as dividends and interest from savings over a certain amount. Income taxes are a source of revenue for governments and are used to fund public services, pay government obligations, and provide resources for citizens.

How much Income Tax you pay in each tax year depends on how much of your income is above your Personal Allowance (£12,570) and how much of your income falls within each tax band. The Income Tax rates and bands are as follows:

Band	Taxable Income	Tax Rate
Personal Allowance	Up to £12,570	0%
Basic Rate	£12,571 - £50,270	20%
Higher Rate	£50,271 - £125,140	40%
Additional Rate	Over £125,140	45%

It's also worth mentioning that The Income Tax additional rate threshold (ART) will be lowered from £150,000 to £125,140, the income level at which an individual will not have any Personal Allowance, because £1 of the Personal Allowance is withdrawn for every £2 of income above £100,000 from 6 April 2023.

From 2023 to 2024, the measure is estimated to impact around 792,000 taxpayers. Approximately 232,000 taxpayers will pay the additional rate of tax who would not have done so had this threshold been maintained at £150,000. For those with income between £125,140 and £150,000, the average cash loss is £621 in 2023 to 2024. For those with income above £150,000 the average cash loss is £1,256 in 2023 to 2024.

You may be able to get tax relief if self-employed, on what you spend running your business, whether you're a sole trader or partner in a partnership. As well as this, you could claim tax relief if you're employed, and you use your own money for travel and things that you must buy for your job. This can include additional household costs (gas, electricity, broadband costs etc.) if you have to work at home on a regular basis, either for all or part of the week.

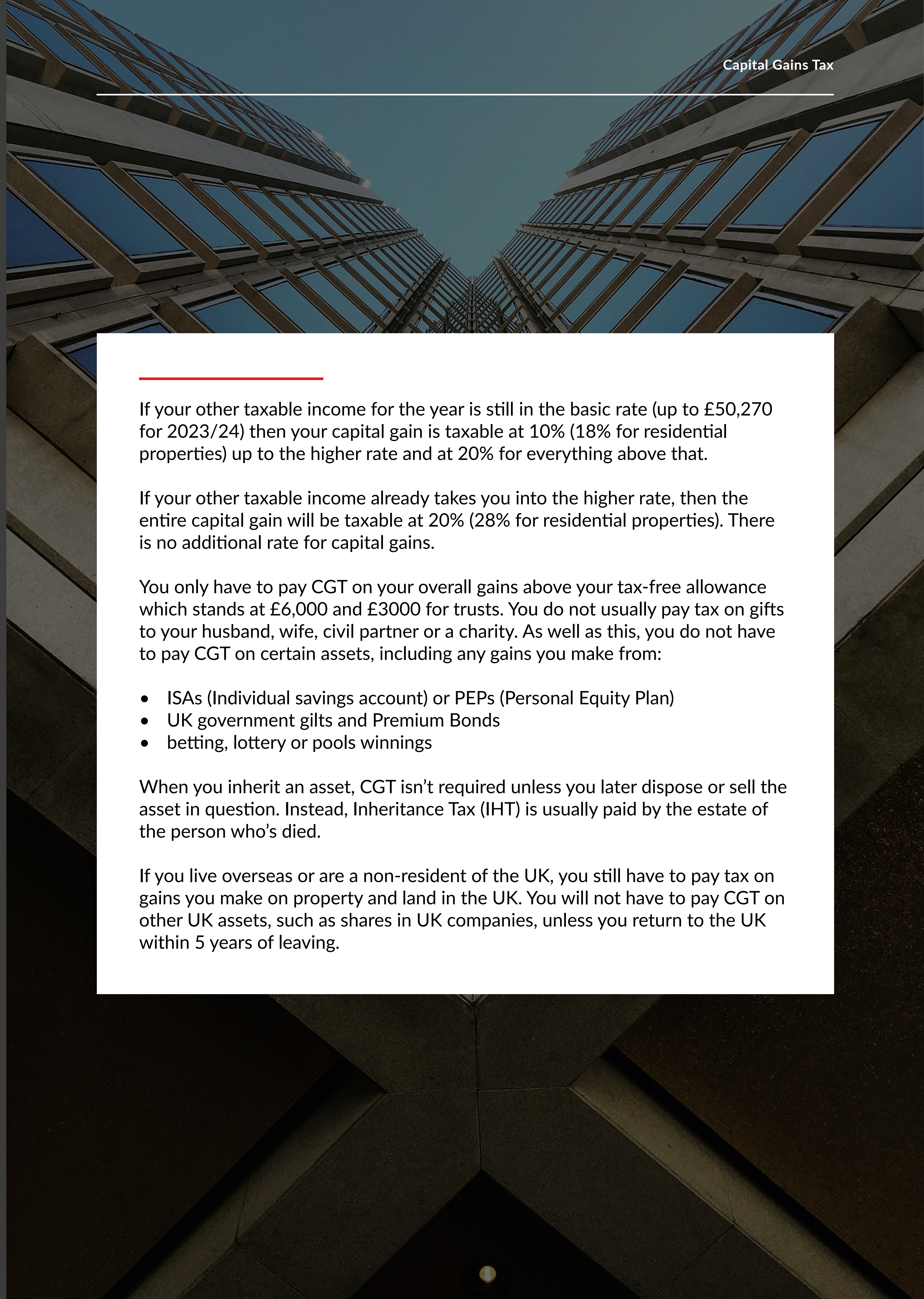
Capital Gains Tax

Capital Gains Tax (CGT) is a tax on the profit when you sell, or 'dispose of, an asset that's increased in value. It's the gain you make that is taxed, not the amount of money you receive for the sale or disposal. These include:

- Most personal possessions worth £6,000 or more, (cars/motor vehicles are exempt)
- Property that is not your main home
- Your main home if you've let it out, used for business purposes, or is very large
- Shares that are not in an ISA or PEP
- Business assets

Capital gains is taxable at 10% in the basic rate and 20% in the higher rate (18% and 28% for residential properties). What rate you pay will depend on your personal circumstances such as size of the gain and other taxable income. To calculate this the following steps would need to be completed:

- Calculate your total gain by taking your original cost and other allowable expenses/ reliefs from your sale proceeds
- Deduct your personal capital gains allowance (maximum of £6,000 per year for 2023/24) to get the total taxable gain.



If your other taxable income for the year is still in the basic rate (up to £50,270 for 2023/24) then your capital gain is taxable at 10% (18% for residential properties) up to the higher rate and at 20% for everything above that.

If your other taxable income already takes you into the higher rate, then the entire capital gain will be taxable at 20% (28% for residential properties). There is no additional rate for capital gains.

You only have to pay CGT on your overall gains above your tax-free allowance which stands at £6,000 and £3000 for trusts. You do not usually pay tax on gifts to your husband, wife, civil partner or a charity. As well as this, you do not have to pay CGT on certain assets, including any gains you make from:

- ISAs (Individual savings account) or PEPs (Personal Equity Plan)
- UK government gilts and Premium Bonds
- betting, lottery or pools winnings

When you inherit an asset, CGT isn't required unless you later dispose or sell the asset in question. Instead, Inheritance Tax (IHT) is usually paid by the estate of the person who's died.

If you live overseas or are a non-resident of the UK, you still have to pay tax on gains you make on property and land in the UK. You will not have to pay CGT on other UK assets, such as shares in UK companies, unless you return to the UK within 5 years of leaving.

Personal Savings & Investment

It's always wise to consolidate some of your income into savings, whether that be for a rainy day, children, or as a future investment strategy. There are many different types of savings plans which allow you to save, often with tax-free interest, and it's highly recommended to shop around to see what the best rate for your type of savings is. Here are the different types of savings plans, otherwise known as ISAs (Individual Savings Allowance):

Lifetime ISAs

The Lifetime ISA (otherwise known as LISA) is available to any UK resident aged between 18 and 39. These types of ISAs are usually recommended to people who are looking to save for their first home or retirement. With a LISA, you are able to contribute up to £4,000 per tax year. You can hold cash or stocks and shares in your Lifetime ISA or have a combination of both.

At the end of every tax year, the government will contribute an additional 25% of what is put into the Lifetime ISA, meaning this could be an extra £1,000 each year in savings. However, should you withdraw any cash from the LISA before you are 60, other than to buy a first home or in exceptional circumstances such as a terminal illness, then you will cease to receive the 25% annual government bonus from there on in. Once you turn 50, you will not be able to pay into your Lifetime ISA or earn the 25% bonus, however the account will stay open and savings will still earn interest or investment returns.

Personal Savings & Investment

Individual Savings Allowance (ISA)

An ISA is a simple tax-free savings account, which is still regarded as one of the most practical ways to save money. The ISA allowance, or annual contribution limit, for the 2021/2022 tax year is £20,000. When the tax year rolls over on 5th April, a new ISA allowance will come into effect which cannot be carried over from the year before. You cannot hold an ISA with or on behalf of someone else and you must be a resident of the UK (unless you or your spouse/partner are a Crown servant if you do not live in the UK).

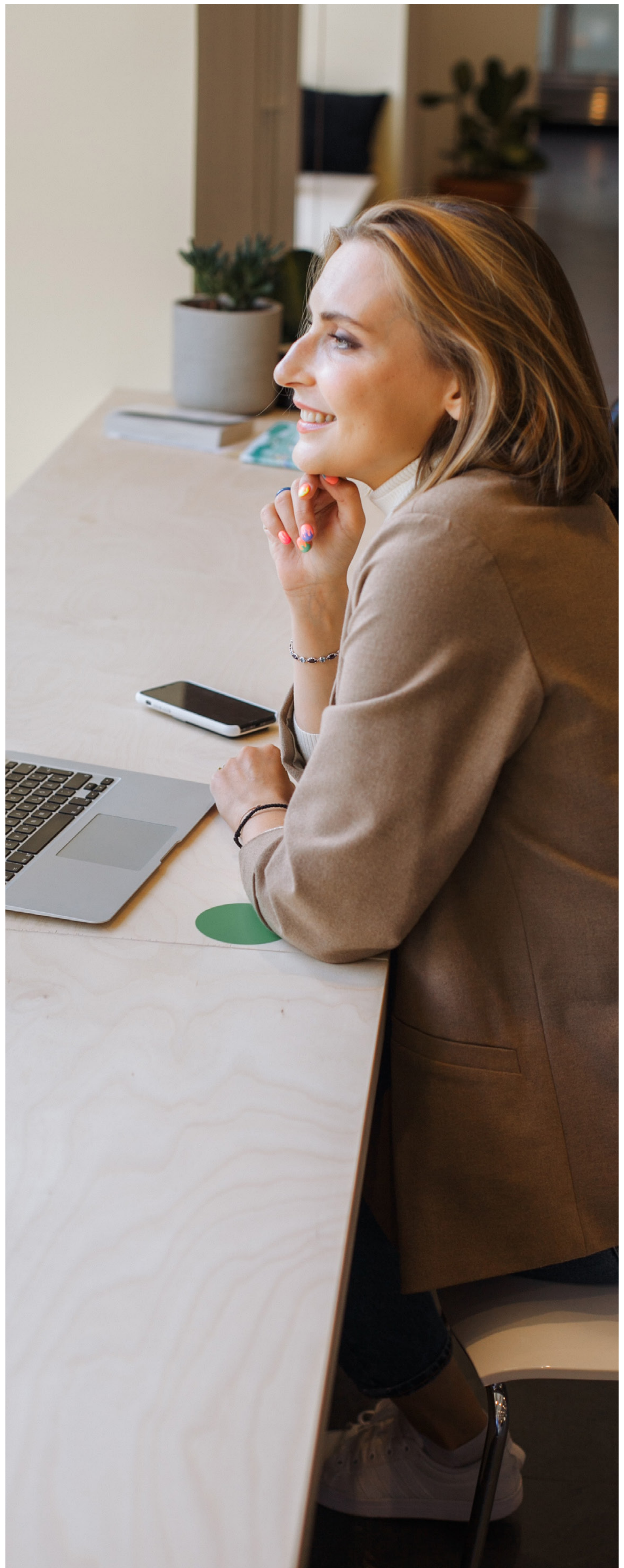
You must also be 16 years or older to open a cash ISA (18 or older for a stocks and shares or innovative finance ISA).

Flexible ISA

A Flexible ISA is a type of ISA which can be used in conjunction with cash ISAs, investment ISAs, and innovative finance ISAs, enabling the account holder to withdraw money as well as deposit it back again without affecting the annual allowance. Flexible ISAs cannot be used with Junior ISAs or Lifetime ISAs.

Flexible ISA rules cover dividend payments as well as cash withdrawals. Let's say for example, £10,000 is deposited into your ISA during the current tax year, which you then withdraw £2,000 later on. The Flexible ISA enables you to pay this £2,000 back into the ISA whilst still being able to put in additional £10,000 before the end of the tax year, taking you up to the £20,000 allowance limit.

Personal Savings & Investment



Junior ISA

The Junior ISA (JISA) is a type of savings account which can be opened by a parent or guardian for anyone under 18 who lives in the UK. These are very common and allow parents or guardians to provide a savings fund for their children to be used in the future. The Junior ISA allowance, or annual contribution limit, for the 2022/2023 tax year is £9,000.

There are 2 types of Junior ISA; a cash Junior ISA where you will not pay tax on interest on the cash you save, as well as a stocks and shares Junior ISA where cash is invested and any capital growth or dividends you receive won't be taxed. It is possible a child can have one or both types of these ISAs.

The child can take control of the account when they're 16 but cannot withdraw the money until they turn 18. Parents or guardians with parental responsibility can open a Junior ISA and manage the account, but ultimately the money belongs to the child.

Innovative Finance ISA (IFISA)

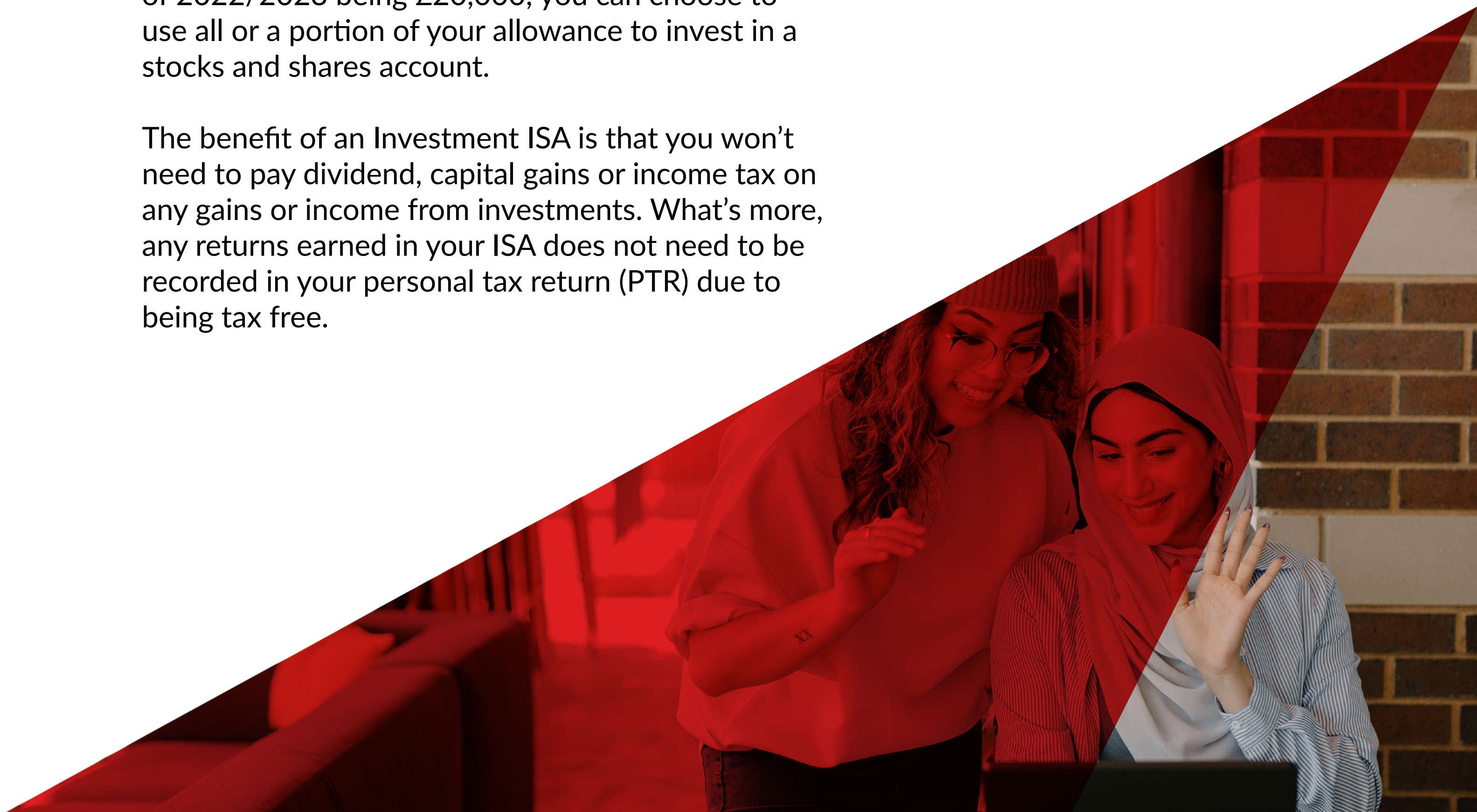
An Innovative Finance ISA (IFISA) is a type of ISA that adds a tax-free wrapper to savings income from peer-to-peer lending or investment through crowdfunding websites. Innovative finance ISAs can only be offered if you're approved by HMRC as an ISA manager. They are only available to investors who are 18 or over.

An IFISA allows you to lend money to borrowers in return for a set amount of interest-based on the length of time you are prepared to leave your money untouched. You are limited to pay into only one IFISA each tax year, however it is still possible to pay into a cash ISA, as well as stocks and shares ISA, so long as the ISA allowance (£20,000) isn't exceeded.

Investment ISA

An Investment ISA, also known as a stocks and shares ISA, is very different from a standard cash ISA. A Cash ISAs is just a basic savings account for which tax is never paid on, whilst a stocks and shares ISA allows you to invest in funds (shares/bonds from various companies consolidated into one investment), bonds (a loan to a company or government), and shares in individual companies. With the annual ISA allowance for the tax year of 2022/2023 being £20,000, you can choose to use all or a portion of your allowance to invest in a stocks and shares account.

The benefit of an Investment ISA is that you won't need to pay dividend, capital gains or income tax on any gains or income from investments. What's more, any returns earned in your ISA does not need to be recorded in your personal tax return (PTR) due to being tax free.



Inheritance Tax

Inheritance Tax (IHT) is a sensitive subject for many families and individuals. Once a person passes away who owns a large sum of estate, then that estate will be taxed by the government in order to redistribute back out to the state. Inheritance Tax can often be a very confusing topic of discussion, and also controversial, due to the fact that despite tax being paid by the deceased person throughout their life, the government still demands an additional tax on their property once they die.

How much tax is owed depends on the value of the deceased's estate, which is calculated based on the deceased's assets (i.e cash savings, investments, property etc.), minus any debts accrued over time. For the tax year of 2021-2022, the tax-free inheritance allowance is £325,000 which is also known as the nil-rate band.

This threshold has remained the same since the 2010-2011 tax year and will remain frozen until at least 2028. If the value of your estate exceeds £325,000, then the standard Inheritance Tax rate of 40% applies.

Over the last year, it's reported that families paid an extra £600m in death duties, after missing out on tax reliefs which could've heavily reduced their inheritance tax bills. As well as this, a rising number of families are being stung by the 40% tax as property. This is mostly down to a rise in property prices which has driven their estates above the £325,000 tax-free allowance.

IHT can be reduced or avoided in a number of ways by complying with both tax-free allowances, by giving a certain amount of tax-free money away without it counting towards your estate. This can be done through a family member as well as married or civil partners in a legal manner, potentially saving large sums being given to HMRC once you've passed away. The surviving spouse is permitted to use both tax-free allowances, providing the deceased spouse did not exceed their full Inheritance Tax allowance through their will by with a large chunk of money. This basically means IHT can be avoided up to a £500,000 valuation of estate, should you choose to leave your estate to family members in your will.

As well as this, when a spouse has died, assets left (through a will) to the surviving spouse or registered civil partner, provided they're living in the UK, are exempt from Inheritance Tax. This is because the partner's Inheritance Tax allowance rises by the percentage of the allowance that isn't used, meaning a couple combined can currently pass on a tax-free sum of £1million (i.e £325,000 tax-free allowance x 2 + £175,000 main residence allowance x 2).

Pensions

The annual allowance for pensions is £40,000. Anything after this which is saved into your pensions pot will be subject to tax. Your annual allowance applies to all private pensions, even if you have more than one. This includes:

- the total amount paid in to a defined contribution scheme in a tax year by you or anyone else (for example, your employer)
- any increase in a defined benefit scheme in a tax year

There are rules which can enable you to exceed the annual allowance threshold, entitled 'carryforward rules'. These rules stipulate that you can use up any unused annual allowance stretching back three years. This is tax-free and includes both personal and employer contributions. In order to be eligible for the carryforward rules, You must have previously been a member of a pension scheme during the tax year from which the intended allowance is to be brought forward.

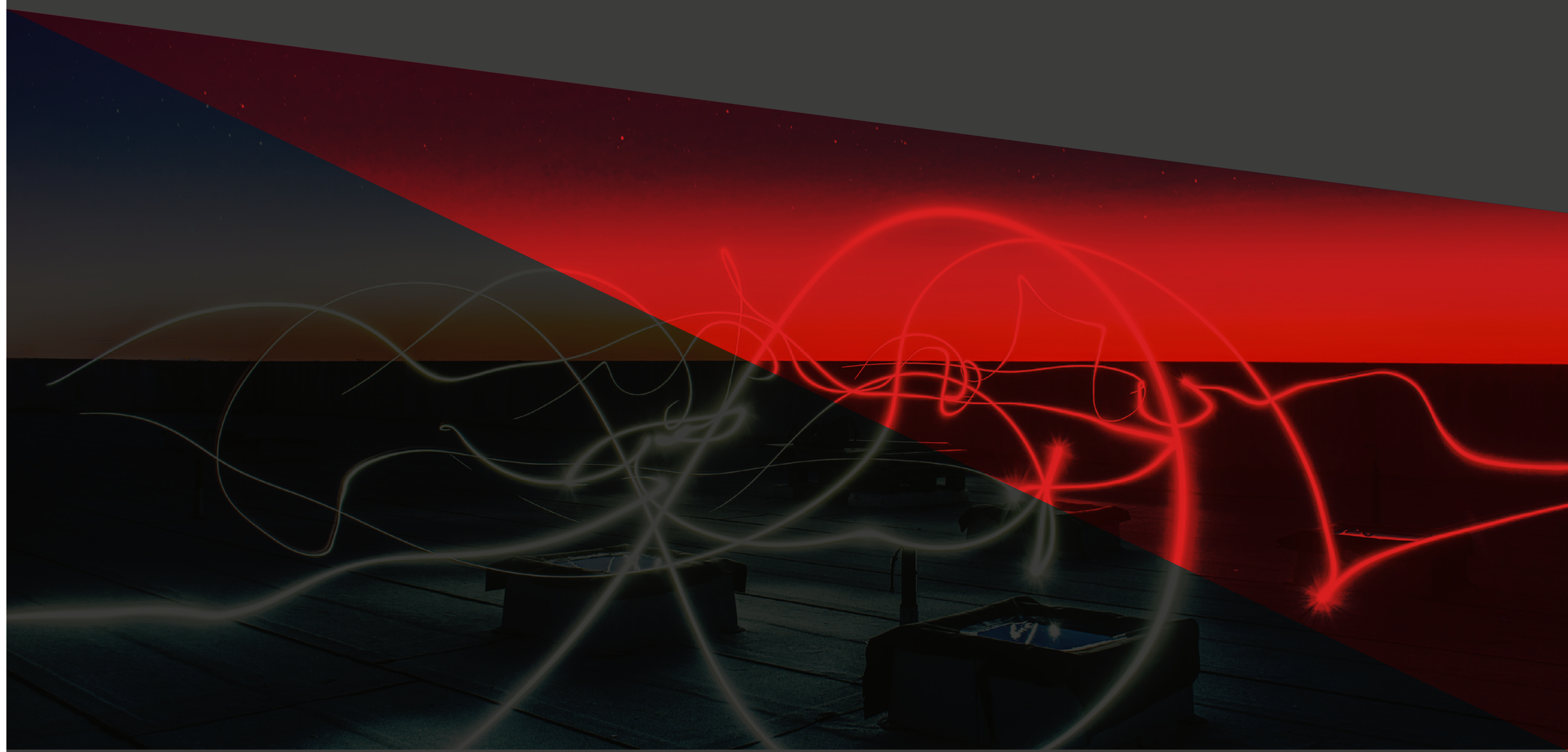
Under the carryforward rules, if a person were to deposit even a small amount of money in the previous tax years, their tax-free allowance can grow significantly. For example, if a person were to pay £100 for the tax year of 2021/2022, then for the tax year 2022/2023 they would have an annual allowance of £40,000 plus the £39,900 carried over from the tax year before.

Energy Support For Businesses

The Energy Bills Discount Scheme (EBDS) is set to replace the Energy Bill Relief Scheme (EBRS), introduced back in September 2022. The EBRS will expire as of March 2023, where it will be replaced by the EBDS. The new level of support will apply from 1st April 2023 to 31st March 2024. All eligible non-domestic customers who have a contract with a licensed energy supplier will see a unit discount of up to £6.97/MWh automatically applied to their gas bill. A unit discount of up to £19.61/MWh will also be applied, except for those benefitting from lower energy prices.

A substantially higher level of support will be provided to businesses in sectors identified as energy and trade intensive. These are most commonly manufacturing businesses such as factories or mechanics. A long-standing category associated with higher energy usage; these firms are often less able to pass over costs to customers due to international competition. Businesses in scope will receive a gas and electricity bill discount based on a supported price. This will be capped by a maximum unit discount of £40.0/MWh for gas and £89.1/MWh for electricity.

It's worth noting that the discount won't apply for everyone and will be subject to a wholesale price threshold. This is set with reference to the support provided for domestic consumers, of £107/MWh for gas and £302/MWh for electricity. This means that businesses experiencing energy costs below this level will not receive support.



SEIS & EIS

Lots of small businesses fail to invest properly in their own growth, so it can be incredibly important to know when to get extra help and how to go about seeking additional investment. Many business owners are completely unbeknownst that there are schemes out there which can greatly help with providing a cash boost injection that often could be the difference between success and failure.

The Enterprise Investment Schemes (EIS) and Seed Enterprise Investment Schemes (SEIS) are investment schemes, intended to stimulate investment in SME businesses. This is done by offering tax reliefs to individual investors who buy new shares in your company. Last year, nearly 6,000 companies raised over £1.8 billion in SEIS and EIS funding. This signals the huge potential in getting businesses off the ground, whilst incentivising investors.

Your company is eligible for SEIS funding if it:

- Is established in the UK
- Carries out a new qualifying trade
- Has only been trading for less than two years
- Has less than £200,000 in gross assets at the time of investment
- Has fewer than 25 full-time employees
- Is not a public company (ie, not traded on a recognised stock exchange)
- Is not controlled by another company
- Does not control another company, unless they are qualifying subsidiaries
- Has not already received any EIS funding

Your company is likely to be eligible for EIS funding if it:

- Is established in the UK
- Carries out a qualifying trade
- Has been trading for less than seven years
- Has less than £15 million in gross assets at the time of investment
- Has fewer than 250 full-time employees
- Is not a public company (ie, not traded on a recognised stock exchange)
- Is not controlled by another company
- Does not control another company, unless they are qualifying subsidiaries

Unlike the EIS, the SEIS is focused on very early-stage companies and offers significantly greater Income Tax relief of 50% against the amount invested. The lifetime cap is £150,000 when investing in SEIS-eligible businesses.

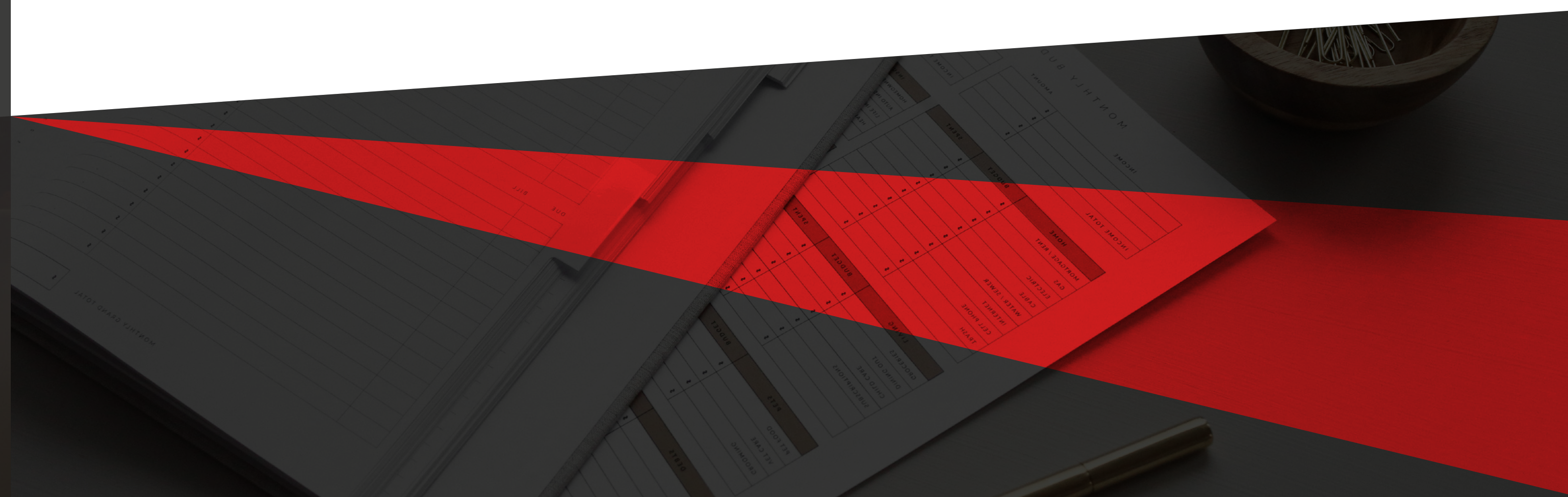
The big brother of the SEIS, the EIS focuses on small-to- medium sized start-ups and comes with Income Tax relief of 30% against the amount invested. An investor can invest up to the maximum annual investment of £1m per tax year. An EIS company has a lifetime cap of £12m or £20m if the company is “knowledge intensive”

Where a company meets the initial criteria, further activity specific eligibility will be accessed for both the investor and the company applying for funding.

The money raised under both EIS and SEIS investment must be used for a qualifying business activity, which means is defined as one of the following:

- A qualifying trade
- Preparing to conduct a qualifying trade or
- Research and development which should lead to a qualifying trade.
- Acquisition of shares in a subsidiary company, providing that after the share issue the subsidiary is a qualifying 90% subsidiary that will subsequently be using the money for a qualifying trade (further acquisition of shares is excluded).

It’s also worth noting that through the SEIS scheme, money must be spent within the period beginning with the issue of the shares and ending immediately before the 3rd anniversary of the share issue.



Corporation Tax/ Capital Allowances

Corporation tax has long been a hot topic of interest in the UK. The UK has one of the most competitive corporate tax systems in the world and has purposely placed itself as one of the most competitive amongst the G20 nations in order to attract large corporations to trade within its borders.

More recently however, it was announced by the OECD (Organisation for Economic Co-operation and Development) that 136 countries, including the UK, had agreed to join an accord to impose a two-pillar global tax reform plan. This landmark agreement enables nations to levy a portion of the profits generated by a handful of the biggest firms, based on the sales achieved within each nation's borders. As well as this, a global minimum tax rate of 15% on large companies will be enforced by 2023, bringing an estimated extra £2.3 billion for the UK government.

The Corporation tax main rate for the tax year 2022/2023 is 19%. As well as this, there will also be an increase to 25% from April 2023 applying to profits over £250,000. A small profits rate (SPR) will also be introduced for companies with profits of £50,000 or less so that they will continue to pay Corporation Tax at 19%. Companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief providing a gradual increase in the effective Corporation Tax rate.

Corporation Tax/Capital Allowances

This measure is expected to have a significant economic impact according to the OBR (Office for Budget Responsibility), taking around £4 billion a year more off annual departmental spending plans, whilst raising a total of £31.8 billion in 2025-26. There is expected to be no direct impact on individuals as Corporation Tax is levied on companies.

This measure is expected to have a significant administrative impact on approximately 2 million businesses who will need to be aware of the changes even if they do not currently have a Corporation Tax liability. The introduction of a small profits rate will mean that around 1.4 million businesses continue to pay either no Corporation Tax or Corporation Tax at 19%. The additional costs for HMRC in implementing this change are anticipated to be approximately £5.1 million. There will also be a one-off cost as businesses familiarise themselves with the rate changes and determine which rate of Corporation Tax they should be paying, estimated to account for approximately £50 million in implementation.

Making Tax Digital

Making Tax Digital

Making Tax Digital (MTD) is a government scheme that allows for the preparing, reporting and filing of taxes to be a fast and easy process. It is designed to get businesses and self-employed workers to complete digital tax records and returns on a quarterly basis (every 3 months), with the overall aim of becoming paperless and allowing both parties (HMRC and the worker) to easily access their details at the click of a button.

This was planned to be introduced over phases across many years by the government, with the initial phase beginning on 1st April 2019. As of 1st April 2022, it is requirement for all non-exempt VAT registered businesses to comply with MTD. This means businesses will have to go digital via a viable platform in terms of storing their VAT accounting records.

After a further postponement to self-employed individuals and landlords, by 6th April 2026 it will be requirement for all for all businesses or landlords with property income exceeding £50,000 a year to file their ITSA (Income Tax Self-Assessment) via MTD. For those with an income between £30,000 and £50,000, MTD regulations will apply from April 2027. The deadline requirement for partnerships still remains 6th April 2025.

HMRC state that the digital records will need to contain the following information:

- Business name & contact details
- VAT number & details of any government financial schemes taken (e.g Furlough)
- VAT on supplies made & received
- Adjustments to returns
- Time of supply (tax point)
- Rate of VAT charged on supplies made
- Reverse charge transactions (to be recorded twice as a supply made and a supply received if your software doesn't record them)
- Daily gross takings (DGT) if a retail scheme is used
- Purchases of assets you can reclaim tax on if using the Flat Rate Scheme
- Value of sales made and total output tax on Gold Accounting Scheme purchases (if applicable)
- Documents covering multiple supplies made or received on behalf of your business (through volunteers, third party businesses or employees)

Despite many individuals and businesses not needing to register for MTD until the near future, it's highly recommended to get your affairs in order and register now. The importance extends beyond the fact that soon it will be legal requirement for every business, partnership and sole trader, in that everyone should be embracing the technology on offer.

By transitioning to MTD, businesses and individuals will have access to Real Time Information (RTI) which can be of huge value in terms of better decisions being made to execute growth and increased profitability. From a forecasting and logistics angle, being exposed to this data is a huge benefit to business owners and when used right can seriously take the business to the next level.

Thank you so much for taking the time to read our tax planning guide document for 2022/23. We hope this has educated you in your preparations for the year ahead both from a financial and tax point of view.

As always, if there's anything that you need more information on, or would like to chat through, then simply get in contact with us and we'll be more than happy to talk through your query.

Good luck and best wishes for the year ahead!

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