Spring 2022

Financial and business intelligence

SHIPSHAPE

Treading carefully

Taking one step at a time in these uncertain times

shipleys LLP

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Shipleys LLP is a firm of chartered accountants and business advisers. *Shipshape* is our regular newsletter for clients and contacts.

If you have any suggestions for topics you would like to see covered in *Shipshape*, or have any comments about its content, please contact Amanda Moore at our Godalming office.

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Shipleys is a Member of AGN International, a global association of separate and independent accounting and advisory businesses.

Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

More detailed information on tax changes is available on our website at www.shipleys.com

Shipshape articles are intended to create awareness of issues and specific advice should be obtained before taking action, or refraining from taking action in relation to the topics covered.

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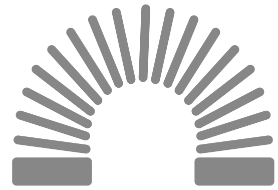
Cut in fuel duty on every litre of petrol and diesel for 12 months



6 April 2022

Start of accounting periods falling under the reformed basis period rules

81% owner managed businesses reported their businesses are in better shape for the future than pre-pandemic
(APA Survey Spring 2022)

Number of Shipleys Business Club members that have collaborated with another business in the past three years

The highest possible anti-money laundering levy that qualifying companies will now pay

New company directors' threshold for Class 1 national insurance contributions

Viewpoint: Steve Foster
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Hoping for a smoother ride

The first few months of 2022 have certainly been memorable. While it's been good to gain greater freedoms from the withdrawal of Covid restrictions, a wave of fresh social, political and economic developments has presented challenges for many.

Rewards for those who wait?
With rapidly rising living costs, many hoped the Chancellor's Spring Statement would tackle more than it did. While the Treasury's coffers need replenishing post-pandemic, public finance figures on the day suggested Rishi Sunak had £25-30 billion of 'wiggle' room to play with.

The number of short-term changes, however, were relatively few. Despite much lobbying, the dividend tax rise and the national insurance contributions (NIC) increases have gone ahead, although the NIC threshold has been revised. Fuel duty on petrol and diesel was reduced by 5p a litre for 12 months.

The main sweetener had its eye on the long-term – an income tax reduction intended to coincide with the 2024 General Election. A Tax Plan was also announced signalling the Autumn Budget's possible agenda – see page 2.

Hope for peace
At the time of writing this, the war in Ukraine sadly rages on. The crisis is obviously affecting the global stage but also impacting those at home. Supply chain disruption, price hikes and supporting staff affected by the war are just some of the issues our clients are dealing with. Early in the conflict we produced a guide for businesses – see *https://tinyurl.com/2p8mwyhu*. Like many businesses, Shipleys has donated to the humanitarian effort.

Silver linings
A recent survey of owner-managed businesses by The Association of Practising Accountants, of which we're a member, shows that it remains a tough era in which to grow. On a positive note, 81% reported their businesses are in better shape for the future than pre-pandemic. More information at *https://tinyurl.com/sfupze3r*

Be prepared
Having a strong cash flow position helps businesses ride out tough times. On page 3 we've shared some short-term measures to strengthen this vital resource. Another resilience-boosting tool is planning for different eventualities. Some organisations we support are currently budgeting for the 2023 corporation tax increases, the basis period rules change and a new anti-money laundering levy (see pages 4 and 5).

For our private clients, we've also included a reminder about using nil rate bands to mitigate liability for inheritance tax and have summarised HMRC's new powers to recoup unpaid high income child benefit charges (p10).

Strength in numbers
A positive to emerge, which pays testament to organisations' agility, is the rise of partnering activities and business collaborations. Our Business Club recently discussed this growing trend of businesses joining forces to share greater benefits. See page 9.

Retaining the positives
Other benefits which organisations are keen to retain are those achieved through flexible working during lockdown. Many businesses, Shipleys included, are implementing a hybrid working arrangement where staff split the week working onsite and working from home. See page 5 for considerations regarding the new working environment. We're also delighted to share a success story from a client who has worked hard to create the right working space for creative industry businesses. (page 8).

Congratulations
Finally, it's always nice to recognise the talents within your organisation and reward hard work. On behalf of the Shipleys principals, I am delighted to announce that this May will see a record number of promotions. We have four new principals, two new directors and three new supervisors (see page 7). Some even began their training with us, and it's been good to watch their progression over the years. Congratulations to all!

I hope the end of spring and the start of summer brings many positives your way. Please do contact us if you need support with any opportunities, challenges or questions. We are always keen to help.

Steve

Putting the Spring Statement in the spotlight

We look at the key announcements in this year's Spring Statement.

Against a backdrop of rising inflation – exacerbated by Russia's invasion of Ukraine – and the increasing cost of borrowing, the Chancellor used his Spring Statement to announce a limited range of tax cuts, apparently aimed at countering the UK's cost of living crisis.

Rishi Sunak also gave an intriguing insight into what might lie ahead by revealing his Tax Plan – a series of measures impacting businesses that, after consultation, could be introduced in the Autumn Budget.

Tax cuts

Headlining Mr Sunak's tax cuts was the news of a 5p per litre cut in fuel duty on petrol and diesel for 12 months and a pledge to reduce the basic rate of income tax to 19% from 2024/25. He announced the primary threshold for Class 1 national insurance contributions (NICs) will increase to £12,570 a year from 6 July 2022, bringing it in line with the frozen personal allowance. For company directors, who are subject to special rules, the equivalent annual amount from July will be £11,908.

For the self-employed, the lower profits limit will increase from £9,880 to £11,908 in 2022/23, rising to £12,570 in 2023/24. Class 2 NICs will not be payable if profits are below these limits. The maximum potential Class 4 NICs saving in 2022/23 is £208. There is no change to the Class 1 secondary threshold (employer), but the employment allowance will be raised from £4,000 to £5,000 for 2022/23 onwards.

Green measures

Business rates exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible low-carbon heat networks with their own rates bill took effect from April 2022.

Eligibility for VAT relief on energy saving materials has expanded and the VAT rate reduced to zero for five years from 1 April 2022. (These changes do not apply to Northern Ireland.) From April 2023, all data and cloud computing costs associated with research and development (R&D) will qualify for R&D relief.

What might lie ahead?

Alongside his Spring Statement, the Chancellor's Tax Plan revealed measures that will go to consultation before potential implementation. Mr Sunak said he wants to reform tax incentives for investment with changes that may include:

- increasing the permanent level of the annual investment allowance to £500,000
- increasing writing down allowances for main and special rate assets from the current 18% and 6% levels to 20% and 8% respectively
- introducing a first year allowance for main and special rate assets where firms can deduct, for example, 40% and 13% respectively in the first year, with the remaining balance of expenditure obtaining relief in subsequent years at standard writing down allowances rate
- introducing an additional first year allowance to bring the overall amount that can be claimed to greater than 100% of the initial cost. This could bring an additional capital allowance of 20% in the first year
- introducing full expensing to allow businesses to write off the costs of qualifying investment in one go when incurred.

The Chancellor also wants to reform R&D tax credits, making some more generous, and revealed he wants to consider whether current taxes, including the apprenticeship levy, are "doing enough" to incentivise businesses to invest in training.

More on the Chancellor's Spring Statement from the Shipleys website at: ***https://tinyurl.com/bd5ktsxc***

Updated Tax Facts

Following the Spring Statement, we have updated the digital version of the Tax Facts 2022/23 that we share with clients. You can download it as a pdf at: ***https://tinyurl.com/s47mchew***

Navigating the likely cash flow pressures on the horizon

Higher taxes and inflation are likely to negatively impact cash flow for many businesses in 2022. We look at some strategies to meet the challenge.

New corporation tax rates, a rise in national insurance contributions, higher dividend rates and sustained inflation are all set to put extra pressure on cash flow in 2022.

We know how critical it is for our clients to be able to pay the day-to-day running costs and Shipleys has a proven track record of helping businesses with cash flow management.

Short-term financing options

One way to free up cash is through a short-term loan and Shipleys has contacts with several finance providers who could help. One solution is a VAT loan, which involves the lender paying the company's VAT bills directly to HMRC with the business making monthly repayments to the lender. Corporation tax funding works in the same way.

Another option is invoice discounting, giving businesses instant access to a percentage of the invoice total from the lender. Invoice factoring is similar, but the lender will typically chase any late payments on your behalf. This needs to be carefully managed to avoid the risk of damaging client relationships.

Specialist mortgage products could also help, whether a second mortgage based on the equity you've built up in your home, or a commercial mortgage secured on property that's not your residence. These can take time to set up, so a quicker but more costly option is bridging finance, which can be arranged in days. It's a good idea to use a broker to find the right bridging finance provider, as with other types of finance.

Peer-to-peer lending, which matches investors with businesses via online platforms, is another potential source of finance. These platforms take a fee for providing the matchmaking and credit-checking the borrower.

Details of other types of finance are available on the Shipleys website: *https://tinyurl.com/pmx2tx26*

Paying your tax bill in instalments

Tax bills can be a big drain on cash flow. We advise clients who think they might struggle to pay their tax bill to get in touch with HMRC as soon as possible to ask about settling up by instalments using a Time to Pay arrangement.

It's important to get an instalment plan agreed and in place before any tax falls due to avoid surcharges and penalties – and remember that you will pay interest. You'll have to deal with HMRC in person, but the Shipleys team is happy to guide you through the Time to Pay application process. There's more about Time to Pay on the gov.uk website at: *https://tinyurl.com/yckryzcm*

The importance of just-in-time information

To help manage cash flow, it is important to be able to get an accurate picture of your finances whenever and wherever you need it. Many of the leading online accounting software products help businesses do just that.

By linking to your bank transactions and factoring in sales revenues and business expenditure, such software can provide businesses with just-in-time management information about their cash flow position. At Shipleys, we can help businesses make the most of Xero, Dext, Quickbooks and many other leading brands. More details at: *https://tinyurl.com/yckn6u43*

Budgeting and forecasting

It's more important than ever to invest time in budgeting and forecasting for different scenarios. The key is to identify potential stress points in different situations and their likely impact on the business.

Armed with this information, businesses can better plan activities to mitigate the risks. This might involve arranging finance (see above and our article in the last edition of *Shipshape* at *https://tinyurl.com/pmx2tx26).* Alternatively, it could involve looking to lease instead of buy assets or making more of capital allowances to ensure that new investment in the business is cost-efficient from a tax perspective.

The Shipleys team often supports businesses with forecast assessments and scenario planning.

Please speak with your usual Shipleys contact if you would like more information.

Are salary sacrifice schemes for electric cars worth considering?

Some businesses may be looking at the potential tax benefits, given the recent increase in national insurance contributions.

Salary sacrifice schemes – where some of an employee's pre-tax annual salary is given up in return for a benefit like a company car – are used by many employers to help incentivise and retain staff.

This benefits employees by reducing their income tax and national insurance contributions (NIC), as well as lowering employer's NIC.

However, rule changes introduced in 2017 meant that employees using some former salary sacrifice schemes (including those involving cars) were required to pay income tax and NIC on their benefits. These have had to be recorded on their P11D forms in line with other flexible benefit packages.

So, what's the situation with increasingly popular electric cars?

Unlike other so-called benefits in kind, the income tax charge for cars with emissions of less than 50g/km isn't based on the salary given up. Instead, it's based on a set percentage of the list price defined by HMRC, and the higher the CO2 emissions of the car, the larger the percentage. For cars with emissions of less than 50g/km, this is 2% of the list price for 2022/23.

The employer still benefits from NIC savings in that they don't pay class 1 NIC on the foregone salary. Instead, they pay class 1A NIC on the lower benefit-in-kind amount.

These tax benefits apply to employees. For directors receiving a small salary up to their income tax personal allowance, this type of salary sacrifice arrangement wouldn't bring tax benefits.

It's also worth bearing in mind that that benefit in kind rates may change in future years and that making changes to a salary sacrifice arrangement will also warrant updating the terms of the employee's employment contract.

For further information, please speak to you usual Shipleys contact.

For 2022/23, here's how it might work:	
Employee's annual salary	£42,000
Electric company car list price	£38,000
Amount foregone through salary sacrifice scheme for an electric car	£250 per month
An employee who is a basic rate taxpayer will save:	
Tax at 20% on salary foregone (£3,000)	£600
NIC at 13.25% on salary foregone (£3,000)	£398
Less benefit in kind of £38,000 at 2% *(taxed at 20%)*	£152
Total	£846
The employer also saves NIC based on the difference between the amount sacrificed and the benefit in kind.	
Employers NIC saved at 15.05% x £3000	£451.50
Less employer's NIC on benefit in kind at 15.05%	£114.00
Net saving for the employer	£337.50

Revised tax period rules for unincorporated businesses

Unincorporated businesses are due to enter their first taxable period under new basis period tax rules, potentially impacting on cash flow for some.

The changes affect the tax reporting for self-employed individuals, partners, trusts and estates with trading income. They involve aligning the tax 'year-end' of affected businesses with the fiscal year, taxing them on profits within a fiscal tax year regardless of the accounting period.

Due to be implemented in the 2024/25 tax year, with 2023/24 as a transitional year, the taxable period therefore runs from the start of their basis period in 2022/23 to 31 March 2024.

In some cases businesses may initially find they need to add additional months into the following year's profits and will potentially face taxation on up to 23 months' profit in one year, with an option to spread the accelerated tax over five years.

If you think your business will be affected by the changes, please get in touch with us.

New tax on residential property developments now in force

The new Residential Property Developer Tax (RPDT) came into effect from 1 April, and will see profits of any residential development company exceeding £25m taxed at 4%.

RPDT is intended to help the government raise around £2bn in revenue over 10 years to pay for the cost of remediating cladding safety issues on buildings. The calculation of profits is based on the rules of corporation tax and aligned to its deadlines.

The new tax applies only to companies, so not-for-profit home-building organisations – such as social landlords, housing associations and registered social providers – are exempt, as are any care homes and other housing for the elderly that provides personal care.

Adjusting to the new world of work

Covid restrictions may be lifted but firms need to think how they respond to the workplace revolution the pandemic has caused.

Almost all Covid restrictions ended this April as part of the government's Living with Covid plan, but returning to 'normal' isn't going to be straightforward – especially in the workplace.

Lockdown-enforced homeworking has been enthusiastically embraced and many firms now find they're expected to offer hybrid working, with staff working just two or three days a week in the office.

In this evolving new world of work, businesses need to be agile. Ideally, this will involve collaborating with staff to establish what works for the business, what works for employees and what works for clients.

One fundamental change already emerging is how businesses manage employees who work remotely. This will now become more output-based, focusing on whether staff are completing work assigned to them, and doing it well. Key to this will be more regular appraisals with employers clarifying what's expected of staff and so issues of any kind can be addressed quickly.

Issues to consider – from GDPR to insurance

The scope of issues raised by hybrid working is wide-ranging. Firms must factor in GDPR legislation but should also be thinking about insurance implications. For example, what happens if someone falls while working from home and claims it's a work-related accident? Such a scenario will likely have to be clarified by a test case in court but, in the meantime, the onus is on firms to provide staff with reasonable safety training for homeworking.

Decisions also need to be made about how much equipment firms provide for staff, as that may mean firms providing two of everything – one desk for work and one for home, for example. Early indications suggest many could be moving to a model that involves giving employees a budget to spend, providing training and then asking staff to sign a waiver regarding accidents while working from home.

With regard to Covid, companies are continuing to ask employees who test positive to stay at home until they test negative. Wearing masks is left to individual choice but many firms have created designated areas with extra space for employees who are vulnerable, but still want to come into the office.

The new workplace environment is still evolving so no one can know all the answers yet. All firms can do is be flexible and work with employees to ensure they feel listened to as we move forward. Those firms that don't, can risk losing staff to those that do.

Shipleys supports clients in all aspects of human resources and organisational development. More on our specialist HR consultancy service at: *https://tinyurl.com/2bv6386h*

Businesses set to pay money laundering levy

Some regulated businesses now face paying an annual charge of between £10,000 and £250,000 as part of the Government's drive to combat international financial crime through newly introduced anti-money laundering levy regulations.

The Economic Crime (Anti Money Laundering) Levy came into effect as part of the Finance Act 2022 and applies to medium, large or very large regulated businesses.

The levy will be imposed on credit and financial institutions and professional services firms including auditors, external accountants and independent legal professionals. Other affected organisations include trust or company service providers, estate agents, high-value dealers, casinos, auction platforms and those involved in the art market.

Companies affected by the regulations are required to pay a fixed fee levy based on their UK turnover – as defined in the Companies Act 2006 – with the first payments due for collection in the 2023/24 tax year based on accounts filed in 2022/23.

Three charging thresholds have been defined:

Medium-sized businesses
Revenues between £10.2m and £36m will pay a £10,000 charge

Large enterprises
Revenues of £36m to £1bn pay a £36,000 charge

Very large businesses
Revenues exceeding £1bn pay a £250,000 charge

Those reporting revenues of less than £10.2m are not affected.

HMRC will collect the fee in most cases, except for businesses regulated by the Financial Conduct Authority, where this will be carried by the appropriate collection authority, and organisations that have the Gambling Commission as their supervisory authority.

For further advice and information, please speak to your usual Shipleys contact.

Supporting an ever-evolving property industry

Continuing our series on Shipleys' sector specialisms, we talk to Steve Foster, one of the principals in our team servicing the property and construction industry.

Shipleys has a long tradition of supporting people and businesses involved in all aspects of the property and construction industry. This ranges from those designing and building property to investors, landlords and even demolition contractors.

In the UK, much attention is given to the highs and lows of the sector, covering both residential and commercial properties. That's not surprising when you consider that, in 2021, the gross value added of the UK's construction industry amounted to more than £122 billion, compared with £108 billion in 2020.

It's also a sector that receives significant government interest as a source of taxes and a means to achieve its environmental agenda. This certainly keeps the Shipleys team and their clients on their toes and is why each *Shipshape* invariably has an alert about a change impacting the industry.

Steve says the Shipleys team support clients across a wide range of areas. "We're often asked to help with special projects such as tax planning, and in the current climate, debt and business restructuring, as well as routine compliance."

Tax compliance and planning is complex when it comes to property and covers many areas. Steve explains: "These include the principal private residence exemption, the implications of trading vs. investment, inheritance tax, stamp duty land tax mitigation, capital gains for groups of companies, off-payroll rules for subcontractors and making the most of capital allowances."

He adds: "VAT is also an area that can be very confusing for people in this sector. It brings different rates depending on the nature of the project. Our VAT team answer a lot of questions in this area."

And more recently, the Shipleys team has been particularly busy advising clients with property in Europe as they try to understand the implications of the UK's departure from the EU.

You can find out more on our specialist Property and Construction team at *https://tinyurl.com/yc57mp6v*

Reminders and updates from Shipleys' VAT team

Early termination fees and compensation payments
Changes to the rules for charging VAT on termination fees and some types of cancellation fees came into effect on 1 April. They apply to businesses that charge their customers to withdraw from agreements to supply goods or services.

Such charges were previously outside the scope of VAT. However, fees charged when customers terminate a contract early will now be regarded as further consideration for the contracted supply. For example, if a customer is charged a fee for exiting a mobile phone contract early, or if they terminate a car hire contract early, it will be liable for VAT.

Compensation payments such as most types of dilapidations payment remain outside the scope of VAT. Working out the correct VAT treatment is still complicated so care needs to be taken. More detail from gov.uk at: ***https://tinyurl.com/5cvmz7nm***

End-customer claim refunds of VAT wrongly charged
Businesses should remember that they are not entitled to claim recovery of VAT that should not have been charged in the first place, or was charged at the wrong rate.

The only recourse for reimbursement is to go back to your supplier and ask for a refund.

Seeking reimbursement from HMRC, when a supplier refund is proving to be impossible, ceased to be available post-Brexit. More detail from gov.uk at: ***https://tinyurl.com/2p82f854***

Revised guidance on VAT grouping registration
There's new guidance for businesses that have applied to create or alter a VAT group but are experiencing a delay in hearing from HMRC. You should treat the application as provisionally accepted on the date you submitted it online or the date it should be received by HMRC if you submitted it by post, and account for VAT accordingly.

While waiting for a grouping registration, you may receive an automated assessment letter asking for payment of any automated assessments or notification of a default surcharge, but no action is required. If you submitted VAT returns to HMRC using previous registration numbers, you do not need to take any steps to change this. More detail from gov.uk at: ***https://tinyurl.com/y53yjumh***

For more information and advice about these or other VAT issues, contact Shipleys VAT team on e: *vat@shipleys.com* or by calling one of the Shipleys offices.

New additions to our senior team

We are delighted to announce that from 1 May 2022, there will be some new additions to the Shipleys senior team. Four of our current directors are being promoted to principal and two managers are being promoted to director.

We are also delighted to announce that Marcin Bakowski, Toby Foster and Louise Maloney have been promoted to the position of supervisor.

Commenting on the promotions, Managing Principal Steve Foster said: "All the Shipleys principals are delighted to have the opportunity to make these promotions. They are in recognition of all the hard work and contributions these colleagues have made to the firm and are thoroughly deserved. We are greatly looking forward to working with them further in their new roles."

Well done to all our promotees! Let us introduce you to the new members of the senior team.

Our new principals

Lauren Gilman – London
Lauren joined the firm straight from university and trained in our audit department. Since then, she has become a specialist in our Film, TV and Animation Production team. Her clients include companies in the sector requiring audits, claiming tax incentives or involved in the financing and distribution of media content. Lauren is a member of the Institute of Chartered Accountants in England & Wales (ICAEW) and the Shipleys audit technical committee.

Hannah Van Ross – London
Hannah is one of our audit and accounts specialists and supports a wide range of clients, ranging from owner-managed businesses and SaaS start-ups to large companies and groups. She specialises in the financial services sector, helping regulated clients meet their statutory reporting requirements. She also helps clients with online accounts software and migrating their systems to the cloud. Hannah is a member of the ICAEW and our audit technical committee.

Dean Hardy – Godalming
Dean is a tax specialist looking after a wide range of private clients from company directors and high net worth individuals to sole traders, non-UK domiciliaries and estates. He also supports businesses requiring tax guidance. Clients greatly value the way Dean gives tax advice and planning in a practical way and he contributes to many of our publications. He is a member of the Association of Taxation Technicians.

Gurvir Cheema – London
Gurvir joined the firm through our graduate programme and soon became a specialist in our Film, TV and Animation Production team. He also supports video game developers. His clients include companies in these sectors who require audits and those needing help claiming the relevant tax incentives. Gurvir is a member of the ICAEW and our audit technical committee.

Our new directors

Stephen Hume – London
Stephen has a background in audit and supports a wide range of clients. In recent years he has come to specialise in the financial services and clean energy sectors. He also has experience of corporate finance, undertaking due diligence, IPOs and business valuations. Stephen is a member of the ICAEW and our audit technical committee.

Daryl Roberts – Godalming
Daryl looks after a broad range of business clients from owner-managed businesses to groups of companies. He also supports clients in the entertainment industry. Daryl is an accounts specialist covering bookkeeping, accounting, VAT and company secretarial. He is a master of online accounts software and helps businesses migrate their accounting systems over to cloud-based accounting. Daryl is a member of the ICAEW.

Exciting future ahead for waterside production and film studios

And … action!

Michael Hamburger tells the story of how former canal-side factory buildings have been transformed into a hub for the creative industries.

A company founded a century ago to import seashells, gums and resins has now completed another stage in its evolution by converting former industrial buildings into a waterside creative hub that features production and film studios with modern office facilities.

Michael Hamburger's family business was established in the Netherlands in 1921 and traded in raw materials for the chemical and food industries. After moving to the UK in the late 1930s, the business switched to manufacturing synthetic chemicals for the agrochemical sector on the site of a former tannery fronting the River Wey Navigation canal in Surrey.

When a significant part of the site's manufacturing space became surplus to requirements in the 1990s, it was redeveloped as a business centre and became the basis of a new enterprise in commercial and residential real estate.

In 2006, the manufacturing operation relocated to the north of England, leaving more space redundant and providing further redevelopment opportunities. Despite major obstacles – including the impact of the 2008 banking crisis – part of the mill and factory building has now become the Tannery Studios.

Top facilities at a well-connected location

Video and sound facilities at the site include five studios, with cameras, lighting, production and crew also available to hire onsite. Both the studios and associated offices have access to the fastest and most reliable fibreoptic WiFi, and many offer views of the Surrey countryside and the River Wey. All this at a semi-rural location only five minutes from the A3, with easy connections to London by car or train.

Majority shareholder and chairman Michael says Tannery Studios has now secured various tenants from the creative industries, and a company has been engaged for the day-by-day management of the facilities.

Advertising luxury products

He adds that there's already been a lot of activity at the studios, creating advertising and promotion for "top-end, luxury products" – although he can't name names because of non-disclosure agreements. "So far, rather than TV or films it's mainly been shorter-run, high-quality stuff that other studios don't seem to cater for with the privacy that's required." However, Tannery Studios space has also been hired by TV production companies and Michael adds: "Obviously, we'd like the film industry here as well – who wouldn't want to become a new Pinewood!"

Reflecting on the challenges and successes on the journey to this point, Michael cites the considerable challenge presented by the 2008 banking crisis: "Our bank was Northern Rock, which went into administration, so although we wanted to redevelop the redundant industrial buildings, we had no means of raising finance."

Another more immediate issue to be tackled was providing fast internet connectivity onsite. An interest-free local enterprise partnership (LEP) loan financed the laying of the requisite fibreoptic cable – as well as much-needed repairs to the nearby canal.

Working with the LEP, it was decided the best use for the old factory buildings would be in the growth sectors of film, post-production and video games. Conversion work, financed in part by a further LEP loan, got underway in 2017 and was largely complete before the 2020 outbreak of Covid. Looking to the future, there is potential for an extension of up to 100,000 square feet.

Shipleys has provided valuable support during the development of Tannery Studios. Michael says: "They haven't just supplied accountancy services – they've really held our hand along the way. They're personable as well as being efficient, they understand our business and have really helped us when we needed it."

www.tannerystudios.co.uk

Top tips

Collaboration between businesses

Our Business Club recently examined the popular trend of organisations working together, along with the ingredients for success and pitfalls to avoid.

Collaboration and partnering is expected to be a growing business trend in 2022 and beyond, as it becomes increasingly difficult to succeed in business without effective partnerships with other organisations.

A straw poll of Business Club members revealed that 93% had collaborated with another business in the past three years and 85% were looking to collaborate further in the next three years.

Joining forces is seen as a potential solution to a range of business challenges – from supply chain disruption and impatient customers who want products delivered at ever-faster speeds to talent shortages, rising costs, limited resources, and environmental, social and governance considerations.

Ingredients for success

Teaming up doesn't guarantee success, but there are certain ingredients that will make for good working partnerships. Our Business Club members highlighted shared values as particularly important in ensuring a consistent approach – something that usually comes from finding a business of a similar size and culture to work with.

Collaboration clearly needs to work for both organisations and enhance their respective offerings. It succeeds when it fills a gap for each party involved. Business Club members also pointed to effective communication as essential between all parties. Appointing a project lead and holding regular meetings to maintain progress and keep everyone up to speed is highly recommended.

There are of course different types of collaboration, with varying degrees of involvement and risk. Selecting the right framework will obviously depend on the business opportunities involved, but there are lots of options to explore. These range from referral, outsourcing and sub-contracting to joint ventures and formal partnerships.

Pitfalls to avoid

A couple of key collaboration pitfalls identified by club members are:

a) **not being realistic about the likely outcome of a joint effort**

b) **misunderstanding what the respective parties hope to gain from it.**

Other issues to consider include insufficient due diligence between the two parties – particularly for long-term collaborations – and the potential risk to vital business assets, including intellectual property, client lists and data.

More at:
https://tinyurl.com/yc8nb7xk

How unapproved share options are taxed

Unapproved share option plans can be used by employers to reward those who help grow the business, including those not eligible for HMRC-approved options like the Enterprise Management Incentive Scheme.

Individuals are given the option to acquire shares in the business at a future date at a price specified by the company – usually the market value of the shares on the date the option is granted. However, an important advantage of unapproved plans is that employers have discretion to tailor qualifying conditions for share recipients, such as meeting various performance targets.

Recipients of shares pay income tax only when they exercise their option. This is based on the difference between the market value of the shares at that date, and the price paid for them. At the same time, the company will get a corporation tax deduction for the difference between the market value of the shares at that time less the amount paid by the individual for the shares. Unless there is a ready market or buyer for the shares, there should be no national insurance contributions due.

If the share value at the point of exercising the option is lower than the agreed price, then the individual may choose not to acquire the shares and let the option fall away. A new shares option grant could then be negotiated.

For a UK resident offered shares in a foreign company operating in the UK, the UK income tax liability will be the same – but only while that individual is resident and working in the UK. Periods of non-UK residence during the vesting period can be apportioned out on a straight-line basis. When the individual receives shares in the foreign company, they may face a withholding tax charge from the overseas tax authority. This can be avoided by providing that authority with a certificate of UK residency from HMRC.

On the disposal of shares, an individual will pay capital gains tax calculated by comparing the disposal proceeds to the market value of the shares when the options were exercised.

Employers should be aware there is 6 July deadline for reporting unapproved share option plans to HMRC.

Inheritance tax nil rate bands

Making allowances count

More and more estates are now subject to paying inheritance tax (IHT), but much can be done to mitigate liability by using the available allowances.

The two main allowances are the nil rate band and the residential nil rate band.

The main nil rate band has been £325,000 since 2009 and is frozen until 2026. Each person gets a nil rate band, and for a married couple/civil partners, any nil rate band not used on the first death is available for use against the second estate.

The second part is the residential nil rate band, set now at £175,000 per person, if their net estate is not more than £2m. This is for use against a person's home left to a direct descendant.

Once someone's net estate is beyond £2m, the band reduces by £1 for every £2 the estate is over that threshold. So, for an estate of £2,200,000, the threshold would reduce by £100,000 to £75,000. Once an estate is worth more than £2,350,000 this additional nil rate band is lost.

There are provisions to use this nil rate band even if a person has 'downsized' or even sold their property before death. As long as this happened after 8 July 2015, the former home would have qualified for the residence nil rate band, and some of the estate passes to direct descendants, some or all the residential nil rate band can be claimed. However, it is a complex area requiring care to get maximum benefit.

Like the main nil rate band, the residential nil rate band can be carried over to a spouse if not used on the first death. So, on a combined net estate of less than £2m, with a home worth more than £350,000 in the estate, the total nil rate bands available could total £1m.

The important point here is that if your estate is over £2m, but not by much, thought should be given to making lifetime gifts, or making provisions in your wills to not leave everything directly to your spouse. This will ensure maximum reliefs are available by the beneficiaries of your estate.

Any IHT planning should of course follow from advice specific to your estate and should be combined with ensuring your Wills are as tax efficient as possible to ensure all reliefs are available.

HMRC continues to issue 'discovery' assessments

HMRC has introduced a legal measure enabling it to continue using "discovery" assessments to recover tax owed by individuals who fail to report and pay liabilities relating to the High Income Child Benefit Charge (HICBC), Gift Aid donations and pension charges.

This measure was included in the Finance Act 2022, which received Royal Assent in February this year, and can be applied retrospectively to 30 June 2021.

This follows a tax tribunal case in June last year, which found the tax authorities did not have the power to recover an individual's HICBC by issuing a discovery assessment.

However, HMRC is challenging the Tribunal's decision through the Court of Appeal and says that, while waiting for the outcome, the new measure enables it to recover tax owed.

In November HMRC pointed out that the retrospective measure "...makes a technical clarification to clarify the law to provide legal certainty and maintain the status quo".

The legislation does not currently apply to people who previously received a discovery assessment and appealed before 30 June 2021.

If you feel you may be affected by this issue, please get in touch with us.

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