Winter 2022/23

Financial and business intelligence

SHIPSHAPE

Pulling together

At your side in meeting the challenges and pursuing the opportunities of 2023

shipleys LLP

Also in this issue:

Contents:

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 Gilda Rochester at our London office.

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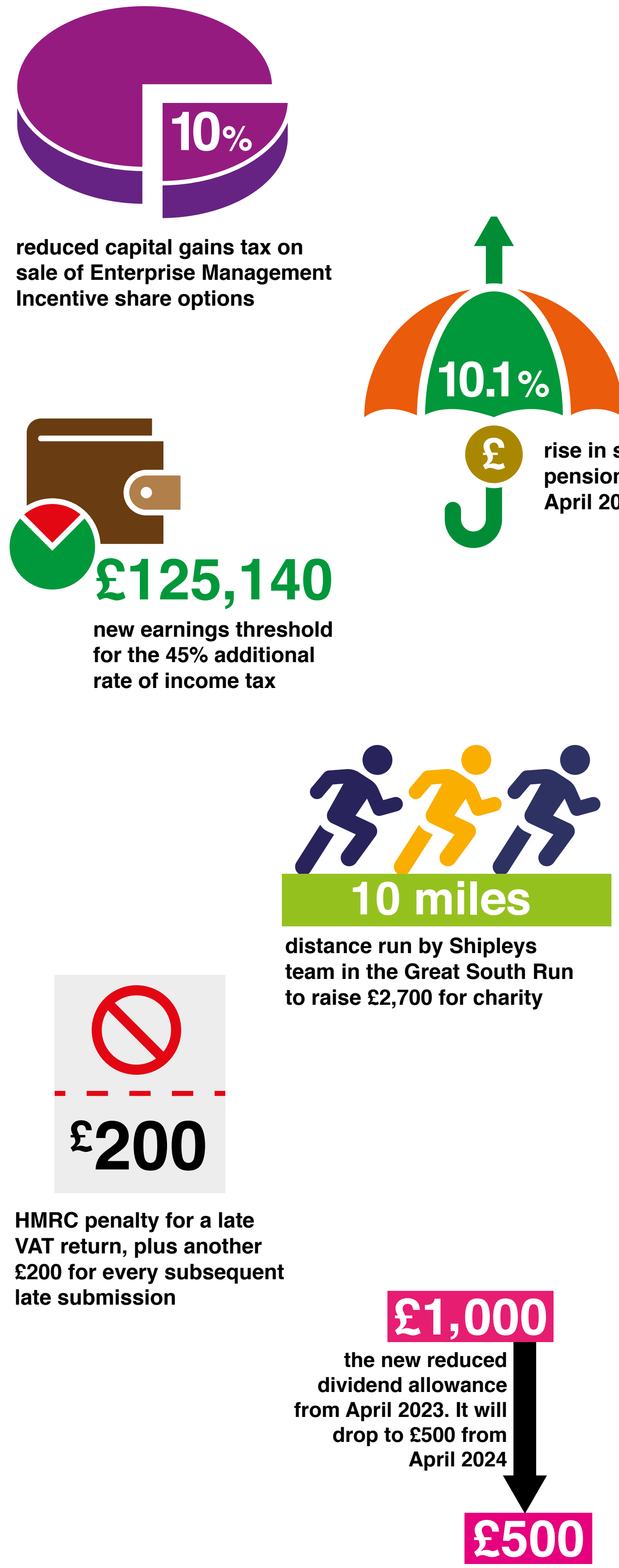

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All hands on deck!

What a turbulent autumn it proved to be on the political and economic stage. Most clients I speak with are now hoping for some much-needed respite after the recent turmoil.

Standing by you

A period of stability may be a little slow in coming, given the Bank of England's recent forecast that the UK economy will remain in recession throughout 2023.

In my last viewpoint, I stressed the importance of reviews, budgeting and planning to help organisations and individuals manage the current challenges. That is still vital and Shipleys has been busy helping clients make sense of the numerous changes in the fiscal landscape.

For now, Jeremy Hunt's Autumn Statement on 17 November sets the scene for the coming years, although we are expecting potential refinements in the Spring Budget.

Mixed blessings

Our summary of Mr Hunt's statement is on pages 2-3. It shows that while there were few changes to tax rates, the freezing of many thresholds and reductions in allowances for areas such as dividends and capital gains mean that people will be paying more tax.

With employers trying to support staff facing rising living costs, it's important to assess the implications pay rises will bring to people's tax liability. A case in point is the 45% additional rate of tax. With the threshold reduced from £150,000 to £125,140, the Institute of Fiscal Studies anticipates the number of additional tax rate payers will swell to over 1 million (up from 236,000 when introduced in 2010-11).

Don't forget too that once you earn over £125,140, you don't benefit from the personal allowance or personal savings allowance.

Tread carefully

It's important to make the most of any allowances and reliefs available to you. Don't forget to fully utilise pension contributions, gift aid contributions, annual investment allowances and tax-free savings. Individual savings accounts still offer tax exemption for investment income and gains.

Careful planning will also help. The inheritance tax threshold freeze means more estates will be liable. Consider measures such as gifting and trusts to help reduce that burden. For more on this, see this recent article: *https://tinyurl.com/yk5tah3s*

Business owners may also want to assess the impact of the reduction in the tax-free dividend allowance and the retained increases to corporation tax from April 2023.

The reduction in the capital gains tax allowance comes with ramifications. For example, those who have invested in buy-to-let property may want to review their investments.

Rest assured, you are not alone in trying to navigate these changes. Our experts are monitoring the latest developments and can advise you on your individual circumstances.

Growth and innovation

The Chancellor was keen to support innovation in his Autumn Statement and increased the amount companies can raise through the Seed Enterprise Investment Scheme. This and the Enterprise Investment Scheme and Venture Capital Scheme are being extended beyond 2025.

While the Annual Allowance Super Deduction ends in 2023, the Annual Investment Allowance (for tax-free investments in qualifying machinery and equipment) has been permanently set at £1m.

There were mixed outcomes for research and development tax reliefs, with increases for large companies, but reductions for those using the SME scheme. With the latter it will mean a lot less money coming back into businesses, particularly when combined with the PAYE cap from last year and the fact that, from April, all R&D has to be incurred in the UK to qualify.

We will closely follow the consultation on proposed reforms to creative industry tax relief schemes. Please speak with our respective sector specialists to discuss further via *www.shipleys.com/sectors*

Supporting staff

2022 has seen record lows in unemployment and most employers we speak with are keen to find affordable ways to support and retain staff. This is prompting more innovative approaches to pay, for example through cost-of-living bonuses, reworking commission policies, introducing long service awards and providing employer loans. As I write, Tesco has been in the news for offering its UK staff pay advances.

Our recent Business Club discussed how employment is evolving in the face of current demands. There's a summary of the insights shared on page 5. We've also explained how share options can be used to help retain staff (page 4).

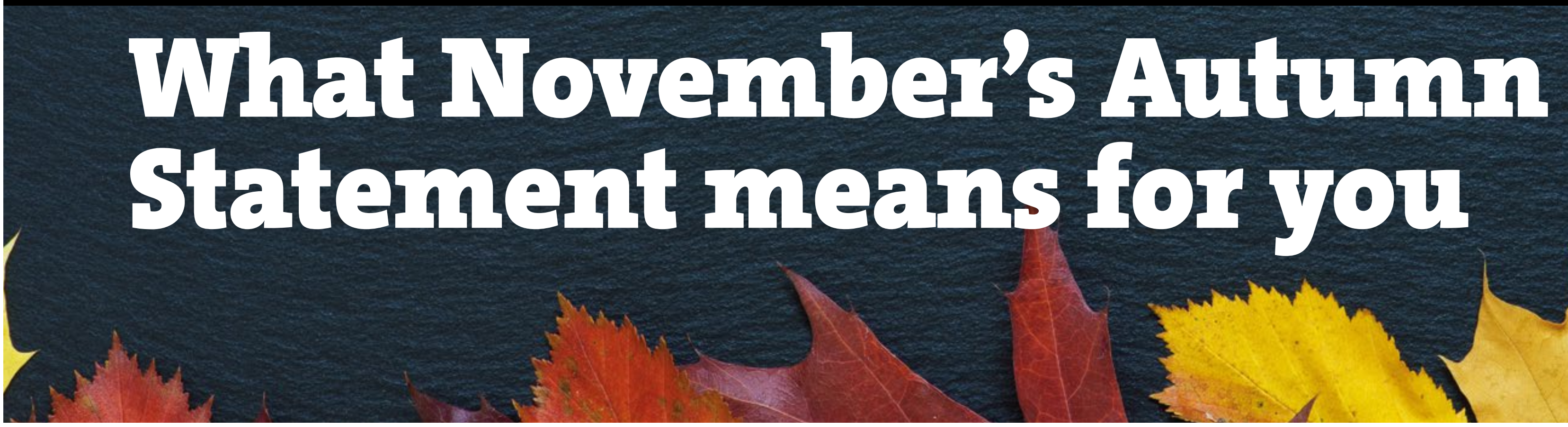
Season's greetings

With 2023 on the horizon, Shipleys remains steadfast in our ability and passion to help clients survive and thrive. We are here to help you.

On behalf of all the Shipleys team I wish you good health, comfort and happiness in 2023.

Steve

What November's Autumn Statement means for you



We look at the Chancellor's key announcements affecting both businesses and individuals.

After the unprecedented recent political turmoil, Jeremy Hunt finally made his much-anticipated Autumn Statement on 17 November. It came against a challenging recessionary backdrop, rampant inflation and the need to calm markets and re-establish the UK's financial credibility.

The Chancellor's stated strategy is to tackle the cost-of-living crisis and rebuild the economy, while avoiding tax rises that most damage growth. Nevertheless, the tax increases announced are substantial, with tax as a percentage of GDP increasing by 1% over the next five years.

Thresholds frozen

Mr Hunt announced the freezing of the main income tax allowances and thresholds, the main national insurance thresholds plus the inheritance tax nil rate bands at current levels to April 2028.

Currently, apart from Scotland, the threshold for the 45% additional rate of income tax will be lowered from £150,000 to £125,140 from April 2023. The Scottish Government will announce their position on income tax as part of The Scottish Budget due to be published on 15 December 2022.

The dividend allowance will also reduce from £2,000 to £1,000 and be halved again to £500 from April 2024. The capital gains tax annual exempt amount will be cut from £12,300 to £6,000 for 2023/24 and halved to £3,000 for 2024/5.

Collectively, the changes will mean greater tax bills for people. It's therefore important to be mindful of the implications that pay rises, bonuses and the sale of assets will have on your tax liability.

Government support

Meanwhile, the state pension, pension credit, universal credit (UC), the benefit cap and certain other benefits will increase by 10.1% in line with CPI inflation at September 2022.

While the government's energy price guarantee will be adjusted from April 2023 so typical households pay £3,000 a year, a review of the energy bill relief scheme (for non-domestic energy consumers) will be published by 31 December 2022. The government says it recognises that some businesses may need support beyond March 2023, but this will be significantly lower and targeted.

Business rates bills in England will be updated from April 2023 to reflect April 2021 property values and there will be a £13.6 billion package of targeted support for businesses over the next five years.

Tariffs on over 100 imported goods will be removed for two years to help reduce costs for UK producers.

Research and development and creative industry tax reliefs

From 1 April 2023, the research and development (R&D) expenditure credit rate will increase from 13% to 20%. The small and medium-sized enterprises (SME) additional deduction will, however, decrease from 130% to 86% and the SME credit rate will decrease from 14.5% to 10%.

The government has also announced a consultation into simplifying and modernising audio-visual tax reliefs. Shipleys' clients have greatly benefited from schemes like the film tax relief scheme. Five creative industries will be subject to the consultation – animation, children's TV, film, high-end TV and video games. Initial proposals include a merger of four of the reliefs, a revision of definitions, adjustments to some historic EU conditions, and the reform of all reliefs to above-the-line, repayable, tax credits.

There is some concern that proposed changes may limit reliefs if EU expenditure is excluded, and a proposed increase in the thresholds for minimum expenditure applied. This is likely to affect the video games and TV sectors more.

Pay and National Insurance

From 1 April 2023 the National Living Wage for individuals aged 23 and over will rise by 9.7% to £10.42 an hour. National Minimum Wage rates for younger workers and apprentices will increase by similar percentages.

However, the level at which employers start to pay employer National Insurance contributions for their employees will remain at £9,100 until April 2028. The employment allowance will stay at £5,000. Value added tax registration and deregistration

thresholds will stay at their current levels of £85,000 and £83,000 respectively until 2026.

Retained from Kwarteng's fiscal statement
Many proposals in Kwasi Kwarteng's fiscal statement on 23 September 2022 were revoked by Jeremy Hunt on 17 October. However, some were confirmed in Mr Hunt's November statement. The more notable surviving changes are:

- **NIC changes –** Scrapping (effective 6 November 2022) of the 1.25 percentage point increases to all 2022/23 class 1 and class 4 NIC rates and the subsequent 1.25% health and social care levy.
- **Stamp duty land tax** – 0% band threshold for residential property remains at £250,000 In England and Northern Ireland.
- **Annual investment allowance –** Permanently set at £1 million to provide 100% relief for annual qualifying expenditure on plant, machinery and equipment up to this limit. The capital allowance super-deduction will still end on 31 March 2023.
- **Company Share Option Plans –** From April 2023, qualifying companies can issue up to £60,000 of options to employees, double the current limit.
- **Seed Enterprise Investment Scheme (SEIS) –** From April 2023, companies will be able to raise up to £250,000 of funding – a £100,000 increase. The gross asset limit will be increased to £350,000, company age limit raised to three years and annual investor limit doubled to £200,000. The SEIS, Enterprise Investment Scheme and Venture Capital Trust scheme will be extended beyond 2025.

To discuss the implications of the Autumn Statement on your business or personal finances, please talk with your usual Shipleys contact or get in touch with one of our offices. In the meantime, there's more detail at: *https://tinyurl.com/398eed48*

Future plans

Chancellor Hunt's proposals also included:

- **Investment zones – The government will refocus the investment zones programme to create a limited number of high potential clusters, to be announced in the coming months.**
- **Solvency II – The government will introduce a "simpler, clearer and much more tailored regime". The required risk margin will reduce significantly, with a 65% cut for long-term life insurance business.**

VAT corner

Reminders and updates on VAT

Change to business activity test
There's been a change in the way HMRC works out if an activity is a business activity for VAT purposes. It will affect not only charities and non-profit organisations but also businesses providing nursery and crèche facilities, receiving grants or subsidies, or carrying out non-business activities.

HMRC will now apply a two-stage test to determine what is a business (or economic) activity. Stage one will focus on whether the activity results in a supply of goods or services for consideration. If there is no consideration, it is not a business activity for VAT purposes.

Stage two looks at whether the supply is made for the purpose of obtaining income therefrom (remuneration) and whether there is a direct or sufficient "link" between the supplies made and the payments given.

For activities deemed to be business activities for VAT purposes there is a requirement or an opportunity for organisations to register for VAT, a liability to account for VAT and an entitlement to recover VAT incurred on qualifying expenditure. More on the gov.uk website at: *https://tinyurl.com/mscef7br*

New system from 1 January 2023
A changed VAT penalty and interest regime for returns beginning on or after 1 January 2023 will be more expensive for some businesses. The headline penalties for a late VAT return – £200 plus another £200 for every subsequent late submission – make the changes appear to be less costly.

However, late payment interest (LPI) starts on the first day after the due date at the Bank of England base rate plus 2.5%. Rising interest rates will therefore make this quite a significant charge. Furthermore, late payment penalties (LPP) will be imposed, starting at a rate of 2% from day 16 after the due date, with an additional 2% on the amount outstanding on day 30.

So, get returns in on time, even if full payment cannot be made. Pay as much as you can as soon as you can to reduce LPP and LPI. More at Shipleys' website: *https://tinyurl.com/2aubjkd5*

And finally…
In his 17 November statement, the Chancellor confirmed the VAT registration and deregistration thresholds will stay at their current levels of £85,000 and £83,000 respectively until at least March 2026.

A quick guide to share options

Share options often become a key part of the strategy for start-ups and fast-growth businesses. We look at the different schemes available, the benefits and the tax implications.

With many sectors facing fierce competition for the best talent, share options can be a good way to remunerate, retain and motivate key employees.

A share option is the right to buy a certain number of shares in a company, at a fixed price, sometime in the future. The potential value of the shares encourages employees to take greater interest in the performance of the business and can help to keep offers from head-hunters at bay.

Options often come with conditions such as shares reaching a target price before they become available, or employees having to stay with the company for a specified time or achieving specific performance targets.

Options v shares

Options are a right to buy shares in the future, which is very different to letting someone buy shares immediately. The latter would mean they become a shareholder with voting rights and dividend payments.

No money changes hands when options are granted: an option-holder (usually an employee) only pays the pre-agreed fixed price (strike price) when they convert their option into shares. The strike price is usually a discount on the market value at the time the options were granted.

Share options and taxes

The main share option schemes for small and medium-sized businesses are the Enterprise Management Incentive (EMI), Save As You Earn (SAYE) and the Company Share Option Plan (CSOP).

Tax is only charged when options are exercised, ie, when the shares are bought. Outside EMI-related schemes, the employee will pay income tax and NICS on the difference between the strike price and actual market value of the shares when they exercise their option. If they sell their shares, they'll be liable to capital gains tax (CGT) on any profit. For employers, there should be no tax cost (subject to certain conditions).

EMI schemes are popular because they are backed by HMRC and come with tax benefits. If the market value of the shares has been agreed by HMRC when the options were granted, the option holder doesn't pay the income tax or NICS. This is as long as the shares are bought for at least the market value when the options were granted.

CGT on the sale of shares also reduces to 10% (based on business asset disposal relief being available) and the company pays no CGT on the options either. Another bonus is that corporation tax relief is available on EMI share schemes where the qualifying shares are acquired upon exercise of the option.

Don't fall foul of HMRC

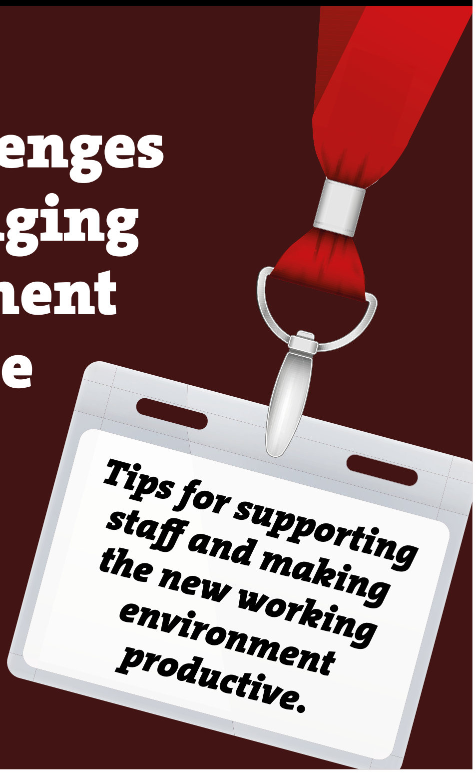
Failure to agree a fair market value for shares with HMRC runs the risk of negative tax implications later. Here's an example: a funding round takes place at a business and the shares are sold at £5 per share. If at a later date it was decided to grant EMI options at £2 per share, HMRC would argue the market value at the time of granting the options was at a discount. It would then be difficult to prove the £2 valuation to HMRC.

Timing is everything

Timing is particularly important for fast growth start-ups facing imminent or multiple funding rounds. Ensure approval of share option valuations are obtained at the right time for your business.

If the company is not able to qualify for HMRC-approved option schemes like EMI, there are still ways to use shares to incentivise employees. To find out more, please get in touch with Hannah Van Ross or go to the Shipleys website at: ***https://tinyurl.com/33txapck***

Meeting the challenges of a changing employment landscape



Against a backdrop of low unemployment and the 'battle for talent', many businesses have adopted hybrid working and are more focused on employee wellbeing to help ensure a happy and productive workforce through tougher trading conditions.

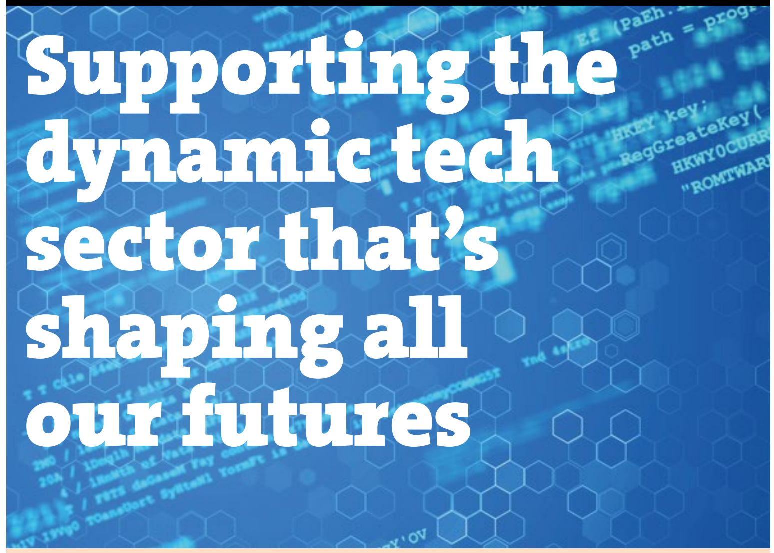
Our recent Shipleys Business Club discussed the employment and resources challenges common to many businesses right now. In particular, how they support staff given rising costs for both individuals and organisations. Here are some of their top tips.

- **Employee incentives:** encourage staff loyalty through incentives linked to staff performance – for example, Enterprise Management Incentive, or another share options schemes.
- **Staff benefits:** explore staff benefits which will help with rising costs, for example, the cycle to work scheme and cost-of-living bonuses.
- **Employee voice:** hold regular but short staff surveys to quickly identify and resolve issues.
- **Keep it social:** organise activities to foster team spirit.
- **Hybrid working training:** train managers to deal with new issues arising from off-site or hybrid working, especially for younger or newer employees.
- **Hybrid working tech:** use software like Deskbird to help teams work more effectively.
- **Maintain quality standards:** reduce reliance on sub-contractors where possible or invest in more training for them.
- **Completion bonuses:** consider offering these to staff and/or contractors to ensure projects are delivered to a high standard and on time.
- **Downsize:** consider changing or moving your office space to reduce costs and pressure on profitability.
- **Review operations:** Encourage leadership teams to review processes so products and services are delivered more efficiently.

There's much more detail on this topic on the Shipleys website at *https://tinyurl.com/yckkdweu*

To join future Business Club events, email *lopeza@shipleys.com*

Supporting the dynamic tech sector that's shaping all our futures



Continuing our series on Shipleys' sector specialisms, we explore the firm's work with technology and software as a service (SaaS) businesses.

The trend towards the digitalisation of our lives and businesses has been further accelerated by the Covid-19 pandemic. That of course means that technology, and software as a service (SAAS) in particular, is a highly dynamic sector that continues to experience incredible growth.

The fast-track growth path for many of the businesses in the sector brings its own unique challenges and opportunities. There's pressure to develop products and services quickly and then maximise sales, but Shipleys has the sector know-how to help them achieve their goals.

We are currently busy advising companies in the sector on changes coming into effect in April 2023. These will reduce research and development tax relief payments and limit incentives for work carried out overseas.

Tim Hardy, one of the principals leading our technology and SAAS team says: "This is an issue because many tech and SaaS businesses use programmers and other talent from eastern Europe. We can help companies ensure they understand the new rules."

Shipleys' services to the sector include ensuring start-ups are compliant and on a firm footing before assisting with plans for expansion. Technology and SaaS businesses are often backed by private equity and Shipleys is highly experienced in the reporting and metrics these investors require. Our expertise also extends to advising on acquisitions or exit planning for business owners.

Tim says: "We have a great track record in supporting businesses throughout their lifecycle – from start-up to private equity-backed entities going through growth, all the way up to larger groups."

Clients include both business-to-consumer and business-to-business software development companies and those specialising in app development. We also have expertise in the video games sector. Tim adds: "This is an exciting area that's shaping the future, and we're seeing consistently high year-on-year growth in our work in this sector."

Find out more about our technology and SAAS team at *https://tinyurl.com/ykjxchbv*

Shipleys road race team raises £2,700 for charity

Donations will help to prevent a life-threatening infection in new-born babies.

A Shipleys team successfully completed the 10-mile route of the Great South Run, raising more than £2,700 for the Group B Strep Support charity.

One of Europe's most popular mass participation road races, with former winners including Mo Farah and Paula Radcliffe, the Great South Run is held annually in Portsmouth and passes many of the city's historic sites.

Scores of friends, colleagues, family and well-wishers made donations to help the team raise vital funds for the Group B Strep Support charity.

Threat to new-born babies

Group B streptococcus is the UK's most common cause of life-threatening infection in new-born babies, and of meningitis in babies aged under three months.

On average in the UK, at least two babies a day develop a group B strep infection. That sadly results in one baby a week dying from the infection, and one baby a week surviving with long-term disabilities – physical, mental or both.

However, most infections are preventable, and the Group B Strep Support charity works hard to inform families and health professionals about group B strep in order to save tiny lives.

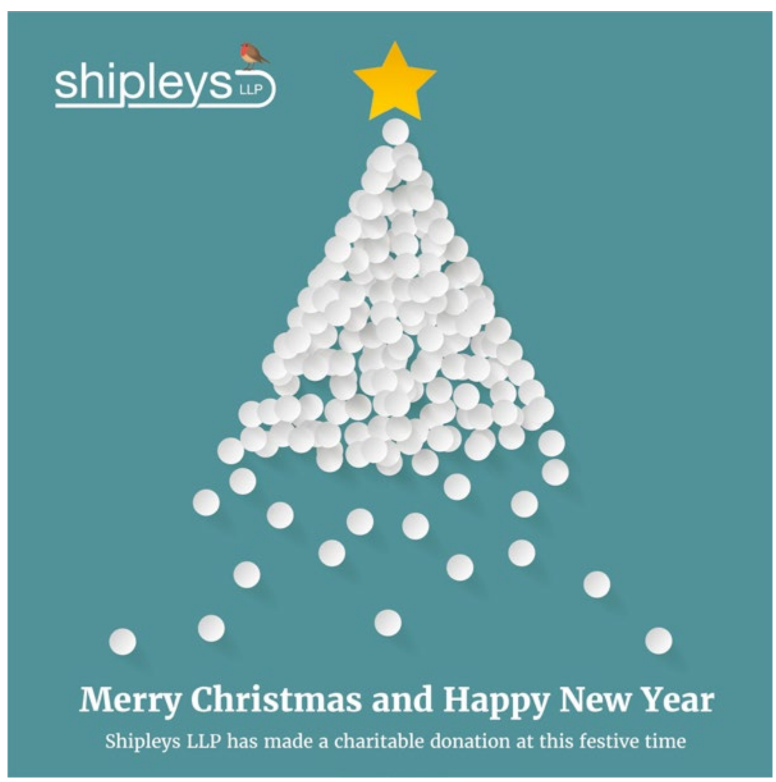
A charity close to race team's hearts

It is a charity particularly close to the road race team's hearts following a colleague's personal experience of group B strep in the early weeks of their new-born baby.

We are very proud of our colleagues who took part in the run, and they are keen to thank everyone who has already sponsored them. If you'd like to find out more about the good work of the Group B Strep Support charity, go to: ***https://gbss.org.uk***

distance run by Shipleys team in the Great South Run to raise £2,700 for charity

And finally to all our Shipshape readers...



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