Business development & tax planning handbook 2022/23

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Introduction

In this handbook we have drawn together a series of updates on topics that business owners and taxpayers can use to support their efforts to re-establish their financial affairs after the dire effects of COVID-19 disruption for the last two years.

This publication was written February 2022, when COVID-19 restrictions have been eased. However, rising interest rates, inflation, Brexit and other international concerns indicate that a return to pre-2019 economic certainties may be some time away.

Much of what we suggest is that you consider your options carefully and plan accordingly.

Disclaimer:

We have used reasonable care and skill in assembling the information in this handbook. However, the information presented cannot be tailored to personal circumstances or particular situations. There may also be factors relevant to you which fall outside the scope of the content of this publication. Accordingly, the material included in this booklet does not constitute personal or business advice. You should not rely solely on any material in this handbook to make (or refrain from making) any decision or take (or refrain from taking) any action.

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Chapter 1:

Pension contributions tax breaks 2022-23

Read this update if you want to review your pension provisions and plan your pension contributions for the 2022/23 tax year.

Is there a limit on the tax relief you can claim?

Yes -- tax relief is only available on contributions to registered pension schemes up to certain limits.

Individuals can make contributions to the higher of £3,600 and 100% of their earnings, if they have sufficient annual allowance available to shelter the contributions.

Contributions can be made by (or on behalf of) non-taxpayers up to £3,600 a year. Net of basic rate relief at 20%, this will cost £2,880.

How much is the annual allowance?

The annual allowance is set at £40,000 for 2022/23. However, a taper applies which reduces your annual allowance if you have:

- adjusted net income of £240,000 or more (broadly income including pension contributions); and
- threshold income of £200,000 or more (broadly income excluding pension contributions).

Where both apply, the annual allowance is reduced by £2 for every £1 by which adjusted net income exceeds £240,000 until the minimum level of the annual allowance is reached. This is set at £4,000 for 2022/23.

The impact of the taper means that if your adjusted net income is £312,000 or more and your threshold income is at least £200,000, you will only receive the minimum annual allowance of £4,000 for 2022/23.

A reduced annual allowance – the money purchase annual allowance (MPAA) -- also applies if you have flexibly accessed a money purchase pension pot having reached the age of 55. This is also set at £4,000 for 2022/23.

What about employer contributions?

Contributions made by your employer count towards the annual allowance. They are also considered when working out adjusted net income for the purposes of determining whether the annual allowance taper applies.

What about unused allowances from earlier years?

Where the annual allowance is not fully utilised in a tax year, the unused portion can be carried forward for up to three years.

This means that when working out the total tax relieved pension contributions that you can make in 2022/23, you need to consider not only the available annual allowance for the current tax year, but also any unused allowances brought forward from:

- 2021/22
- 2020/21; and
- 2019/20.

Allowances brought forward from a previous year can only be used once the current year's annual allowance has been used up.

Once this has been done, brought forward allowances from an earlier year are used before those of a later year.

Any allowances brought forward from 2019/20 will be lost if they are not used by 5 April 2023. However, contributions cannot exceed 100% of your earnings (or £3,600 if higher).

Limit on lifetime pension savings

The lifetime allowance places a cap on the value of tax-relieved pension savings. The lifetime allowance is set at £1,073,100 for 2022/23, unchanged from 2021/22. At the time of the 2021 Budget, the Chancellor announced that it would remain at this level for tax years up to and including 2025/26.

If you think that your pension savings may be approaching this level, it is important that you review them before making any further contributions. Where pension savings exceed the lifetime allowance, tax relief on the excess contributions is recovered at the rate of 25% if the excess is taken as a pension and at a rate of 55% if it is taken as a lump sum.

Why make additional pension contributions?

Making pension contributions is tax efficient as relief is given at your marginal rate of tax. This means that a contribution of £100 will only cost you £60 if you are a higher rate taxpayer, and £55 if you are an additional rate taxpayer.

If you have some or all the 2019/20 annual allowance available, making extra contributions more than the 2022/23 allowance to mop it up will prevent it from being lost.

Making pension contributions can also be useful if you want to reduce your income, for example to preserve all or part of your personal allowance for 2022/23; or to move into a lower tax bracket. The personal allowance, set at £12,570 for 2022/23, is reduced by £2 for every £1 by which adjusted net income (in this instance, income before personal allowances and less trading losses, charitable donations, and pension contributions) exceeds £100,000. For 2022/23, this means that the personal allowance is lost once adjusted net income reaches £125,140.

Due to this taper, the marginal rate of tax between £100,000 and £125,140 is 60%.

Where making additional pension contributions is an option, this can be valuable, whether to prevent losing any of the personal allowance, or to preserve some of it or more of it.

And finally, using these generous tax breaks to create a fund for your retirement is a worthwhile endeavour.

We can help

For example, you may be unsure:

- How much to pay each month to fund a reasonable pension?
- How do you claim tax relief on contributions made?
- Is it better to pay personally or for your employer to pay contributions?

Please call if you need more information regarding any of the issues raised in this update.

Chapter 2:

Working from home tax breaks 2022-23

If you are choosing, or required to work from home, you may be able to benefit from a number of tax breaks. The nature of the available tax breaks varies depending on whether you are an employee, self-employed or operate your own limited company.

Separate considerations also arise if you have a home office.

Employees working from home

The tax breaks available to employees working from home fall into two camps:

1. tax-free benefits and expenses provided by their employer and
2. deductions that they can claim for expenses that they incur because of working from home.

A few temporary concessions are also available for employees who are, or have, worked from home as a result of the COVID-19 pandemic.

1.Tax-free benefits and expenses

Employers can provide the equipment and supplies that the employee needs to work from home, such as office furniture, stationery, or a computer without a taxable benefit arising. This applies as long as ownership of the equipment remains with the employer and private use is not significant.

Employers can also pay employees a tax-free allowance of £6 per week (£26 per month) to cover the cost of additional household expenses incurred because of working from home.

2.Tax relief for expenses

Generally, employees are only able to claim tax relief for expenses incurred wholly, exclusively, and necessarily in the performance of the duties of their employment. This is a hard test to meet, and where expenses tick this box, a deduction is allowed.

Self-employed and working from home

If you are self-employed and working from home, expenses are deductible if they are wholly and exclusively incurred for the purposes of the business. This will apply to costs incurred in running a home office, such as cleaning, heat and light, Wi-Fi costs etc. Where there is both business and private use, a deduction is allowed for the business element, if this can be separated out.

Keeping a track of actual expenses can be time consuming. To save time, if you are self-employed you can opt to use simplified expenses and claim a flat rate deduction for the expenses of working from home, based on the total number of hours worked in the home in the month by anyone who works in the business. The following table shows the monthly flat rate deduction that can be claimed.

Hours of business use per month	Flat rate per month
25 to 50 hours	£10
51 to 100 hours	£18
More than 100 hours	£26

The flat rate expenses do not include telephone and internet expenses and a separate deduction can be claimed for these.

Running a personal or family company from home

Where your company is based at home, the company can deduct expenses wholly and exclusively incurred for the purposes of the business. If the company meets household costs these can be deducted, but any private expenses met by the company will trigger a benefit in kind charge on the director. If the director pays the household expenses, the proportion relating to the business can be recharged to the company.

The company can also rent a home office from the director, paying rent at a commercial rate. This may be a useful way of extracting funds from the company and has the advantage that no National Insurance is payable. The company can deduct the rent paid when working out their profits chargeable to corporation tax.

On the other side of the equation, the rent is taxable in the hands of the director.

Building a home office

Having a separate office in the garden, or converting the garage, can be attractive. The extent to which any tax relief is available will depend on who meets the costs.

If you operate through a limited company, the company can meet the cost of building a home office. As this is capital expenditure, the building costs cannot be deducted, although capital allowances may be claimed for items such as office furniture. If the company is VAT-registered and not using the flat rate scheme, the VAT on the building costs can be reclaimed. The rules are more complicated where the flat rate scheme is used.

If you are a director or your family use the home office for personal use, a benefit in kind charge will arise.

A benefit in kind charge will also arise if an employer meets the costs of converting an employee's loft or garage to an office, and the room is also available for private use.

Capital gains tax implications

If part of a home is used exclusively for business, that part will not benefit from the main residence exemption for capital gains tax.

Thus, when selling the property, it is necessary to apportion the gain to ascertain that part attributable to the home office.

However, in most cases, any gain pertaining to a home office will be covered by the annual exempt amount (currently, this exempt amount is £12,300).

Retaining some private use of the room – for example, using it for the business in the day and homework in the evening, alleviates the potential capital gains problem and preserves the main residence relief.

Where a separate home office in the garden is owned by a limited company, any gain on sale would be chargeable to corporation tax.

We can help

If you are considering or have been obliged to work from home, we can help you consider your options.

For example, you may have been involved in:

- Setting up a home office.
- Claiming for additional costs if you work from home.
- Clarifying capital gains tax risks.
- Will working from home affect your rates?

If you are working from home and want to ensure that you do not miss out on valuable tax breaks, please call.