# SOWERBY

CHARTERED ACCOUNTANTS

AUTUMN NEWSLETTER

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*"Goodbye summer, hello autumn. Weather wise what a fabulous summer we've had; warm, dry and freedom to get back to normal. Unfortunately, autumn has become much more of a gloomy period with the passing of the Queen and now economic uncertainty, cost of living crisis and the threat of a recession. Well, "when the going gets tough, the tough get going". Sowerby are here to support, guide and assist your business through this uncertain period and onto a hopefully far brighter future."*

*- Patrick Scargill*

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# COMMENT

ENERGY EFFICIENCY

## THE CURRENT SITUATION

Even before the current soaring energy costs, many businesses were on a drive to review their energy usage to improve their sustainability offering and reduce their carbon footprint.

However, the inflated costs now being felt have transformed what was for many a long-term improvement plan into an immediate requirement to monitor, and reduce, energy consumption.

At the time of writing Business Secretary Jacob Rees-Mogg has announced that non-domestic customers will see their energy bills capped from October for a period of six months, as part of the Energy Bill Relief Scheme.

The new discount is broadly equivalent to the Energy Price Guarantee put in place for households and will apply to all fixed contracts agreed on or after 1 April 2022, as well as deemed, variable, and flexible tariffs and contracts for non-domestic customers.

The Department for Business, Energy and Industrial Strategy confirmed the Energy Bill Relief Scheme would be reviewed, and support may change from March 2023. For households, the government initially announced support would last two years, but has since backtracked. Household support is also potentially changing from March 2023.

It is such concerns, paired with a marginal fear of supply shortages and an increasing desire to be efficient that has many businesses seeking out additional possibilities.

## EVERY LITTLE HELPS

Too often we see businesses reaching for 'large' solutions, heavily technical options that offer great rewards but often come with a significant cost.

Instead, consider the smaller items which may just make a noticeable difference. In the current climate it is sensible to consider every bit of energy use, no matter how small.

For instance, are your premises equipped with LED bulbs? They have been proven to be significantly more efficient than historic lighting methods and will make a difference to your bill, no matter how small.

Consideration of what is being lit and for how long is also worth attention. Whilst we are not at a stage of rationing energy, there is a difference between plunging displays into darkness and contemplating whether unoccupied rooms are required to be lit full time, or whether display lights are beneficial to brand recognition in the middle of the night.

Many businesses are considering sensors and timers, especially for outside lights or rarely used corridors, with some installing voltage optimisers, a technology that regulates incoming power supply from the grid, reducing voltage to the optimum level and thus reducing the amount of electricity used.

The most important thing however is to understand what it is about your business that is using the most gas or electricity. The easiest way to find the answer to this is the utilisation of smart meters and some of the results may come as a surprise.

Old, inefficient machinery can be a drain on energy resources, but it is important to remember that any replacements will lead to an upfront cost and a more gradual return.

A simpler review is internal climate control. As the temperature drops many firms are already reaching for the thermostat but reducing heating temperatures by just 1°C can cut fuel consumption by circa 8%. Too often heating timers also come on too early, stay on too late or are influenced by where the thermostat is placed, leading to radiators pumping out heat as windows are opened. A smart meter can track your energy consumption and help you make adjustments.

Solar energy is also an option, one which is too involved to cover here but our website includes our Summer Newsletter which reports on this in detail.

## MOVING FORWARD

Finally, the above becomes minimally effective if you do not understand the energy contracts of your business. These may be held direct or as part of your lease, either way it is important to understand exactly what they entail and exactly what you are tied in to. There is no magical fix to current energy concerns but that does not mean that every option is as negative as the other.

Whereas price fixing was previously the most advantageous decision for many firms, flexible pricing may be an option for smaller firms to use until the market begins to normalise.

All businesses next steps must be to review consumption, understand contracts and exit options and not underestimate the extent to which simple actions can save energy, cut costs and contribute to sustainability.

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# BUSINESS

## NEW VAT PENALTY AND INTEREST CHARGES

From the 1st of January 2023 HMRC are replacing the default surcharge regime with new penalties if you submit, or pay, your VAT return late.

Any nil or repayment VAT returns received late will also be subject to late submission penalty points and financial penalties.

## LATE SUBMISSION PENALTIES

This will work on a points-based system and for each VAT return you submit late you will receive a late submission point. Once you reach a certain point's threshold you will receive a £200 penalty.
The thresholds are:

| | |
|---|---|
| Annual returns | 2 late submission instances |
| Quarterly returns | 4 late submission instances |
| Monthly returns | 5 late submission instances |

Your points will be reset to zero if you submit all subsequent returns on time over a set period. These periods are 24 months for annual returns, 12 months for quarterly returns and 6 months for monthly returns.

## LATE PAYMENTS

### UP TO 15 DAYS OVERDUE

You will not be charged a penalty if you pay the VAT you owe in full, or agree a payment plan on or between days 1 and 15.

### BETWEEN 16 AND 30 DAYS OVERDUE

You will receive a first penalty calculated at 2% on the VAT you owe at day 15.

### 31 DAYS OR MORE OVERDUE

An extra 2% penalty will be charged on the VAT you owe at day 30.

Plus you will receive a second penalty calculated at a daily rate of 4% per year of your outstanding balance.

## LATE PAYMENT INTEREST

Late payment interest will be calculated at the Bank of England base rate plus 2.5%. This will be charged from when the payment is due.

## EXAMPLE PENALTIES AND INTEREST

If your VAT return is submitted on time but the payment of £10,000 was 16 days late, there will be a late payment charge of £200 (2%) and interest of £21 (2.5% + 2.25% BOE base rate x 16 days / 365 days).

## GRACE PERIOD

HMRC will not be charging a first late payment penalty for the first year of the scheme (from 1st January 2023 until 31st December 2023) if you pay in full within 30 days of your payment due date. But interest will still apply.

## APPEALS

The points and penalties are applied automatically. Once they have been applied, HMRC cannot remove them unless you use the reviews and appeals process. The first stage of this will be an interview under the HMRC review process and if you believe the outcome unsatisfactory, you can then move onto the first-tier tax tribunal. All appeals must include a reasonable excuse for missing a deadline.

## MAKING TAX DIGITAL

Currently all VAT registered businesses are required to follow the MTD rules by keeping digital records and using software to submit their VAT returns.

### MTD ITSA (INCOME TAX SELF-ASSESSMENT)

All sole traders and landlords with annual business and rental income above £10,000 will need to follow the rules for Making Tax Digital for Income Tax from 6 April 2024. General partnerships will not be required to join MTD until April 2025.

Should you wish to know more regarding the above, please contact your Relationship Partner.

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# ADVICE AND BEST PRACTICE

## INHERITANCE TAX

Death and taxes, both are inevitable, and however much we'd like to help clients with the former, unfortunately that's well beyond our expertise.

However, with a bit of advanced planning as your tax advisor we can help you minimise the grip the tax man may appear to have on your estate.

Firstly, it's never too late to look at your estate and planning. Nobody wants to think about their own demise but, having a plan running in conjunction with a well written will can really give someone peace of mind that their surviving family will not be burdened with a messy estate and HMRC looming over them while still coping with losing a loved one.

## WHY SHOULD I THINK ABOUT INHERITANCE TAX, MY ESTATE IS ONLY SMALL?

Fantastic, nothing to worry about. Make sure your will is current and the job's done.

Although with the market value of the average housing now over £300k if you're single, not married or in a civil partnership you may find that you are nearer to the limits than you may have thought, so it's always worth having a mini review.

## WHEN DO I START PAYING INHERITANCE TAX?

The current nil rate band for IHT is £325,000 plus an additional £175,000 is available to go against your main residence (if passed to direct descendants). If you are married or in a civil partnership, on the death of the first spouse/partner any unused relief can be transferred to the surviving spouse/partner. In practical terms if on first death everything passes to the surviving spouse/partner then double the allowances are available on the death of the surviving member of the marriage/partnership. So potentially a couple with a main residence worth at least £350,000 would have no Inheritance tax to pay on a total estate worth £1million. If on first death the will leaves any assets to individuals other than the surviving spouse then the situation is more complex and advice should be sought.

## WHAT ASSETS COUNT AS MY ESTATE?

In short, every asset you own, be that property, businesses, stock and shares, money in the bank, insurance policies, cars, or even the clothes in your wardrobe count towards calculating your estate value. Any liabilities you have like loans, mortgages or other debts are offset and reduce the value of your estate. However, certain types of assets including some businesses do attract up to 100% relief in value against Inheritance tax.  For example, investments in privately owned trading companies that have been in the estate for more than 2 years. Please note, rental property in general does not count as a trading business and therefore does not attract any relief against Inheritance tax as a business asset.

## CAN I REDUCE MY ESTATE BY GIFTING?

Yes. There are many small allowances for annual and special occasion gifts as well as gifting from excess income. However, any gifts made above these allowances in the seven years up to the date of death could be added back and increase your estate value. To mitigate the add back, there are some taper reliefs available for gifts which happen over four years before death which reduce the Inheritance tax liability on the estate.

## HOW MUCH WILL I PAY?

If your estate is over the threshold, then Inheritance tax is due on the excess over the nil band at 40%. It is payable six months after the month end in which death occurred. In most circumstances the Inheritance tax is calculated and becomes the liability of the estate. The residual estate is then available to be distributed to the beneficiaries as dictated by the will.

For example: Inheritance due on death of 2nd spouse/civil partner with main residence worth at least £350,000 where no allowances were used on first death

£1,500,000 estate less allowances of £1,000,000 (being two nil rate bands plus two main residence relief) = £500,000 liable to Inheritance tax

£500,000 @40% = £200,000
Therefore, net estate distributable = £1,500,000 - £200,000 = £1,300,000

Second example: Inheritance tax on same size estate for an individual not married or in a civil partnership with main residence worth at least £175,000

£1,500,000 estate less allowance of £500,000 (being sole nil rate band plus main residence relief) = £1,000,000 liable to Inheritance tax

£1,000,000 @40% = £400,000

Therefore, net estate distributable = £1,500,000 - £400,000 = £1,100,000

Third example: Inheritance tax on the same estate for an individual not married or in a civil partnership, with a main residence worth only £100,000

£1,500,000 estate less allowance of £425,000 (being sole nil rate band £325k plus main residence relief restricted to £100k value of residence) = £1,075,000 liable to Inheritance tax

£1,075,000 @40% = £430,000
Therefore, net estate distributable = £1,500,000 - £430,000 = £1,070,000

## I THINK MY ESTATE IS OVER THE LIMITS, WHAT DO I DO NEXT?

Don't panic! There are many options to discuss and consider. We would strongly recommend getting in touch and booking in for an estate/Inheritance tax review. Your usual contact at the firm will be able to put you in touch with the relevant expert most suited to your circumstances. At Sowerby we have an experienced team to help review your estate and create a plan to help mitigate potential liabilities.


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# SOWERBY

Left to right: Back row: Ellie Dean, Lyndsay Rands, Zoe Matthews, Robert Eldon-Smith.  Front row: Annabelle Upton, Shih-Yi Wang.

Sowerby have had a very busy Autumn quarter and are pleased to welcome some new members to the team.

Annabelle and Shih-Yi join us as new graduates, fresh from completing their accountancy degrees at Hull University, whilst Ellie, Robert and Zoe join as welcome additions to our accounts team, working on a variety of items such as management accounts, statutory accounts and business advisory.

Finally, we also welcome Lyndsay to our Networking and Marketing team.

As new members join us, we are also saying see you soon, though not goodbye, to a couple of members of our team who are currently enjoying some much deserved maternity leave.

Emily has recently given birth to a gorgeous baby boy (see photo) with mum and baby both doing well. While the second member of our team, Cole, is eagerly awaiting her own arrival and we wish her the best of luck.

With so many new arrivals we thought it best to indulge in some social time this quarter with a whole firm game of bowling being the key event. We had some very successful, and some not so successful performances, but a good time was had by all.

As the quarter draws to a close we look forward to seeing what the next few months will bring, and we'll also be announcing our 2023 Charity Challenge, so watch this space!

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