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EXCEPTIONAL TIMES

SEPTEMBER 2021

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Welcome to The Exceptional Times September 2021

Now 'freedom day' has arrived, we are looking forward to the future with positivity and hope. While caution remains, and most of the Covid-safe measures will remain in place here at Perrys, we are optimistic about what the coming year holds for businesses in the UK.

It has been a difficult 18 months for many people, but especially for charities and the people they support. Therefore, I'd like to remind you that there's still time to take part in our annual charity golf day on Thursday 30 September, which will be raising funds for our chosen charity, Family Matters. If you are able to make it, we would love to see you there! More details about how to take part can be found below.

We are looking forward to continuing to support our much-valued clients, both old and new, as they regroup, adjust and grow and wish you every success for the months ahead. As always, if you need support or help with any business-related matters, our friendly team is on hand to answer your questions.

Stewart Pope

CEO Perrys

Final chance to join us for our Annual Charity Golf Day!

Our Annual Charity Golf Day, which was due to take place in June, has been postponed until Thursday 30 September. If you have already bought tickets for this event, these will automatically be moved to the new date. For those who haven't yet bought tickets, and would like to join us, there is still time to get involved.

Golfers of all abilities are welcome to take part and the competition, which will take place at Dale Hill Hotel and Golf Club in East Sussex, is open to individuals, pairs or four ball teams.

Tickets cost £99 per person and include full English breakfast, an 18-hole round of golf, entry into the hole-in-one competition and a three course dinner. For more information, or to register, please email Caroline Hoare, **hoare@perry-company.co.uk,** or call **01892 543900.**

All funds raised will go to our chosen charity, Family Matters.

Family Matters

Pros and Cons of using a limited company to hold rental properties

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Following the announcement to restrict tax relief on finance costs on buy-to-let properties, many individuals are now considering using a limited company to hold investment properties, but is this more tax/cost efficient overall?

Unfortunately, there's no simple answer to this question. The best ownership structure for you will depend on a number of factors, such as your annual income and requirements, as well as your longer term intentions for the properties.

Restriction of tax relief on finance costs

The restriction of tax relief on finance costs to 20% has resulted in a hike in tax liabilities for many investors, and this could potentially have been avoided or mitigated by transferring the properties into a limited company. Limited company profits are subject to corporation tax at only 19% currently (although the rate is set to increase over the next few years), meaning that higher rate taxpayers might benefit from holding long term investment properties in a company structure.

If the intention is never to sell the properties, but to pass them onto future generations, a company structure may also be more flexible in terms of Inheritance Tax and Stamp Duty Land Tax planning, so this might sway your decision towards company ownership.

However, consideration should also be given to whether you will retain the rental profits within the company, perhaps for further investment, or if you intend to spend some or all of the profits. An individual can receive dividends of up to £2,000 in the current tax year, without incurring any further income tax liability. However, dividends in excess of this amount will be subject to income tax at a rate of 7.5%, 32.5% or 38.1%, depending on your other income - which is in addition to the corporation tax already paid on the rental profits.

Another factor in your decision on ownership of the properties would be your intention for use of the equity within the rental portfolio. Drawing equity from a personally owned portfolio wouldn't give rise to an income tax liability, should you want to use the funds personally on your main residence or to gift to children, for example. Whereas drawing equity from a portfolio within a limited company, would be treated as dividend income, with the additional tax liabilities thereon.

There is also more admin to consider when operating a company structure, which could give rise to an increase in your professional fees, so you should factor this into any costs/benefit analysis being carried out.

The first step for those considering a change in ownership would be to quantify the additional tax being suffered as a result of the changes to tax relief on finance costs, and the overall effective rate of tax being charged on the rental profits.

Rates of interest for a limited company

The next step would be to do some homework on the finance options available to a limited company, as the rates of interest and arrangement fees may be significantly higher on refinancing the properties, and the additional finance costs could well be more than the increase in tax liabilities as a result of the changes.

It should also be remembered that moving properties into a company could result in a Capital Gains Tax liability, being a disposal at current market value, which might outweigh any savings to be had from company ownership. In some cases, Incorporation Relief may allow the gains made on the properties to be rolled over into the base cost of shares issued in the company on transfer. However, for many property investors there is insufficient activity within the rental 'business' to qualify for Incorporation Relief, and if there are significant gains within the portfolio, a transfer to limited company could result in a hefty Capital Gains Tax charge.

Existing property investors

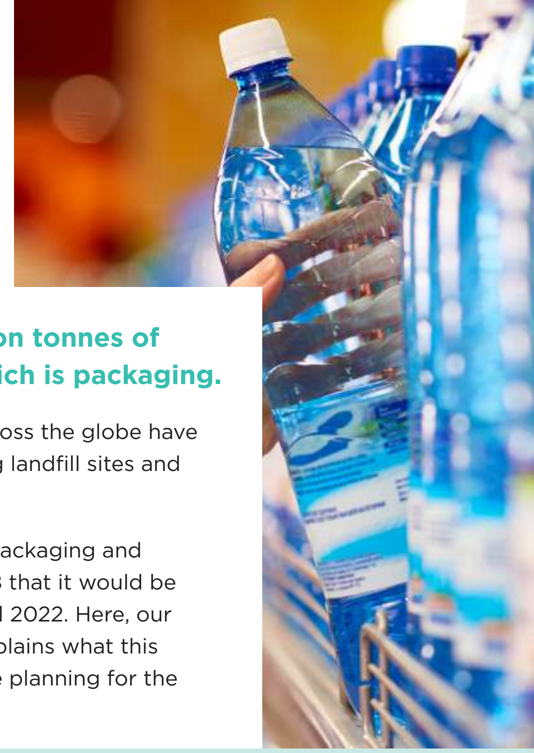
For existing property investors, it would be beneficial to carry out a review of your portfolio to quantify the following:

- The increase in tax liabilities as a result of the changes to tax relief on finance costs
- The expected increase in finance costs on refinancing the property portfolio in a limited company
- Potential Capital Gains Tax liabilities on moving properties into a limited company
- Stamp Duty Land Tax implications on changing the current ownership

For those considering their first buy-to-let purchase, it is important not to rush into company ownership without running through the options, to see which is the best ownership structure for you.

If you would like to discuss any of the information in this article or need advice about your buy-to-let, please get in touch with Donna McCreadie at the Wrotham office on 01732 882488 or email McCread@perry-company.co.uk.

Get ready for the plastic packaging tax



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The UK uses an estimated five million tonnes of plastic every year, nearly half of which is packaging.

As the plastic problem worsens, countries across the globe have been looking at ways to deal with overflowing landfill sites and polluted soils, rivers and oceans.

As part of its commitment to reduce plastic packaging and waste, the UK government announced in 2018 that it would be introducing a plastic packaging tax from April 2022. Here, our partner at Tunbridge Wells, Craig Harman, explains what this means for businesses and why they should be planning for the changes now.

Why is the plastic packaging tax being introduced?

The UK government is aiming to significantly reduce the amount of virgin plastics (plastic produced entirely from plastic resin that hasn't been used or processed before) that are being sent to landfill or being burned. It is also hoped that by introducing the plastic packaging tax, companies will be encouraged to look at more sustainable alternatives for packaging their products and consumers will be motivated to recycle packaging instead of throwing it away.

What is the plastic packaging tax?

The new tax, which will come into force from April 2022, will require producers of plastic packaging manufactured in, or imported into, the UK to pay £200 per tonne of plastic packaging if it contains less than 30% recycled plastic, and is plastic packaging that is predominantly plastic by weight.

Plastic packaging that has been imported will be liable to the tax, whether it is unfilled or filled.

However, the tax will not apply to manufacturers and importers of less than 10 tonnes of plastic packaging per year, packaging exported from the UK, or packaging that is used for licenced human medicines.

How many businesses will the plastic packaging tax affect?

It is estimated that 20,000 producers and importers of plastic packaging will be affected with a significant impact on a wide range of industries, including manufacturing, logistics, freight, transport, haulage and construction.

What are the cost implications of the plastic packaging tax likely to be?

The new tax is likely to impact a wide range of businesses with additional costs, including understanding how the tax is implemented and keeping relevant records.

For example, food and drink legislation stipulates, that in some circumstances, using recycled plastic packaging for food is forbidden and, therefore, food manufacturers will need to pay the tax for using virgin plastics.

There is also the added issue of how the tax will translate to consumers, who are likely to feel the knock on effects of these extra costs, which could raise prices of some products, like food, by around 10% to 20%.

> **“The UK uses an estimated five million tonnes of plastic every year”**

How can companies plan for the plastic packaging tax now?

It is important that businesses do not delay with finding alternatives to plastic packaging and start planning now to ensure they are fully prepared for the April 2022 deadline.

As already mentioned, plastic packaging that contains at least 30% recycled materials will be exempt from the tax, so companies are being encouraged to find suitable alternatives that meet or exceed these requirements.

Businesses that are uncertain about what the plastic packaging tax might mean for their operations should seek the advice of a professional accountant, who will be able to guide them through the legislation and requirements.

It is important to remember that, despite the potential cost implications for businesses and consumers, the plastic packaging tax is likely to have a positive impact on our environment, changing business operations for the better and ensuring our planet is protected for the future.

If you would like to discuss the plastic packaging tax in more detail, please get in touch with Craig Harman at the Tunbridge Wells office on 01892 543900 or email harman@perry-company.co.uk.

Selling online? Here's what you need to know about taxes

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With online shopping becoming more and more popular, e-commerce and online business start-ups are growing at a rapid rate. In fact, according to the Business Data Group, the UK's e-commerce start-up sector is booming at levels not seen before.

Its research showed that in the week before the UK's COVID-19 lockdown was announced, more than 500 e-commerce start-ups were formed. Five weeks later, that figure had risen exponentially to almost 1,300 e-commerce start-ups per week – around 800 more than the same week in 2019.

If you own an e-commerce business, or you're thinking about starting one, then there are special rules and regulations for operating. Here, our e-commerce specialist and partner at Orpington, Zoe Gibbons, explains what you need to know about selling online.

Do online sellers have to pay tax?

Setting up as an online business is a great way to keep overheads to a minimum and benefit from flexible working arrangements. However, like any other business, an e-commerce business will be subject to paying taxes.

If you are self-employed, including as an online seller, then you'll need to complete an annual self-assessment tax return to disclose any income and expenditure and submit it online to HM Revenue & Customs (HMRC).

However, there are some exceptions. For example, if you are selling items online and it is not part of a business activity, such as selling second-hand possessions on eBay, then you won't need to pay tax. However, if you plan to do it regularly, this could count as a business even if you already have a job.

As of 2016, the Finance Act gave HMRC the authority to investigate selling sites of individuals who do not appear to be declaring income. This is assessed based on the following criteria:

- **Intention to make a profit as opposed to selling for fun or to raise emergency funds**
- **Repetition of similar transactions over a short period of time**
- **Borrowing money to fund transactions**
- **Inability to prove items sold were pre-loved or used before being listed**
- **Items sold at a fixed price in a similar way to other retailers**
- **Limited time between purchase and selling of items**
- **Modification of items in order to sell them for profit**

How much can you sell online before paying tax?

If you're hoping to make a small amount of money from selling online, then the good news is HMRC currently allows for £1,000 to be earned in sales before any tax is payable.

However, even if you're selling online on platforms such as eBay, Depop and Gumtree, and you're not a registered business, once you pass the £1,000 earnings threshold you may be liable for tax as a self-employed individual.

What taxes do online businesses need to pay?

Depending on how your business is set up, the following taxes may apply:

- **Income Tax**
- **Corporation Tax**
- **National Insurance**
- **VAT**
- **Employers' PAYE**
- **Business rates**

It is recommended that you seek the advice of a professional accountant for any e-commerce business tax related matters.

Is there an online sales tax?

In March 2020, HMRC introduced the Digital Services Tax – a 2% tax on the revenues of search engines, social media services and online marketplaces, which derive value from UK users. The majority of businesses affected by this tax are large multi-national enterprises, such as Amazon, Facebook and Google.

However, the UK Treasury is also investigating the options for introducing an online sales tax in response to the recent shift in shopping patterns and online consumer behaviour. Currently, it is considering a 2% online sales tax on e-commerce sellers and marketplaces.

This could mean that e-commerce businesses will need to pay 2% of tax on their online sales to UK customers.

Do you pay taxes when selling online to other countries?

If you sell goods online to customers who are overseas, then other considerations will apply. For example, your goods may require accompanying documentation and could be subject to customs duty and sales tax on arrival at their destination.

If you are in any doubt, then you should seek the assistance of a qualified accountant who has experience dealing with e-commerce businesses.

If you would like to discuss e-commerce in more detail, please get in touch with Zoe Gibbons at the Orpington office on 01689 823175 or email gibbons@perry-company.co.uk.

Mergers & Acquisitions for small businesses – what you need to know

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For small businesses looking to expand, considering a merger or acquisition can be an efficient way to develop and increase market share.

Our M&A specialist and partner at Historic Dockyard Chatham, Steve Hale, explains what small businesses need to know when looking to merge with or acquire another company and shares some top tips for making a merger or acquisition successful.

What is the difference between a merger and an acquisition?

Mergers and acquisitions are often confused as the same thing. However, there are some important differences between the two.

A merger is when two business entities come together to create a new, joint organisation. The businesses on both sides will agree to new ownership (often with the owners of both businesses taking on joint responsibilities), management and policies.

Typically, a merger is a friendly agreement between two similar-sized competing businesses. Merging two companies together can help to create mutually beneficial structures that will reduce operational costs for both sides, while aiding expansion into new markets and helping to boost revenue and increase profits.

Unlike a merger, an acquisition is when one company purchases another and takes over all its operational decisions.

Sometimes referred to as a 'takeover', an acquisition will allow the purchasing business to have complete power over the business it acquires.

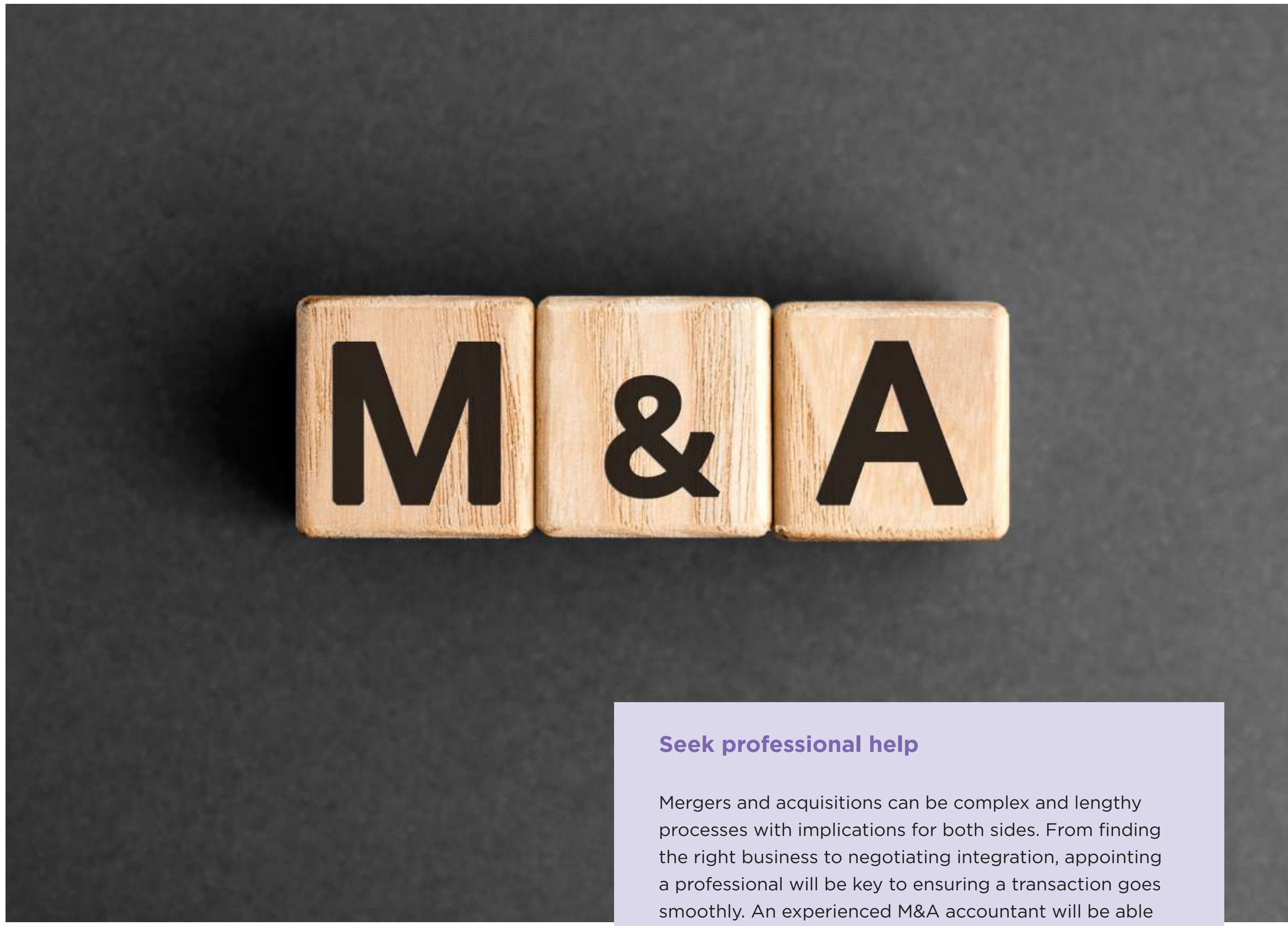
Therefore, acquisitions will usually require a lot more financial input. Companies that acquire another might be looking to remove a competitor and increase their market share or wanting to utilise the target company's knowledge to expand product lines as well as utilising other assets to reduce long term investment, research and development costs.

Is the business ready to grow?

Before embarking on a merger or acquisition, you will need to understand whether your business is in good financial health and can feasibly invest in a new venture. Consider how the transaction will be funded and the level of liquidity required to complete it successfully. Planning a funding strategy will be key to proceeding to the next stage.

How is a business valued?

There are a number of ways that a business can be valued. For a trading business, the most common method will be based on a multiple of adjusted earnings. A good accountant, who is experienced in this area of work, will be able to advise you on the most appropriate method.



Is the target company a good fit?

It is important to carry out due diligence on any potential business you are looking to merge with or acquire. This means more than just checking their balance sheet, but also evaluating whether a business is viable or likely to negatively affect you.

This means investigating everything from its staff and existing clients to its technology, operations and legal obligations, including debts, tax issues, supplier and employee contracts, and any current legal proceedings.

Seek professional help

Mergers and acquisitions can be complex and lengthy processes with implications for both sides. From finding the right business to negotiating integration, appointing a professional will be key to ensuring a transaction goes smoothly. An experienced M&A accountant will be able to help with:

- Strategic planning
- Identifying suitable target companies
- Carrying out financial and operational due diligence
- Preparing financial projections
- Identifying potential financial sources
- Assisting with negotiations and post-merger/acquisition integration

If you would like to discuss Mergers & Acquisitions in more detail, please get in touch with Steve Hale at the Historic Dockyard Chatham office on 01634 245900 or email hale@perry-company.co.uk.

A guide to Super Deduction Tax for the Construction Industry

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In his March budget, Chancellor Rishi Sunak announced a generous new 'Super Deduction' to provide an incentive for businesses to invest in new plant, machinery and equipment.

The temporary tax break was welcomed by the construction industry, and particularly by equipment manufacturers and retailers who look set to benefit from an uptick in orders as the UK begins to emerge from the COVID-19 crisis.

For businesses considering buying new plant or machinery, however, it's important not to rush in to purchases without taking expert advice. As ever, the finer details must be considered, for example around the issue of disposal of equipment further down the line.

Our tax specialist and partner at Tunbridge Wells, Craig Harman, provides some answers to the most frequently asked questions about Super Deduction Tax.

What is the Super Deduction?

Under the new scheme, expenditure incurred from 1 April 2021 until the end of March 2023 is eligible for 130% capital allowances on qualifying plant and machinery investments. This means that for every pound a company invests, their taxes are cut by up to 25p.

For example, if a construction firm spends £100,000 on a new fleet of forklift trucks, the corporation tax deduction will be £130,000, giving corporation tax relief at 19 per cent on £130,000, which is £24,700.

It's important to note that the tax break is only available for limited companies, not sole traders or partnerships.

What kind of equipment qualifies for the Super Deduction?

A broad range of plant, machinery and other assets are eligible for the SDT. But while vehicles such as construction site plant, trucks and vans are included, ordinary cars do not qualify, as they are not treated as 'main pool' plant and machinery for capital allowance purposes.

Pre-owned goods are also excluded. To qualify, assets must be purchased brand new from 1 April 2021 and not second-hand. Latest government guidance for eligible assets includes:

- Solar panels
- Computer equipment and servers
- Tractors, lorries, vans
- Ladders, drills, cranes
- Office chairs and desks
- Electric vehicle charging points
- Refrigeration units
- Compressors
- Foundry equipment

However, the government stresses that this is not an exhaustive list. Seek professional guidance from a tax expert to establish whether a purchase you are considering might qualify for the new level of tax relief.

What if I'm planning to buy equipment using hire purchase?

Assets bought using a credit agreement can still be included, so long as the business owns the asset at the end of the agreement. Indeed, buying under a HP agreement may be a sensible option in terms of company cashflow. Again, it's important to discuss details with a tax specialist in order to optimise tax savings and maximise cashflow for your business.

Can I claim Super Deduction Tax on assets I'm planning to rent out?

No, the government has specifically excluded expenditure on the provision of plant and machinery for leasing. So, if you are a plant hire company, for example, the tax break will not apply on the purchase of new vehicles and machinery to be rented out.

I'm a sole trader about to invest in expensive new equipment. Should I consider setting up a limited company to qualify for Super Deduction Tax?

It's not hard to see why sole traders might consider incorporating in order to qualify for this generous tax relief. If you're a sole trader planning a large investment, incorporation may well offer tax advantages on a short-term basis.

However, it's vital to consider the bigger picture. Corporation tax hikes are planned from April 2023, with the rate rising from 19% to 25% for companies with profits over £250,000, and tapered rises for profits between £50,000 and £250,000. An accountant will be able to take an overview of your business situation and discuss the pros and cons of your trading options.

Beware clawback on the disposal of assets!

New disposal rules will apply to assets that have been claimed under the Super Deduction Tax. The rules are complex and the precise tax implications will depend on the date of the disposal and the company's year end. However, if the asset is disposed of before 1 April 2023 or the company's accounting period overlaps this date, the disposal receipt will also be increased by a factor of up to 1.3. This means that some of the tax relief claimed may be clawed back by the Treasury over time, a factor that should always be considered prior to making a purchase.

In summary, the Super Deduction Tax is undeniably a generous benefit that should kick-start investment amongst UK businesses. But, as with any business decision, it's important to consider all long-term implications before signing the contract on an expensive new purchase.

If you would like to discuss Super Deduction Tax in more detail, please get in touch with Craig Harman at the Tunbridge Wells office on 01892 543900 or email harman@perry-company.co.uk.

Ask the Expert:
A guide to Capital Gains Tax

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In 2018, it was estimated that the total net wealth of private households in Great Britain was £14.6 trillion with £5.9 trillion of that in property assets.

If you own assets, such as property, that you want to sell or dispose of, you could be liable for Capital Gains Tax (CGT). However, there can be a lot of confusion around paying CGT, how it is calculated and when it applies.

Here, Zoe Gibbons provides some answers to the most frequently asked questions about CGT.

What is Capital Gains Tax?

CGT is a tax on the profit you make from an asset when you dispose of it. Disposing of an asset includes selling it, gifting it, transferring it to somebody else, exchanging it for something else or receiving compensation for it, such as an insurance pay out. It is important to note that CGT is only payable on the 'capital gain' i.e. the profit and not the full amount of the sale proceeds.

Which assets are subject to Capital Gains Tax?

Assets that are subject to CGT include:

- **Residential property – unless it is your only home or main residence and is covered by 'private residence relief'**
- **Commercial property**
- **Rental property**
- **Shares, excluding those held in an ISA or PEP**
- **Business assets**
- **Personal property worth more than £6,000, excluding your car**
- **Cryptocurrency, such as Bitcoin**

Some assets are exempt from CGT, such as your car.

The good news is, you will not usually pay CGT on gifts to your husband, wife, civil partner or a charity. CGT does not apply to UK government gilts, Premium Bonds or betting, lottery and pools winnings. However, there are some exceptions.

If someone dies and you inherit an asset, then Inheritance Tax will usually be paid by the estate of the person who has died. However, if you decide to dispose of the asset at a later date, then CGT might apply.

If you are living abroad, but own property or land in the UK, then CGT will apply on disposal. If you are a UK resident, but your assets are overseas then CGT may still apply on disposal of your overseas assets. However, there are some special rules for overseas assets. Therefore, it is worthwhile seeking professional advice to ensure you fully understand your tax position.

How is Capital Gains Tax calculated?

CGT will only apply when your total gains on an applicable asset you dispose of exceed your annual tax-free allowance, which is currently £12,300 for an individual or £6,150 for trusts.

Depending on the type of asset you are disposing of, you may be able to reduce the tax you pay by claiming a relevant tax relief or deducting losses on disposals of other assets. For joint disposals, you will pay CGT on your share of the gain.

To work out your total taxable gains you will need to

1. **Establish the gain for each applicable asset**
2. **Add these gains together**
3. **Deduct any allowable losses**

The amount leftover is the amount that is subject to CGT. CGT rates vary depending on the type of asset you are disposing of and your current annual income, but range from 10% to 28%.

How do I report Capital Gains Tax?

Reporting CGT depends on when you made the gain and the type of asset you are disposing of.

For properties, you will need to report and pay any tax owed within 30 days of the sale. If you do not do this, you may have to pay interest and you could be fined.

For all other gains, you have a choice of how and when you report the tax, but you must report it by 31 January in the tax year after you made the gain.

When you report your CGT, you will need to know the calculations for how you reached your tax position and details of how much you bought and sold the asset for. This will include any other relevant information, such as the costs of disposing of the asset and any tax reliefs you are entitled to. You will also need to disclose the dates you took ownership and when you disposed of the asset.

How do I pay my Capital Gains Tax liability?

For paying CGT on property, you will need to use a HM Revenue & Customs' (HMRC) Capital Gains Tax on UK Property account.

For all other assets, you can use the 'real time' Capital Gains Tax service or simply report these on your next self-assessment tax return.

To set up a Capital Gains Tax on UK Property account or 'real time' Capital Gains Tax service you will need a Government Gateway user ID and password. If you don't already have one of these, you can set one up.

CGT is a complex process. In order to avoid costly mistakes, it is highly recommended that you seek the advice of an experienced accountant who can help you with the calculations and make any payments you owe.

If you would like help with Capital Gains Tax, please get in touch with your local Perrys branch where one of our friendly team will be happy to help.

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