Encouraging business to go green

The recent COP26 Summit brought the role of business in addressing climate change into sharp focus.

Major UK firms and financial institutions will need to show how they will meet climate change targets under proposed Treasury rules announced at the Summit.

They will also be subject to forthcoming mandatory Sustainability Disclosure Requirements (SDRs) requiring them to report on their environmental risks and impact on an ongoing basis. SDRs will affect certain large companies, listed companies, relevant financial services firms, asset managers and asset owners including occupational pension schemes, and creators of investment products.

These developments clearly indicate the government's direction of travel in aligning UK business with its wider environmental goals.

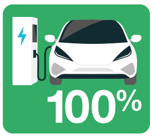
Meanwhile, there are already a number of financial incentives in place to encourage all types of business to become more eco-friendly.

For example, firms can claim 100% tax relief on the cost of energy-efficient technology and equipment, like solar panels and heat pumps, through the Enhanced Capital Allowance scheme.

Switching to new, pure electric vehicles has been made more affordable for businesses as they qualify for a 100% first year capital allowance until April 2025 and a company benefit rate of just 1% for 2021/22. And for businesses and employees looking to do their bit on a smaller scale, the cap on the value of bicycles and electric bicycles purchased through the cycle to work scheme has also been removed.

For property developers involved in cleaning up contaminated land, up to 150% tax relief is available on the cost and, additionally, a 24% cash repayment for the remediation costs can be claimed if the development makes a loss.

If you would like to discuss the incentives available to help your business go green, please get in touch.



First year capital allowance for low or zero-emission company cars

Reminder: NIC and corporation tax rises on the horizon

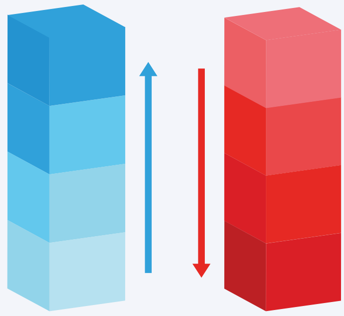
National insurance contributions (NICs) are increasing in 2022/23 for employers, employees and the self-employed to help fund UK social care reform.

The 1.25% increase, effectively a health and social care levy (HSCL), will be collected through Class 1, Class 1A, Class 1B and Class 4 NICs.

Class 2 and Class 3 NIC rates remain unchanged.

NICs will return to current levels in 2023/24 when HSCL becomes a separate 1.25% charge on earnings of employees and self-employed people, including those over state pension age.

Additionally, from 1 April 2023, corporation tax will rise to 25% where company profits exceed £250,000. Companies with profits between £50,001 and £250,000 will pay 25% but with marginal relief, while those with profits of up to £50,000 will continue to pay 19%.



Changes to 'basis period' tax rules may cause cashflow issues

The planned changes to 'basis period' tax accounting is likely to impact the cashflow of some unincorporated businesses.

It is due to be introduced in 2024/25, with 2023/24 as a transitional year. This is part of the Making Tax Digital transition. The new rules are designed to simplify the tax system for self-employed individuals, partners and trusts and estates with trading income.

Some unincorporated businesses using basis period accounting have year-ends that aren't aligned with the fiscal year and benefit from 'overlap relief'.

The changes include moving the 'tax' year-end of affected businesses to align with the fiscal year and taxing them on profits within a tax year, irrespective of their accounting period. This will initially force some businesses to add additional months into the next year's profits, leaving some facing being taxed on up to 23 months' profit in one year.

Clearly, this will impact cashflow, something the government recognised during the consultation that ended in August, indicating that all existing 'overlap relief' amassed must be used to support these businesses during the transition. However, this may not cover the tax liability in all cases, and the increased profits may be spread over five years to alleviate that.

Affected businesses should act now to draw up cashflow projections and assess the timing and size of increased tax payments, and review their VAT filing timetables.

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