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CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISERS

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TAX CHANGES AFFECTING LIMITED COMPANIES

Despite mounting pressure to scrap the increase in National Insurance Contributions (NICs), the Prime Minister and Chancellor recently confirmed that they are 'fully committed' to introducing the so-called "Health and Social Care Levy" on 6 April 2022. With a planned increase in Corporation Tax also due in just over a year's time, it is worth giving some thought sooner rather than later to the impact these changes might have on you and your company.

Health and Social Care Levy

To fund the Health and Social Care Levy, NICs and dividend tax rates will increase by 1.25% with effect from and including 6 April 2022. This measure is expected to raise £12 billion which, it is claimed, will be ringfenced to pay for health and social care costs in the future.

Employees (as well as the self-employed) will personally pay an extra 1.25% in National Insurance from 6 April 2022. Your company, as the employer, will also pay an extra 1.25% of employer NICs.

In addition to the increase in National Insurance rates, the Government has also confirmed a 1.25% increase in dividend tax rates from and including 6 April 2022, which will have the following impact:

Dividend Tax Rates	New rates	Existing rates
Basic Rate Payers	8.75%	7.5%
Higher Rate Payers	33.75%	32.5%
Additional Rate Payers	39.35%	38.1%

These rates apply on dividends received above the £2,000 tax-free dividend allowance.

Given these proposed increases in dividend tax rates, shareholders may wish to review whether it is appropriate to pay additional dividends before 6 April 2022. There are many factors to take into account in this context, including being careful to not push your personal income into income tax zones where penal rates of tax apply. For example, if your income is currently £50,000 or so, and you are in receipt of child benefit, you will want to think very carefully before pushing your income above £50,000, where the High Income Child Benefit Charge ["HICBC"] begins to apply. The overall marginal rates of tax created by the HICBC can be as high as 70%. Similarly, if your personal income is close to £100,000, you need to remember that if your income exceeds £100,000, you will begin to lose your entitlement to the personal income tax allowance, which is equivalent to an effective tax rate of 60% on income between £100,000 and £125,140.

As a rule of thumb, and assuming that Companies Act considerations are complied with, if shareholders are not fully utilising the basic rate tax band (currently £50,270), they may wish to do so before 6 April 2022. Equally, if dividend income is already being taken at a level such that personal annual income is greater than £150,000, then you may wish to consider accelerating future dividend payments into the 2021/22 tax year.

Increase in Corporation Tax Rate

In order to raise funds to start paying for the Covid-19 support costs, with effect from 1 April 2023, the standard rate of corporation tax in the UK is due to increase from 19% to 25%. Furthermore, for companies with taxable profits in the range of £50,000 to £250,000, an even greater marginal rate of tax will apply, equivalent to 26.5%. Profits below £50,000 will continue to be taxed at 19%.

In light of these proposed changes, businesses subject to corporation tax may wish to consider, where they can do so legitimately, accelerating income, so that it is accounted for before 1 April 2023, and deferring expenditure, so that it is incurred and accounted for after 31 March 2023. So, for example, if you are planning a major repair/refurbishment programme to your office or factory building, and you anticipate profits of over £50,000, other things being equal, you may wish to delay undertaking this work until after 31 March 2023 as you will receive a greater amount of tax relief by doing so i.e. 25% or 26.5% rather than 19% (the current corporation tax rate). Similarly, if you are considering having the company make significant employer pension contributions, again, other things being equal, you may wish to defer making such contributions until after 31 March 2023.

As always, each case needs to be considered on its own merits, and there can often be other factors to take into account, in addition to tax considerations. For example, with pension contributions one would not wish to do anything which would jeopardise maximising entitlement to the annual pension allowances. All aspects need to be considered carefully.

If you are considering investment in plant and machinery for your company, which you expect to qualify for capital allowances, you should also bear in mind the "super deduction" allowances which are available to limited companies for qualifying expenditure incurred between 1 April 2021 and 31 March 2023. The intention of the "super deduction" is to negate the potential benefit from deferring capital expenditure on brand new plant and machinery until after 31 March 2023, as mentioned above.

The above is for general guidance only and no action should be taken without obtaining specific advice. Advice in relation to investments and pension schemes should be obtained from your financial adviser and/or pension adviser.

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