View in browser

TAXTANGLE

Newsletter 9/12/24

to this weeks newsletter

This is our round up of the latest business news for our clients. Please contact us if you want to talk about how these updates affect your business. We are here to support you!

contact us

Salary vs dividends: The best way to extract profit in 2025/26

If you trade as a limited company, then you will likely know that balancing salary and dividends is key to extracting profit from your company in the most tax-efficient way. Both methods have distinct implications. and the right mix will depend on your specific circumstances.

The Autumn Budget, with its changes to employers national insurance rates and the employment allowance has further complicated the picture.

Here we set out some of the factors you need to keep in mind.

Salary: What to consider

A salary is a straightforward way to pay yourself from your company, and it offers a few advantages. However, it also comes with specific tax and national insurance obligations.

Here are some of the advantages:

- Eligibility for state benefits: Taking a salary is a way of ensuring that you qualify for state benefits, such as the State Pension. However, the salary needs to be above a minimum level for this to apply.
- Tax-deductible for the company: Salaries are treated as an allowable expense for your company and so reduce your company's corporation tax bill.

There are disadvantages though:

- Salaries are subject to both income tax and national insurance contributions. Depending on the salary amount, the overall tax burden can be higher than other methods.
- Your company may need to pay employers national insurance contributions on your salary.
- Salaries have to be processed through PAYE (Pay As You Earn), which means your company will have some additional compliance and reporting responsibilities.

Dividends: What to consider

Dividends are another popular way for small business owners to withdraw profits from their company.

Here are some of the advantages:

- Dividends are not subject to national insurance contributions, which can make them tax-efficient. However, dividend tax and corporation tax rates have eroded this advantage.

- Unlike salaries, dividends don't require PAYE processing. They must still be properly documented, but generally this is much simpler to do than operating PAYE.

Dividends are paid from post-tax profits, meaning the company must have sufficient retained earnings to be able to distribute dividends. Also, an over reliance on dividends could reduce your contributions towards state benefits.

The combined approach

Many business owners find that a combination of salary and dividends offers the best balance. For example, a modest salary can ensure your eligibility for state benefits while minimising the national insurance you pay. Dividends can then be used to supplement that income in a tax-efficient manner.

The exact split will depend on your personal circumstances.

If you would like help determining what the best approach is for extracting an income from your company in 2025/26, please give us a call. Our expert tax team have tools to assess the optimal balance and will be happy to help you minimise your tax liabilities and support your long-term financial wellbeing.

New Fair Payments Code launched

The government's promised new Fair Payments Code was launched last week to try and tackle late payment problems that can be particularly harmful to small businesses.

How will the Fair Payment Code help?

The code introduces a gold, silver, and bronze system that smaller firms can use to identify business partners who have made themselves accountable to pay fairly and within certain time limits.

The three award tiers have the following requirements:

- Gold award: for businesses paying at least 95% of all invoices within 30 days.
- Silver award: for businesses paying at least 95% of all invoices within 60 days, including at least 95% of invoices to small businesses within 30 days.
- Bronze award: for businesses paying at least 95% of invoices within 60 days.

Businesses that are granted an award also agree to abide by the principles in the Code of being “Clear, Fair and Collaborative” with their suppliers.

The awards, once granted, last for two years and then have to be reapplied for at the conclusion of that time. There will be a “robust” complaint system so that businesses who don’t meet the requirements of their award, or otherwise comply with the principles in the Code, can be reported.

Dealing with late payments can be a challenge to deal with. While the new Fair Payments Code may help, there are a variety of methods you can use to help reduce the effect of late payments. If you need practical help in how to improve how quickly your business is paid, please get in touch and we would be happy to help you.

See: https://www.smallbusinesscommissioner.gov.uk/fpc/

New reporting requirements for online platforms

New changes come into effect from January 2025 where online platforms, such as eBay and Airbnb, will start sharing some user sales and personal data with HM Revenue and Customs (HMRC).

Although these reporting requirements have caused concern, HMRC have confirmed that there are no changes to the tax rules for someone selling unwanted possessions online.

Angie MacDonald, who is HMRC’s Second Permanent Secretary and Deputy Chief Executive Officer, said: “We cannot be clearer – if you are not trading and just occasionally sell unwanted items online – there is no tax due.”

HMRC have advised that anyone who sold at least 30 items or earned roughly £1,700, or provided a paid-for service, on a website or app in 2024 will be contacted by the digital platform in January to say their sales data and some personal information will be sent to HMRC due to new legal obligations.

This does not mean that an individual automatically needs to complete a tax return. However, if the following applies then you would likely need to register for self assessment (if you are not already registered) and pay tax.

- Buying goods for resale or making goods with the intention of selling them at a profit; or
- Offering a service through a digital platform – such as delivery driving or letting out a holiday home; and
- You generate a total income before deducting expenses of more than £1,000.

If you are concerned about whether you are likely to need to register for self assessment or pay tax, give us a call and we will be happy to help you.

See: https://www.gov.uk/government/news/no-tax-changes-for-online-sellers

Better finance access for disabled entrepreneurs

In the runup to Small Business Saturday last week, a new Disability Finance Code was launched.

Research indicates that if opportunities were improved for disabled founders, it could unlock an additional £230 billion for the UK economy in growth and jobs.

Barclays, HSBC, Lloyds and NatWest have all signed up to this new scheme that is designed to help more disabled entrepreneurs get access to finance and support to start their own business.

Joseph Williams, CEO and co-founder of small business Clu said: “When disabled entrepreneurs are given equal access to finance, society gains in ways that go far beyond individual success. Inclusive entrepreneurship drives innovation, creates diverse workplaces, and encourages economic growth that benefits everyone.”

If you would like help in knowing where to go to access finance for your new business idea, why not get in touch? We would be happy to help you make your dreams a reality.

See: https://www.gov.uk/government/news/new-plans-revealed-to-save-small-firms-22000-a-year-and-improve-access-to-cash

South Western Railway: The first railway service to be renationalised

Following Royal Assent of the new Passenger Railway Services (Public Ownership) Act 2024, the Transport Secretary has revealed that South Western Railway’s services will be the first to transfer into public ownership in May 2025.

C2C will be transferred in July 2025, with Greater Anglia following in autumn 2025. The Department for Transport expects to transfer all passenger services that are currently being operated under contracts to public ownership within the next 3 years.

The publicly run services will eventually be run by Great British Railways (GBR), a body that the government will set up, but initially will be handled by DfT Operator Limited.

The government plans to reform the railways and believes that a transition to public ownership will improve reliability and support for the railway. They also believe it will help to boost economic growth and save taxpayers £150m per year in fees.

While the move is expected to help reduce cancellations and lateness, Transport Secretary Heidi Alexander made no comment on whether renationalisation will result in cheaper fares.

See: https://www.gov.uk/government/news/first-train-services-to-return-to-public-ownership-revealed

Diamonds might be forever

The UK Atomic Energy Authority (UKAEA) reported last week that its scientists and engineers along with the University of Bristol have successfully created the world’s first carbon-14 diamond battery.

A battery of this type has the potential to provide power for thousands of years, making it a very convenient and long-lasting energy source.

According to Sarah Clark, Director of Tritium Fuel Cycle at UKAEA, “Diamond batteries offer a safe, sustainable way to provide continuous microwatt levels of power. They are an emerging technology that use a manufactured diamond to safely encase small amounts of carbon-14.”

As the battery only produces low levels of power, it’s not going to be found in your smartphone anytime soon. However, it could provide significant benefits in medical situations. For instance, ocular implants, hearing aids, and pacemakers may be able to make use of bio-compatible diamonds, which would minimise the need for replacing these devices and lessen distress to patients.

It could also have applications in extreme environments where replacing conventional batteries is not practical.

See: https://www.gov.uk/government/news/diamonds-are-forever-world-first-carbon-14-diamond-battery-made

Are you prioritising mental health in the workplace?

In a survey of 1,025 employees carried out by ACAS, 9 in 10 said they thought it was important for mental health to be prioritised at work.

As a result, ACAS is encouraging employers to have empathetic conversations with their staff to ensure mental wellbeing is supported in the workplace.

Many do not like to talk about mental health and not everyone will show obvious signs of poor mental health. So, how can you detect if someone is suffering?

ACAS highlighted the following possible signs:

- They appear tired, anxious or withdrawn.
- They are late to work (especially if this is a change) or have increasingly been off work sick.
- Their focus on tasks or standard of work drops.
- They seem less interested in tasks they previously enjoyed.
- Their behaviour with others changes.

ACAS Head of Inclusive Workplaces Julie Dennis has reminded employers that “some people with poor mental health can also be considered disabled under the Equality Act, which means an employer must make reasonable adjustments at work.”

Figures provided by the Office for National Statistics show that 18.5 million work days were lost in 2022 because of mental health conditions.

Being sensitive to mental health conditions may help you to both improve your employees wellbeing but also increase productivity.

See: https://www.acas.org.uk/9-in-10-employees-want-bosses-to-prioritise-mental-health-at-work

Are you employing seasonal winter staff?

In the run up to the winter holidays, you may be considering taking on additional temporary staff to help with the workload. While these staff may only be with you for a short period, you still need to consider them for pension purposes each time you pay them.

Staff need to be put into a pension scheme based on their ages and how much they earn. This applies to family members too.

Generally, any staff that are aged between 22 and State Pension age and earn more than £192 a week or £833 a month, need to be put into a pension scheme that you pay into.

Your payroll software can be a big help if it is capable and set up for automatic enrolment as it will assess staff each time they are paid.

The Pensions Regulator has provided an online tool that you can use to work out what legal duties apply to you and what you need to do.

If you are unsure about handling payroll for seasonal staff, please get in touch with our expert payroll team who will be happy to help you.

See: https://www.thepensionsregulator.gov.uk/en/employers/new-employers/im-an-employer-who-has-to-provide-a-pension/work-out-who-to-put-into-a-pension/employing-seasonal-or-temporary-staff

Tax Tangle Limited

020 8397 8651

info@taxtangle.co.uk