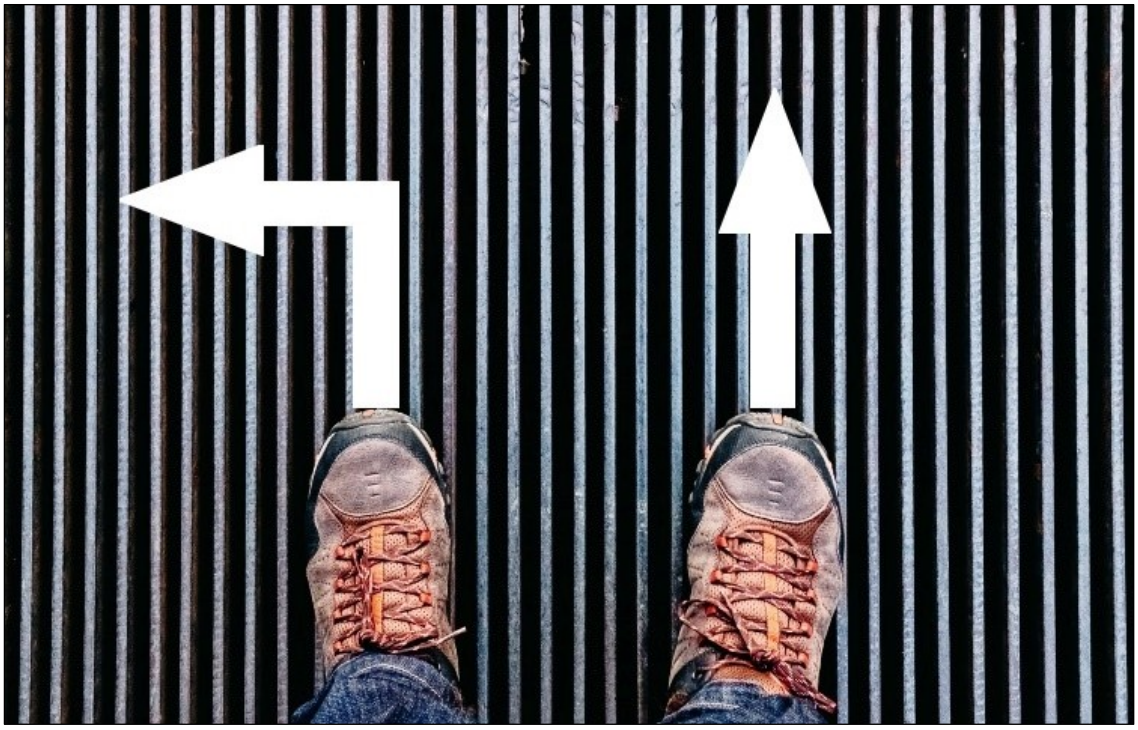
Written 26 February 2024

BUSINESS NEWS - ENGLAND

Welcome to our round up of the latest business news for our clients. Please do contact Cognitor Accountancy if you want to talk with us about how these updates may affect your business. We are here to support you!

Exploring tax implications: Limited company vs Sole Trader



When starting a business, or indeed as an established business, choosing the most suitable legal structure for your business is an important thing to consider. Two popular options are operating as a sole trader or forming a limited company. Each of these options comes with its own set of pros and cons, especially when it comes to tax.

Sole trader:

Pros:

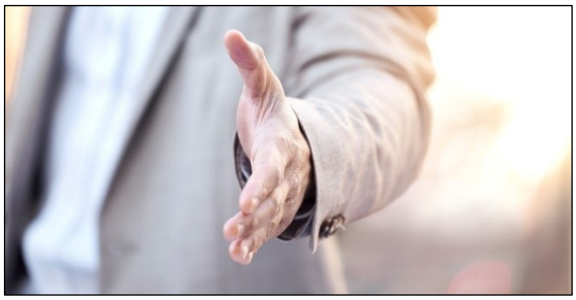
1. **Less administration**: Operating as a sole trader is straightforward and involves minimal paperwork. You have no need to register with Companies House either. So, this is an attractive option if you are looking to start a small business quickly and want to keep your administrative work to a minimum.

2. **Tax reporting is simpler**: Tax reporting is relatively simple for sole traders. Income tax and National Insurance contributions are calculated based on the profits your business makes. The process is usually less complex than if you were dealing with company tax.

Cons:

1. **Unlimited liability**: Perhaps the most significant drawback of operating as a sole trader is that there is no legal distinction between the business and you as an owner. This means you are personally liable for any debts or legal claims against the business and means that your personal assets could be at risk.

2. **Tax disadvantages:** While the simplicity of tax reporting is a pro, it can also be a con in some cases. Sole traders may miss out on certain tax advantages available to limited companies, for instance dividend payments and more flexible salary arrangements.



Limited company

Pros:

1. **Limited liability:** One of the most significant advantages of forming a limited company is that your business and personal assets can be separated. Owning shares in a limited company means that your liability is limited to the amount invested in the company, and this can provide a layer of protection for your personal assets.

2. **Tax Efficiency:** Limited companies often benefit from more tax-efficient structures. For example, as an owner, you can pay yourself through a combination of salary and dividends, which may result in lower overall tax liabilities compared to sole traders, who pay income tax and national insurance on all profits.

Cons:

1. **Administrative Burden**: Limited companies are subject to more regulatory requirements and administrative tasks. This includes filing annual accounts, maintaining company records, and complying with legal obligations set out by Companies House.

2. **Tax is more complex:** While limited companies can enjoy tax advantages, navigating all the rules that relate to companies can be complex. There is usually more work to do when it comes to withdrawing money from the company, for instance you may need to set up and run a payroll to draw a salary, or to document dividend payments.

In conclusion, deciding whether to operate as a sole trader or a limited company involves careful consideration of various factors, including the tax implications. Sole traders benefit from simplicity but face unlimited liability and potential tax disadvantages. On the other hand, limited companies offer limited liability and potential tax efficiency but come with a greater administrative burden and complexity.

If you are considering which of these options is best for you and would like to know more about what is involved or want to know how the tax costs of being a sole trader or a limited company compare, **please feel free to contact us**. We have helped many businesses reach a decision on their legal structure and would be happy to help you!

The twin-cab pickup makes a U-turn: What happened?

In an announcement made on 19 February, the government confirmed that twin-cab pickup vehicles with payloads of 1 tonne or more will continue to be treated as goods vehicles for both capital allowances and benefit-in-kind purposes.



This is an example of what has become known as a 'U-turn'. On 12 February, HM Revenue & Customs (HMRC) had updated its guidance on the tax treatment of twin-cab pickups following a 2020 Court of Appeal judgment. The guidance had confirmed that, from 1 July 2024, twin-cab pickups with a payload of one tonne or more would be treated as cars rather than goods vehicles for both capital allowances and benefit-in-kind purposes.

The updated treatment was extremely unpopular because goods vehicles attract more beneficial tax treatment than cars. For example, a business buying a goods vehicle is able to claim more tax relief, in the form of capital allowances, than if it were to buy a car. Similarly, if an employee were provided with an employer-owned vehicle, the income tax and employer's National Insurance charge on the benefit-in-kind would be lower on a goods vehicle than on a car.

The government says that it has listened to carefully to views from the farming and motoring industries and has U-turned because the 12 February guidance update "could have an impact on businesses and individuals in a way that is not consistent with the government's wider aims to support businesses".

The U-turn means that that the capital allowances and benefit-in-kind tax treatment of twin-cab pickups with payloads of 1 tonne or more will continue to be aligned with the VAT treatment. For more information, see: Update on HMRC Double Cab Pick Up Guidance - GOV.UK (www.gov.uk)

Companies House fees to increase from 1 May 2024

Companies House have reviewed the fees they charge and have released details of the new charges that will apply from 1 May 2024.

Companies House work on a cost recovery basis, so the fees are set to cover their costs rather than to make a profit. Due to the measures introduced by the Economic Crime and Corporate Transparency (ECCT) Bill, costs for Companies House are increasing and so the fees are being adjusted in part to cover this.

The increases are quite significant. For instance, the fee for an annual confirmation statement, if submitted digitally, will rise to £34. The cost is currently £13. Depending on your current filing date, it may be worth filing early to pay the lower fee one last time.

For a full list of the prices from 1 May 2024, see:
https://changestoukcompanylaw.campaign.gov.uk/changes-to-companies-house-fees/

Update expected to the Code of Practice on requests for flexible working

The Advisory, Conciliation and Arbitration Service (ACAS) has released a final draft of a new Code of Practice on requests for flexible working. The draft Code received consultation in 2023 and is now awaiting parliamentary approval. If it is approved, then the new Code is expected to come into force in April 2024.

Flexible working refers to any working arrangement that meets the needs of the employee and employer on where, when, and how an employee works. This would include part-time work, homeworking, hybrid working, job sharing, compressed hours, term-time working etc.

Employers and employees can make informal arrangements, but if an employee makes a statutory request for flexible working, then the Code must be followed.

The new Code introduces a number of new changes. These include:

Right to request



An employee will now have a statutory right to request flexible working from the first day of their employment. Currently they cannot do so until they have given 26 weeks of employment service.

Currently there is a limit of one request that an employee can make in any 12 month period. However, under the new Code they will be able to make two statutory requests in any 12-month period, with a maximum of one live at any one time.

Handling a request

Currently, employers are required to consider a request and can reject it on the basis of a business reason that is set out in the Employment Rights Act 1996. The new Code is more positive and specifically states: “Employers must agree to a flexible working request unless there is a genuine business reason not to”. The business reasons for rejecting a request continue to be those set out in the legislation.

The new Code introduces requirements to prevent discrimination where a request is because an employee is seeking a reasonable adjustment because of a disability.

While the current Code encourages a discussion with the employee, particularly where the employer rejects or wants to modify the request, the new code specifies that unless the employer decides to agree to the employee’s written request in full, they must now consult the employee. The new Code provides guidance on how the meeting should be held and its content.

The new Code requires that a request be decided on within a statutory two-month period including any appeal. Currently three months are allowed.

The new Code also now specifies that the decision is communicated in writing and what this should contain. It also sets out appeal procedures.

Until the new Code receives parliamentary approach, then any statutory requests you receive can still be handled in accordance with the current Code of Practice (https://www.acas.org.uk/acas-code-of-practice-on-flexible-working-requests/html)

However, with parliamentary approval expected by April, it would be well to be prepared with your policies.

To review the new Code of Practice, please see: https://www.acas.org.uk/acas-code-of-practice-on-flexible-working-requests/2024

Are you getting minimum wage payments right?

Last Tuesday, the government named and shamed 524 businesses for failing to pay the minimum wage to their staff.



These failures amounted to a total of nearly £16 million that had not been paid to their workers. Each of the employers named has had to repay their staff for the shortfall and have also faced financial penalties of up to 200% of their underpayment.

The list includes businesses of all sizes, including some major high street brands. For instance, Estee Lauder, Easyjet, Greggs, Moss Bros, Currys, and NHS Highland all appear on the list.

It is clear that the government will take enforcement action against employers that do not pay their staff correctly. Since it can be easy to unintentionally underpay a worker, such as when they hit 18 or 21 when there is a mandatory increase, it is a good idea to regularly review your payment rates.

This is especially important as we come to the start of a new tax year on 6th April as the rates of pay are increasing as set out in the table below.

	2023/24 rate	2024/25 rate
National Living Wage 21 and over (previously 23 and over)	**£10.42**	**£11.44**
18 to 20	**£7.49**	**£8.60**
Under 18	**£5.28**	**£6.40**
Apprentice	**£5.28**	**£6.40**
Accommodation Offset	**£9.10**	**£9.99**
18 to 20	**£10.42**	**£11.44**

If you need any help with your payroll or reviewing whether your wage payments are correct **please feel free to contact us** we would be happy to help you!

See: https://www.gov.uk/government/news/over-500-companies-named-for-not-paying-minimum-wage

The Body Shop goes into administration

The latest casualty of the difficulties hitting the high street is The Body Shop, which entered administration on 13 February 2024.

Administration can be a worrying time for employees as well as customers and suppliers. However, administration is not as serious as when a company immediately goes into liquidation. Let us explain.

When a company goes into administration, it essentially means that it is placed under the management of licensed insolvency practitioners. These insolvency practitioners, known as administrators, help salvage the business or its assets. This process is typically started when a company is struggling financially and cannot pay its bills or other financial obligations.

During administration, the administrators take control of all the company's operations, finances and assets. Their goal is to maximise the returns for creditors. This might involve restructuring the business, selling off parts of the business, or seeking new investment that will stabilise the company's financial position.

Going into administration provides the company with protection from legal action by creditors, giving it breathing space to weigh up its options and find a solution. It can also help to preserve jobs. And because it allows for a more orderly resolution of the financial difficulties the company is facing, it helps to keep more value for the various stakeholders in the business.

vUltimately, the aim of administration is either to rehabilitate the company and return it to a solvent trading position, or to achieve a better outcome for creditors than would be possible through an immediate liquidation.



If you have any concerns about your company's financial position, **please contact us at your earliest convenience**. We will be happy to talk and guide you through the options available to you.

See: https://www.gov.uk/government/news/the-body-shop-in-administration-information-for-employees-and-creditors

Cuts to National Insurance: Reminders about changes

In November 2023's Autumn Statement, the government announced some National Insurance (NI) changes. Some of these changes went into effect in January 2024, whereas others will come into effect on 6 April 2024. Here is a reminder of the changes.

Cut to the main rate of Class 1 employee NI contributions from 12% to 10%

This reduction received the most headlines. This change went into effect from 6 January 2024, and you have likely already made this adjustment.

In some cases, employers were not able to make the change in time due to software not being ready. If that is the case for you then an incorrect amount of NI will have been deducted from your employees and this will need correcting. Details on how to do so are here: https://www.gov.uk/payroll-errors/correcting-your-fps-or-eps But, please feel free to contact us if you need any help.

HM Revenue and Customs (HMRC) have recently confirmed that the 2% cut also applies to the married woman's reduced rate of NI contributions, where the rate has dropped from 5.85% to 3.85%. The married woman's reduced rate of NI contributions applies to married women who opted in before the scheme ended in April 1977.

Cut to the main rate of Class 4 self-employed NI contributions from 9% to 8%

Class 4 NI applies to the taxable profits of a self-employed business. It is calculated when your self-assessment tax return is prepared and collected as part of your income tax bill.

This cut comes into effect for profits earned from 6 April 2024 onwards. There is nothing you need to do to benefit from this cut, it will be automatically applied when your tax bill is calculated.

Removal of liability to pay Class 2 self-employed NI

Sometimes known as the self-employed 'stamp', Class 2 NI has been a feature for self-employed taxpayers for many years. It is quoted by HMRC as a weekly rate (£3.45 per week for the 2023/24 tax year) and is usually collected as part of your self-assessment tax bill.

From 6 April 2024 the liability to pay this has been removed. For 2024/25, if your trade profits are above £6,725, you will accrue entitlement to state benefits without paying Class 2 NICs so the charge effectively becomes £nil. However, if your trade profits are below £6,725 and you wish to continue accruing entitlement to state benefits, you'll need to pay class 2 NICs on a voluntary basis.

If you have any concerns or questions about the NI you are paying, please contact us, we will be happy to help you!

Resources on learning to export

The Department for Business & Trade has made available learning resources for businesses to help with what is involved with exporting. These resources are designed both for new and experienced exporters.



The resources cover:

- Learning how to identify opportunities abroad and find the best target markets;
- Preparing to sell into a new country, such as how to find customers and win bids;
- Understanding international rules and how to get your goods to their destination; and

- Learning how to raise funds, get paid and manage exchange rates.

There is an opportunity to sign up and gain some additional benefits.

Exporting can also involve additional Customs and VAT requirements. If you need any help with this or would like to discuss your plans, please feel free to contact us!

For more about this resource, please see: https://www.great.gov.uk/learn/categories/

Please do contact us if you would like to talk about any of the articles. We are here to support you and your business!