INSIDER

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Chartered Certified Accountants

HMRC RAISES INTEREST RATES ON LATE TAX PAYMENTS

HMRC has confirmed it will raise interest rates on late tax bills by 0.25 percentage points after the Bank of England increased the base rate of interest to 1%.

The announcement means the late payment interest rate and corporation tax pay and file rate will increase to 3.5% from 24 May 2022 (16 May 2022 for quarterly instalment payments) after the Government increased it to 3.25% on 5 April – the highest rate since the height of the financial crisis in January 2009.

Late payment interest is payable on late tax bills including income tax, National Insurance contributions, capital gains tax, and stamp duty land tax.

HMRC interest rates are set in legislation and are linked to the Bank of England base rate, which the Bank increased from 0.75% to 1% on 5 May 2022.

There are two main rates:

- late payment interest, which is set at the base rate plus 2.5%
- repayment interest, which is set at the base rate minus 1% with a lower limit of 0.5%.

Corporation self-assessment interest rates relating to interest charged on underpaid quarterly instalment payments rose to 2% on 16 May 2022, up from 1.75%.

Meanwhile, the repayment interest rate remains unchanged at 0.5%, the same level it's been set at since 29 September 2009.

Get in touch to talk about your taxes.

WORK FROM HOME TAX RELIEF MAY NOT BE AVAILABLE IN 2022/23

Employees who claimed tax relief for working from home during the pandemic may no longer qualify in the 2022/23 tax year as HMRC changes its guidance for the scheme.

During the COVID-19 pandemic, people who could do their normal job at home were required to do so at various times and were allowed to apply for tax relief for the whole year.

The relaxed take on the system remains in place until the end of the current tax year but the rules for eligibility changed on 6 April 2022 now that there are no longer any legal restrictions on going into workplaces.

Tax relief can now only be claimed by workers who must work from home, as opposed to those who prefer to.

As a result, working-from-home tax relief can only be claimed if one of the following applies:

- there are no appropriate facilities for you to work on your employer's premises
- the job requires you to live so far from the employer's premises that it is unreasonable for you to travel there on a daily basis
- you are required, under Government restrictions, to work from home.

You may be able to claim for additional household costs when working from home, but only the element of the cost that relates to your work.

Speak to us about claiming tax relief.

BANK OF ENGLAND RAISES INTEREST RATE TO 1%

The Bank of England (BoE) has raised its base interest rate to 1%, marking the fourth rise in a row and the highest base rate in 13 years.

The Bank's monetary policy committee (MPC) voted 6-3 to increase the base rate of interest by 0.25% percentage points from 0.75% on 5 May 2022.

The current rate of inflation as measured by the consumer prices index (7%) is creating an intense cost of living crisis, with rising electricity and gas putting a strain on households and business – and pressure on the Bank to act.

The MPC said inflation will rise to just over 10% in Q4 2022 before gradually falling to its target of 2% in 2024.

The UK base rate of interest sets the rate at which individuals and businesses pay for borrowing money and what banks will pay to people saving with them, and is often seen as the BoE's main tool to stave off inflation.

Kitty Ussher, chief economist at the Institute of Directors (IoD), said:

"We welcome the BoE's judgement that the need to tackle high expectations of inflation is of greater concern than the risk of curbing demand too fast in the short-term".

On the other hand, Suren Thiru, head of economics at the British Chambers of Commerce said the Bank's decision will cause "considerable alarm", adding:

"Higher interest rates will do little to address the global headwinds and supply constraints driving this inflationary surge. It also raises the risk of recession by damaging confidence and intensifying the financial squeeze on businesses and consumers."

However, Julian Jessop of the Institute of Economic Affairs (IEA) described the rise as the "bare minimum" and said it did not go far enough. Indeed, the IEA's so-called shadow MPC voted to increase rates to 1.5%.

It seems the BoE does not plan on slowing down its plan to increase interest rates, having based its inflation projections on an assumption that the Bank rate would have increased to 2.5% by mid-2023.

Talk to us about your debt repayments and savings.

SMES UNPREPARED FOR MTD ROLLOUT

Small and medium-sized businesses are underprepared for Making Tax Digital (MTD), according to new research by the Association of Chartered Certified Accountants (ACCA).

Working with the Corporate Finance Network (CFN), the ACCA's SME tracker showed that 14% of accountants in the UK say their SME clients are "unprepared and will not be ready" for future phases of MTD.

In a survey of 8,900 accountants, 40% said their clients are "partially prepared" but are "not confident they will be ready".

In comparison, only 22% said their clients are fully prepared for MTD and have the appropriate software set up.

Analysis also revealed a north-south divide between SMEs and their awareness of MTD, with half of London-based advisers saying businesses will be ready, compared to with just 17% outside of London.

MTD aims to remove paper-based filing and currently involves online submission of VAT.

From April 2024, MTD will apply to self-employment and property income over a £10,000 threshold, spelling the end of the self-assessment tax return as we know it, while MTD for corporation tax will arrive no sooner than April 2026.

The SME tracker also found that businesses are underprepared for other tax schemes, which could stump the Government's plans for the future.

For instance, 42% of accountants said their SME clients have not asked about the 'help to grow' scheme or do not know what it is.

Instead, businesses are focused on immediate issues, according to the ACCA, such as tax compliance and access to finance.

Glenn Collins, acting head of ACCA UK, said:

"Government strategies to spur investment for the future are not cutting through with SMEs who seem to be taking a short-term approach, coupled with a belief that schemes are not applicable or relevant to them.

"SMEs outside of London also need a comms boost to ensure they're part of the levelling up agenda – the Government can do this by working with intermediaries and the UK's local authority infrastructure."

Contact us to discuss the benefits of MTD.