Hawsons Chartered Accountants
Latest News

April | 2023

SME Newsletter

In this issue:

Hawsons
Big firm expertise,
small firm personal attention

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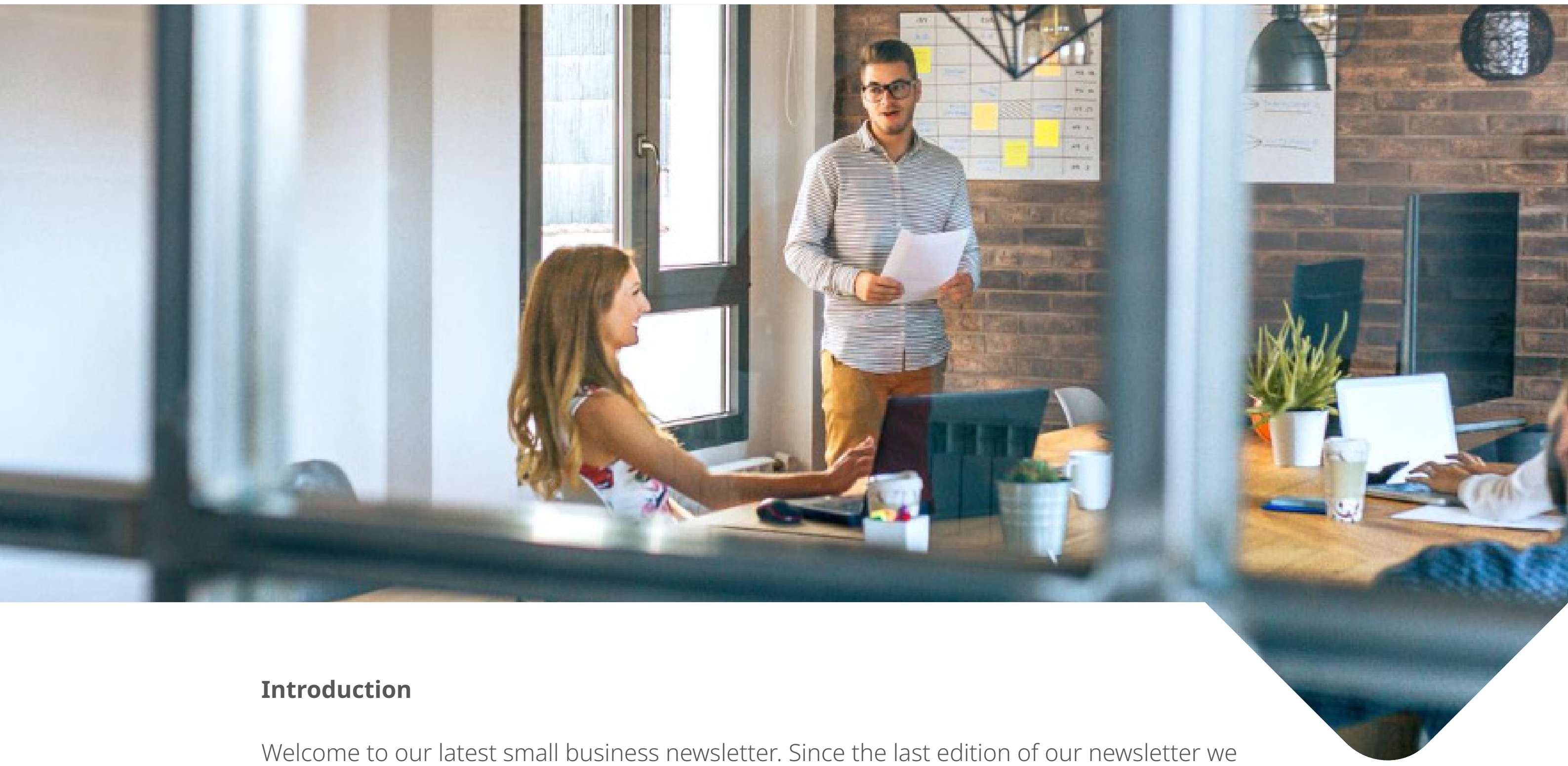

Introduction

Welcome to our latest small business newsletter. Since the last edition of our newsletter we have seen the announcement of the Spring Budget in March. The announcements made in this budget aim to encourage people back into work, to grow the economy and reduce inflation.

In this edition of the newsletter we discuss:

- What is creating the skills shortage?
- Spring Budget: Changes to creative tax reliefs
- VAT Recovery on Aircraft
- Spring Budget 2023 - Key tax announcements
- What is an Employee Ownership Trust (EOT)?

As always we hope you enjoy the contents of this newsletter and as ever please do not hestitate to contact one of our experts if you have any questions about any of these articles.

Paul Wormald
Partner

What is creating the skills shortage?

There has been UK skills shortages for some time, particularly across the manufacturing and engineering sectors. However, since the pandemic, these skills shortages have spread into other sectors, including hospitality and professional services. In this article, we look into what has caused the skills shortage across a number of sectors.

Why is there a skills shortage?

<u>Brexit</u>

There are a few factors that have caused the skills shortage across the UK. Firstly and perhaps the most obvious reason is the reduction in EU migration post-Brexit. Research from the Centre for European Reform's found that the UK's workforce has shrunk by 330,000 since Brexit. This is after accounting for the gain of non-EU workers.

Whilst these numbers may seem insignificant compared to the total number of people employed in the UK, this does make a difference as the reduction in the UK workforce has a disproportionate impact on certain sectors. EU workers would typically work in the transport, manufacturing or retail sector. These EU workers would tend to be skilled workers and would often progress into more skilled roles in business or professional services, which is now contributing to the skills shortage in these areas. Despite an increased number of non-EU workers arriving in the UK, these people are filling different skills gaps compared to those workers that were arriving from the EU.

<u>The pandemic</u>

Research has found that the pandemic has triggered many workers over 50 to retire. This is the age group where there has been the largest loss in the workforce. Many of those in this age bracket were already in a position to retire but had chosen not to. However, since the pandemic, many workers in the over-50 age range have decided to retire or at least try-out retirement. Many of those in this age range have decided not to return to work, especially those in professional service roles where hybrid working has become the new norm. It is believed that workers in older age groups have found the transition to hybrid/remote working more challenging than their younger counterparts which made many feel side-lined. For many businesses losing so many experienced employees during a 2-3 years period has been very damaging. These employees provide many businesses with much-needed experience which can be passed down to the younger generation. Many businesses are now looking for solutions to accommodate the needs of older employees in order to improve retention.

<u>Conclusion</u>

Overall, a combination of a reduction in overseas workers and more of the over-50's choosing to retire at the same time have contributed to a shortage of workers across multiple sectors.

Spring Budget: Changes to theatre, orchestra and museums and galleries exhitbitions tax reliefs

The Chancellor Jeremy Hunt has announced an extension of the higher rates of tax relief for theatres (TTR), orchestras (OTR), museums and galleries exhibitions (MGETR) for two years to 31 March 2025. In addition, the definition of qualifying expenditure will be changed to "expenditure on goods and services that are consumed in the UK".

Extending the higher rates of relief

The rates for TTR and MGETR, which were due to taper to 30% (for non-touring productions) and 35% (for touring productions) on 1 April 2013 will remain at 45% and 50% until 31 March 2025. From 1 April 2025, the rates will be 30% and 35% and the rates will return to 20% and 25% from 1 April 2026.

The rates for OTR will remain at 50% for expenditure taking place from 1 April 2023, reducing to 35% from 1 April 2025 and returning to 25% from 1 April 2026. MGETR will expire after 31 March 2026 and no expenditure after this date will be eligible for relief.

Rates of relief will be as follows:

Theatre Tax Relief (TTR)

<u>Non-Touring</u>

27 October 2021 to 31 March 2025 – 45%

1 April 2025 to 31 March 2026 – 30%

From 1 April 2026 – 20%

<u>Touring</u>

27 October 2021 to 31 March 2025 – 50%

1 April 2025 to 31 March 2026 – 35%

From 1 April 2026 – 25%

Continued overleaf

Spring Budget: Changes to theatre, orchestra and museums and galleries exhitbitions tax reliefs (continued)

Museums and Galleries Exhibition Tax Relief (MGETR)

Non-Touring

27 October 2021 to 31 March 2025 – 45%

1 April 2025 to 31 March 2026 – 30%

From 1 April 2026 – 20% *

Touring

27 October 2021 to 31 March 2025 – 50%

1 April 2025 to 31 March 2026 – 35%

From 1 April 2026 – 25% *

*Please note that MGETR is due to expire on 31 March 2026 unless extended

Orchestra Tax Relief (OTR)

Expenditure

From 27 October 2021 to 31 March 2025 – 50%

From 1 April 2025 to 31 March 2026 – 35%

From 1 April 2026 – 25%

EEA restrictions

The Government will legislate to change the type of expenditure that will qualify for TTR, OTR and MGETR.

From 1 April 2024, the definition of qualifying expenditure will change from “expenditure that is incurred on goods and services provided from within the UK or EER” to “expenditure on goods and services that are used or consumed in the UK”. There will be a requirement for at least 10% of the expenditure to be on goods and services consumed in the UK, in place of the existing requirement for at least 25% of the core costs to be incurred on goods and services from within the UK or EEA.

Productions that have not concluded by 1 April 2024 will be permitted to continue to claim EEA expenditure under the old definition under 31 March 2025.

VAT Recovery on Aircraft

We have helped a number of businesses and individuals with the purchase of aircraft determining the best way to make the purchase in order to recover the VAT and to manage personal and corporate taxes.

It's fair to say HMRC can be skeptical about the position, but they can't ignore the legislation and case law. They will be very interested to see who the pilot is and whether they hold a PPL, CPL or ATPL.

When buying an aircraft you should consider the tax rates. If you take the money out of your company to buy the aircraft personally, the tax rate could be high after paying NI and PAYE, getting on to around 53.5%!

You could look at the company buying it. If the aircraft was an executive perk or where there wasn't any economic business activity, it's unlikely that the company can reclaim the VAT. You could be taxed 20% of the market value of the aircraft plus your share of the running costs if the company pays them. The company should be able to claim a tax deduction for these costs as remuneration, this isn't cheap but it is more tax efficient than funding it through your own salary or dividends.

On the other hand, if the purchase is made for genuine commercial economic business activities and business trips, the VAT can be recovered and there will be no tax benefits. Your access to the aircraft needs to be managed and probably rented to you at full commercial rates, unless of course, you and others are just using the aircraft for business use e.g. meetings abroad so that there are no tax problems. The aircraft logbook will always set out where the aircraft has been and who was the pilot.

If there is mixed use, so a hybrid method of taxation will need to be worked out.

When buying an aircraft, you must take the above into consideration to ensure you are paying the least VAT possible, whilst managing both personal and corporate taxes. We are able to help you choose the best route for your circumstances. Of course for aircraft you can apply the same position to boats.

What is an Employee Ownership Trust?

An EOT is a trust that acquires shares in a company and holds them on behalf of the employees. It is an increasingly popular exit strategy for shareholders which offers attractive tax incentives and peace of mind over the future of the business and its employees.

When should an EOT be considered?

Although the employee ownership structure offers a tailored solution to suit many companies, it is not suitable for all business disposals.

Employee ownership is an exit route that enables the employees to control the company's succession and as such, is centered around employee reward, leadership and innovation.

The EOT model would suit an exiting shareholder who wishes to pass on the management and ownership of the company to its current workforce, who can ultimately benefit from the financial advantages of company ownership. It is a very attractive exit strategy for those looking to preserve company culture and avoid a potentially hostile and undesirable restructuring from a third-party acquirer.

An EOT disposal may also be an attractive route for shareholders who still wish to retain a level of ownership, since up to 49% of the shares can be retained post-transaction (i.e. the trust has to be the controlling shareholder in order to qualify for the tax benefits).

Who would an EOT work well for?

As there is no requirement for the exiting shareholders to cease to be employees/directors and the current management team can continue to run the company post-transaction (relevant for owner-managed businesses). As such, there is no specific need for there to be a second tier of management at present, and therefore employee ownership trusts are an attractive option for smaller companies as well as SMEs and larger entities alike.

EOTs are relatively sector agnostic – the most important factors being the employees' hunger to grow and steer the company and the exiting shareholders' vision for rewarding the employees as a collective.

Why does the government support EOTs?

EOTs are in essence a form of employee benefit trust introduced by the UK Government in 2014. This was to encourage shareholders to follow an ownership structure similar to the John Lewis model. It is believed that employee-owned businesses achieve higher productivity and greater levels of innovation than privately owned businesses and are more resilient to economic turbulence.

Continued overleaf

What is an Employee Ownership Trust? (Continued)

Key EOT qualifying conditions

The company must be trading;

The acquiring trust must own a controlling stake in the company on behalf of the employee beneficiaries, and the controlling stake must apply to share capital as well as voting rights;

Trust property must generally be applied for the benefit of all eligible employees on the same terms. But the trustees may distinguish between employees on the basis of remuneration, length of service and hours worked.

What are the advantages of selling to an EOT?

Owner

- Receive a fair market value for shares
- A smoother and less contentious exit (than a typical trade sale)
- No Capital Gains Tax payable by the exiting shareholders on the disposal
- Rewards employee loyalty and protects the legacy of the company

Employees

- Rewarded for their loyalty and hard work
- Employees can receive up to £3,600 of income tax-free bonuses per year (National Insurance Contributions will still need to be paid)
- Increased employee engagement and the benefits of ownership without capital injection or personal liability

The business

- Retain culture and legacy
- Enables a gradual and controlled transition of leadership as exiting shareholders can retain management positions and phase out their retirement to suit the needs of the business
- Employee-owned companies tend to be more resilient to economic turbulence
- Long-term view on strategy

Get in touch

Our SME experts

Hawsons has a dedicated team of small business accountants in Sheffield, Doncaster, and Northampton. Our Small Business Services Department is dedicated to helping smaller businesses, providing a range of tax and accountancy services to small and growing businesses. We generally help sole traders, partnerships, and limited companies.

Starting up a new business is a challenging process and there are many aspects a small business owner must consider. We have a proven track record in helping new and small businesses get off the ground and continue to grow. Our small business accountants can help in all aspects of setting up and running your business.

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