# Business Matters

McCabe Ford Williams Newsletter | Winter 2021

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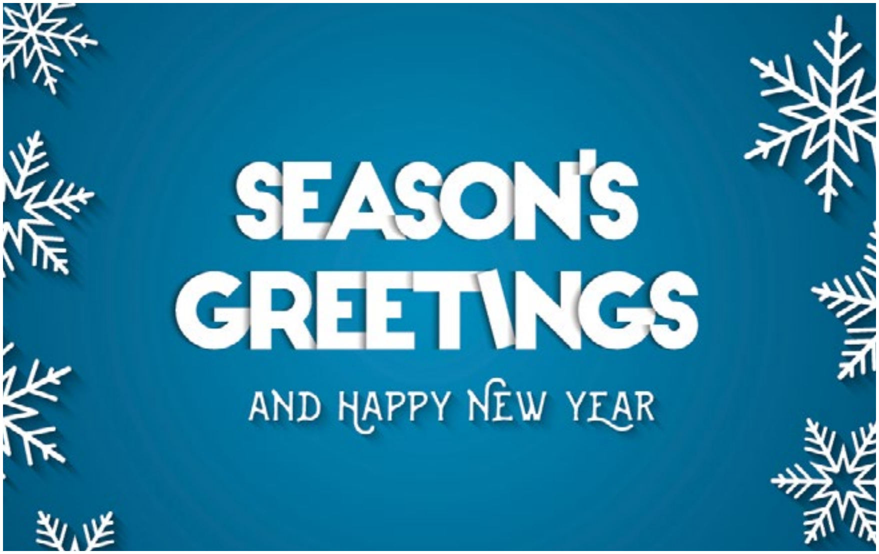


## Welcome to the winter edition of our Business Matters newsletter

As we go to print, The House of Commons has just voted on social care funding plans proposed by the government. Ahead of this, of course, Prime Minister Boris Johnson has already outlined plans to increase National Insurance contributions to help raise more social care funding for the future. We therefore felt it was timely to speak with Indi Toot, a client who owns three care homes in Thanet, to understand how he and his team coped with Covid and understand how this sector is faring.

We hope you enjoy reading this issue and please don't forget, to enter our Christmas word search for your chance to win a £100 Marks & Spencer voucher. See page 01 for details.

**May we take this opportunity to wish you all a Merry Christmas and a peaceful and prosperous New Year.**


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# MFW Christmas
# Word Search

**Don't forget to enter our Christmas word search for the chance to win a £100 Marks & Spencer voucher**

Simply find the words in the grid below. One word, however, is missing. Just let us know what the missing word is by completing your details below.

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Red
Sleigh
Hat
Gift
Mince Pie
Ho Ho Ho
Jolly
Belt
Beard
Boots
Sack
Chimney
Naughty
Nice

**How to enter:**

You can send your entries by post, email or fax using the following details:

**Karen Gray**

McCabe Ford Williams, 2 The Links, Herne Bay, CT6 7GQ (please mark for the attention of Karen) or email it to **karen.gray@mfw.co.uk** or fax it to **01227 740106.**

**Name:**

**Email:**

**Telephone:** (best number to reach you, if you are our lucky winner)

**Your MFW Office:**

**The missing word is:**

The closing date is **Monday 20th December**. Good luck!

*Please note that entries received after this date will not be included in our prize draw.*

By entering our competition, you are agreeing for us to use your contact details so that we may get in touch with you in the event you are our lucky winner. Your details will be used for the purpose of this competition only and will be deleted immediately after the draw. The winner will be randomly selected from all the correct entries and notified shortly thereafter, with the prize dispatched prior to Christmas. Please note that this competition is not open to partners, staff and friends or family of McCabe Ford Williams.

# Christmas message from Senior Partner Ian Pascall

Last year I began my annual "message" by suggesting that 2020 was a year that we would all like to forget, but won't. Who knew that 2021 would be similar?

Unfortunately, COVID is very much still with us, but we are learning to live with it. The vaccination programme has enabled us to return to some sort of normality, now with boosters to further our resistance to the effects of the virus. Are we through the worst? Going back to October 1942, following a number of successes on various fronts, many sought to start celebrating victory in the war, and at a speech at Mansion House, Winston Churchill said:

*"Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning".*

Perhaps that's where we are?

Anyway, we have recently had the Autumn Budget which was very much based on spending rather than re-trenching. Spending on just about everything – infrastructure, NHS, schools, police, local government, research and development, housing, childcare, and so on.

The funding for all of this is planned to come from an increase in the tax take arising from economic growth and already announced rate rises and allowance freezes.

Indeed, on that note, with Corporation Tax rising to 25% (26.5% for marginal rate companies) from 1 April 2023, it is important to carefully plan expenditure over the next couple of years and we will be contacting our corporate clients in more detail in this regard during next year.

As I write this, with financial markets braced for change, the Bank of England has just confounded expectations and held interest rates steady. However, with inflation heading to its highest level in more than a decade, this surprise move comes with a warning that rates will almost certainly increase in 2022. But by how much?

Unfortunately, I do see 2022 as being a tough year for businesses and individuals. An increasing cost base (wages and energy costs), and supply shortages will push up prices, which pushes up inflation. Businesses are also now having to face the tax bills arising from the financial support packages provided by the government. For some, that will be a problem. Then there's changes that will need to be made because of climate change and agreements made at COP26. We are not yet out of the woods.

On a more positive note, the expected changes to Capital Gains Tax (CGT) and Inheritance Tax have still not been made. So, with property prices so high, and CGT still relatively low, is it an appropriate time to crystallise gains? Food for thought, perhaps.

**So, another year nearly over. For those who celebrate Christmas and the New Year, let's hope that the lorry driver shortage, supply chain shortages, and COVID (of course) do not spoil it for us, and I take this opportunity, on behalf of everyone at MFW, to send you seasonal greetings and to hope that 2022 treats you kindly.**

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**Senior Partner**
MFW Dover

## Autumn Budget Changes
# What you need to know

We recently issued our coverage of the Autumn Budget. For a reminder of our coverage please visit *https://mfw.co.uk/2021/10/28/autumn-budget-2021/*, where you will find a copy of our Autumn Budget highlights and full report.

In Chancellor Rishi Sunak's speech, he concentrated not on tax changes, which were minimal, but on the government's spending plans as outlined in the Spending Review. However, there were some hidden changes contained in the government's full Budget briefing document that we would like to make you aware of. These are as follows:

### Basis period

On the next page you will find an article by Martin Humphreys outlining the reform to the Basis period. **This will affect you if your business is unincorporated and prepares accounts to a date other than 31 March or 5 April.**

### Changes to Capital Gains Tax (CGT)

Whilst the rates of CGT, alongside Inheritance Tax, were unchanged in the Autumn Budget, a change was made to the CGT reporting and payment requirements for residential property disposals. The change, recommended by the Office of Tax Simplification, will be legislated for in the Finance Bill 2021-22 and will extend the deadline for UK residents to report and pay any CGT on UK residential property disposals from the current 30-day period until 60 days. The deadline for non-UK residents will also increase to 60 days.

**It should be noted, however, that if the property is classed as mixed-purpose that the 60 day payment window will only apply to the residential element of the property gain.**

### Changes to the Normal Minimum Pension Age (NMPA)

It was also announced that for private pensions the NMPA will, from April 2028, increase from 55 to 57 years. The NMPA is the minimum age at which the majority of pension savers (unless they are retiring due to poor health) can access their pensions without incurring any tax liabilities. Certain members of the workforce, however, are exempt and will therefore be unaffected by these changes including firefighters, police and armed forces.

### The history of NMPA

The NMPA was introduced in 2006, initially set at 50 years of age, before being increased to 55 years in 2010. In 2014, however, a consultation named 'Freedom and Choice in Pensions' proposed an increase of the NMPA to 57 years of age in 2028 to coincide with the rise of state pension age to 67 years.

The government has, therefore, implemented that recommendation in a move they describe as helping individuals to make enough pension savings to provide for later life and to help with keeping higher labour numbers in work to strengthen the economy.

**If you need any assistance in connection with efficient tax planning for your retirement, please contact your local MFW office:** *https://mfw.co.uk/contact/*

Basis period reform

# Accounting periods that are not aligned to tax years

For those unincorporated businesses that have been in existence since before the mid-1990s, you may remember the changes brought about by Self Assessment and the transitional year which moved the basis of taxation from a prior period basis to a current year basis. Aligned to the revised start date for Making Tax Digital (MTD), it was announced in the Autumn Budget that a further change and new rules would be introduced to simplify the way that trading profits made by self-employed individuals and partnerships are allocated to tax years.

The changes mainly affect unincorporated businesses that do not draw up annual accounts to 31 March or 5 April. The changes will take place in the 2023/24 tax year and the new rules will take effect from 6 April 2024. Affected self-employed individuals and partnerships may retain their existing accounting period but the trading profit or loss that they report to HMRC for a tax year itself, regardless of the chosen accounting date, will be the profit or loss arising in that tax year. Broadly speaking this will require apportionment of accounting profits into the tax years in which they arise.

### Example

A sole trade business prepares accounts to 30 June each year.

Based on the current rules, income tax calculations are currently based on the accounts year that ends in the tax year (i.e. for 2021/22 the accounts for the year ended 30 June 2021 will form the basis period on which the tax is calculated).

The change will mean that the income tax calculations for the same business for 2024/25 will be based on 3/12ths of the profits for the year ended 30 June 2024 and 9/12ths of the profits for the year ended 30 June 2025.

This change will potentially accelerate when business profits are taxed but transitional adjustments on 2023/24 have been designed to ease any cashflow impact of the change. Also, it may be difficult for businesses with an accounting year end of, say, 31 December to have accounts ready to make a submission on time which could result in estimates being filed until the actual figures are known, which is clearly not an ideal situation and may create extra work.

In many cases, a business will need to consider changing their accounting reference date to align to 31 March. However, the timing of this change to minimise the potential impact on taxable profits and cash flow will need to be considered on a case-by-case basis.

### MFW comment

**If your business is unincorporated and prepares accounts to a date other than 31 March or 5 April, you will be affected by these changes.** However, your usual MFW contacts will be aware of your situation and will be reviewing the position in relation to your business in order to be able to advise you of the most suitable course of action.

If you are not an existing client but would like a free initial and confidential discussion about your accounting periods then please do contact your local MFW office: *https://mfw.co.uk/contact/*

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**Martin Humphreys, FCCA**
**Partner**
MFW Cranbrook

Client Profile

# UV Care Group & Anaya Assets Limited

**The Covid-19 pandemic has hit every industry hard but surely, none more so than the care sector.**

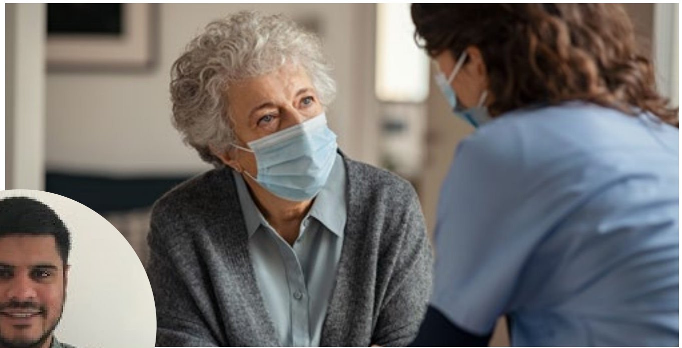
From the early days of the initial lockdown, news outlets reported on the harrowing stories of vulnerable elderly residents and their carers who had received little or no government support including the scarceness of any forms of PPE. Care workers took it upon themselves to take extreme measures to safeguard their residents with some care workers even moving into their respective residential and nursing homes to form bubbles to better protect their residents from the spread of the virus.

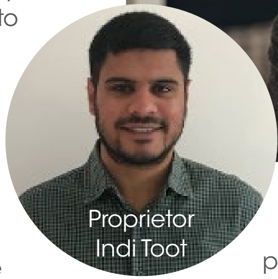
Despite the best efforts of care workers, many lives were lost. To add to the misery, residents were unable to see their loved ones, losing valuable support, affecting their own mental health and wellbeing. It certainly was a very bleak time for all involved.

We recently spoke with client Indi Toot, who owns three care homes in the Thanet area to find out how he and his team coped with the effects of Covid-19 and his thoughts on Boris Johnson's plans for Social Care Reform.

### Indi, how was your business affected by Covid?

We obviously had to adjust our practices to cope with measures to keep residents and staff safe. Apart from social distancing and regular cleaning of the homes, we regularly carry out temperature checks and testing using both lateral flow and PCR testing methods. Our staff wear facemasks, aprons and other forms of PPE at all times to protect residents. Despite all of our best efforts, we unfortunately lost more residents than we would have normally done during this time. This is extremely stressful for staff and residents alike. Some staff simply could not cope with any more stress and some good team members





Proprietor
Indi Toot

left us to seek jobs in other sectors where stress levels are typically lower and where pay can often be higher. This has created additional staffing pressures on some of our shifts. I am currently recruiting new staff, but I am finding the process takes longer and there are not as many candidates as were previously available.

### How was the impact on your residents?

The impact of the various lockdowns has been tremendous on our residents. Their mental health and day-to-day activity was naturally affected and some of our residents, such as those with dementia, have not understood what was happening, which has been very distressing for them.

### What government support did you receive?

We received some help through the government's PPE and Infection Control Fund and used these funds to improve our infection control procedures.

### Do you welcome Boris Johnson's Social Care Reform plans?

I welcome the fact that the care industry will be reviewed, as this is long overdue with the problem only ever worsening due to the longer life spans we enjoy. This naturally places more demand on social care. However, I have concerns that enough of the money raised will end up in the care sector and will not instead be swallowed up by the demands of the NHS.

We await hearing further details of these measures, but the National Insurance increase, set for April 2022 will, we know, have a huge impact on us and also our staff, who are mostly earning national minimum wage.

I believe that some of the focus to date has not always been best placed. For example, the investment into training centres does not help with the day-to-day running of a care home and that is the greater need. The proposed £86,000 social care cap only covers the cost of care and does not cover the day-to-day costs of accommodation and food. We await further details, but I hope further measures will be more targeted to support the real issues facing social care.

**What challenges do you see moving forward?**

Staffing issues will remain critical for all the reasons already mentioned. Tightened regulations and the amount of policies that care homes have to deal with are discordant with the remuneration. The government is expecting a high level of care and record keeping but they are not adjusting the fees to enable us to continue to do that. Private clients have become extremely important to us together with residents we receive via the NHS Placement Beds Scheme; as they allow us to run a more profitable business. Residents that come to us via referrals from local authorities bring in a much lesser fee but they typically form a larger percentage of our residents.

**Working with MFW**

Indi is a client of Herne Bay partner Leigh Jones. Leigh and his team provide payroll, bookkeeping, management accounts and annual compliance work on behalf of Indi's care homes. In addition, Leigh regularly advises Indi in relation to property related matters and tax. Leigh also assisted Indi in the acquisition of his care homes.

Indi says of the relationship with Leigh and his team, *"When I first became a client of MFW in 2016 I already had an accountant, a one-man band who primarily focused with businesses in the manufacturing sector. I am very entrepreneurial in my approach and I like to venture into the unknown and unexpected. However, my accountant was more used to working with businesses with more working capital. Leigh is more willing to find the appropriate advice, which suits my nature and his advice has helped me to establish a good structure, which meant my business was lesser impacted by Covid-19 than it might have otherwise been. I am very happy with the advice he has provided me with as this has helped me to make the right business decisions.*

*Julian Sadik and John Covey have been very helpful running my payroll including recently taking on making direct payments through the bank to save me valuable time. I am happy that my payroll is run correctly and on time.*

*Helen Bailey in her administrative role is always professional, helpful and takes an interest in me whilst, Kelly Teal is very professional with all the work she does (maintaining my books and producing the quarterly management accounts).*

*Through Leigh I have also connected with a new solicitor and finance broker so I feel I have an excellent team behind me to cope with whatever the future brings".*

For more details please email Indi at itoot@uvcaregroup.co.uk

# Will the Care Home cap fit?

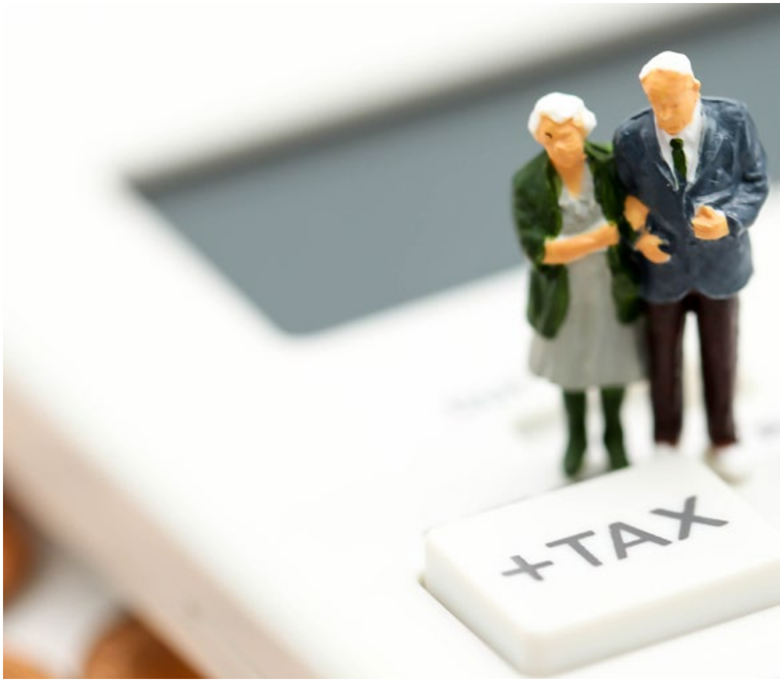
With the promised cap on Care Home fees still some two years away, there is an ever increasing burden on individuals to suffer a large reduction in their assets to pay for care in later life. It is now estimated that the average weekly cost of living in a residential care home is £704 in the UK. This figure is then increased if nursing or dementia care is required. The cap is being touted as a means of stopping long-term care draining a person's life savings and assets that they have worked hard for over their life. The cap is proposed to be £86,000 on what an individual will have to pay in their lifetime, however, there are certain grey areas as to what the cap will be based on and in fact, this could be somewhat misleading.

This is just one area where we are being approached and asked to help mitigate such large losses, however, by the time someone realises it is often too late at that point to put any actions into place.

Discussing health issues and particularly death is never an easy thing, even with close friends and family. It is naturally not spoken about until something happens which often triggers the need to seek advice and, unfortunately, illness can affect people suddenly.

Inheritance Tax (IHT) planning is never at the top of people's agendas, so when you have loved ones that are ill or needing to go into care, often there are a lot more important things to worry about.

It is therefore important to consider IHT planning as early as possible. It will allow you and your family to know assets are being protected as much as possible. Therefore, allowing them to be passed on to the ones you want to benefit, without HMRC or the local authority taking a bite out of them with both IHT and care home fees.




With one eye on care costs, there are a number of factors typically that an individual or spouse should consider before going into care:

- Are up to date wills and Powers of Attorney in place to avoid consent and authority issues, also to stop any grey areas concerning asset distribution?
- Is the family home owned jointly or as tenants in common? If owned under tenants in common it can help out with IHT planning.
- Have they utilised the annual gift allowances to gradually pass on tax-free assets to their beneficiaries?


- Various investment vehicles exist that are often ignored for the purposes of local authority means testing, such as investment bonds.
- Placing property into a trust to be held on behalf of children as beneficiaries.

These are all important areas to avoid unnecessarily losing assets upon care, however it is key to look at them well in advance of any possible care requirements. If they are actioned too near to a person requiring care, then means testing by local authorities may challenge under 'deliberate deprivation rules', as not bona fide IHT planning.

**Author:**
**David Horn ACA FCCA**
**Senior Manager**
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Verum Financial, who are experts in financial planning comment:

*"This is an area that is very important to plan, but often overlooked. It is relatively easy to reduce your Inheritance Tax liability in most cases. The conundrum that clients face is that they want to gift or ringfence money for future generations, but they are often worried that they will lose control over how it is spent, and that they may need to retain it for later life care costs for themselves. This dilemma often results in clients doing nothing. We help clients plan their retirement so that there is comfort of knowing they'll have enough money to see them through the rest of their life, but also help them understand the options they have to help reduce Inheritance Tax. There are many solutions available such as trust planning, insurance solutions, business relief schemes, outright gifting using both exemptions and potentially exempt transfers. The main thing is to talk it through with a reputable independent financial adviser so that you can make some choices about the right route for you and your family."*

**Lee Giles APFS**
Chartered Financial Planner and Partner

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# The UK National Debt


Chancellor Rishi Sunak presented the Autumn Budget on 27 October, and there was much mention of the National Debt and, in particular, a statement that it is now higher than at any time since World War II.

**So, what is the National Debt?**
The UK National Debt is the total quantity of money borrowed by the UK Government at any time though the issue of securities by the Treasury and other government agencies. The debt is often stated as a percentage of Gross Domestic Product (GDP). GDP is a monetary measure of the market value of all the final goods and services produced by a country in a specific time period.
The history of the National Debt can be traced back to the reign of William III, who engaged a syndicate of City traders and merchants to offer for sale an issue of government debt, which evolved into the Bank of England (1694). In 1815, at the end of the Napoleonic Wars, debt reached a peak of £1 bn, which was more than 200% of GDP.

At the beginning of the 20th Century, the debt had been gradually reduced to around 30% of GDP. However, during World War I, the government was forced to borrow heavily in order to finance the war effort and the debt increased from £650m in 1914 to £7.4 bn in 1919. Most of this money was borrowed from the USA, and between the wars the debt fluctuated, but, in the main, it was reducing.

Then, of course, came the second World War. By the end of it the debt exceeded 200% of GDP and, again, the major source of funds was the USA. Even at the end of the war, Britain needed American financial assistance, and in 1945, Britain borrowed another £145m. As recently as 31 December 2006, Britain made a final payment to the USA (and Canada) to discharge the last of the war loans relating to the Second World War. Perhaps surprisingly, the last of the World War I debt was not repaid until March 2015.

After the war the debt gradually fell as a proportion of GDP, but in 1976 there was the "Sterling Crisis" when the value of the pound tumbled. As a result, the government found it difficult to raise funds to maintain its spending commitments and had to go cap in hand to the International Monetary Fund for a £2.3 bn rescue package.

In the late 1990s and the early 2000s, the debt dropped in relative terms to 29% of GDP by 2002. After that it began to increase, despite sustained economic growth, increasing to 37% of GDP in 2007. This was due to extra government borrowing, largely caused by increased spending on health, education, and social security benefits. Since 2008, when the British economy slowed sharply and fell into recession, as a result of the externally-caused financial crisis, the National Debt has risen dramatically, initially from the vast sums needed for bank bailouts, and then by the rapidly declining take from taxation on personal income and commercial activity.

In the first quarter of 2018, the UK debt amounted to £1,780 bn, representing 86.58% of GDP. In December 2020, gross debt rose to £2,206.5 bn, or 104.5 % of GDP illustrating the cost to the UK of COVID.

Financial forecasting is undertaken by The Office for Budget Responsibility (OBR) and in the Autumn Budget it was reported that the OBR expects recovery to be quicker than previously expected. Unemployment will be much lower than originally feared and the forecasts for growth are correspondingly much improved. Their underlying debt forecast is 85.2% of GDP this year, peaking at 85.7% in 2023/24 before dropping over a three-year period to 83.3%. As you can see, the combination of increased GDP and improved economic growth has reduced this percentage considerably from the 104.5% seen in December 2020.

The Chancellor warned, however, that just a 1% increase in inflation and interest rates would cost the UK economy a further £23 bn per year.

So, given the current inflationary pressures, it won't take much to affect the forecast percentages.

As you can see from the percentages shown in this article, the current level of borrowing is very high. All of the main political parties agree that the debt is too high, but, unsurprisingly, have historically disagreed on the best policy to deal with it. Conservative politicians have advocated cuts in public spending. By contrast, the Labour party tends to advocate fewer cuts and more emphasis on economic stimulus, higher rates of taxation and new taxes.

As many of you will have heard or read, and it is why the recent Budget was something of a surprise to some, it is now the Conservative party which is spending and raising taxes! Strange times indeed.

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