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NEWSLETTER



NI Reduction

As announced in the Chancellor's Spring Statement, the point at which employees start to pay National Insurance is being increased from £190 to £242 a week. The change will apply from 6 July 2022, which will be week 14 for weekly-paid employees or month 4 for monthly-paid employees. There is no change in the National Insurance Contributions for employers.

Software suppliers should be updating their payroll programs this month to take account of the change, so there is no need for employers to do anything, as long as that update has been installed.

Energy Profits Levy

This is the "windfall tax" which opposition parties have been advocating since the big rise in oil and gas prices. It will be levied at 25% of the "extraordinary" profits being made in the oil and gas sector, but with some relief on profits reinvested in the business. It does not apply to electricity generators, but the government is consulting with them to ensure that the price they charge will truly reflect the cost of production.

The tax is expected to raise £5 billion over the next year. To be clear, it applies only to oil and gas producers, not the companies which sell energy to businesses and households.

Support to Households

The money raised from the Energy Profits Levy will be used to provide additional support to households, after Ofgem forecast that energy bills would rise by £800 in October, taking the average household cost to £2,800 annually.

1. The £200 loan, due to be given to all households in October, then repaid over five years, will be replaced by a grant of £400, which will not be repayable. It will be credited to electricity bills over six months starting October.
2. Households on means-tested benefits (Universal credit, jobseeker's allowance and tax credits) will receive an extra £650, in two instalments starting in July.

3. Pensioner households which receive the annual £200 Winter Fuel Payment will receive an extra £300, to be paid towards the end of the year.
4. Recipients of disability benefits who also claim means-tested benefits will receive another £150 in September, in addition to the £650.
5. An extra £500m will be given to local authorities for distribution to needy residents through the Household Support Fund.

Interest Rates

The bank of England recently increased its base rate from 1% to 1.25%, a move which was widely expected as a means to bring inflation under control. There could be further rises later in the year but, historically, the rate will still be very low. The rise will affect any variable-rate mortgage or loan where the interest is charged at base rate plus x%.

Those who have taken out mortgages since 2008 have never experienced much fluctuation in interest rates, unlike their parents, who bought houses when rates varied between 8% and 15%. Someone who takes out a £200,000 mortgage now over 25 years at a rate of 2% would repay £848 a month. At a rate of 4% that becomes £1,055 a month, at 6% it is £1,289 and at 8% it is £1,544.

Frightening, isn't it? That's because, in the early years of a mortgage, most of the monthly repayment is interest, so the amount of the loan being repaid each month is very little. Over time that changes so, in the final years, the monthly repayment includes very little interest and is mainly reducing the loan. Interest changes, therefore, have less and less effect on the monthly payments as the mortgage runs its term.

As to the effect all of that might have on the housing market, that is a question for another day.

MTD for VAT

All VAT-registered businesses must in future file their VAT returns using Making Tax Digital (MTD) software. I can provide advice to anyone who still does not know what software to use.

SEISS Grants

The first Covid support grants for self-employed people were paid in 2020 and declared on tax returns for the year ended 5 April 2021 which had to be filed by 31 January 2022. Those grants were subject to conditions, most importantly that the business must have been affected by Covid. If HMRC wants to question eligibility for the grants, then it needs to open an enquiry within 12 months of the return being filed. I have not yet seen any queries from HMRC and the enquiry deadline has already passed for some of those tax returns.

Cryptocurrency

My September 2018 Newsletter included an article about Bitcoin, pointing out that it is not backed by anything of real value or any government and its value is based entirely on trust, being the belief that someone will be willing to accept it in payment of a debt. I said that inevitably makes its value volatile and that has been shown in recent trading, where it has lost two-thirds of its value since its peak.

Equally puzzling to me is the rush to invest in the recently developed “Non-fungible tokens” (NFTs) where people pay large sums for artworks which have no physical existence. I was reassured in my view of cryptocurrency and NFTs when I read recently that Bill Gates is not a fan either, saying that they are “100% based on greater fool theory” meaning that a fool can sometimes buy an overvalued asset and sell it at a profit to a bigger fool. The biggest fool of all is the one who is left holding a near worthless asset when the market collapses.

That can be contrasted with, say, investing in antiques. If you buy an 18th century dining table and its value then falls, you still own something which has use as a functional piece of furniture, so can never be completely worthless.

Pass it on

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