Writers' tax

what is changing and what to look out for

Jonathan Ford of Writers Tax Limited on what authors can expect from the new tax rules

Tax and finances can feel like a minefield, and with several key changes on the horizon, it's important to understand how your position might be affected. Here are some tax issues to be aware of, in order to avoid any unpleasant surprises.

The Health & Social Care Levy

From 6 April 2023 the Government intends to introduce a new tax called The Health & Social Care Levy. This will initially be charged at a rate of 1.25%. It will take time to draft the necessary legislation so, from 6 April 2022, National Insurance will increase by 1.25%. This change will affect both sole traders and shareholders of limited companies. A sole trader with an income of £12,570 will pay an additional £38, while a sole trader earning £50,000 will pay an extra £506. The effect of the additional tax will first be felt in the tax payment due on 31 January 2024, so you might consider saving a little more for your tax bill from April 2022.

Increase in corporation tax

Corporation tax rates (the tax a company pays on its profit) are set to increase from 1 April 2023. The first £50,000 of profit will continue to be taxed at 19%. Profits between £50,000 and £250,000 will be taxed at 26.5% and profits over £250,000 at 25%. By way of example, a company with profits of £50,000 or less would pay the same amount of tax – £9,500. After 1 April 2023, a company with profits of £100,000 would see its tax bill increase from £19,000 to £22,750.

When an author is involved in more than one company, the 'associated company' rules come into play, and could increase the amount of tax you owe. If you think you fall into this category, you should speak to an accountant for further advice.

Companies and copyright

Despite the increase in corporation tax there are still good reasons for a writer to set up a limited company. A mistake that some writers (and sometimes even their accountants) make is to set up a company to receive royalties for a book they have already written. Often this may be just before a publishing deal is signed.

The reason this causes a problem is that if a writer simply gives their copyright to their limited company the gift is treated as income in the hands of the author at the 'open market value' of the amount the copyright is worth. This does bring about a lot of uncertainty over how to actually value the open market value of copyright. It would be difficult, if not impossible, to argue the open market value was any less than the company received a few days later when the publishing deal is signed. In effect, this can mean that the author is taxed personally on the advance, as a sale of the copyright, and the author's company is taxed again on the money received from the publishing deal.

To avoid the issue a writer should:

- Consider setting up a company well before a book is complete and the copyright has any value
- If you are too late to do that then consider setting up a company for future books and run both a sole trader business for your older books and a company for your new books.
- Consider selling your copyright to your company. This is certainly better than giving it away but it does lead to a risk that HMRC questions your value, and it can bring forward the timing of when tax is due.

The super deduction

The increase in corporation tax created speculation that some companies might delay spending money on new equipment until the new tax rates came into effect. Delaying this expenditure could lead to larger tax savings. To avoid that issue the Government has introduced a new 'super deduction'. The super deduction means that 130% of the amount you spend on qualifying equipment is deducted from your profits.

For example, an author's company buys a new computer for £1,000. Without the super deduction the company would have saved £190 in corporation tax (ie 19% of £1,000). Now, with the super deduction, the amount saved is £247.

The super deduction can only be claimed by companies and runs from 1 April 2021 to 31 March

Pension planning

Making contributions into a pension can be a very useful way to save tax and to help your financial position when you retire. There can be a tendency for authors to think they'll never retire but plans may have to be revised if health – physical or mental – deteriorates.

The amount of tax relief depends on individual circumstances.

Situation	Payment	Government contribution to scheme	Tax relief	Net cost to get £100 into a pension
Basic rate tax payer	£80	£20	-	£80
Higher rate tax payer	£80	£20	£20	£60
Tax payer received Child Benefit for 2 children and earning £55,000	£80	£20	£38	£42
Higher rate tax payer earning £120,000	£80	£20	£40	£40

Pensions are one of the most valuable tax planning tools. In the right circumstances it might cost as little as £40 to put £100 into your pension.

2023. So between those dates there is a great opportunity to upgrade any office or computer equipment and get some extra tax relief.

Creative averaging

Creative averaging has been with us for some time and it is a valuable tax relief for authors. It allows profit from two tax years to be averaged if doing so reduces the overall tax bill across the two years.

For example, an established author earns nothing in the 2019/20 tax year and £100,000 in 2020/21 when they receive a large advance. Without creative averaging they would pay no tax in 2019/20 and £32,304 in 2020/21. With creative averaging they would pay £11,382 in 2019/20 (on average earnings of £50,000) and £11,304 in 2020/21. The total tax bill using creative averaging is £22,686 – a saving of £9,618.

The brilliant thing about creative averaging is that you can do the calculation to see if it saves you money and then only make a claim if it does.

There are some issues that are worth remembering.

- The rules do not allow you to use creative averaging if you use 'cash accounting' to calculate your profit. Cash accounting is where you only include money you have actually received or spent on your tax return. The alternative, often used by accountants, is accrual accounting where you also include money you are owed or owe. Cash accounting is simpler but has disadvantages – such as not enabling you to use creative averaging.
- You can never use your first year of trading as part of a creative averaging calculation. In practice this means that the first time that you could use creative averaging is to average your third business year with your second year. A writer could submit tax returns showing they are trading before any income comes in, which could bring forward the opportunity to use creative averaging.
- Companies cannot use creative averaging.

New authors should consider registering with HMRC as early as possible so that creative averaging could be used from year three of the business.

Making Tax Digital (MTD)

The Government is continuing its strategy to have taxpayers report their income every three months via software. This will be in addition to the annual tax return and could see self-employed taxpayers who also own residential property making nine separate returns to HMRC each year. The plans for Making Tax Digital have been delayed by one year until April 2024 so immediate action is not required.

Before MTD is introduced it would be worthwhile to look at ways you can improve your record keeping so that you're ready for the changes. Things you could start to do now are:

- have a separate business account for your writing income so that everything isn't bundled together with your personal life.
- use software, such as Xero, which you can connect to your bank account to make keeping your records simple. A basic version of Xero would cost £12 per month, or even less if supplied by your accountant, and would really help you stay on top of things now.

The foundation of good tax planning is having a clear idea of what your income is. Using cloud bookkeeping makes it easier to keep track of your profit and will be a necessity once MTD is introduced.

Jonathan Ford is a director of Writers Tax Limited and a chartered accountant with over 25 years' experience advising authors on their tax and financial position.