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Hello all,

Welcome to the July issue of Aihab Accountants newsletter. I will be discussing the main changes in legislation to Corporation Tax which came into effect from 01 April 2023 and the proposal of changes in the Financial Reporting Standards (FRS) towards lease accounting which are due to take effect at the end of 2023. I will then touch base on the key activities that took place for Aihab Accountants over the last 3 months.

### **Corporation Tax**

Prior to April 2023, Corporation Tax was calculated at a flat rate of 19%. The new legislation which commenced on 01 April 2023 states that the 19% rate will only apply up to a threshold of £50,000 worth of Pre-Tax Profit. Companies earning more than £250,000 will be taxed at 25%. Companies earning between £50,000 and £250,000 will be taxed at the marginal rate. The easiest way to budget for this if you are earning profits between £50k and £250k is to apply 26.5% for profits earning between £50k and £250k.

Say your projected profits are £100k for the year ending 31 March 2024. The Corporation Tax will be calculated as follows:

£50k @ 19% = £9,500

£100k less £50k Threshold = £50k @ 26.5% = £13,250

Total Corporation Tax owed = £9,500 + £13,250 = £22,750

If you are earning profits above £250k then it is a flat 25% corporation tax charge on the entire profit reported.



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### **Close Investment Companies**

An exception to the above rule is Close Investment Companies. A Close Company is defined as a company that is owned by 5 or fewer practitioners. If that company's operations are solely to manage cash, shares or property investments then the corporation tax rate will always be 25% regardless of how much profit the company is earning. However, if the property investment is let out on a commercial basis then it will be taxed the normal way and can benefit from the small company rate and marginal relief if applicable.

### **Associated Companies**

The threshold rates outlined above may be scaled down depending on the number of companies a shareholder owns. For instance, if a shareholder owns 2 companies then the thresholds will be scaled down as follows:

Lower rate @ 19% -  $£50k/2 = £25k$

Higher rate @ 25% -  $£250k/2 = £125k$

The same rule is also applicable to a shareholder that owns both UK and overseas companies and to companies and subsidiaries within a Group.

### **Accountancy Period**

In the rare event that you are producing your accounts for a period of less than 12 months, then the thresholds are again scaled down. For instance, if you are reporting a period of 9 months then the thresholds will be scaled down as follows:

Lower rate @ 19% -  $£50k \times (9/12) = £37.5k$

Higher rate @ 25% -  $£250k \times (9/12) = £112.5k$



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## **Financial Report Standards (FRS102) Proposed Legislation Surrounding Leasing**

The Financial Reporting Standards (FRS) are proposing to change the legislation surrounding Leasing transactions and are moving to principles similar to that of International Financial Reporting Standards (IFRS 16). Not to say that it will be identical to IFRS 16 as the principles within IFRS 16 are rather complex.

The main changes are surrounding operating and finance leases. The new standard is proposing to treat operating and finance leases the same. An operating lease is when the risks and rewards are not transferred to a lessee and remain with the lessor. The exception to this is for leases with a term of less than 12 months and low value items such as PC's, tablets, printers, mobile and desk phones, TV's and small furniture items.

The reason why FRS is moving towards this method is to simplify group reporting whereby we have scenarios of groups reporting using IFRS16 and subsidiaries reporting using FRS102. This could create reconciliation issues. The move will bring the standards more in line.

However, the new proposal is rather complex. There is also a risk that it will push smaller companies into an audit requirement. The leases under the new proposal will need to be accounted for in the balance sheet and as a result, should the balance sheet value increase above £5.1m then an audit may be required.

### **Calculation under the Current Standard**

If a company takes out an operating lease for say £100k per annum for 3 years. A total of £300k. Previously, this was reported as £100k per annum of operating lease expenditure in the Profit & Loss (P&L) account which is rather simple and straight forward.

### **Calculation under the Proposed Standard**

Under the proposed standard, we account for the entire lease liability in the balance sheet. This is £300k. However, before we do that we must discount it using the obtainable borrowing rate. The reason why we discount, is £100k now is worth less in 1 years' time, 2 year's time and 3 year's time etc. Say the borrowing rate is determined at 5%.



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	Year 1	Year 2	Year 3	Total
Lease Liability	100,000	100,000	100,000	300,000
Discount Factor	1/1.05	1/1.05 <sup>2</sup>	1/1.05 <sup>3</sup>	
Discounted Lease Liability	95,238	90,703	86,384	272,325

The discounted value of £100k per annum across 3 years is therefore £272,325.

We would then draw down on the lease liability on an annual basis as follows:

	Opening Balance	Lease Payment	Interest @ 5%	Closing Balance
Year 1	272,325	-100,000	13,616	185,941
Year 2	185,941	-100,000	9,297	95,238
Year 3	95,238	-100,000	4,762	0

The accounting entries are summarised below:

	P&L		Balance Sheet	
	Dr	Cr	Dr	Cr
Lease Liability				272,325
ROU Asset			272,325	
Lease Liability Bank Payment				100,000
Lease Liability Deduction			100,000	
Lease Liability Interest				13,616
Finance Lease Interest	13,616			
ROU Asset Depreciation (£272,325/3)				90,775
ROU Asset Depreciation (£272,325/3)	90,775			
<b>Total</b>		<b>104,391</b>	<b>0</b>	<b>476,716</b>

You will note that this a combination of P&L and Balance Sheet entries. Whereas the current FRS standard would simply have £100k debiting the P&L as Finance Lease and a credit of £100k leaving the bank balance sheet.

To sum up we are discounting the lease liability and posting the amount as lease liability in the balance sheet and Right of Use Asset (ROU) in the balance sheet as well. £100k is then deducted from the lease liability on an annual basis representing the payment we need to make for the finance lease. We are then adding the interest element of 5% (£13,616) to the lease liability leaving us with a Lease Liability balance carried forward of £185,941 as outlined above.



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The Right of Use (ROU) asset of £272,325 is then depreciated on a straight line basis across the 3 years (£90,775) and posted to the P&L.

Please get in touch if you require assistance with this.

## My Key Activities

### Health and Care Professions Council

I am delighted to announce that I will be joining the Health & Care Professions Council (HCPC) as Financial Controller leading 3 accountants next month in August. HCPC regulate 15 health care professions including Psychologists, Physiotherapists, Occupational Therapists, Paramedics and Biomedical Scientists. I attended their employee away day on 7 July 2023 and was absolutely fascinated with the great work they do. I am so proud to be joining an organisation who's main objective is to look after public safety and wellbeing. I got to meet some amazing people and also got to hear the paramedics talk about their journeys and experiences. I was very moved by their stories and the hardships that they endure to save lives.





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### **Goodbye Sanderson Design Group**

It has been an amazing 1 year and 9 months at Sanderson Design Group PLC. I got to meet some great people. What makes an organisation is always it's people. The best part of my job at Sanderson was not just working alongside my colleagues in Finance but business partnering with the team in Marketing, Design, supply chain, Commercial and IT. The people in those departments are what made my job so enjoyable. I am going to miss them all.

### **Herts Disability Sports Foundation**

It's been 4 months since my appointment as Treasurer Trustee for the Herts Disability Sports Foundation (HDSF). I feel humbled and privileged to have joined such an amazing team. I had the pleasure of meeting the team at Stanborough Park during our strategy day in May. I got to see first hand how HDSF do their utmost to make it possible for those who struggle to engage in physical activity to participate and gather a sense of belonging.

Please find a link to my HDSF profile below:

<https://hdsf.co.uk/person/aihab/>

I hope you enjoyed reading our newsletter and look forward to writing to you again soon.

Aihab Al Koubaisi

FCCA