Tax Talk

Simplifying the complexities of Tax

March 2021

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Tax Talk: March

Corporate tax: explore all avenues

In our current financial climate all savings are welcome. David Emery advises on some of the things you can do to lower your corporate tax bill.

As a corporate tax advisor there are a few questions my clients often ask me. We live in a world where cash is king and the current crisis has made this ever more true. Most questions revolve around a single theme: how can I reduce my current corporate tax liability?

When it comes to reducing your immediate corporate tax liability burden, there are two main routes:

- make sure you consider and, if appropriate, opt for all possible beneficial corporate tax choices
- incur expenditure in a commercial and tax efficient way

Here are some of the most common corporate tax elections:

Capital allowances

Rishi Sunak recently announced a large increase in the relief a company can receive against expenditure incurred on certain qualifying capital assets. Before the recent Budget, plant and machinery and integral features (such as air conditioning and electrical wiring) would have qualified for 18% and 6% relief per annum respectively. Expenditure on these assets, if incurred between 1 April 2021 and 31 March 2023, will now qualify for first year allowance super-deductions of 130% and 50% respectively.

So it may now be more important than ever to do a thorough analysis of your investment expenditure to make certain you've claimed all possible capital allowances.

Loss relief

Although this is more about recovering tax previously paid, not reducing your current corporate tax liability, the Chancellor also announced an improvement to the current loss carry back provisions for accounting periods ending between 1 April 2020 and 31 March 2022.

You will be able to carry back losses incurred in this time window to the previous three years (rather than the usual 12 months) up to a maximum of £2million (subject to certain corporate group limitations).

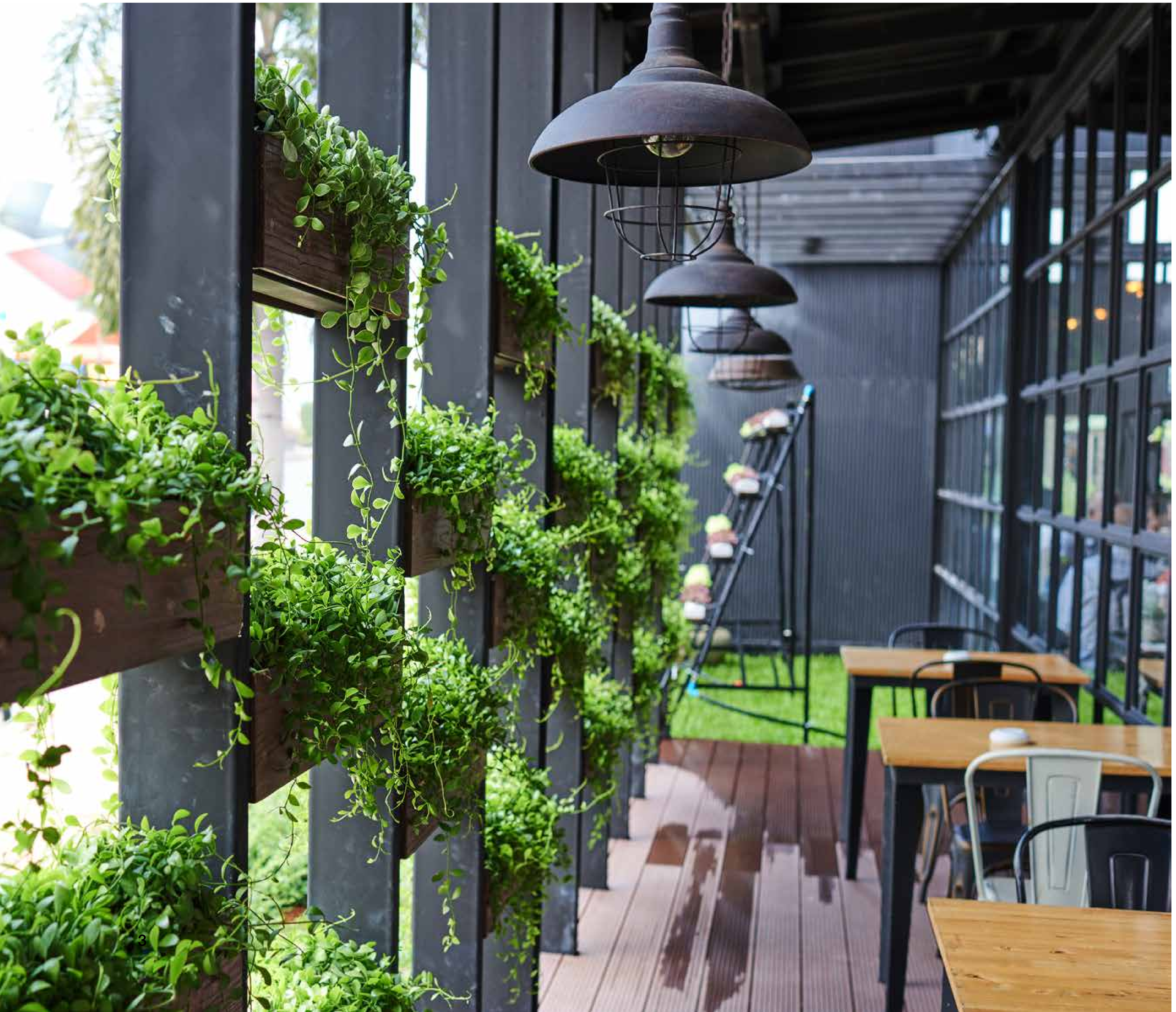
But with significant corporate tax rises on the horizon, it may be more valuable to hold on to these losses to use against profits which may be taxed at the proposed corporation tax rate of 25% from 1 April 2023.

For more detail, see our recent losses article. https://www.pkf-l.com/insights/carried-back-trading-losses/

R&D tax relief

As my colleague Shona Barker wrote last month in her Tax Talk article 'R&D claims: seriously worth it', R&D tax relief claims can be highly valuable. For example, they could be worth up to £33.35 of free money for every £100 of qualifying expenditure for small and medium-sized companies. For more detail, see Shona's article https://www.pkf-l.com/insights/tax-talk-rd-claims-seriously-worth-it/

Corporate tax: explore all avenues



Pension contributions

Pension contributions are ordinarily deductible in the period in which they are paid. Increasing the amount the company pays into pension pots may reduce the corporate tax liability. But you will need to give consideration to the individual's personal tax position if contributions are increased.

Roll-over relief

Perhaps your company realised a large capital gain during the period, but you intend to reinvest the proceeds in another trade related asset? If the asset disposed of was a qualifying asset and the proceeds are intended to be reinvested in another qualifying asset, the corporate tax on the disposal may be deferred. The deferred gain would crystallise on the disposal of the new asset (unless these proceeds are again reinvested in a qualifying asset).

The most common types of qualifying assets include:-

- Land and buildings
- Goodwill
- Fixed plant and machinery

Share schemes

Employee share schemes are a great way to incentivise and reward staff for the work they do for the company. But they also offer the company an opportunity to get a deduction from its total taxable profits. This deduction is equal to the difference between the market value of the shares at the date they are exercised and the consideration paid by the employee (subject to certain qualifying criteria).

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Is change good? Have your say

A consultation and a call for evidence published by HMRC this month give you the chance to express your views on the R&D claims process and demonstrate whether Enterprise Management Incentive Schemes are helping SMEs as intended. Shona Barker explains.

It is a truth universally acknowledged, that a company in possession of a good tax advisor, must be in want of legitimate tax planning advice. For many small companies, R&D and share schemes have always been easy wins. Do what you do best and wanted to do anyway, and the government will send you some free money. Give your employees equity in the future after they have proven themselves to you – and get relief for both them and the company.

But could those halcyon days now be at risk? What is HMRC planning?

Stay innovative, stay at home

R&D has come under reform in recent years, with a PAYE cap imposed from this April to ensure that companies carrying out the bulk of their economic activity abroad cannot access the full generosity of the R&D SME scheme.

The latest consultation on R&D, launched on Budget Day 2021, asks questions about how much R&D companies are carrying out overseas and how the government could distinguish between work that needs to take place abroad and which benefits the UK, and that which doesn't. There's a subtle Brexit-y undercurrent of British jobs for British workers.

Interestingly, the consultation asks about the format of the current claim process. And how much support have taxpayers enlisted from professional advisors?

How could HMRC improve the process? And should the two existing R&D schemes continue to be separated? At present, SMEs and large companies access different levels of relief. Regardless of size, a tax advisor is typically needed to guide a company through the complexities of a claim – at least for the first year, if not on an ongoing basis. Any simplification could be welcome news for companies – providing of course a reduction in difficulty doesn't come with a disproportionately corresponding reduction in relief.

This is a very wide-ranging document that builds on previous consultations but has a distinct feeling of fishing for ideas. What would you like the future of R&D in the UK to look like? HMRC isn't sure, but it might get a lot more local.

Sharing is caring

A call for evidence, also launched on Budget Day and also very wide-ranging, tackles the future of Enterprise Management Incentive (EMI) schemes. EMIs, like R&D, are very popular with companies that can access the relief. An EMI scheme will allow you to motivate employees with the right to acquire shares later down the line – whilst providing them with tax advantages. It will also make it easier for you to handle a 'bad leaver situation' if the job does not work out for both parties.

The call for evidence asks whether you think EMIs actually help SMEs to recruit and retain employees, whether you use any other share schemes to reward your employees and whether more companies should be eligible to participate. If you have found a share incentive scheme to be instrumental in retaining your best staff or, conversely, if it's been harder for you to recruit when competing with employers who do offer share incentive schemes, you should make your experiences heard.

Is change good? Have your say

Speak now, or forever hold your peace

The advantage of contributing to a HMRC process via an advisor like us is that we can anonymise your comments so that HMRC can't link them to your company. Even if you are not an existing PKF client, we would be happy to have a chat about your views on R&D and EMIs on a confidential basis.

As both the consultation and call for evidence are still open, this is a golden opportunity to influence the changes HMRC will bring in next. If you would like us to consider your views in our formal response to HMRC, please contact us by 11 May 2021 so we have enough time to incorporate your thoughts.

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New capital allowances – Super-deduction and 50% first year allowances

As part of the Budget this month, the government announced new capital allowances in the form of a "super-deduction" and 50% first year allowances in an attempt to increase investment over the next two years.

What capital allowances are currently available?

Capital allowances act to replace accounting depreciation with a set deduction for qualifying assets. The primary ways in which relief is obtained are:

- Writing down allowances on qualifying plant and machinery, either at 18% reducing balance or 6% reducing balance, depending on the type of asset acquired and whether these assets fall within the Main Pool or the Special Rate Pool.
- Annual Investment Allowance (AIA) which allows 100% relief for qualifying assets up to a threshold amount per annum, currently £1m until 31 December 2021.

Other reliefs are available, particularly regarding non-residential buildings and certain energy-efficient cars and equipment.

What is qualifying plant and machinery?

Qualifying plant and machinery is broadly equipment used within a business to carry out a qualifying activity.

For the majority of plant and machinery, relief is available at the Main Pool rate of 18% reducing balance.

These assets often include:

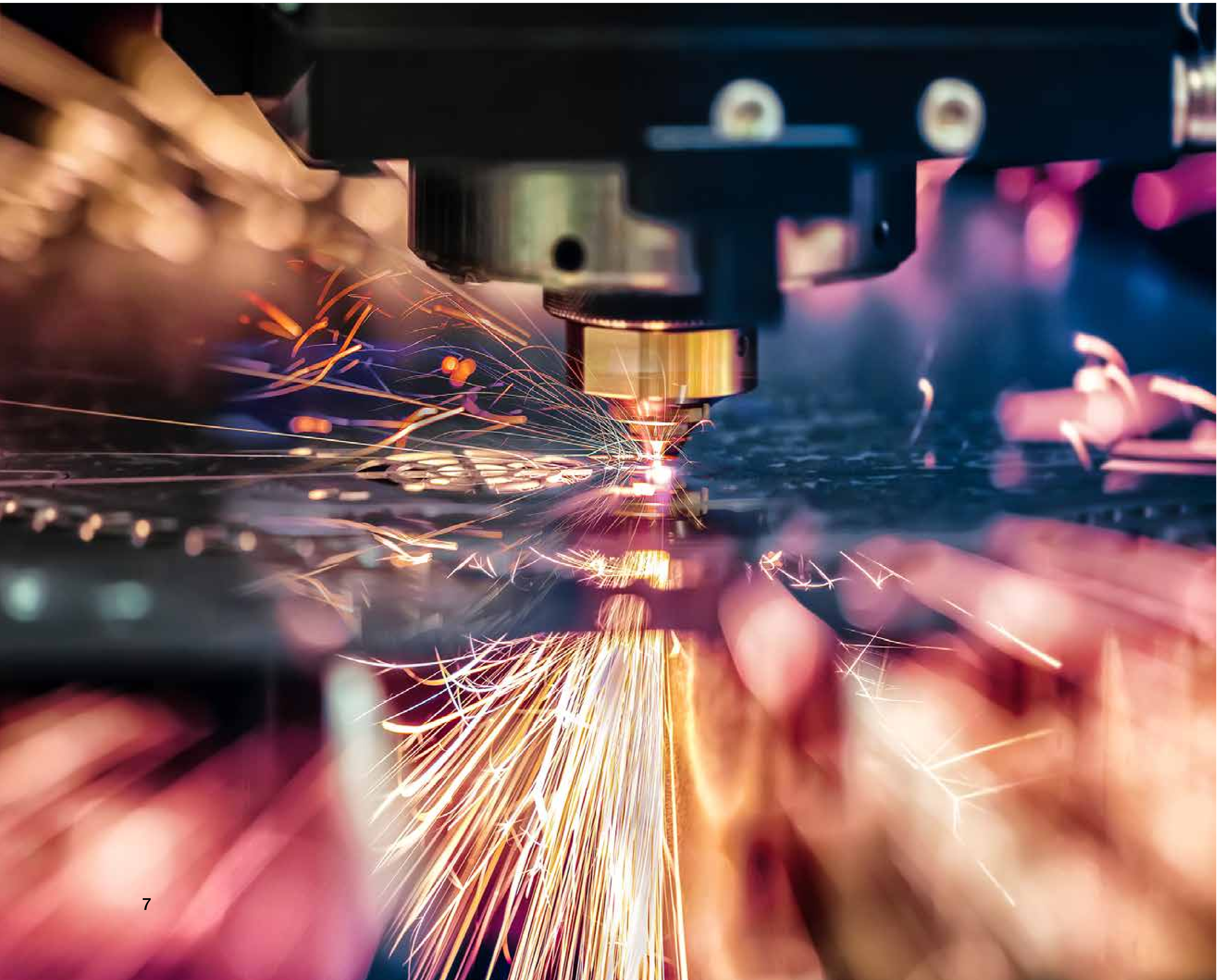
- Computer equipment
- Tools
- Machinery
- Furniture
- Vans
- Certain low emission cars

For some plant and machinery, relief is only available at the rate applicable to the Special Rate Pool of 6%. This typically consists of:

- Integral features
- Cars with higher emissions
- Long life assets with an expected useful life of 25 years or more

Integral features are those that are integral to a building and include electrical and lighting systems, heating systems, cold water systems, and lifts.

New capital allowances – Super-deduction and 50% first year allowances



What new capital allowances are available?

The "super-deduction" will allow companies to offset 130% of the expenditure incurred on plant and machinery that would normally qualify for Main Pool rate allowances at 18% against taxable profits.

Companies will also be able to claim a new first year allowance equal to 50% of the expenditure incurred on plant and machinery that would normally qualify for Special Rate allowances at 6%.

Relief will continue to be available in the usual way against the remaining 50%, either at 6% or by offsetting with any remaining AIA.

Both new allowances will be available on qualifying expenditure incurred from 1 April 2021 until 31 March 2023 and will only be available to companies within the charge to UK corporation tax.

There is no limit on the level of expenditure that can qualify for either the super-deduction or the 50% first year allowances.

What happens when an asset is sold?

Special rules apply where an asset on which the new allowances have been claimed is sold. In both cases, the disposal proceeds will be treated as balancing charges and taxable in the year of disposal.

If a company disposes of an asset after 31 March 2023 on which it has previously claimed the super-deduction, the proceeds will be taxable in full in the year of disposal.

If this disposal occurs before 1 April 2023, then the disposal proceeds are multiplied by a factor of 1.3; however, where a period straddles 1 April 2023, a reduced factor is applied, on a time apportioned basis.

If a company disposes of an asset on which it had claimed the 50% first year allowances, the balancing charge taxable in the period of disposal would most likely be 50% of the disposal proceeds.

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About PKF
Simplifying complexity for our clients

PKF is one of the UK's largest and most successful accountancy brands.

We provide a full range of audit, accountancy, tax and advisory services, and are experts at simplifying complexity – we're particularly well-known for working with large, high-profile businesses with challenging issues in fast-moving and highly technical areas.

We are also an active member of PKF International, a global network of legally independent accounting firms that gives us an on the ground presence in 150 countries around the world.

PKF in the UK

8th largest Audit practice in the UK in the latest Accountancy Daily rankings

£150 million annual fee income

2,030 UK partners and staff

7th ranked auditor of listed companies in the UK

Our tax services
At a glance

> "By bringing together the extensive expertise and experience of our tax specialists we can provide a fully rounded service that offers excellent value for money."

We offer comprehensive tax compliance and advisory services to a range of clients, both in the UK and globally, helping them find their way in the increasingly complex world of tax.

We find practical solutions that we use to our clients' advantage. Our team of experts supports individuals, and businesses ranging from start-ups and SMEs to large international groups, both listed and privately owned.

Where understanding of our clients' sector makes the difference, our experts invest their in-depth industry expertise to provide invaluable support and insights.

We offer the following specialist tax services:

Corporate and business taxes

Our Business Tax team will ensure that you are both tax compliant and efficient.

We provide specialist corporate and business tax advice on both a local and international level, which includes senior accounting officer and large business compliance, transaction services, due diligence, R&D tax relief, employer solutions and global mobility. We also support both the personal and business affairs of partnerships and LLPs.

Read more

Personal tax and wealth management

Our team will guide you through the complex world of taxes, helping you meet all filing requirements and identifying risks and opportunities to help mitigate tax liabilities.

We advise individuals, the self-employed, partners, trustees and executors with their UK and international tax affairs. Our services include all aspects of tax, including Self Assessment, Capital Gains Tax, Inheritance Tax, property (both residential and commercial), trusts, family wealth and estate planning, residence and domicile issues.

Read more

VAT and Indirect taxes

Our indirect tax team will support you in meeting your VAT compliance objectives and advise you on any VAT issues that your business faces.

We can ensure that your VAT risk is assessed and managed, and that your VAT recovery is optimised. We can also provide advice and compliance services on other indirect taxes, such as Insurance Premium Tax, Customs duty, and Air Passenger Duty.

Read more

Tax disputes

HMRC is increasing the number and scope of tax investigations into both individuals and businesses, covering all aspects of potential underpayments of tax, including offshore investments, personal and corporate Self Assessment Tax Returns, PAYE and NIC compliance and VAT.

If an issue arises, our trusted advisors will match the right specialists with your needs to provide you the necessary support – whether for a routine HMRC enquiry or a more complex investigation.

Read more

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