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Taxation News

Regular News from the **EQ Tax**perts

AUTUMN 2021

Extension of Reliefs for Capital Expenditure

In the 2021 Autumn Budget, an extension to the increased Annual Investment Allowance was announced. Read more on Page 3.

On Cloud Nine

A much anticipated extension to the R&D tax credits regime was announced by the Chancellor. Read more on Page 5.

Silence is Golden!

When Chancellor, Rishi Sunak, delivered his Budget on Wednesday 27 October, many observers believed that this would signal the start of radical changes to the capital taxes regime, i.e. Capital Gains Tax (CGT) and Inheritance Tax (IHT). That expectation was driven by a series of HMRC consultations into these two taxes and, despite this Budget retaining the status quo, future changes to CGT and IHT are widely anticipated and in our view, these should form the cornerstone of longer term tax planning. Matters such as succession planning and business structuring will therefore be priorities.

An upbeat Chancellor was buoyed by fairly strong forecasts issued by the OBR, despite some threat of inflation and a risk of higher interest rates. While tax announcements on the day were almost negligible, the extension of the Annual Investment Allowance to 31 March 2023 was a welcome clarification. In some respects, pre-announced changes such as the future rise in corporation tax (to 25%) and the Health & Social Care levy (a 1.25% surcharge on National Insurance contributions and dividends) were the main events.

Head of EQ Taxation, David Morrison, commented, "It seems as though we remain in a holding pattern with the UK government apparently undecided as to how to tackle the cost of the pandemic. At EQ, we will continue our focus on ensuring that our clients consider the long term and future proof against anticipated raids on the piggy banks of the taxpayer."

To discuss your circumstances and how best to future proof your business, please get in touch with our EQ Taxperts.

Corporation Tax

Previous UK government announcements confirmed that the rate of Corporation Tax would increase from 19% to 25%, with effect from 1 April 2023. This will not apply, however, to profits of less than £50,000 which will continue to be taxed at 19%.

For businesses with group structures, or other associated companies, this £50,000 limit will be diminished by the number of associated companies. What is essential therefore is for business owners to review their structure to ensure that all unnecessary companies are eliminated. Clearly commercial considerations need to trump taxation matters but in our professional experience, we have recruited many clients recently which have inappropriate structures which often lack simplicity and common sense. Such structures often evolve over many years but once in a while it is important to take a step back to ask yourself the question, "if I was starting my business again, would I set it up like this?".

The rise in Corporation Tax will impact remuneration planning, corporate pension planning plus R&D tax credits, as well as the "should I incorporate" argument. A 6% rise in Corporation Tax is not to be understated and we advise all of our clients to contact us to have another look at their set ups to ensure that tax planning opportunities are not missed. This offer is openly made to non-clients too!

Extension of Reliefs for Capital Expenditure

In the 2021 Spring Budget, additional capital allowances were announced for companies. For expenditure between 1 April 2021 and 31 March 2023 on new qualifying plant and machinery, a new super-deduction is available (adjusted accordingly for accounting periods straddling 31 March 2023), giving tax relief of up to 130% of the cost of the asset in the year of purchase. Certain assets such as cars are excluded from the relief, and second-hand assets are also specifically excluded. A new 50% first year allowance (FYA) was also announced for expenditure on assets in the special rate pool (for example on integral features).

There was another bonus for businesses announced in the 2021 Autumn Budget with the extension of the Annual Investment Allowance (AIA) limit of £1 million to 31 March 2023. This was due to reduce to its previous level of £200,000 from 1 January 2022, which would have significantly reduced the upfront relief available on qualifying capital expenditure, particularly for unincorporated businesses. As unincorporated businesses do not qualify for the 130% super-deduction or 50% FYA, any expenditure above the AIA limit would only qualify for 18% writing down allowances (WDAs) for main pool expenditure or 6% WDAs for special rate pool expenditure.

AIA is also available for expenditure on second-hand assets, and it may produce more tax relief than the 50% FYA available for special rate pool expenditure, so similarly continues to be a valuable relief for companies.

If you'd like to discuss how your business can maximise the available capital expenditure reliefs, please get in touch with our EQ Taxperts.

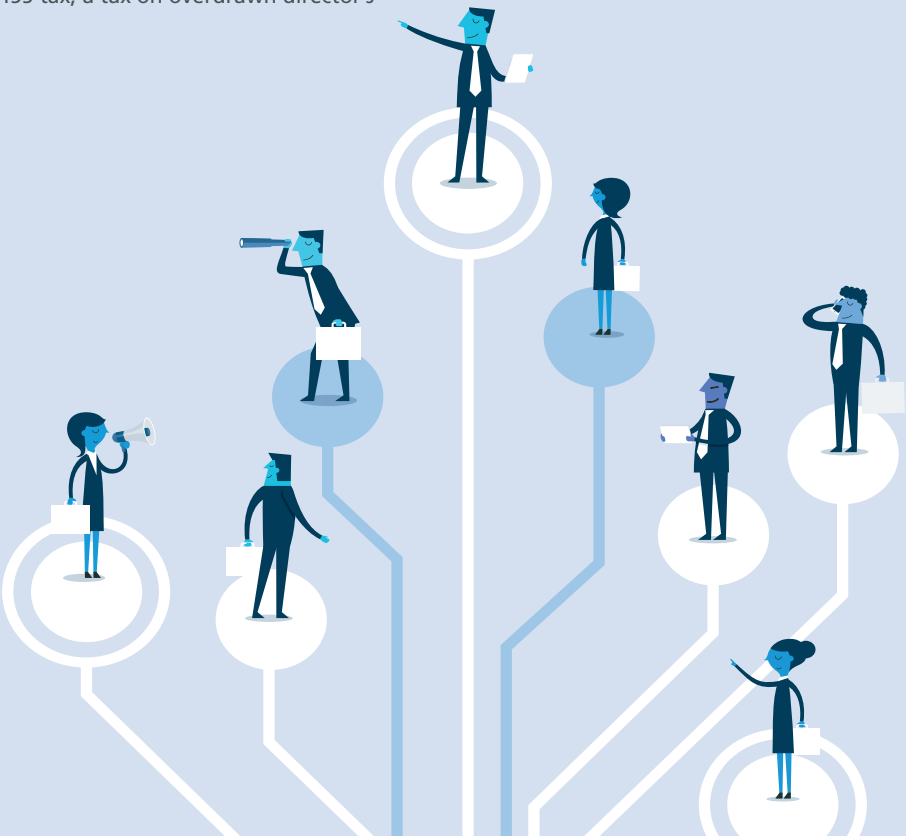
Health and Social Care Levy

There wasn't a great deal to report on following the Autumn Budget, with many of the announcements already known. The Chancellor did however confirm that the implementation of the new Health and Social Care Levy would go ahead as planned, with temporary measures set to take effect from 6 April 2022. From that date there will be an increase of 1.25% to the main and additional rates of Class 1, Class 1A, Class 1B and Class 4 National Insurance contributions (NIC). After taking into account the small inflationary increase to the NIC threshold for 2022/23, an employee earning £50,000 would pay an additional £464 and an employer would pay an additional £475. The combination of employer and employee NIC, means that the contribution of National Insurance on an employee's salary will be twice that of a self-employed individual.

From 6 April 2023, the NIC rates will revert and there will be a separate levy at 1.25%. From that date employees and self-employed individuals who are over state pension age will also have to pay the levy on income and profits over the NIC threshold.

Investors will also be affected by the new levy as from 6 April 2022 there will also be a 1.25% increase to the tax rates that apply to dividends. The knock-on effect of this is that S455 tax, a tax on overdrawn director's loans, will also rise from 32.5% to 33.75%, as currently S455 tax is directly linked to the dividend upper rate.

Private companies will be affected by this 1.25% levy, as well as the increase in dividend rates and the rise of Corporation Tax from 19% to 25%. Careful consideration will need to be given to the impact this will have on cashflow and profitability, future salary and dividend planning.



Dodging Bullets

In the weeks leading up to Budget day, a number of EQ clients completed restructuring and disposal transactions in order to benefit from the generous 10% tax rate applying to eligible transactions, using Business Asset Disposal Relief. This relief had been expected to disappear in the Budget but in the event, no changes were made. However, it does seem certain that this relief will be removed in due course and we urge the Chancellor to re-focus this relief to reward those business owners who have set up, built, and grown their own business. What is required is a tax relief which encourages long term, stable growth, not short term focused boom and bust style investment.

Family businesses have, for generations, taken advantage of generous reliefs for IHT specifically Business Property Relief and Agricultural Property Relief. This has allowed family trading businesses to be passed down through the generations, on or before death (along with CGT deferral reliefs). Consultations into IHT had led advisers to be concerned that a significant raid on wealth would be undertaken. Further to that, there had been speculation that a wealth tax could be implemented. Again, silence was golden and Mr Sunak said nothing to affect these reliefs.

Nevertheless, the profession believes that it can expect major changes in future to the capital tax regime and family business owners need to consider how best this significant risk can be managed.

On Cloud Nine

A much anticipated extension to the R&D tax credits regime was announced by the Chancellor, namely the addition of data management and cloud costs. It was felt that the UK's system had been becoming uncompetitive internationally, hence the extension to the relief on these costs, adding to the already eligible salary, subcontractor, and materials costs.

Despite this extension, the UK government believes that there remains a core of erroneous/fraudulent claims being made, particularly among certain providers. In future we can expect some regulatory tightening on promoters of R&D but for now, HMRC is focusing its sights on two areas:

- HMRC has already recruited over 100 new Inspectors to review R&D claims made and we are already seeing the first signs of enhanced enquiry activity.
- It has been cited that the UK are funding a lot of R&D activity not being carried out in the UK and it is expected that the UK will incentivise "domestic R&D".

The implementation of domestic R&D incentives and the eligibility of data and cloud costs will be from 1 April 2023, but the tightening of R&D rules appears set to continue apace.

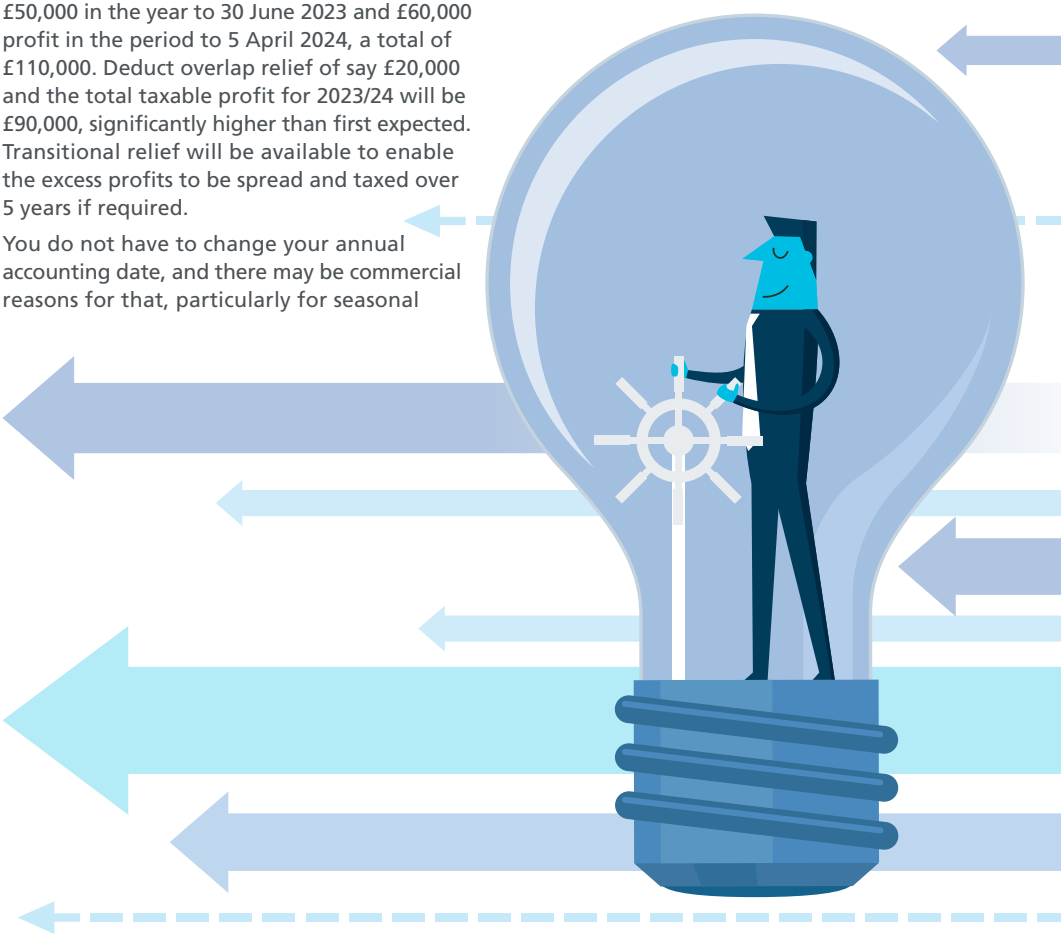
Genuine R&D claimants have nothing to fear from the tightening of rules but those preparing spurious claims are on warning.

Move to a 'Tax Year' Basis of Assessment

The basis period originally related to an accounting period ending in the previous tax year, then was subsequently moved to the accounting period ending in the current tax year with the transition creating a new term 'overlap relief'. Now all unincorporated businesses will pay tax on the profits earned in the tax year, irrespective of when their accounting period ends.

The move was originally proposed to commence on 6 April 2023 but has now been moved to 6 April 2024, with the transition year being 2023/24. The taxable profits for 2023/24 will include the accounting period ending in 2023/24 plus the profits to 5 April 2024 and deduct any overlap relief available. Overlap relief may have been created at the start of a business or during the transition to the current year basis. For example, a business with a 30 June year end may have taxable profit of £50,000 in the year to 30 June 2023 and £60,000 profit in the period to 5 April 2024, a total of £110,000. Deduct overlap relief of say £20,000 and the total taxable profit for 2023/24 will be £90,000, significantly higher than first expected. Transitional relief will be available to enable the excess profits to be spread and taxed over 5 years if required.

You do not have to change your annual accounting date, and there may be commercial reasons for that, particularly for seasonal businesses, but the profits will be time apportioned to meet the tax year. It may not be possible to finalise your tax position until the following years accounts have been prepared and estimates will have to be used. Most businesses will likely choose to align their accounting year with the tax year and it is important that you discuss this with your accountant now to ensure a smooth and tax efficient transition.



Capital Gains Tax Extension of 30-day Reporting to 60

Another measure confirmed by the Chancellor in the Autumn Budget was the extension of the time limit for making Capital Gains Tax (CGT) returns and associated payments. Currently UK residents are required to report any gains on residential property and pay the CGT due within 30 days of completion, this has now been extended to 60 days. This change came into effect immediately, meaning any disposals that complete on or after 27 October 2021 will have an extended deadline of 60 days. The 60-day extension also applies to any direct or indirect disposals of land by non-UK residents.

The Chancellor also confirmed that the CGT annual exemption would remain at £12,300 until the end of 2025/26. There were no other changes announced which affect CGT rates allowances or exemptions.

There was much speculation that CGT would rise however, it looks like that has been kicked down the road again. It is still anticipated that these will take place, with changes likely to be influenced by the review carried out and recommendations made by the Office of Tax Simplification (OTS). One of the recommendations which emerged from the OTS report back in November 2020 was the alignment of CGT rates with income tax rates, if implemented this could result in a significant increase in CGT.

While there was no change to CGT rates in the Budget this time round, there is still a possibility for change in the Spring Budget 2022 or in future years, so now may be a good time to consider crystalising gains before the higher tax rate comes in.