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EQ TAXATION SPECIALISTS

# Taxation News

Regular News from the **EQ Tax**perts

**WINTER 2022**


## Budget Reflection – Where are we now?

**New Chancellor, Jeremy Hunt, delivered the Autumn Statement on Thursday 17 November against a gloomy economic backdrop.**

Read more on Page 2.

## Pre 5 April 2023 tax planning

**We discuss some tax planning considerations to action prior to 5 April 2023.**

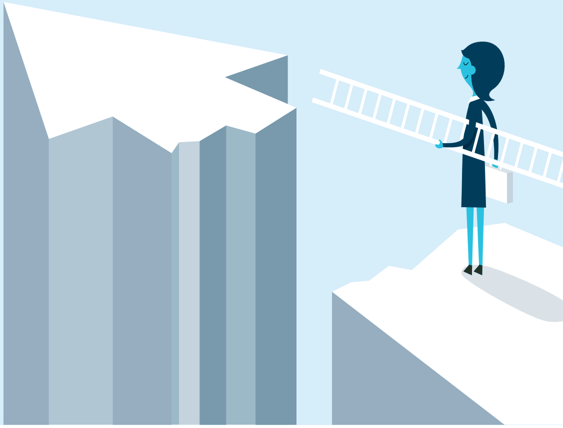
Read more on Page 7.

# Budget Reflection – Where are we Now?

**New Chancellor, Jeremy Hunt, delivered the Autumn Statement on Thursday 17 November against a gloomy economic backdrop. After acknowledging that the UK was in a recession and that "difficult decisions" would need to be made, he went on to make announcements that came as no great surprise. The news that was delivered was not perhaps the hammer blow anticipated by many and will now provide some well-needed certainty to businesses, allowing them to start moving forward with their future plans.**

Whilst we wait to see what the Scottish Government's response to this is on Thursday 15 December, it would seem highly likely that they would follow in reducing the income banding, and indeed they may choose to go further. We will share news on our website and social media channels once the Scottish Budget has been delivered.

You may find our full Autumn Statement Summary covering all of the announcements made **here**. Within this edition of our taxation news bulletin, we will focus on matters that may impact you and your business following the budget but as always we will be happy to discuss your circumstances.



# The Leisure Sector – Key Tax Considerations

**The leisure sector is made up of many diverse businesses from holiday parks and bars to hotels, golf clubs and cafés. EQ's role is to ensure strong and up to date management information is available and that we engage regularly with the management team to ensure that there is a foundation for excellent, well thought out and practical tax advice. Set out below are some key areas you may wish to consider.**

### For the business

- Securing maximum capital allowances on relevant capital expenditure
- Getting the business structure right to provide a balance of simplicity and tax efficiency against asset protection
- Timing of income and expenditure to optimise the tax position in the face of tax rate changes
- Ensuring correct tax treatment of deposits, advances, vouchers etc.

### For the staff

- Tax efficient remuneration
- Incentivising employees through participation in equity using tools like share options, employee ownership trusts
- Inventive rewards such as salary sacrifice and tax efficient benefits packages

### For the owners

- Is the business set up to facilitate expansion or disposal should the opportunity arise?
- Are key assets protected to de-risk the business in the event of difficulty?
- Has a tax efficient remuneration strategy been devised?
- Are family members being fully remunerated for their contribution to the business?
- Is there a plan in place for the future, whether that be succession, sale, growth etc?

Our EQ Taxperts liaise with our dedicated EQ Leisure team to ensure that bespoke tax advice can be provided to the individual business. If you wish to discuss your circumstances with our team, contact our EQ Taxperts or EQ Leisure team today.

# Making Tax Digital for Landlords

**Making Tax Digital (MTD) for income tax is another challenge ahead for landlords who are already dealing with new legislation on energy efficiency, tenants rights and possibly increasing finance costs. It is part of the Government's efforts to digitise the tax system and help reduce mistakes.**

MTD will apply to individuals with total gross income from self employment and property exceeding £10,000 per year from 6 April 2024. Therefore, if you are a landlord receiving rents, before agents commission or expenses, of more than £10,000 per year you will be affected. If you own property jointly, perhaps with your spouse, then each person must consider if their share of the rental income exceeds £10,000 and register separately.

MTD requires you to keep digital records of your property income and expenditure and to use those digital records to make quarterly submissions to HMRC. As you can imagine, this will most likely mean having to incur costs to subscribe to a suitable software package, although HMRC have promised some free products will be available. Spreadsheets may still be acceptable but will require 'bridging' software to make the digital connection for submissions. If you have a substantial property business you may already use suitable accounting software and one of the many 'add-ons' that are available to manage rental properties.

The other word to draw your attention to is 'quarterly'. HMRC will use these quarterly submissions to estimate how much tax you are going to have to pay. Tax payments dates will not currently change, although you will be encouraged to pay more up front.

MTD will also require a final end of year submission, including details of your other income such as income from employment, pension or dividends, which in essence is a tax return.

It is important to start to plan for this transition now and not leave it until the last minute. It can take time to familiarise yourself with new software and break habits of poor record keeping.

Our EQ Taxperts are happy to offer support and advice with your transition to MTD, please get in touch to discuss your circumstances.

# Post Budget Tax Planning – For Individuals

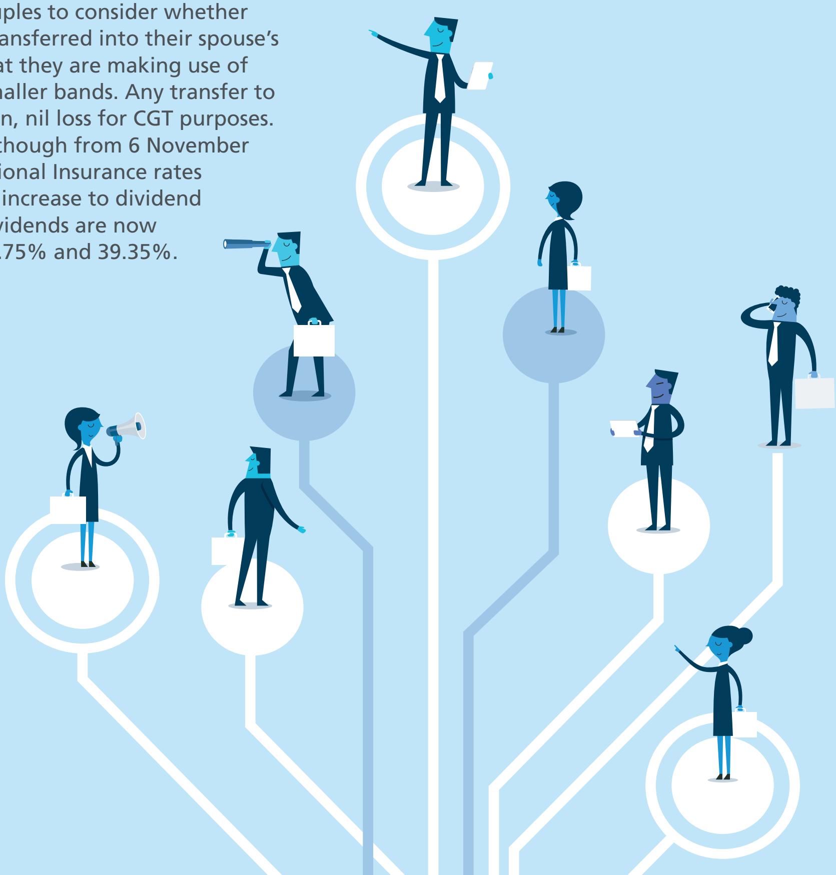
**In the run up to the much-anticipated Autumn Statement, Jeremy Hunt delivered the message that we are all in this together and that every individual will suffer an increased tax burden to help rebuild the British economy. With continual changes in fiscal policy, it can be confusing for individuals to know which changes remain in place and what affect this will have on their future finances. More importantly can anything be done now to plan for the upcoming changes?**

The Capital Gains Tax (CGT) Annual Exempt Amount (AEA) will be reduced from £12,300 to £6,000 from April 2023, then to £3,000 from April 2024. Those individuals who are looking to sell some of their assets may wish to speed up the disposal of these assets into the 2022-23 tax year to utilise the larger AEA amount whilst it is still available.

From April 2023, the dividend allowance will also be reduced to £1,000 then to £500 in April 2024. This might pull individuals into self-assessment that previously were not required to pay tax on dividends. It will be worthwhile for couples to consider whether shares should be transferred into their spouse's name to ensure that they are making use of both individuals smaller bands. Any transfer to spouses is at nil gain, nil loss for CGT purposes. A reminder that although from 6 November the increase in National Insurance rates were reversed, the increase to dividend rates remained. Dividends are now taxed at 8.75%, 33.75% and 39.35%.

The threshold for when the highest earners start paying the top rate of income tax will be brought down from £150,000 to £125,140 from April 2023 (this only applies to savings and dividend income for Scottish taxpayers). It is even more important for individuals to think about making tax efficient investments such as pension contributions.

For our Scottish taxpayers we will need to wait until the Scottish budget is published on 15 December 2022 to see what changes await in relation to income rates/bands for non-savings income.



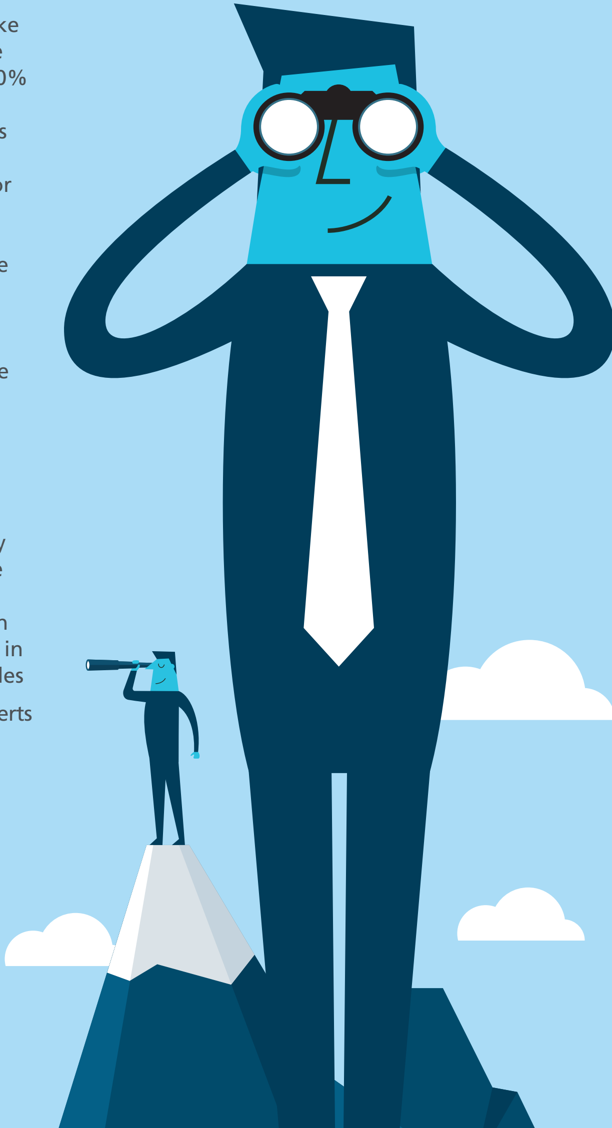
# Post Budget Tax Planning – For Corporates

**The main headline for the Autumn Statement for companies was that the increased rates of Corporation Tax (CT) are here to stay. Currently the CT rate is 19%. From April 2023 this will then increase to 25% for companies with profits over £250,000. A small profits rate of 19% will remain for companies with profits up to £50,000. Those in between will be subject to a marginal rate of 26.5% tax for profits between £50,000 and £250,000. To make things more complicated these limits are split between associated companies – this covers more than group companies. This is an appropriate time for business owners to consider the structure of their companies and potentially associated holdings to determine whether their current business structure will be costing more in tax than it needs to be.**

Time is also running out for companies to take advantage of the super-deduction allowance for investing in plant and machinery. The 130% allowance is expiring on 31 March 2023 so any expenditure must be incurred before this point to take advantage of the allowance. It is not all doom and gloom as the chancellor has confirmed that increase to the Annual Investment Allowance to £1,000,000 is here to stay. Under the super-deduction allowance companies are currently receiving CT relief at an effective rate of 24.7%. Smaller companies who will be subject to CT at 19% from 1 April 2023, and therefore receive relief for capital expenditure at 19% under AIA, should accelerate any eligible capital expenditure pre-31 March 2023 to ensure they are obtaining CT relief at a higher rate.

Please also note potential stings in the tail when you trade in items that have previously secured the super-deduction as there may be unintended balancing charges arising. For example, if you are trading in a van on which you secured the super-deduction, your trade in proceeds may be caught by the claw back rules

As always, good advice is key and our EQ Taxperts are here to offer support.



# Changes to the Research and Development Tax Credit Regime

**The new Chancellor Jeremy Hunt announced a number of changes to the Research and Development tax credit regime as part of his first Autumn Statement. The new rules, which come into force from 1 April 2023, are a mixed bag, providing enhanced benefit for some whilst restricting benefit for others.**

### SME Scheme

Under current R&D rules, SMEs (those with fewer than 500 staff and either turnover below €100m or gross assets below €86m) obtain an additional 130% deduction on their qualifying R&D spend resulting in a total tax deduction in the sum of 230% of the amount spent on qualifying R&D. Where the company is in an overall loss position, it could surrender these losses for a cash repayable credit equivalent to 14.5% of the loss surrendered; this being capped at the lower of 230% of the qualifying R&D expenditure or the trading losses available.

The Chancellor announced that for expenditure incurred from 1 April 2023, the rate of R&D relief for SMEs will be reduced from 130% to 86%. In addition, the rate at which losses can be surrendered will reduce from 14.5% to 10%.

However, it is important to keep in mind that with corporation tax rates set to rise to 25% from April 2023, the effective savings rate is only reducing from 24.7% to 21.5% for those subject to the higher tax rate from April. For those still paying tax at 19% from April, the effective rate is reducing from 24.7% to 16.3%, making quite a dent in the R&D tax savings. For profits at the marginal rate of 26.5%, the R&D tax savings will be 22.79%.

Loss making companies will be the hardest hit under these new measures as the repayment from HMRC will be reduced by approximately 45%.

The above changes are the Government's response to fraudulent and excessive claims that are being made under the SME scheme. We can only assume that by reducing the attractiveness of the scheme, they hope to reduce the number of such claims.

### RDEC Scheme

The Research and Development Expenditure Credit (RDEC) scheme is available for those companies that breach the thresholds mentioned above, or who cannot make a claim under the SME scheme for other reasons, for example because they are in receipt of notified state aid funding.

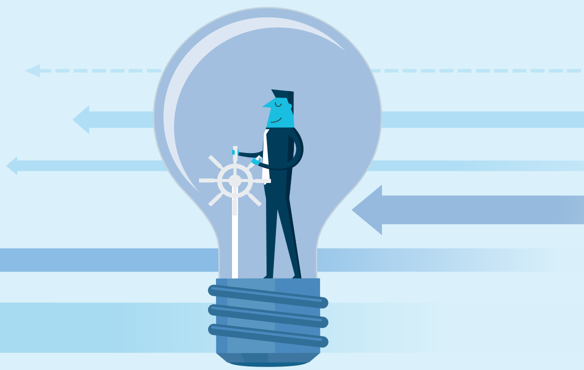
The RDEC scheme currently enables claimant companies to obtain a taxable credit equal to 13% of their qualifying R&D expenditure. Given this credit is taxable, the effective savings rate is currently 10.53%. Under the proposed changes, the RDEC rate will be increased from 13% to 20%, meaning the effective savings rate will be 15%.

This is a welcome change for large businesses already making RDEC claims and should help encourage others to base their R&D activities here in the UK.

### Summary

Whilst the above is good news for companies claiming under the RDEC scheme, there's no doubt that the SME scheme will be less generous going forward. However, the tax savings on offer will still make it worthwhile for qualifying companies to make a claim.

With increased HMRC scrutiny, it is now more important than ever to ensure you are using a firm you trust to submit your R&D claims.



# Pre 5 April 2023 Tax Planning

**At EQ, we act for a huge number of business owners and high net worth individuals and tax planning for 5 April 2023 starts now, not 2 weeks before the tax year changes.**

**Between now and the end of the calendar year, most EIS and VCT investments will be released, fully subscribed and closed. Therefore if you wish to use that as part of your 2022/23 planning, then urgent action is required.**

Some of you may prefer to continue to make pension contributions whilst the various reliefs remain in force and if that is the case you may wish to consider whether contributions come from your business or from you personally. A well timed charitable donation may also secure some strong tax relief to support your charitable aims.

Are you using your annual Capital Gains Tax and Inheritance Tax relief and if not, can you plan to do so?

Remuneration planning remains something that is always under consideration and amongst other things you may wish to consider:

- Salary versus dividends
- Charging interest on loans made to your business
- Rental on property owned by you but used by your business
- Ensure all business expense claims are made

As with other planning, good personal tax planning should link across your family's circumstances and your business and therefore we'd recommend a conversation with your tax adviser to ensure you are optimising your position. It's a dynamic tax world with a lot of business and personal tax changes to factor into your decision making – don't wait until it's too late to start your planning.

# Looking for Trusted Tax Advice?

## Talk to the **EQ Tax**perts

We are always happy to offer free, no obligation, initial consultations, and often act on a tax consultancy basis only.

For more information on any of the services outlined in this bulletin, or to discuss a particular issue with one of our advisors please get in touch.

Talk to the EQ Taxperts today.

**eqtaxperts.com**

**01382 312100**

**taxation@eqaccountants.co.uk**