Adviser

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Are You Making the Most of Research & Development?

Data published recently by the Office for National Statistics (ONS) revealed that the amount UK companies spent on Research and Development (R&D) totalled £25 billion in 2018. With this in mind, we explore how you can make the most of any R&D tax reliefs available to you.

R&D tax reliefs: the benefits

The government actively encourages companies to carry out R&D in order to help grow their firm and increase profitability. A wide range of tax incentives exist, which are designed to encourage investment in R&D. Different types of incentives are available, depending on the size of the company. These include an increased deduction for R&D spending, alongside a payable R&D tax credit for those companies not yet in profit.

The government has stated that it is 'committed to improving access to R&D' for small and medium-sized enterprises (SMEs). Below, we outline how companies can claim R&D tax reliefs.

Claiming R&D tax reliefs

SMEs are permitted to claim R&D tax relief if they have fewer than 500 members of staff and a turnover of under €100 million, or a balance sheet total of less than €86 million. The relief permits SMEs to deduct an additional 130% of qualifying costs from their yearly profit. This is in addition to the normal 100% deduction, giving a total deduction of 230%.

A company may be able to surrender losses for cash repayments in instances where the R&D tax claim creates a tax loss. Currently, this is calculated at 14.5%.

In order to make the most of R&D tax relief, a company must have incurred expenditure on qualifying R&D projects that are related to its trade. Projects must be innovative and should assess and attempt to resolve scientific or technological issues.

Qualifying expenditure falls into different categories. These include staffing costs; software costs; expenditure on consumables or transformable materials; costs of work done by subcontractors; and costs of clinical trial volunteers.

Using the Research and Development Expenditure Credit (RDEC) Scheme

The RDEC scheme is a replacement for the large company scheme, but can also be used by SMEs that have received a grant or a subsidy for their R&D project or are subcontracted to do R&D work by a large company. The credit is taxable, and is calculated at 12% of a company's qualifying R&D expenditure incurred. This credit may be used to discharge the corporation tax liability, depending on whether the company makes a profit or a loss. It could also result in a cash payment. Where no corporation tax is due, the amount can be repaid net of tax or used to settle other debts.

For further information and advice on R&D and claiming R&D relief, please contact the Tax Team on 0161 761 5231.

Tax Tip

Review your business structure

You may be able to reduce your annual tax bill by reviewing your business's structure, as there are often significant tax savings to be made. During the early years of a business, it may be preferable to operate as a sole trader or in a partnership. However, as your profits increase, you may find it more beneficial to form a limited company.

Incorporating your business also has many non-tax advantages. Incorporated companies enjoy legal continuity, as they are legal entities in their own right. In addition, if a business owner ever wished to transfer ownership, as an incorporated company this can be achieved with greater ease than if trading as a sole trader or in a partnership.

Please get in touch with us for more information.

Capital Gains Fall-out for Couples and Family Homes

Married and divorcing couples, including civil partners, should be alert to change to the capital gains tax (CGT) rules on private residence relief.

Divorcing couples

Tax is never at the top of the agenda when a relationship ends, yet the tax consequences can be far-reaching. A jointly-owned family home is often the most important asset when couples divorce. But for many practical reasons, its value isn't always rapidly realised, and for divorcing couples, the reduction in the CGT final period exemption for property disposals on or after 6 April 2020 could have considerable impact.

The final period exemption gives a useful extension to the time available to dispose of a property that has, at some time, been the main private residence. It can be particularly relevant in a marriage breakdown, where one party moves out of the family home. Hitherto it has given an 18-month grace period.

Someone buying a property as a new main residence, before disposing of the old, could obtain private residence relief on the original home for the last 18 months of ownership, even after moving out.

But from April, the final period becomes nine months, giving less time to sell before a CGT charge could arise. Where higher rate taxpayers are involved, this could mean a tax rate of 28% applies. Also from April, new requirements to report and pay CGT within 30 days of completion have the potential to add to the financial strain of divorce.

HMRC treats spouses and civil partners as living together unless separated under court order; by a formal Deed of Separation executed under seal (this should be witnessed in Scotland); or in circumstances such that the separation is likely to be permanent. Whilst living together, a couple can only have one residence to which private residence relief pertains. Following separation, it is possible to obtain relief on a different property.

There is a concession for divorcing couples, where one party moves out of the family home. It can extend the final period exemption, but only where an interest in the family home is transferred to the other party as part of the overall financial settlement on separation, divorce or dissolution. If transfer takes place outside the final period exemption window, full private residence relief would normally be lost. Here it can be extended to the date of transfer, or date that the recipient spouse ceases to use the property as their main residence – whichever is the earlier. A tax claim must be made for this treatment to apply. It will not always be advantageous, as the spouse moving out cannot then get relief on any new purchase for this period.

Other considerations

Where one party moves out and buys another home before disposing of their interest in the family home, for example, there is also the fact that higher rates of tax are paid on the purchase of 'additional' property throughout the UK. Although in some circumstances, a refund can be claimed on sale of the previous main home, the impact in terms of cash flow can be significant. To discuss tax and marriage breakdown more fully, please do not hesitate to get in touch.

Whose main residence?

A further change from 6 April 2020 will also affect married couples and civil partners. Where property is transferred between spouses, the receiving spouse will always take on the other spouse's history of use of the property. At present, this only happens if the property is their main residence when the transfer takes place. Due to the tax free transfer rules between spouses, this can produce anomalous results where a property has been the main residence of one, but not both, spouses in the past. The new rule may significantly affect the amount of private residence relief available to spouses following such transfers.

The new spousal rules will impact different people in different ways, and we would recommend bespoke advice, tailored to your circumstances. It may be that transfer before 6 April 2020, under the old rules, or after 6 April, under the new rules, produces the best results for you. We are happy to advise on optimal timing.

Reminders for your diary

March 2020

1 New Advisory Fuel Rates (AFR) for company car users apply from today.

2 5% late payment penalty on any 2018/19 outstanding tax which was due on 31 January 2020 and still remains unpaid.

19 PAYE, Student loan and CIS deductions are due for the month of 5 March 2020.

31 End of corporation tax financial year.

End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 March 2019.

Last minute planning for tax year 2019/20 - please contact us for advice.

April 2020

5 Last day of 2019/20 tax year.

Deadline for 2019/20 ISA investments and pension contributions.

Last day to make disposals using the 2019/20 CGT exemption.

14 Due date for income tax for the CT61 period to 31 March 2020.

19 Automatic interest is charged where PAYE tax, student loan deductions, Class 1 NI or CIS deductions for 2019/20 are not paid by today. Penalties may also apply if any payments have been made late throughout the tax year.

PAYE quarterly payments are due for small employers for the pay periods 6 January 2020 to 5 April 2020.

PAYE, student loan and CIS deductions are due for the month to 5 April 2020.

Deadline for employers' final PAYE return to be submitted onilne for 2019/20.

Government Gear Change on Company Car Tax

Why the business-next-door could soon be driving electric...

A clean green era with new emissions tests and benefit in kind (BiK) rates gets on the road in April 2020. But what does the drive to cut emissions and grow electric technology look like in terms of tax? Key to the new regime is the new Worldwide Harmonised Light vehicle Test Procedure (WLTP), which replaces the current New European Driving Cycle (NEDC) emissions test. With higher carbon dioxide (CO2) readings anticipated under WLTP, vehicle tax will be impacted in various ways. From April 2020, the CO2 value obtained under WLTP will be used to determine Vehicle Excise Duty – although existing VED rates are retained in April, pending further government consultation. And for all new cars provided to employees and available for private use, first registered from this date, the WLTP CO2 figure will affect BiK treatment.

For BiK purposes, tax is worked out by multiplying the list price of the car (including most accessories) by the 'appropriate percentage'. Percentages are determined by fuel type and level of CO2 emissions.

- For cars first registered from 6 April 2020, most BiK rates are reduced by two percentage points. This changes the rates published earlier and applies for the 2020/21 tax year only.
- In 2021/22, and again in 2022/23, they increase by one percentage point.
- BiK calculations for 2020/21 and 2021/22 now involve checking whether a vehicle is registered before, or after 6 April 2020, to work out the appropriate percentage.
- All new zero emission models are free of company car tax for one year from 6 April 2020, to incentivise the shift to green vehicles. The benefit is 1% in 2021/22, and 2% in 2022/23.
- Electric mileage range will be key to the appropriate percentage for some hybrid vehicles.
- The BiK percentages for cars registered before 6 April 2020 are frozen for 2021/22 and 2022/23.

The changes provide business owners with considerable food for thought, and we have only been able to highlight key points here. The decision to go electric is a major one, involving not just tax, but consideration of the available infrastructure, charging facilities, total business mileage, and other issues. Do contact us for an in-depth discussion of your business motoring strategy, and tax efficient provision of employee benefits.

Battling Online Bank Fraud

Bank fraud and scams cost UK customers £1.2 billion in 2018 alone, and businesses faced even higher losses. The good news - better online security is on the way.

'Strong customer authentication' (SCA) is a new way for banks and payment service providers to verify customer identity and validate payment instructions. SCA stems from the EU's Payment Services Directive, and should go ahead regardless of Brexit. The complete suite of changes should soon be in place: by 14 March 2020 for online banking services, and by March 2021 for online shopping. In many cases, SCA will entail customers using a smartphone, although there are workarounds suggested for those without a smartphone or reliable signal. Customers will have to provide two different types of information, out of three different categories:

knowledge – something only the user knows, like a PIN or password: ***possession*** – something only the user possesses, like a card checked by a card reader: and ***inherence*** – something unique to the user, like voice or fingerprint.

Card issuers, payment firms and online retailers are preparing for the change. You may find they contact you with details of their plans.

Workplace Skills Crisis

UK employers: facing a skills crisis – and spending at unsustainably high levels to get out. This is the reality of day to day life for many UK businesses, according to a recent Open University report.

The Open University Business Barometer 2019 found that UK business is spending £4.4 billion annually to address the skills shortage, with the cash going on recruitment fees, increased salaries, temporary staff and training costs to upskill workers. More than two thirds of employers had difficulty finding appropriately skilled employees. Managerial skills were in particularly short supply, with IT and leadership skills coming second. In around a quarter of cases, positions went unfilled. Many employers felt that their business was not as agile as it needed to be to tackle future challenge successfully, and nearly half anticipated a knock-on effect on business finances. A key take-away message was that businesses are increasingly growing their own in-house talent. Over 50% had increased the spend on training and development, with long-term sustainability, and increased staff loyalty cited as additional benefits. Work-based training and apprenticeships were particularly attractive to over half the businesses surveyed.

We should be pleased to advise on any part of the recruitment process, including the creation of apprenticeships. Do not hesitate to contact us to discuss your business strategy.

Business and Tax Round-up

UK SMEs owed £23.4 billion in late payments

Late payment debts owed to the UK's small and medium-sized enterprises (SMEs) now total £23.4 billion, according to research. A survey conducted by Pay.UK, which runs the BACS direct credit and direct debit payment services, showed that debts due from late payments have soared by over £10 billion from the £13 billion total reported in 2018.

Over half of SMEs have experienced overdue payments, and the average debt burden per business has increased to £25,000.

Some 78% of SMEs say they are being forced to wait a month beyond agreed payment terms, while another 45% are being kept waiting over two months. In addition, the bill for chasing late payments has now reached £4.4 billion a year.

Commenting on the research, Paul Horlock, CEO of Pay.UK, said: 'It is concerning that so many smaller businesses are struggling because of late payments . . . especially as there are so many ways they can now get paid.

'Offering customers a choice of payment or automated options can help remove barriers to make sure a bill is settled on time.'

UK minimum wage gets largest ever raise

Millions of UK workers will see their pay rise after the government made the biggest ever cash increase in the legal minimum wage.

The government has announced a 6.2% increase in the National Living Wage (NLW), which applies to workers aged 25 and over. The NLW will rise from the current rate of £8.21 to £8.72 an hour, in the largest raise since it was introduced two decades ago.

The government has confirmed that the new rate will start on 1 April 2020 and will result in an increase of £930 annually for 2.8 million full-time workers earning the NLW.

Workers aged under 25 earning the National Minimum Wage (NMW) will also see increases of between 4.6% and 6.5%, depending on their age.

Commenting on the rise, Bryan Sanderson, Chair of the Low Pay Commission (LPC), said: 'The NLW has been an ambitious long-term intervention in the labour market. The rate has increased faster than inflation, faster than average earnings and faster than most international comparators.

'This has raised pay for millions without costing jobs, although employers have had to make a variety of other adjustments to deal with the increases.'

National Insurance number missing

If an employee forgets their National Insurance number (NINO), or needs a letter confirming it, there are options. They can be advised to:

- check previous paperwork – payslips, P60, tax, pensions or benefits correspondence;
- use form CA 5403. This is completed online, printed and posted to HMRC: https://www.gov.uk/government/publications/national-insurance-get-your-national-insurance-number-in-writing-ca5403, but can take up to 15 days. It is not designed for anyone who has not had a NINO before. A different process applies here;
- phone the National Insurance Number Helpline, **0300 200 3500** – though this only takes requests: HMRC won't give NINOs over the phone. Information is sent by post, with a 15-day timeframe;
- go online via the personal tax account, or use the HMRC app.

Going online is HMRC's preferred route, and should be the quickest. Employees can be directed here www.gov.uk/personal-tax-account to set up a personal tax account. From this, they can share, print or view a copy of their NINO confirmation letter. Where employees are unable to provide you with a NINO by the time you run your payroll, HMRC suggests that the relevant field on your Full Payment Submission is left blank.

Care at home: your responsibilities

'Death, taxes and childbirth! Never any convenient time.'

We could all echo the line from 'Gone with the Wind' quoted in a recent Office of Tax Simplification (OTS) report. But for the increasing number of people using home help, such as carers for disabled or elderly relatives, the OTS thinks tax can be particularly challenging. If the work arrangement amounts to direct employment, the individual or family concerned should operate a PAYE scheme. This applies whether hiring help directly, or with funding from a body such as the local authority or NHS.

Some local authorities offer a payroll service. If not, HMRC's free Basic PAYE Tools (BPT) software can be used where working arrangements are straightforward. Further information about BPT can be found here: https://www.gov.uk/government/collections/guidance-for-employers-on-using-basic-paye-tools-bpt. Provision of payslips is now a legal obligation for employers, and in a welcome move, HMRC has advised that BPT is being updated to provide the functionality to do this from April 2020. Employing home help also brings other responsibilities, such as the need to pay National Minimum or National Living Wage (NLW). There are also pensions auto-enrolment obligations and employment law issues to consider.

Please do not hesitate to get in touch for advice on 0161 761 5231.

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