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Accountants and Chartered Tax Advisors

Tax E-News

Welcome to our monthly newswire. We hope you find this newsletter useful. Please contact us if you would like to discuss any matters further.

August 2022

PRIME MINISTER CANDIDATES AND POSSIBLE TAX CUTS

With the departure of Boris Johnson, the contenders as leader of the Conservative Party and Prime Minister (PM) have now been whittled down to the last two – Rishi Sunak and Liz Truss.

Whoever wins will need to appoint a new chancellor and we await their tax policies with interest.

In the event of Liz Truss becoming PM, we are expecting her Chancellor to call an emergency Budget, with a flurry of tax reductions being announced.

In her campaign to win support from Tory members, Liz Truss has suggested that she would reverse the 1.25% Health and Social Care Levy. She would also cancel or reduce the scheduled rise in corporation tax to 25% from 1 April 2023 where company profits are in excess of £250,000 a year.

We are not currently expecting an emergency Budget under former chancellor Rishi Sunak. Sunak continues to promise tax cuts in the future, but only when inflation has been brought under control.

ATTRACTING AND RETAINING KEY STAFF WITH SHARES

In the increasingly competitive jobs market, it is important that employers are able to attract and retain talented people to help them grow their business. Within certain sectors, the opportunity to participate in the equity of the organisation that they work for is something that more employees are seeking and those employers that do not offer such opportunities could put themselves at a disadvantage when looking to retain and recruit.

For corporate employers, there are currently four HMRC 'tax-advantaged' schemes that provide employees and employers with income tax and National Insurance Contribution (NIC) advantages. The four tax-advantaged schemes are currently:

- **Share Incentive Plan (SIP) and Save As You Earn** (SAYE or Sharesave) schemes, which generally need to be made available to all employees after a qualifying period.
- Probably more appropriate for SMEs are the **Company Share Option Plan (CSOP)**, and the **Enterprise Management Incentives (EMI) share option scheme** as these are discretionary schemes which allow the management to award options to selected employees and directors that the organisation is looking to incentivise.

Shares acquired under these four schemes are generally free from income tax and NICs if correctly structured. Depending on the scheme used, the employer may also qualify for a corporation tax deduction for the difference between the price paid by the employee for their shares and the market value.

The scheme of first choice, provided the employer company qualifies, is currently the EMI share option scheme as it allows the employee or director to hold options over up to £250,000 of the employing company's shares based on the market value when the option was granted. The shares, once acquired, potentially qualify for Capital Gains Tax business asset disposal relief when sold and thus the first £1million of gains would be taxed at just 10%.

The acquisition of shares and securities in connection with an employment other than through one of the four schemes outlined above are commonly referred to as 'unapproved' or 'taxed' schemes. This means that neither the employee nor the employer benefit from any income tax or NIC advantages. This could result in a significant income tax and NIC charge.

Please contact us if you would like to discuss introducing a share incentive scheme to help you attract and retain talented staff.

BEWARE "ROGUE" R&D CONSULTANTS

In recent years HMRC have identified and successfully challenged a number of spurious claims for Research and Development (R&D) tax credit relief made by purported 'R&D Consultants'.

Many of these claims have been for projects that did not satisfy the criteria for the tax relief and some included overstated expenditure and consequently have been abusing the scheme.

The R&D rules offer legitimate claims generous tax breaks. For a company that is a Small or Medium-sized Entity (SME), qualifying expenditure attracts a tax deduction of 230% of the amount spent which can then be traded in for a tax refund of 14.5% if the company is loss making. Thus £100,000 of qualifying R&D expenditure would potentially result in a tax refund to a loss-making company of £33,350. Most R&D consultants charge a fee based on the amount of the claim.

To qualify for R&D relief, the expenditure must be incurred as part of a specific project to make an advance in science or technology. The project must relate to the company's trade - either an existing one, or one that the directors intend to start up, based on the results of the R&D.

Further, the company must be able to explain how a project:

- looked for an advance in science and technology;
- had to overcome uncertainty;
- tried to overcome this uncertainty; and
- could not be easily worked out by a professional in the field.

In summary, R&D claims are often very worthwhile, but a number of strict requirements must first be met. If you are approached by an R&D Consultant or otherwise believe you may be incurring eligible R&D expenditure, please talk to us and we will help you file a compliant claim.

MAKING TAX DIGITAL – UPDATE

Making Tax Digital (MTD) for VAT has been with us since April 2019, with the extension to all VAT registered businesses from April 2022.

The next roll-out will be the introduction of MTD for income tax which is scheduled to start in April 2024.

The obligation to keep records in a digital format and report information quarterly will apply to unincorporated businesses and property landlords with gross income from all business activities in excess of £10,000 a year.

Businesses operating MTD for VAT may already have 'functional compatible software' for income tax purposes but will need to get into a new routine for income tax reporting.

The changes will be more significant for property landlord businesses, most of whom are not VAT registered and so have not already been through MTD for VAT.

If you believe you need a new digital accounting system for your business, there are a number of MTD compliant accounting software packages on offer and we can advise you on the one that is most appropriate for your business. There are even relatively low-cost software packages specifically designed for property rental businesses.

MORE DETAILS OF MTD FOR INCOME TAX REPORTING

HMRC are currently consulting on the precise details of what needs to be reported each quarter. As expected, it seems the accounting software will need to record and report income and expenditure in the same categories currently used for self-assessment.
The main categories are:

- Turnover/gross rents
- Costs of goods sold
- Materials
- Wages and salaries of employees
- Sub-contractor costs
- Rent, rates, power and insurance
- Repairs and renewals
- Professional fees
- Telephone and other office costs
- Interest on bank and other loans
- Motor and travel expenses

HMRC also propose that those businesses with turnover below the £85,000 VAT threshold will only need to report the totals of income and expenditure each quarter which will be a welcome simplification for small businesses.

DIARY OF MAIN TAX EVENTS
AUGUST / SEPTEMBER 2022

Date	What's Due
1/08	Corporation tax for year to 31/10/21 (unless pay quarterly)
19/08	PAYE & NIC deductions, and CIS return and tax, for month to 5/8/22 (due 22/08 if you pay electronically)
1/09	Corporation tax for year to 30/11/21 (unless pay quarterly)
19/09	PAYE & NIC deductions, and CIS return and tax, for month to 5/9/22 (due 22/09 if you pay electronically)

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