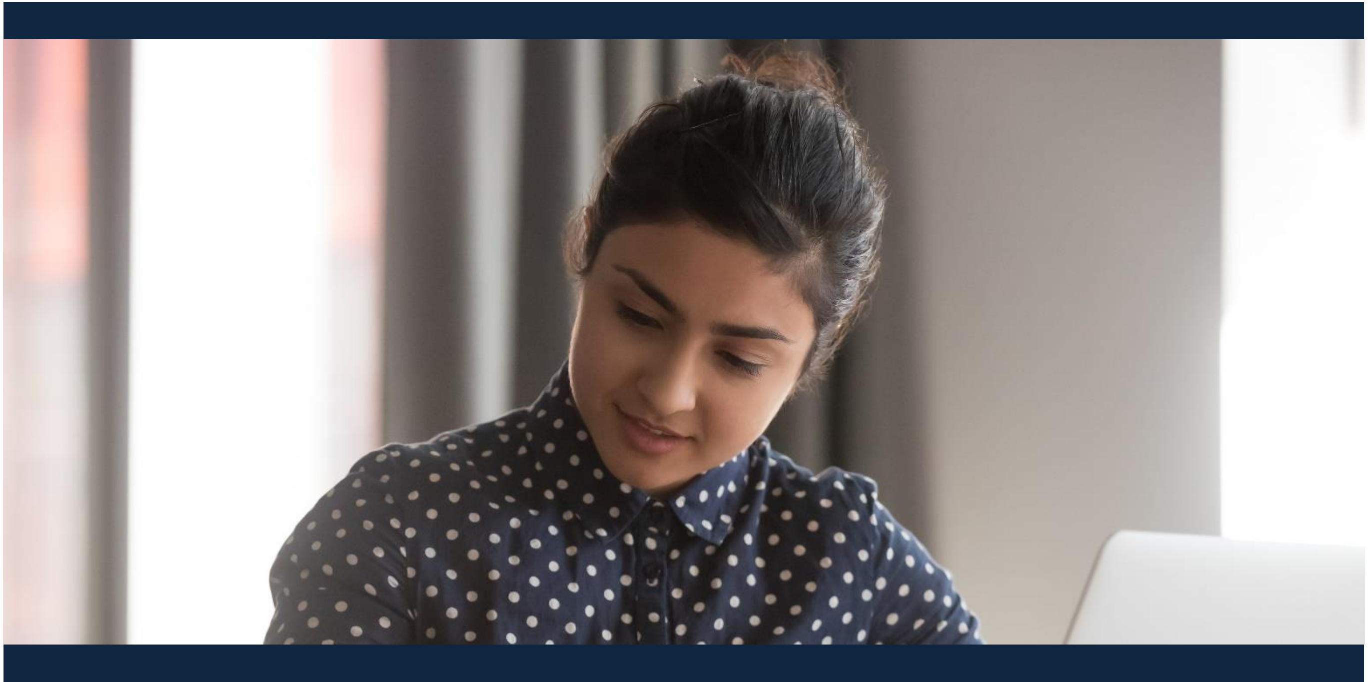
Broadcast

Nunn Hayward

FACTSHEET: CHANGES FOR COMPANIES FROM 1 APRIL

SPECIAL ISSUE

01753 888211
www.nhllp.com



In this broadcast, we examine some new changes that will be implemented from April 1 onwards, that companies need to be aware of.. These include:

1) Corporation tax changes
2) Super deduction for capital expenditure
3) Changes to overseas R&D relief

CORPORATION TAX CHANGES

Small company owners should by now be aware of the corporation tax changes taking effect from 1 April 2023, but with the associated company rules being introduced at the same time, don't be caught off guard.

From 1 April 2023, there will be two rates of corporation tax:

- A small profits rate of 19% where profits are below £50,000; and
- A main rate of 25% where profits exceed £250,000.

Where profits are between £50,000 and £250,000, marginal relief applies so that the rate of tax is gradually increased from 19% to 25%. The effective tax rate on this band of profits is 26.5% – slightly higher still if a company receives dividend income.

Impact of associated companies

The profit thresholds are divided between associated companies. For example, if two companies are associated, they will respectively only benefit from the 19% tax rate on profits up to £25,000. This means each company pays around £1,875 more in corporation tax each year than if the full £50,000 limit had been available.

- Overall, this may make little difference if both companies have profits in excess of £25,000 – the full £50,000 limit being utilised – but it will if one company has minimal profits.
- Should this be the case, business owners may wish to consider running just the one company.

Meaning of associated

The basic rule is that companies are associated if they are under common control – this means a shareholding of more than 50%. For example, two companies are associated if two people both have 30% shareholdings in each company.

- Companies only associated for part of an accounting period count as associated companies for the whole of that period.
- Overseas resident companies can be included.
- Dormant companies (not carrying on a trade or business) do not count as associated companies.

Determining whether or not a company is associated can get quite complex because shareholdings of associates can, in certain circumstances, be included.

The associated company rules almost certainly prevent the hiving off of profits to another company controlled by a spouse or civil partner in order to benefit from two £50,000 limits.

A detailed explanation of the associated company rules can be found here.

SUPER-DEDUCTION FOR CAPITAL EXPENDITURE

For a limited period companies are able to benefit from two additional first-year capital allowances – the super-deduction providing immediate relief for 130% of the qualifying expenditure and a 50% first-year allowance. However, time is running out to take advantage of these allowances.

Key dates

The super-deduction and the 50% first-year allowance are only available in respect of qualifying expenditure incurred by companies in the period from 1 April 2021 to 31 March 2023. Companies who wish to take advantage of the enhanced deduction offered by the super-deduction must incur the expenditure on or before 31 March 2023.

Nature of the super-deduction

The super-deduction is an enhanced first-year capital allowance that is available only to companies. It provides a deduction of 130% of the qualifying expenditure in the accounting period in which the expenditure is incurred. This means that where claimed, every £100 of qualifying expenditure will reduce taxable profits by £130. The effect of this is that every £100 invested by a company in qualifying expenditure will reduce the company's tax bill by £24.70 (100 x 130% x 19%).

When the asset is sold, a balancing charge will apply, calculated by reference to the disposal proceeds.

Qualifying expenditure

The super-deduction is available for expenditure that would otherwise benefit from a writing down allowance at the main rate of 18%. As with the annual investment allowance, expenditure on cars does not qualify for the super-deduction. To benefit, the expenditure must be incurred on or before 31 March 2023.

50% first-year allowance

The super-deduction is not available for qualifying expenditure that would otherwise qualify for writing down allowances at the special rate of 6%. This applies to items such as integral features, long-life assets, solar panels and thermal insulation. Instead, companies can benefit from a 50% first-year allowance where the expenditure is incurred in the period 1 April 2021 to 31 March 2023.

As the rate of this first-year allowance is less than the 100% deduction given by the annual investment allowance (AIA), it is only likely to be beneficial where the AIA limit of £1 million has been used up. Again, qualifying expenditure must be incurred no later than 31 March 2023 to benefit from the 50% first-year allowance.

Claims

Capital allowance claims are optional, and claims can be tailored. A claim for the super-deduction does not have to be made for the full amount of the expenditure if this is not beneficial; it is permissible to claim the super-deduction for part of the expenditure and writing-down allowances for the balance. This may be preferable if the intention is to sell the asset in a few years to reduce the balancing charge on disposal.

Companies claiming the super-deduction should make the claim in their company tax return.

Is a claim worthwhile

Where expenditure has already been incurred, a claim for the super-deduction is likely to be beneficial as it will deliver an enhanced deduction for the expenditure, reducing the company's tax bill in the process.

However, if a company is planning significant investment and is considering incurring the expenditure before 31 March 2023 to benefit from the super-deduction, they also need to consider the impact of the corporation tax reforms that come into effect from 1 April 2023.

If the company has profits in excess of £250,000, from 1 April 2023, they will pay corporation tax at a rate of 25%. Where this is the case, if they claim the AIA, for every £100 of qualifying expenditure incurred on or after 1 April 2025, they will save tax of £25 (£100 @ 25%). This is slightly more than the tax saving of £24.70 for every £100 of qualifying expenditure incurred prior to 1 April 2023 in respect of which the super-deduction is claimed.

Where a company's effective corporation tax rate will be less than 24.7% from 1 April 2023, incurring the qualifying expenditure before 1 April 2023 and claiming the super-deduction will give the best result. Where their effective rate will be higher than this, they will save more tax if they incur the expenditure on or after 1 April 2023 and claim the AIA (provided the available AIA limit is sufficient to cover the full amount of the expenditure).

CHANGES TO OVERSEAS R&D

Under the current rules for both R&D schemes; the SME scheme and the RDEC scheme, companies are able to claim relief on R&D activity that is conducted overseas. Claimants under the RDEC scheme are restricted on certain subcontracted costs, but the location of where the work is performed on both schemes is irrelevant.

However, from April 2023, this will change. Where companies subcontract R&D activity to a third party, they will in future only be able to claim relief for that expenditure where that third party performs the work within the UK. The rules for subcontracting will not otherwise change under both schemes, where companies incur expenditure on payments for externally provided workers (EPWs), they will only be able to claim relief on such expenditure where those workers are paid through a UK payroll.

This is a pretty significant departure from the old rules and one which will require a good number of companies to rethink their R&D strategy. We assist many companies which utilise overseas R&D services and historically, the costs associated with this activity has always been allowable.

These new rules will apply to a company's first accounting period which begins on or after 1 April 2023. For example, if you are a business with a 30 September year end, the new rules will only apply for the year ended 30 September 2024 onwards. To be absolutely clear, only the overseas costs that are spent after 1 October 2023 are restricted.

There is one final important point to note
Where a company incurs consumable costs from overseas (for example if a company purchases raw materials which are utilised in the R&D process) – such costs will not be affected by the new rules.

The company will also still be able to claim R&D tax reliefs on the costs of software and payments for data and cloud sourced overseas, as these are considered inputs to activity in the UK.

If you would like help or have any questions on any of the topics discussed in this broadcast, please contact us to speak to a member of our dedicated team, call us on **01753 888211** or email **info@nhllp.com**

We are here to help.