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BUSINESS MATTERS

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inside this issue...

Are you missing out on R&D tax relief?

Recent statistics have shown that the number of companies claiming research and development (R&D) tax credits increased by 19% in the 2015/16 tax year, with the total amount of R&D claimed rising to almost £2.9 billion. While this is good news for many businesses, it is thought that thousands more may still be missing out on this potentially valuable tax break.

The government has increased the value of tax relief available under the R&D scheme over recent years, in an effort to encourage economic growth.

The incentives are only available to companies, and there are different types of relief, depending on the size of the company. Here we focus on the relief available for small and medium-sized enterprises (SMEs).

R&D: what are the benefits for SMEs?

SMEs can claim SME R&D relief if they have fewer than 500 members of staff and a turnover of under €100 million, or a balance sheet total under €86 million.

The relief allows companies to deduct an extra 130% of qualifying costs from their yearly profit. This amount is in addition to the normal 100% deduction, giving a total deduction of 230%. R&D enhanced relief represents an additional corporation tax reduction of 26% of the expenditure incurred.

If the R&D claim creates a tax loss, then the company may be able to surrender the loss for a cash repayment. This is 14.5% for expenditure incurred on or after April 2014. A surrendered loss could therefore give a repayment of up to 33.35% of the expenditure.

Qualifying projects

In order to claim the relief, the company must have incurred expenditure on qualifying R&D projects that are relevant to the company's trade. A project should address an area of scientific or technological uncertainty, and be innovative. The innovation needs to be an improvement in the overall knowledge in the relevant field of research, not just an advancement for the company.

Types of expenditure

Qualifying expenditure which is incurred on activities which are either directly or indirectly related to the R&D project fall into different categories. These are as follows:

- staffing costs
- software
- expenditure on consumable or transformable materials
- costs of work done by subcontractors and externally provided workers
- costs of clinical trial volunteers.

To be eligible, expenditure must be revenue in nature and paid by the time that the R&D claim is accepted. This means any accruals for expenditure have to be monitored carefully after the year end to make sure that they are paid and not written back to profit.

Research and Development Expenditure Credit (RDEC) scheme

RDEC can be claimed by SMEs that have received a grant or subsidy for their R&D project. It can also be claimed by SMEs who have been subcontracted to do R&D work by a large company. The RDEC scheme allows SMEs to claim a taxable credit of 12% of eligible expenditure incurred on or after 1 January 2018 (up from 11% in 2017). The credit received is used to settle corporation tax liabilities of the current, future or prior periods, subject to certain limitations and calculations. Where there is no corporation tax due, the amount can be used to settle other tax debts or can be repaid net of tax.

If you would like further information or advice on claiming R&D relief, please do contact us.

The new rules for landlords

The property tax regime has been subject to some significant changes over recent years. Here we consider the latest tax rules affecting landlords.

Tax relief on landlord interest costs

Landlords of residential properties can no longer deduct all of their finance costs from property income. Instead, there is a basic rate reduction from the income tax liability. The new rules apply to costs such as mortgage interest, interest on loans to buy furnishings, and fees incurred when taking out or repaying loans or mortgages.

The restriction is being phased in over four years from 2017/18. For 2018/19, only 50% of finance costs are now fully allowable. Remaining finance costs for each year are given as a basic rate tax deduction, but this cannot be used to create a tax refund. Relief may be restricted further where the landlord's total property income, or total taxable income excluding savings and dividend income, is less than the finance costs incurred.

The changes could affect the level of income at which the High Income Child Benefit Charge or tapering of the personal allowance apply. The restrictions may push some basic rate taxpayers into higher rates of tax.

The interest relief restrictions do not apply if you run your business as a company, or operate furnished holiday lets (FHLs).

Repairs and renewals

HMRC will either treat repairs and renewals as revenue costs, which are generally allowable for income tax purposes, or as capital expenditure, which is not.

Tax relief on the replacement of an asset will generally only be available if the asset qualifies under the new rules for replacement of domestic items. Where a fixture in a property is replaced, the asset may be considered as the whole building, not the fixture: thus, replacing a fixture can be treated as a repair of the building. Careful planning is required in this area – contact us for more information.

Replacement of Domestic Items Relief

The Replacement of Domestic Items Relief now provides tax relief for domestic items (including furniture, appliances, curtains, carpets and crockery) bought for the sole use of the tenants in the let property, where the old item is no longer available. The initial cost of purchase is disallowed for tax purposes, but the full cost of replacement is allowed. Where the new item is an upgrade, relief will be restricted. The relief is available to all landlords, not just those letting out fully-furnished property.

Accounting via the cash basis

Profits and losses for unincorporated landlords are now calculated on the cash basis, unless a landlord opts out by making an election on the tax return, or has annual rental receipts in excess of £150,000.

Joint owners (excluding spouses and civil partners) are treated as carrying on their own property business. So if eligible for cash accounting, each individual owner makes their own decision. This could result in preparing two sets of accounts for the same business.

Stamp duty on additional properties

An additional 3% rate of stamp duty land tax (SDLT) (and its equivalents in Scotland and Wales) is payable on additional residential properties. Where the property replaces the main residence, the higher rate does not normally apply.

Capital gains tax (CGT) rates

Chargeable gains within the basic rate band are now taxed at 10% and non-basic rate band chargeable gains are taxed at 20%. However, these rates do not apply to gains on residential properties. CGT rates on chargeable gains on buy-to-let properties remain at 18% and 28% depending on where the gain sits within the relevant income tax band.

Commercial property has its own distinct tax rules. These include non-residential stamp duty rates and lower CGT rates.

We can advise on all areas of tax and property. Please contact us for more information.

Tax-Free Childcare: where are we now?

The government's new Tax-Free Childcare (TFC) scheme is now open to all eligible families. The scheme is intended to replace Employer-Supported Childcare (ESC). This was due to be closed to new entrants from April 2018, but the deadline has been temporarily extended.

Under the original plans, from April this year ESC was set to be closed to new joiners, with parents already in an existing ESC scheme being able to choose to remain in that scheme or switch to the new TFC scheme. However, the deadline for new entrants to ESC has subsequently been extended for an additional six months to support the transition between the two initiatives.

Employer-Supported Childcare

Many employers already provide childcare support to their employees, often by supplying childcare vouchers via salary sacrifice: for example, the employee gives up pay, which is subject to tax and national insurance contributions (NICs), in return for childcare vouchers. This may save tax and NICs for the employee, and NICs for the employer.

Such arrangements can be attractive, although care needs to be taken when implementing a scheme to ensure that it is set up correctly. Also, for those on low rates of pay, such arrangements may not be appropriate.

The new Tax-Free Childcare system

The TFC scheme was first introduced in April 2017 and has been rolled out in a series of stages. On 14 February 2018, the scheme opened to all remaining eligible families. The new scheme allows both employed and self-employed parents in the UK access to tax-free childcare. This is unlike the existing ESC system, which is available only to employees. Funds may be used for a range of regulated childcare, including nurseries, nannies, childminders, breakfast and after school clubs and holiday clubs.

How does Tax-Free Childcare work?

Eligible parents can open an online childcare account. When a parent pays into the account, the government will pay in an extra 25%. So if £80 is paid into the account, the government will automatically add £20. The maximum government top-up is £500 every three months, and a total of £2,000 per child per year. This means annual childcare costs of £10,000 per child can be met via £8,000 of payments by the parents and £2,000 by the government. Anything above £10,000 for the year will have to be paid by the parents.

For disabled children, the maximum top-up payment available is £4,000 a year per child.

Who qualifies for the Tax-Free Childcare scheme?

Parents need to be 'working parents' paying for 'registered childcare' for children under 12 (or under 17 for disabled children). If parents are not living together, the qualifying parent is the one with whom the child usually lives.

Eligibility

- Both parents must be working (or one parent, if a single parent family); certain exceptions apply
- Parents must earn a minimum of 16 hours a week at the National Minimum Wage or the National Living Wage (in 2018/19 this would be £125.28 per week for someone over 25), and less than £100,000 a year. For the newly self-employed, however, the minimum earning limit does not apply for the first 12 months
- Parents must not be in receipt of alternative forms of financial help with childcare, such as childcare vouchers, Tax Credits or Universal Credit
- Parents must open an online account and validate their eligibility every three months.

Applications can be made online through the Childcare Choices website: **www.childcarechoices.gov.uk**.

Tax-Free Childcare Registered Providers

Childcare providers must be registered with an official regulator and with the TFC scheme.

For those employing a nanny, care must be taken to ensure the nanny is registered with the Ofsted Childcare Register in order to accept payments. Individuals can use their childcare account to pay their nanny's PAYE and national insurance to HMRC.

There have been some initial technical problems with accessing the new system, for which compensation may be available. Further details are available on the government website: **www.gov.uk/government/publications/childcare-service-compensation**.

We can help you plan for a prosperous future for you and your family – simply contact us to find out more.

Salary sacrifice and the new OpRAs: an update

The introduction of the new Optional Remuneration Arrangements (OpRAs) regime has had a significant impact on salary sacrifice and flexible benefit arrangements.

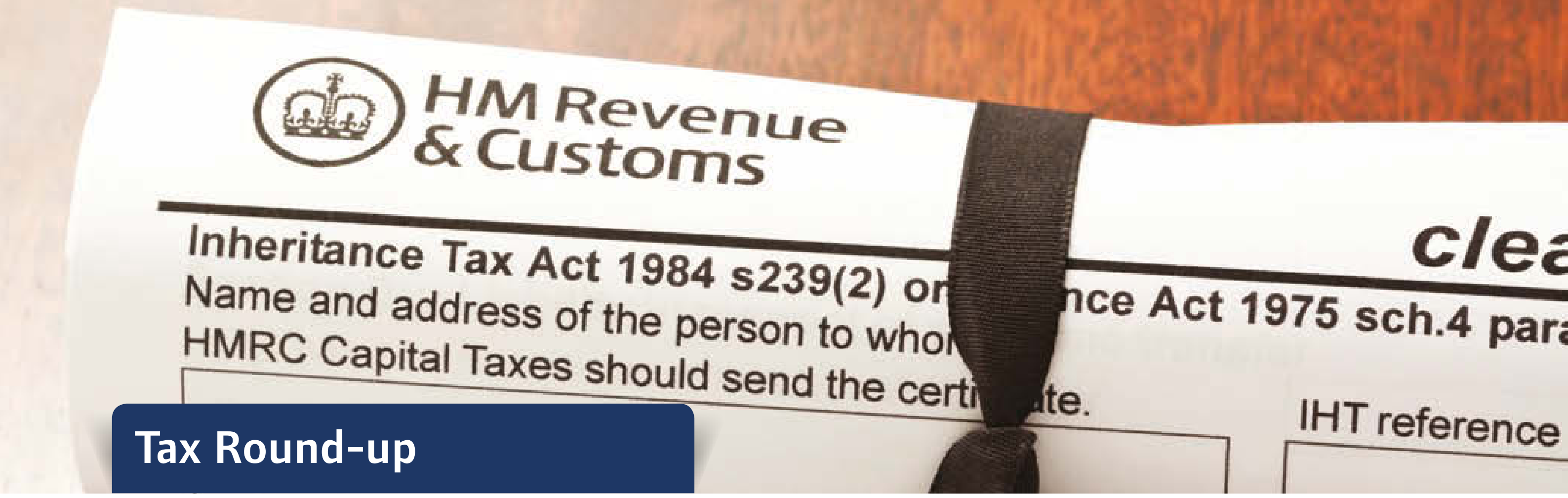
April 2017 saw the introduction of the new OpRAs regime, with the aim of reducing the tax and NIC advantages of certain non-cash benefits. The rules can potentially affect any arrangement whereby an employee can choose between cash and a benefit, such as a company car.

Broadly, where the new regime applies, the taxable value is now the higher of the earnings foregone by the employee or the taxable value of the benefit under the benefit-in-kind rules. The rules affect any arrangements made or varied since 6 April 2017.

This does not apply to the following: employer-provided pension savings and advice, childcare vouchers, workplace nurseries, ultra-low emission company cars, cycle-to-work schemes and some other benefits.

Following a transitional year, the rules now apply to all pre-6 April 2017 salary sacrifice contracts from 6 April 2018, with the exception of a few specific benefits, including: cars, vans, fuel, living accommodation and school fees. These benefits are protected from the rules until 6 April 2021, as long as they are not varied or renewed before then.

For further information on tax-efficient remuneration packages, please contact us.



Tax Round-up

OTS launches review into inheritance tax

The UK inheritance tax (IHT) system has changed considerably since its introduction, and previous rises in residential property prices have resulted in the number of people who may fall within the scope of this tax increasing over time.

IHT is currently charged at 40% on the proportion of an individual's estate exceeding the 'nil-rate' band of £325,000, although a further nil-rate band of £125,000 may be available in relation to current or former residences. Nil-rate bands of surviving spouses or civil partners may also be increased by utilising any unused nil-rate band of the deceased spouse or civil partner.

The Chancellor commissioned the Office of Tax Simplification (OTS) to review a range of aspects relating to IHT, and provide advice on ways in which the tax can be simplified. The review will look at the process relating to submitting IHT returns and paying any tax; various gift rules; estate planning procedures; and complexities arising from the reliefs and their interaction with other taxes.

In March 2018, the OTS published its scoping document, setting out its aims. It intends to publish a report in Autumn 2018, providing an evaluation of the current system and identifying opportunities for improvement.

The government may consider addressing some of the issues raised by the OTS report in the 2018 Autumn Budget.

Requirement to correct on offshore assets

New legislation has been introduced which requires taxpayers in the UK to declare all of their tax liabilities in relation to offshore assets.

The legislation, known as the Requirement to Correct (RTC), obliges taxpayers to correct any tax non-compliance occurring before 6 April 2017. All UK income tax, capital gains tax (CGT) and inheritance tax (IHT) needs to be disclosed to HMRC by 30 September 2018. Currently, there is no obligation to agree and pay the amount of tax, interest or penalty that may be due.

This deadline is also the date when more than 100 countries will exchange data on financial accounts under the Common Reporting Standard (CRS). This will significantly increase HMRC's ability to detect offshore tax liabilities.

Failure to disclose the relevant information by the deadline will result in taxpayers being issued new 'failure to correct' (FTC) penalties, which are set to be much higher than existing penalties, with the smallest penalty starting at 100% of the tax due.

The RTC applies regardless of the reason behind the non-compliance.

Normal assessing rules apply to non-compliance after 6 April 2017.

Tax Tip

A family affair

Have you considered employing family members in your business? As long as they are not minor and you can justify their involvement, you can employ them in your business. In a limited company, they can be remunerated with a salary, receive benefits, and be included in your company pension scheme. If you are in a partnership, you can still include them and gain flexibility in profit allocation.

Please get in touch to discover the most tax-efficient way to involve your family in your business.

Reminders for your diary

June 2018

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

19 PAYE, Student loan and CIS deductions are due for the month to 5 June 2018.

30 End of CT61 quarterly period.

July 2018

5 Deadline for reaching a PAYE Settlement Agreement for 2017/18.

6 Deadline for forms P11D and P11D(b) for 2017/18 to be submitted to HMRC and copies to be issued to employees concerned.

Deadline for employers to report share incentives for 2017/18.

14 Due date for income tax for the CT61 period to 30 June 2018.

19 Class 1A NICs due for 2017/18.

PAYE, Student loan and CIS deductions due for the month to 5 July 2018.

PAYE quarterly payments are due for small employers for the pay periods 6 April 2018 to 5 July 2018.

31 Second payment on account for 2017/18 due.

August 2018

2 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 July 2018.

19 PAYE, Student loan and CIS deductions are due for the month to 5 August 2018.