Budget Breakfast 2023

Welcome

Jason Fayers

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Budget Breakfast 2023

Economic Update

Luke Morris

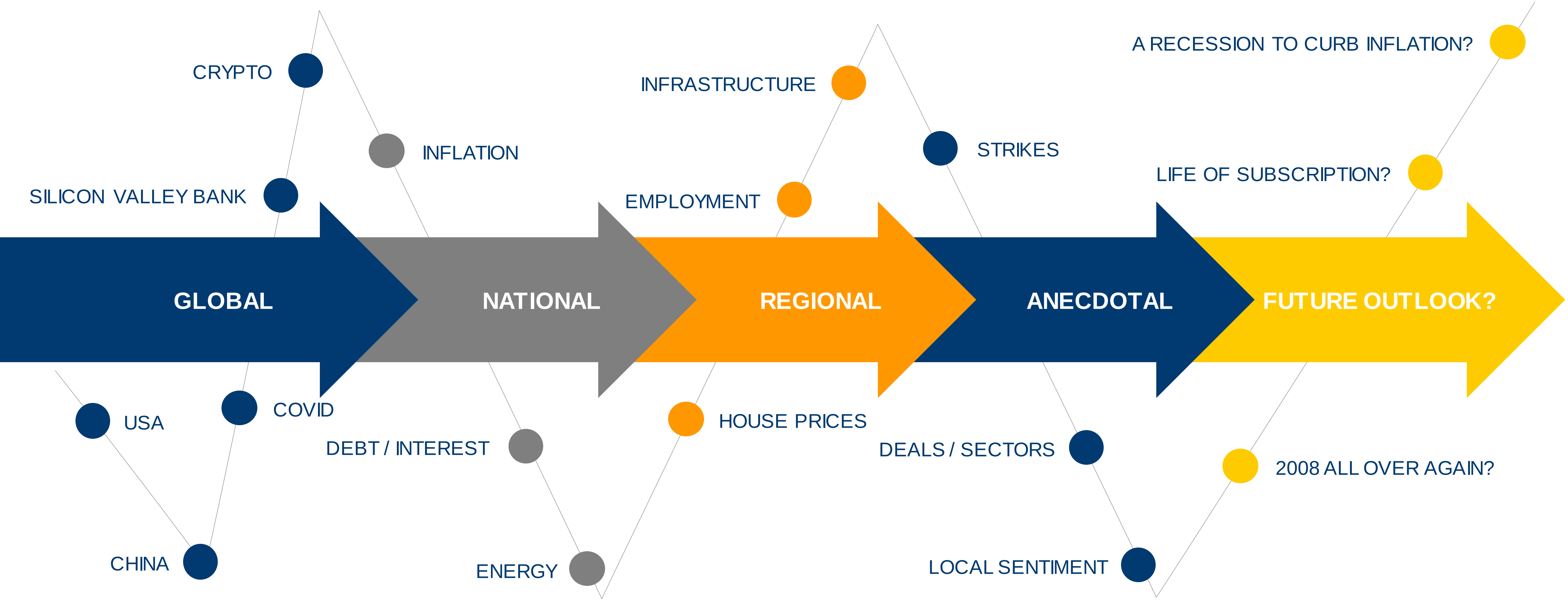
“Today’s priority is growth”

“Declinist”, “realist” or “optimist”?


Tim Farron @timfarron · 3h

After that many E's it's going to be a truly appalling comedown...

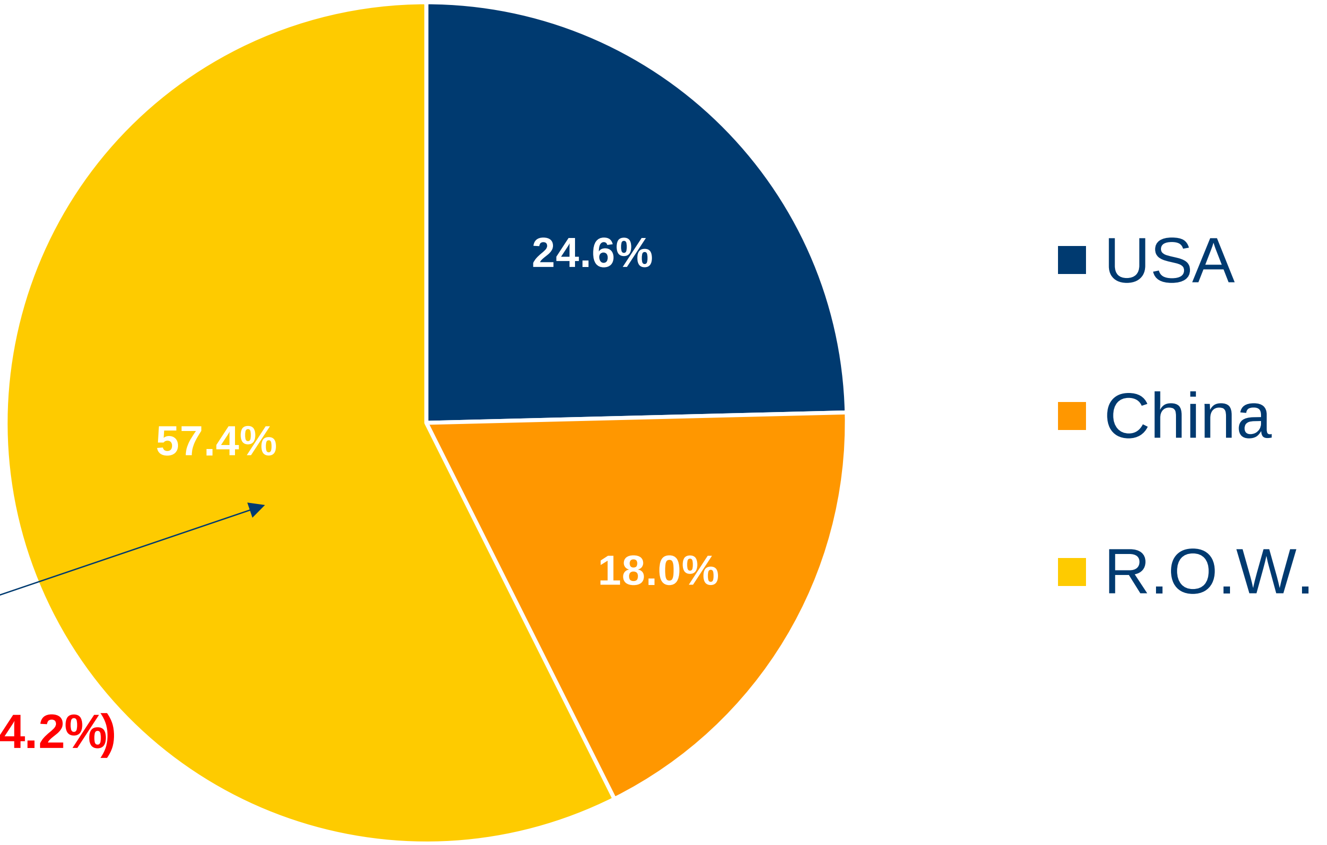
10 17 146 11.8K


GLOBAL
CRYPTO
SILICON VALLEY BANK
USA
COVID
CHINA
NATIONAL
INFLATION
DEBT / INTEREST
ENERGY
REGIONAL
INFRASTRUCTURE
EMPLOYMENT
HOUSE PRICES
ANECDOTAL
STRIKES
DEALS / SECTORS
LOCAL SENTIMENT
FUTURE OUTLOOK?
A RECESSION TO CURB INFLATION?
LIFE OF SUBSCRIPTION?
2008 ALL OVER AGAIN?

Global

US(A) and China

Share of 2022 $101.6 trillion Global GDP



- Biggest one in here is Japan (4.2%)

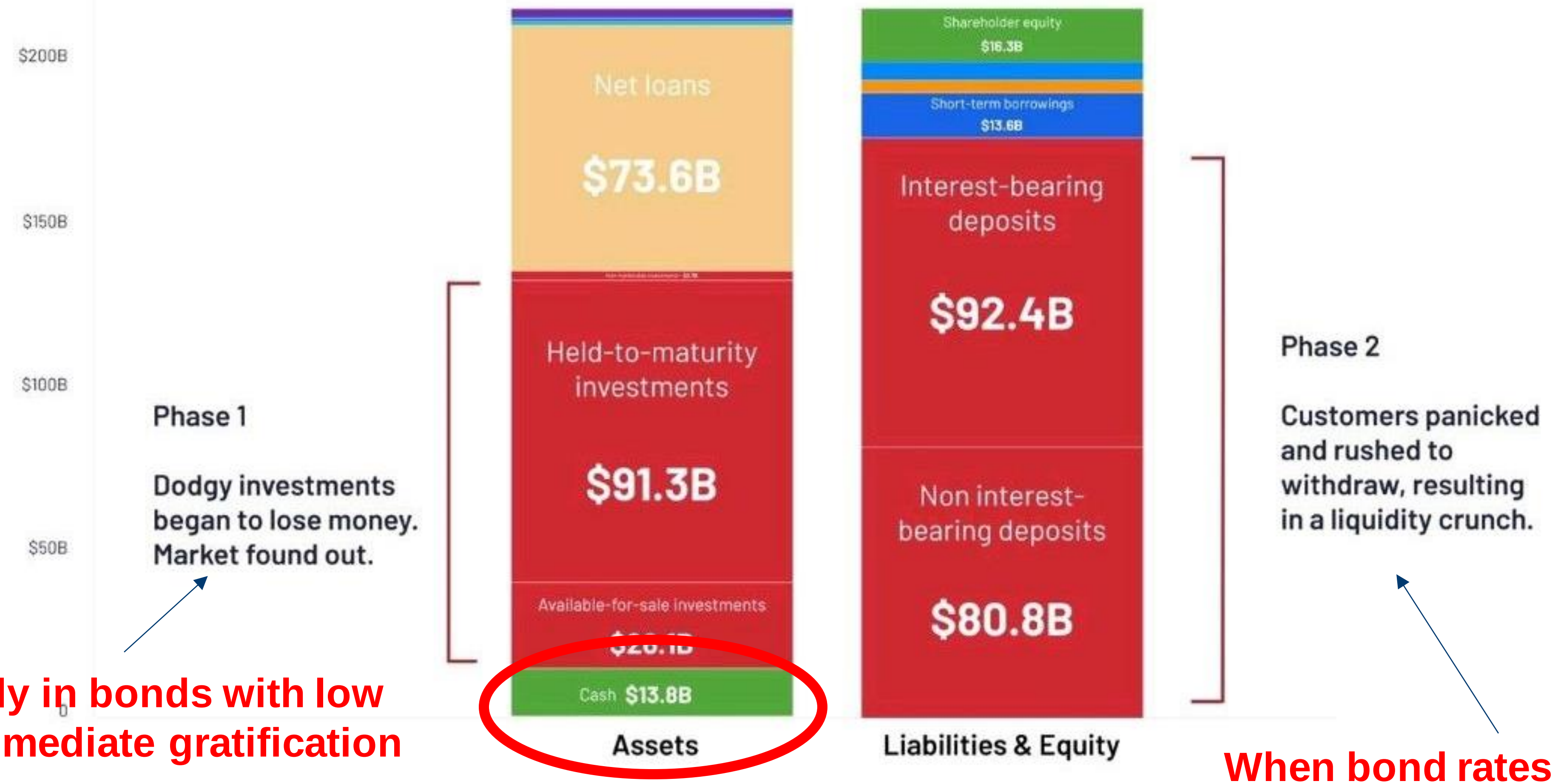
- UK is 3.1%

Source: International Monetary Fund

USA GDP: Dominated By Tech, Tablets, Tellers…

- Silicon Valley Bank (SVB) is a neat case study intersecting these industries
- Two of the largest shareholders in SVB: Vanguard and Blackrock. These are the guys telling you how to invest
- Challenge: "if you can't hold it, it's not really yours"
- Response: "**focus on the short term, no thought to decisions over the long run**"

Invest heavily in bonds with low yields for immediate gratification



Source: Silicon Valley Bank 2022 December balance sheet

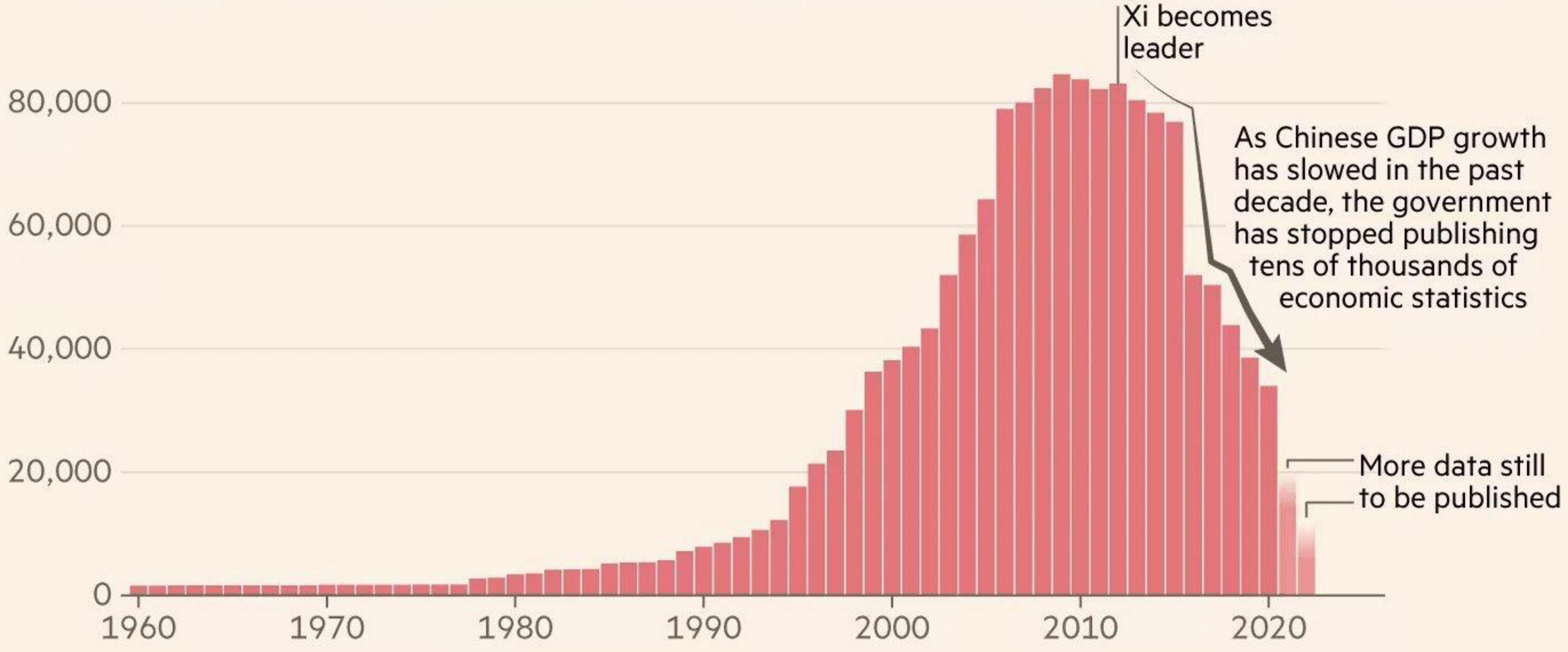
When bond rates rise cannot satisfy investor demand

China GDP: Dominated by Mining, Manufacturing, Mail-order…

- Population: 1.5 billion but negative population growth
- Demographic time-bomb: ageing population = lower taxes and pension contributions.
- Challenge: “China will get old before it gets rich”
- Response: “increasing authoritarianism (e.g. COVID crack-down), reduced transparency”

China is becoming much less transparent about its economic performance, quietly discontinuing thousands of statistical series

Annual number of economic indicators made available by China's National Bureau of Statistics



Source: FT analysis of CEIC; Chinese National Bureau of Statistics
FT graphic: John Burn-Murdoch / @jburnmurdoch

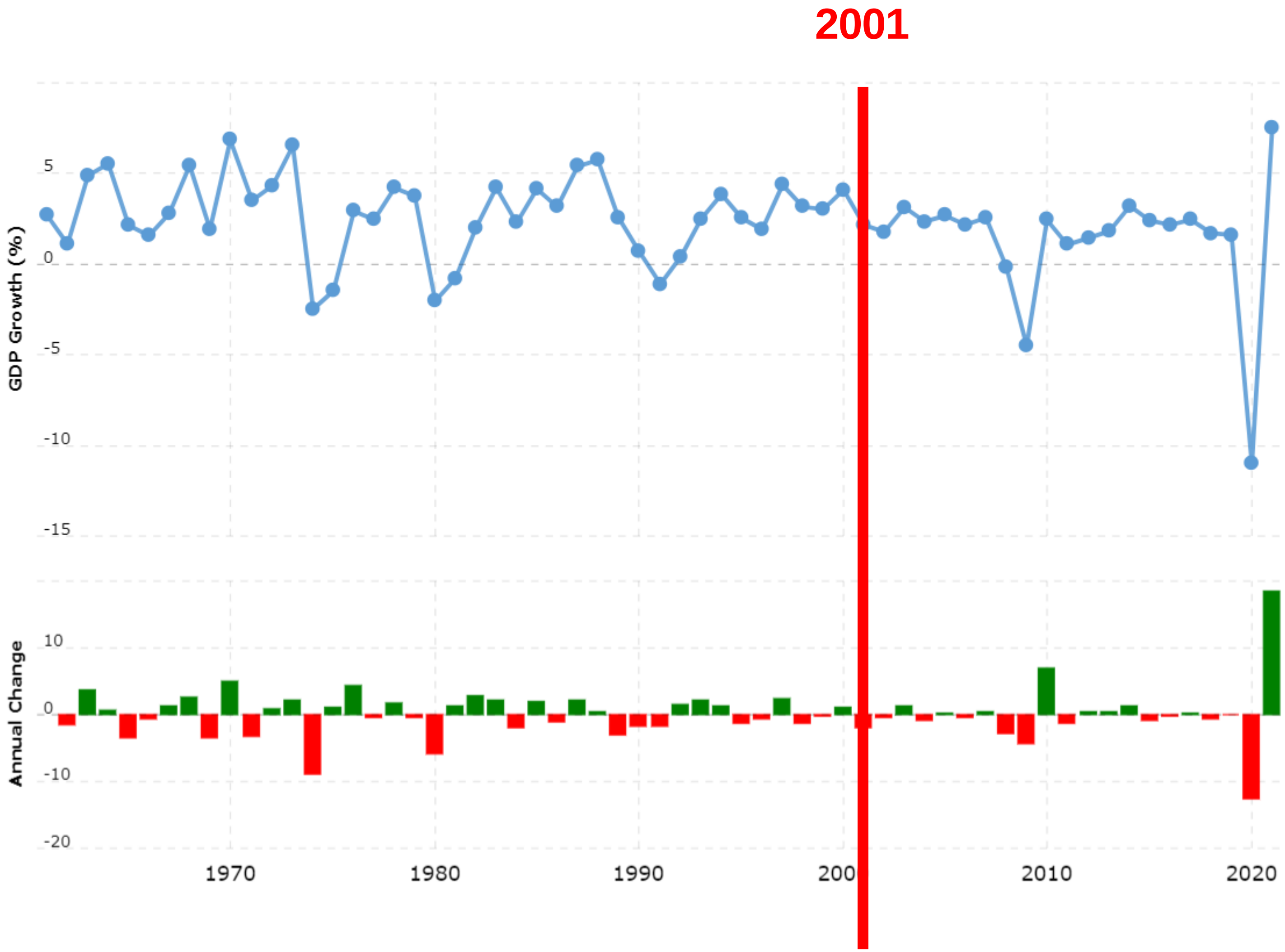
US(A) and China

- Both vying for global hegemony
- They are the “majority shareholders” - the rest of us follow
- End of the era of globalisation, which started in 2001 **(key date)**
- Reduced trust and transparency, globalisation is reversing
- Proxy-wars and use of third-party actors = **recessionary pressures**

National

Growth and Debt

Growth



Source: World Bank (annual percentage growth rate of GDP at market prices)

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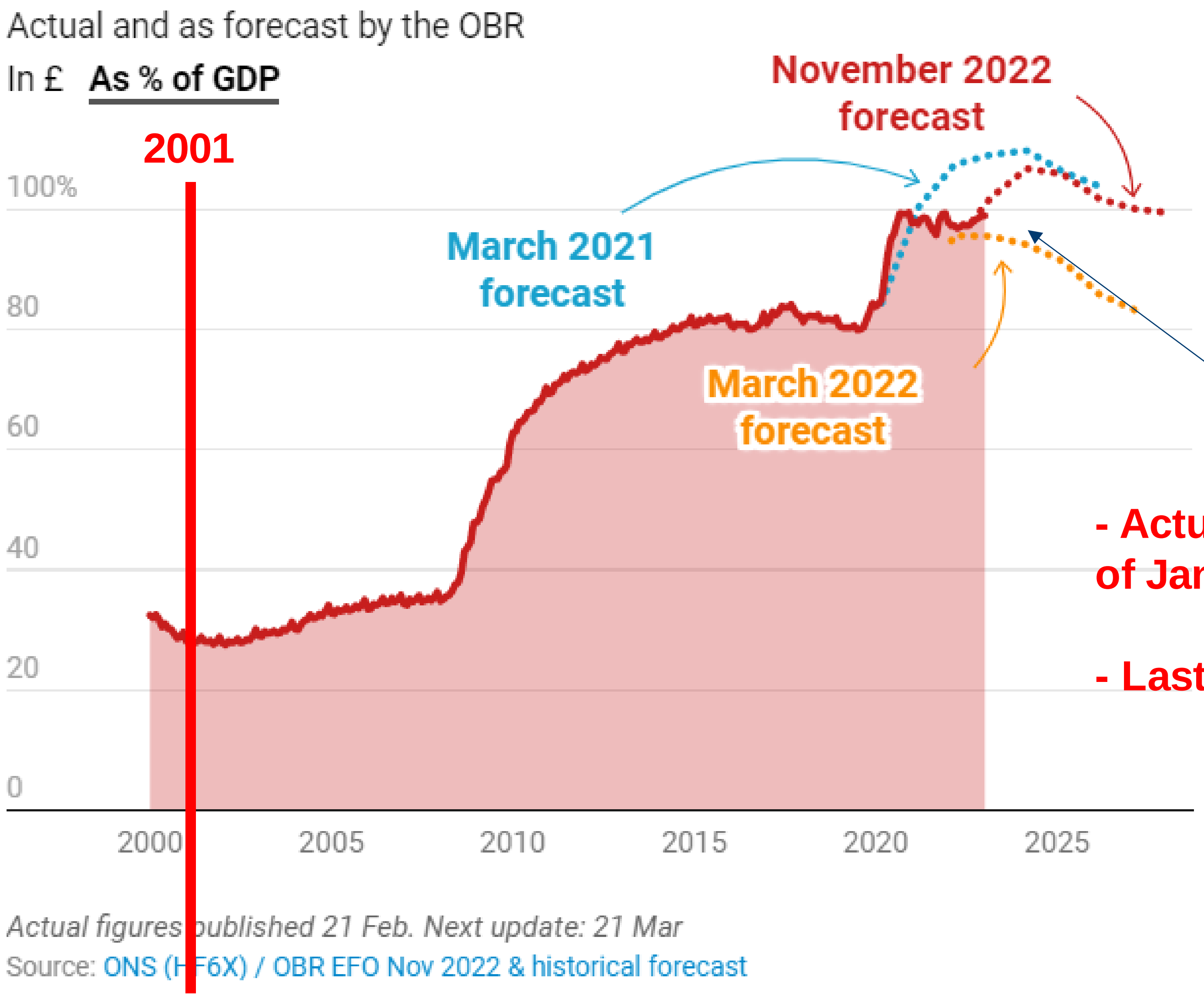
Debt



- Actual was 98.9% at the end of January 2023 (per ONS)

- Last at this level early 1960s

The incoherence of short-term governance

- Hunt says his Budget "**aims to incentivise growth**"

- But now imagine a politician standing on the following policy platform in **2001**:

  - "We will grow GDP by 0.2% per annum"
  - "We will increase taxes as a share of GDP from 32% to 39%"
  - "We will increase public sector debt as a share of GDP from 28% to 99%"
  - "We will increase benefit claimants from 950k to 1.5m"
  - "We will increase the cost of electricity, in real terms, by 106%"

- Because these are the outcomes of events and policy responses since **2001**.

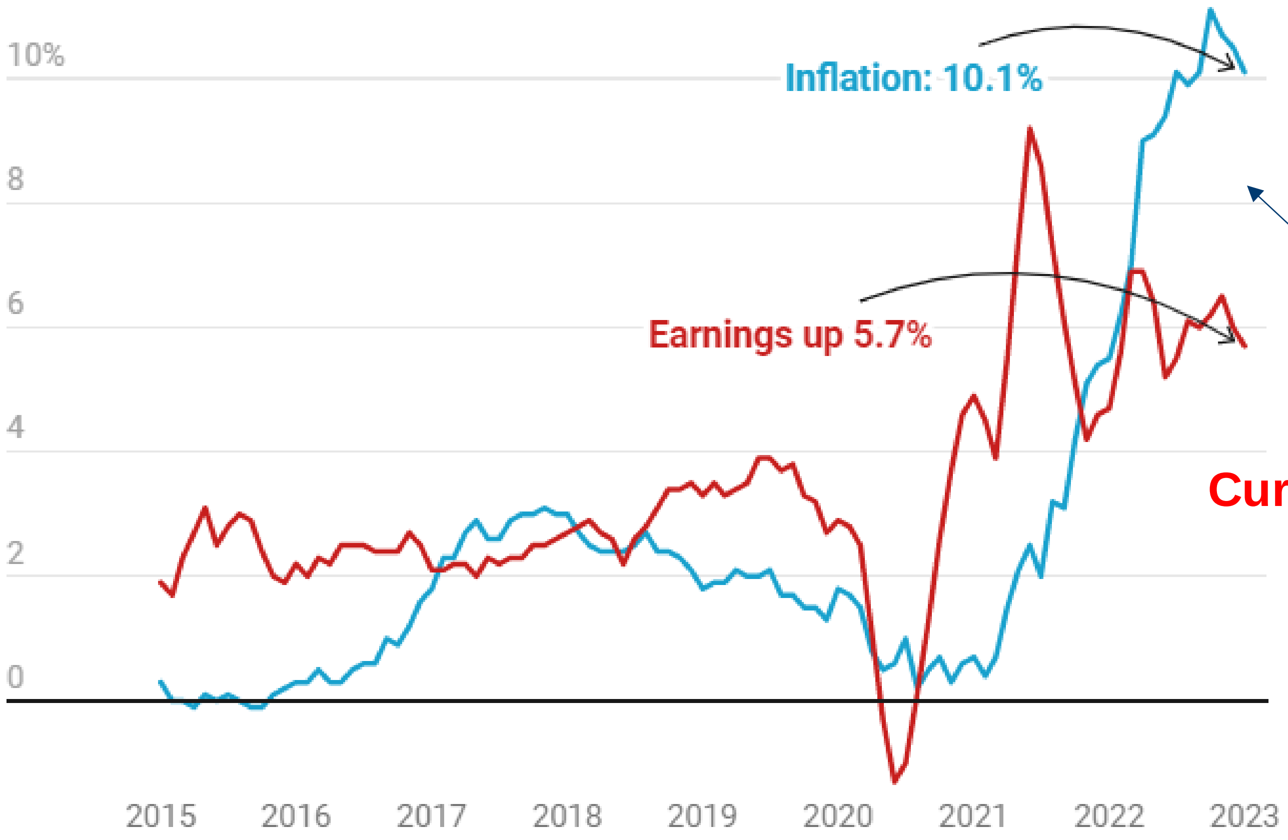
The reality of history

- Should we ignore the rhetoric and accept a low growth, high debt future?
- Is this really going to change before a change of government and new policy? Is it time to be realistic?
- If the only tool to control inflation is interest rates, that is a real drag on government finances when so highly geared
- **Recessionary pressures**, again…
- An honest reckoning of the above is relevant to your business decisions

Regional

Employment and “cost of living”

Employment

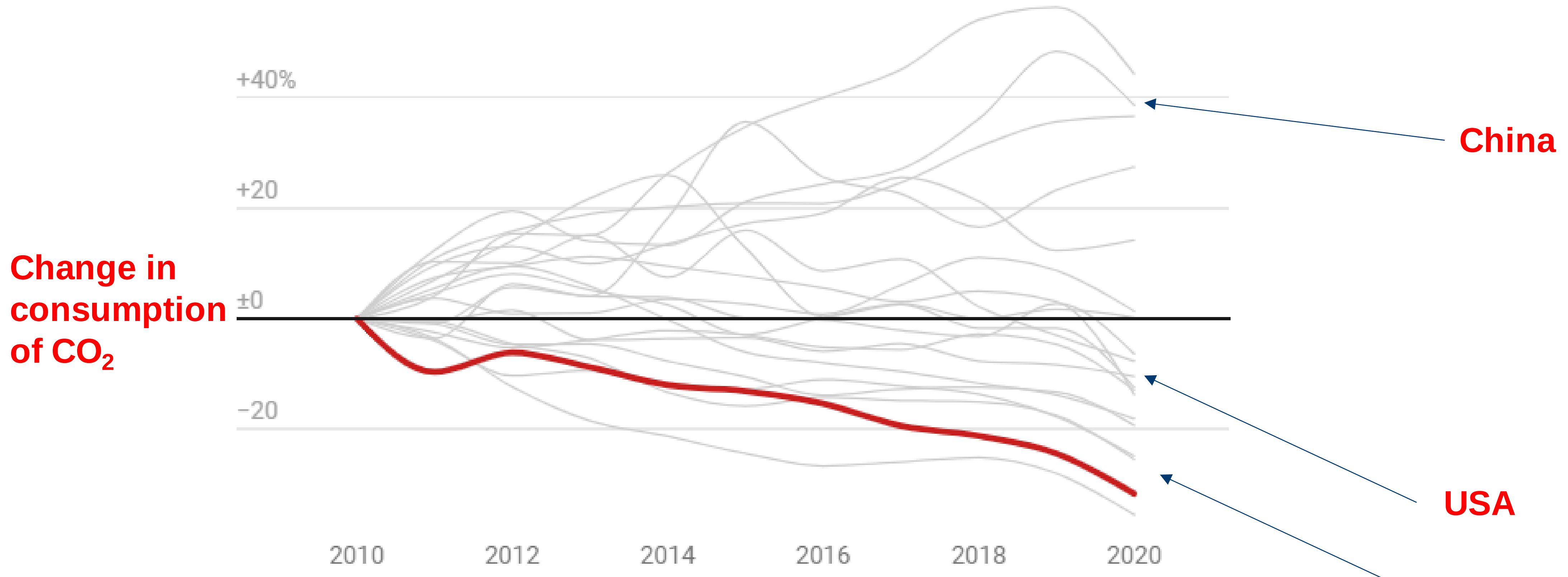


Current earnings vs. inflation

Latest earnings figure is 5.7%, for Nov 2022–Jan 2023, released 14 Mar. Next update: 18 Apr.
Latest CPI inflation figures of 10.1% is for Jan 2023, released 15 Feb. Next update: 22 Mar

Source: ONS (series KAC3 and D7G7)

Cost of Living

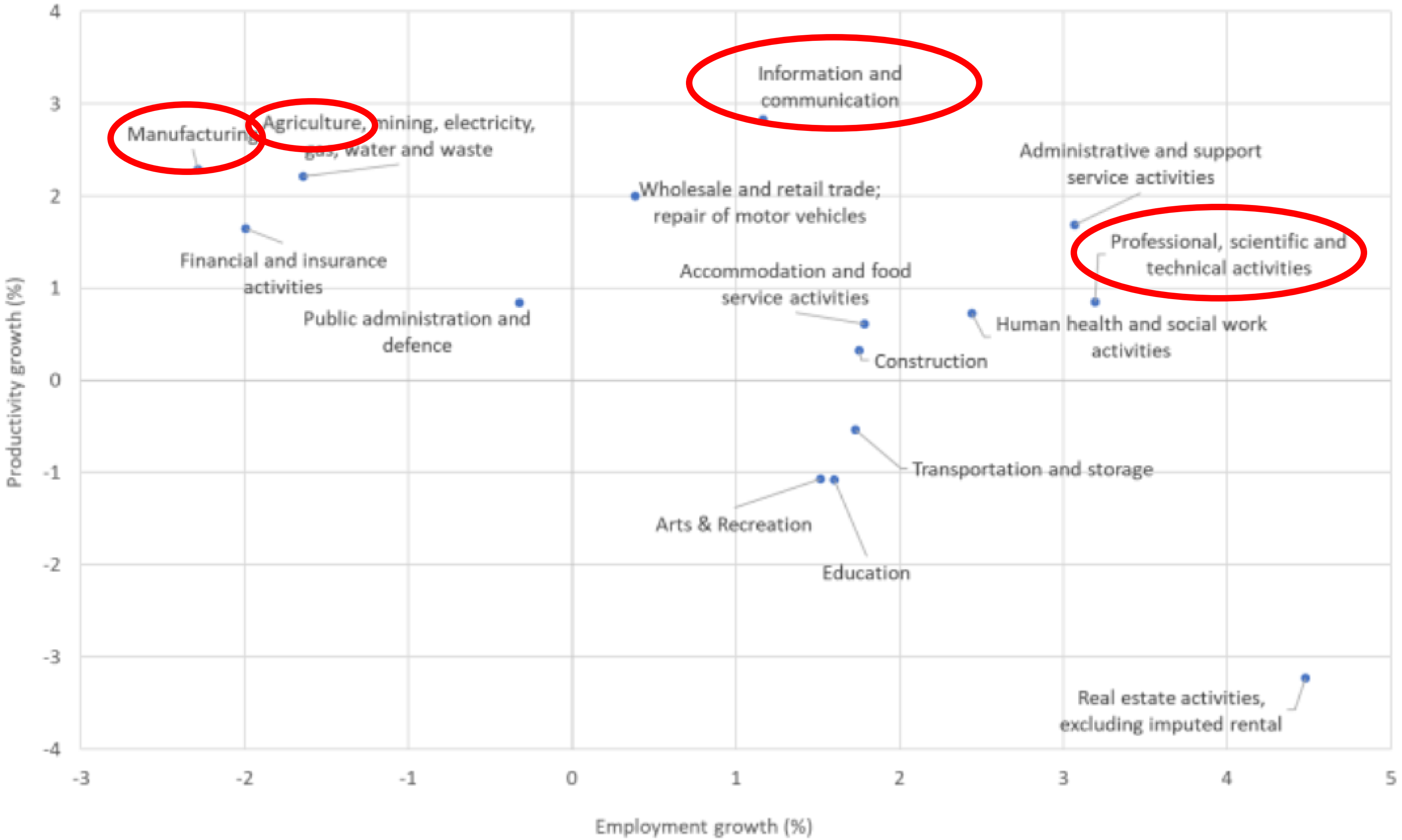


Source: Friedlingstein et al. (2021), Andrew and Peters (2021) via globalcarbonatlas.org

Anecdotal

What the market says and what we are seeing at the coalface

Eastern Region Sectors



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How has the market actually moved?

First half of 2022:

	H1-2022	H2-2021	Difference
Healthcare & Pharmaceuticals	8.4	8.5	-0.1
IT Services & Software Development	8.2	8.2	0
E-commerce & Webshops	7.3	7.4	-0.1
Agri & Food	5.8	6	-0.2
Business Services	5.5	5.5	0
Industrial & Manufacturing	5.3	5.3	0
Media & Communication	4.5	4.6	-0.1
Hospitality & Tourism	4.4	4.5	-0.1
Retail Trade	4.1	4.3	-0.2
Wholesale Trade	3.7	3.8	-0.1
Construction & Engineering	3.6	3.7	-0.1
Automotive, Transportation & Logistics	3.6	3.7	-0.1

The applicable multiple differs strongly per sector

The average EBITDA multiple for the UK&I M&A mid-market was

5.40

Second half of 2022:

	H2-2022	H1-2022	Difference
Software Development	8.1	8.2	-0.1
IT Services	7.9	8.2	-0.3
Healthcare & Pharmaceuticals	7.9	8.4	-0.5
E-commerce & Webshops	6.9	7.3	-0.4
Agri & Food	5.4	5.8	-0.4
Business Services	5.2	5.5	-0.3
Industrial & Manufacturing	4.9	5.3	-0.4
Media & Communication	4.3	4.5	-0.2
Hospitality & Tourism	4	4.4	-0.4
Retail Trade	3.7	4.1	-0.4
Automotive, Transportation & Logistics	3.4	3.6	-0.2
Wholesale Trade	3.4	3.7	-0.3
Construction & Engineering	3.3	3.6	-0.3

The applicable multiple differs strongly per sector

The average EBITDA multiple for the UK&I M&A mid-market was

5.1

Source: DealSuite

Crunching the numbers

	First half of 2022	Second half of 2022	Increase in risk/discount on price:
EBITDA multiples:			
IT Services	8.2	7.9	
Agri & Food	5.8	5.4	
Industrial & Manufacturing	5.3	4.9	
Capitalisation rates:			
IT Services	12.2%	12.7%	
Agri & Food	17.2%	18.5%	
Industrial & Manufacturing	18.9%	20.4%	
WACC (assume 50% leverage):			
IT Services	8.9%	9.9%	**10.7%**
Agri & Food	11.4%	12.8%	**11.9%**
Industrial & Manufacturing	12.2%	13.7%	**12.2%**

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What my team, working on real deals, is saying…

"Moved from a sellers' market to a buyers' market since the turn of the year…"

"Buyers looking to drive down prices – so sellers likely to hold off or accept a lower price…"

"Sellers looking more at EOTs and alternative structures as a result…"

"So much depends on age of sellers and appetite for riding out for say 2 more years when you *might* achieve a higher price: a different decision if you are 45 then 65…"

Future Outlook

A recession to curb inflation (“realist”) or hope (“optimist”)?

The key OBR takeaways

- UK to avoid “technical” recession: contraction of 0.2% forecast (previously 1.8%)
- Inflation expected to fall to 2.9% (from 10.7% at the end of 2022)
- GDP growth of 1.8% next year, 2.5% the year after that. New industries (tech, life sciences, film/TV, advanced manufacturing, offshore wind, nuclear…) driving this

The key OBR takeaways

A ~~declinist's~~ ~~optimist's~~ realist's view…

- UK to avoid "technical" recession: contraction of 0.2% forecast (previously 1.8%)

Means two consecutive quarters of negative growth in real GDP, but what about bumpy quarters, tight margins, and cooling labour market? These feel like recession, whatever you call it

- Inflation expected to fall to 2.9% (from 10.7% at the end of 2022)

A spectacular OBR call. The most ambitious on record. Long term (since 2001) inflation has averaged 2.0%. This makes the COVID shock of 10.7% just that: a shock we're still reeling from that is now baked in to the cost base. And that is if you believe reported inflation is really inflation

- GDP growth of 1.8% next year, 2.5% the year after that. New industries (tech, life sciences, film/TV, advanced manufacturing, offshore wind, nuclear…) driving this

These "new industries" – some heavy on infrastructure – are going to have to do some heavy lifting in that timescale…

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Nevertheless…

Being a realist doesn't mean you don't want it to work, it just means you don't think it will work.

Private Client Tax Update

Graham Doubtfire

Personal Allowances

	2023/24	2022/23
Personal Allowances	£12,570	£12,570
Income Limit	£100,000	£100,000
Personal Savings Allowances		
Basic Rate Taxpayer	£1,000	£1,000
Higher Rate Taxpayer	£500	£500
Additional Rate Taxpayer	N/A	N/A
Dividend Allowance	£1,000	£2,000
Married Couples Allowance	£401-£1,037.50	£364 - £941.50

Personal Allowance to be frozen at the 2021/22 levels until 5 April 2028

Dividend Allowance to be reduced to £500 from 2024/25

10.1% increase to MCA

Personal Tax Bands - Non-Dividend Income

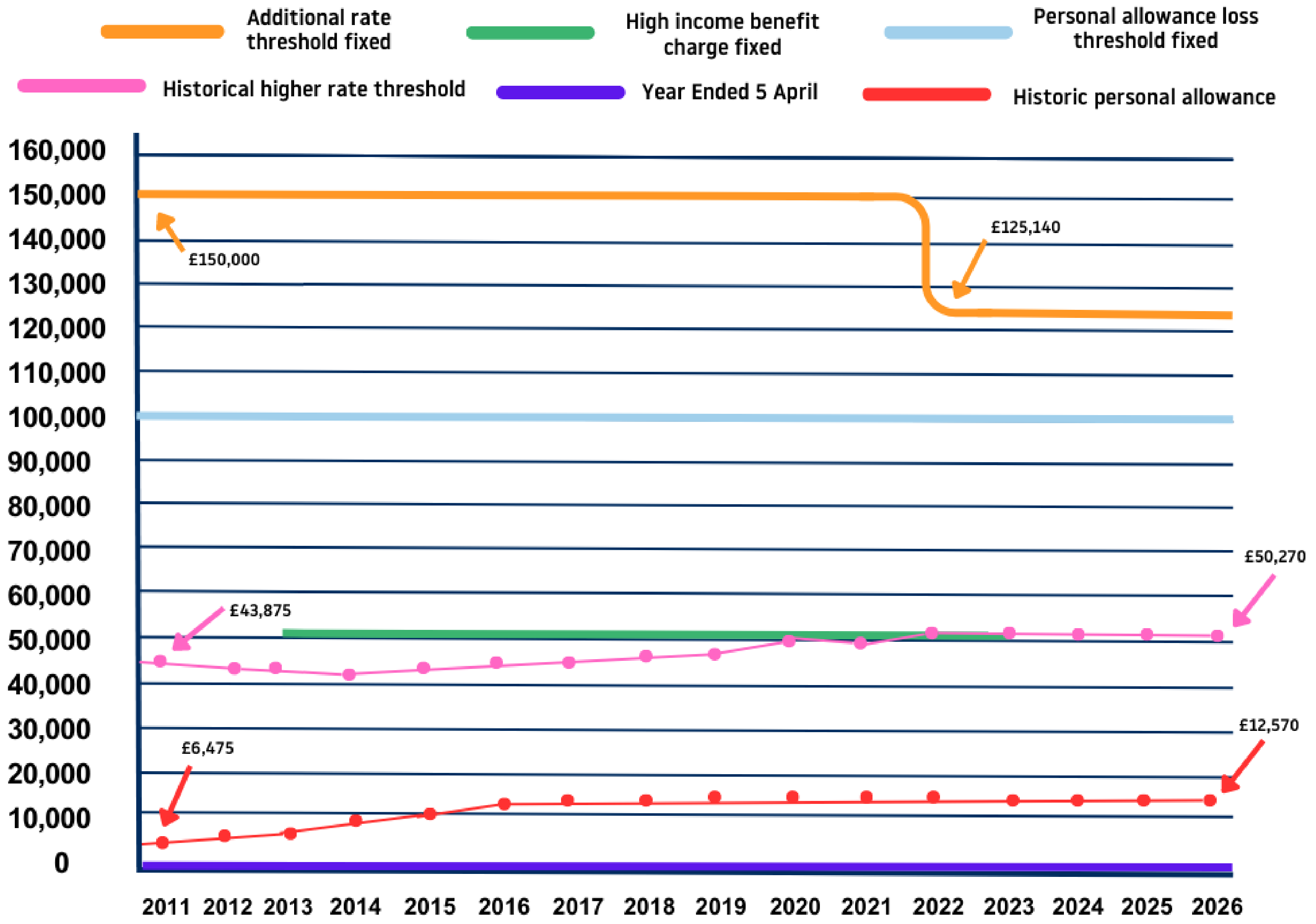
	2023/24	2022/23
0%*	£5,000	£5,000
20%	£37,700	£37,700
40%	£37,701 - £125,140	£37,701 - £150,000
45%	£125,141+	£150,001+
*Not available if non-savings income exceeds the 0% band limit		

HR threshold frozen until 5 April 2028

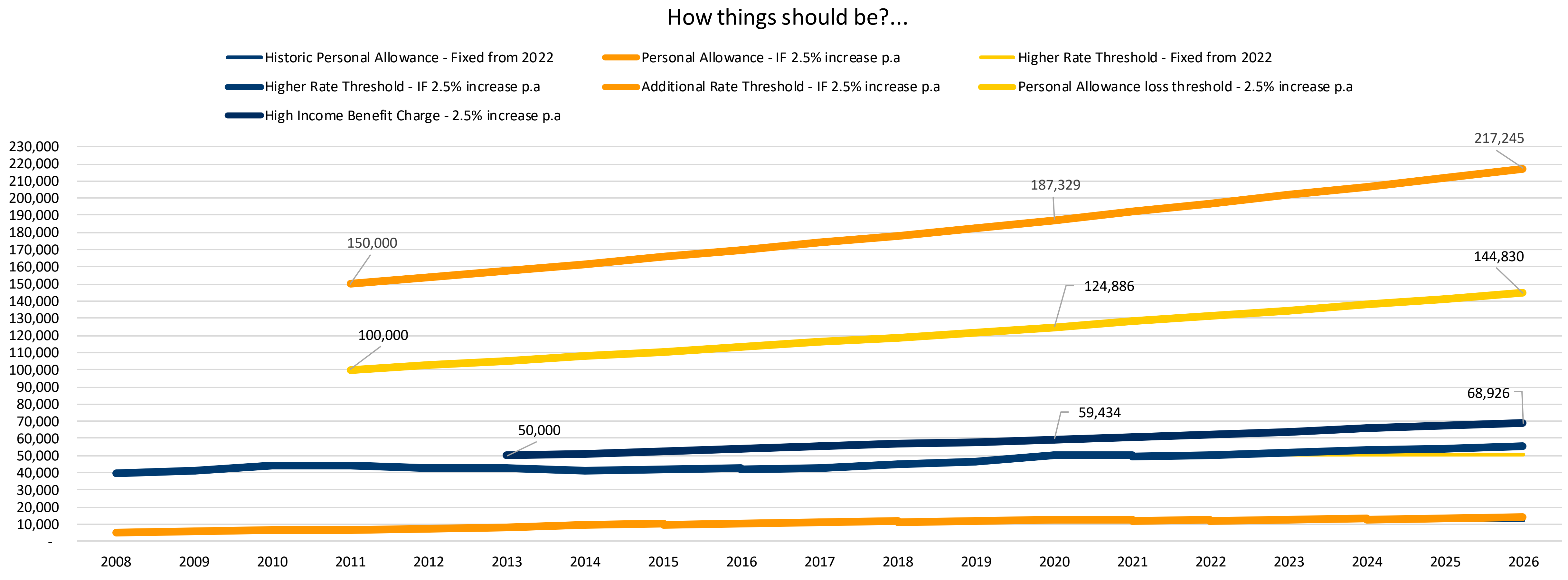
Individuals with income of £150,000+ will pay £1,243 more in income tax due to the lowering of the starting point of the Additional Rate Band

£1,000 allowance available for trading and property income

Clever Tricks: Fiscal Drag



Static Income Limits and Thresholds



Income Tax planning

- Make Pension Contributions
- Ensure you are utilising all allowances - including Spouses
- Would an alternative business structure be beneficial?
- Extend tax bands with the use of Charity Gift Aid Donations
- Other Tax Reliefs - VCT, EIS, SITR

Income Tax planning

Extend tax bands with the use of Charity Gift Aid Donations

Would an alternative business structure be beneficial?

Ensure you are utilising all allowances - including Spouses

Make Pension Contributions

Other Tax Reliefs – VCT, EIS, SITR

Inheritance Tax Reliefs

The Basics

•Nil Rate Band (NRB)* £325,000 (2023/24 but frozen until 5 April 2028)

•Residence NRB* £175,000 from (2023/24 but frozen until 5 April 2028)

•Residence NRB abated where Estate exceeds £2 million.

•Inheritance Tax annual exemption £3,000 (£6,000 if prior year unused)

*Transferable on death between spouses and

Gifts

•To children on marriage £5,000

•To grandchildren on marriage £2,500

•To anyone else on marriage £1,000

•

•Gift for any reason £250 pp p/a

•Regular gifts out of excess income

•Potentially Exempt Transfers (PET's)

Reliefs

•Business Property Relief (BPR) 50% /100% two year qualifying period

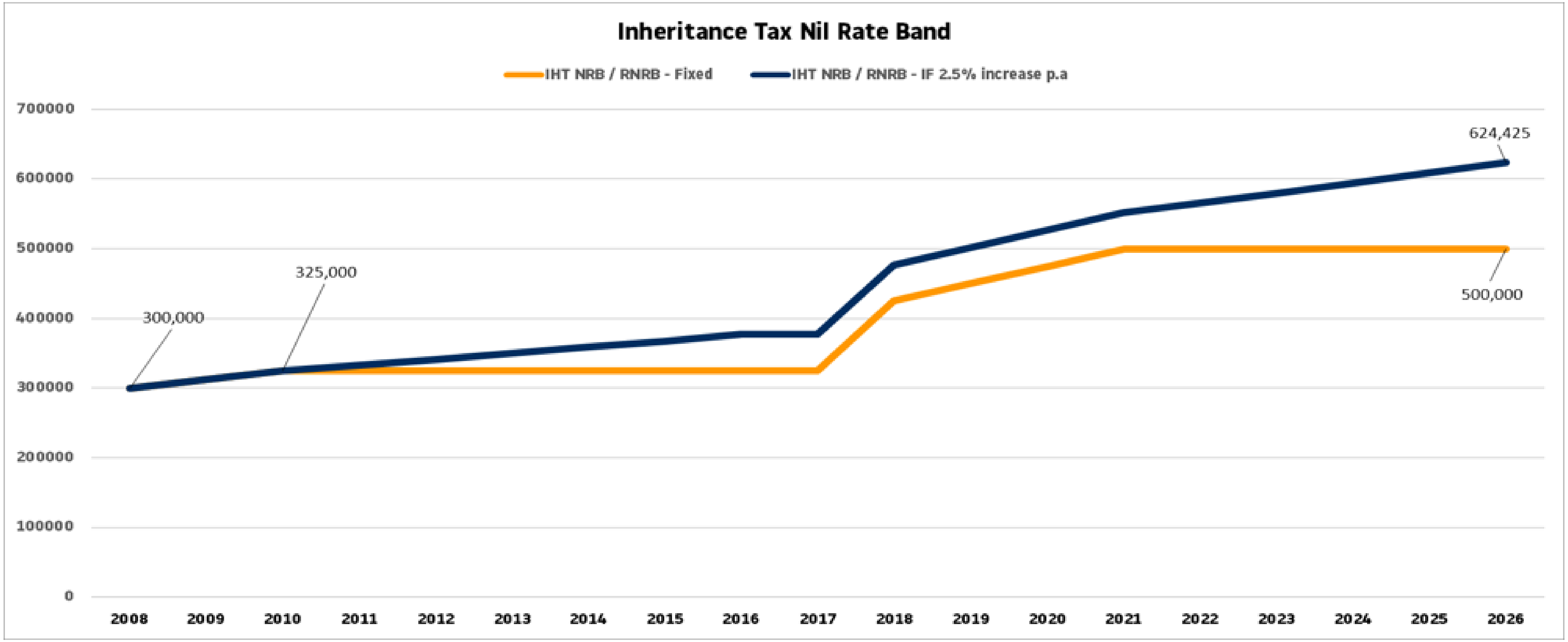
•Agricultural Property Relief (APR) 50%/100% two/seven year qualifying period

•Woodland Relief

•Heritage Assets

•Death in Service Exemption (armed forces, emergency services and humanitarian workers)

Inheritance Tax Reliefs and Fiscal Drag



Pension Tax Relief - positive changes

- Annual Allowance - increasing from £40,000 to £60,000 from 6 April 2023 £60,000
- Tapered Annual Allowance - Adjusted income threshold is increasing from £240,000 to £260,000 from 6 April 2023
- Minimum Tapered Annual Allowance - currently £4,000, from 6 April 2023 this will increase to £10,000
- Lifetime Allowance - tax charge is scrapped from 6 April 2023 with the lifetime allowance being removed from April 2024. This is to allow time for the technical changes
- Maximum pension commencement lump sum of 25% will remain capped at £268,275, being 25% of the current lifetime allowance (subject to any protections already in place)

Making Tax Digital

Type of Business	Original MTD Date	Current MTD Date
VAT Reg Turnover >£85K	1 April 2019	**For VAT purposes From April 2019**
VAT Reg Turnover <£85K	1 April 2019	**For VAT purposes from April 2022**
Sole Traders (turnover >£50K)	1 April 2020	**Delayed until April 2026**
Property businesses (UK and overseas - Income >£50K)	1 April 2020	**Delayed until April 2026**
General Partnerships (turnover >£50K)	1 April 2020	**Delayed until April 2026**
Self- employed or property businesses (turnover £30K-£50K)	N/A	**Introduced from April 2027**

HMRC Investment

The Government are investing a further £79 million into HMRC over the next 5 years to allocate additional staff to:

- Review the tax affairs of wealthy taxpayers and ....

- Tackle cases of serious fraud

Summary

- Significant pension changes create an opportunity for further pension planning
- Current rates of Income Tax & National Insurance are here to stay until at least 5 April 2028 – plan accordingly!
- MTD has been delayed but will still be coming in 2026

Capital Gains Tax Changes - Separation and Divorce

- Current rules to 5 April 2023 - no gain no loss transfer rules extend to the year of separation
- From 6 April 2023 - no gain no loss transfer rules will extend to a period of at least three years
- Current information indicates that this will be extended to unlimited time if the assets are the subject of a formal divorce agreement
- Further legislation is expected in this area to more closely define the legal terminology to be used

Capital Gains Tax

- Capital Gains Tax Annual Exemption for 2022/23 £12,300
- Capital Gains Tax Annual Exemption for 2023/24 £6,000
- Capital Gains Tax Annual Exemption for 2024/25 £3,000
- Rates unchanged – 10% or 20% (18% or 28% Residential Property)
- Business Asset Disposal Relief - £1m of lifetime gains at 10%
- Investors Relief - £10m of lifetime gains at 10%

More people will be brought into the Self-Assessment Tax Return system

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Capital Gains Tax & Basis Period Reform

Sam Stent

Capital Gains Tax – Divorce and Separation

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- Further legislation is expected in this area to more closely define the legal terminology to be used.

Seed Enterprise Investment Scheme (SEIS)

- The amount of investment that companies will be able to raise under the SEIS will increase from £150,000 to £250,000.
- The "gross assets" limit applied at the date of investment will be increased from £200,000 to £350,000.
- The age limit that applies to the definition of a company's "new qualifying trade" at the date of investment will be increased from 2 to 3 years.
- To support these increases, the annual investment amount on which individuals can claim income tax and CGT re-investment reliefs will increase from £100,000 to £200,000.
- These measures will have effect from 6 April 2023.

Company Share Option Plans (CSOP)

- The share options limit will be amended to increase the limit from £30,000 to £60,000.
- The “worth having” restriction on share classes within CSOP will be removed.
- The changes will take effect from 6 April 2023.
- These measures will help larger companies that no longer qualify for the EMI scheme to offer more attractive share-based remuneration.

Enterprise Management Incentives (EMI)

- Simplifications to the process when granting EMI options.
- The requirement for a company to set out details of any share restrictions on the shares to be acquired under the option will be removed.
- The requirement for a company to declare that an employee has signed a working time declaration when they are issued an EMI option will also be removed.
- The changes will apply to EMI options granted from 6 April 2023.
- Existing EMI share options granted before 6 April 2023 that have not been exercised will also benefit from the changes.
- From 6 April 2024, the deadline for notifying an EMI option will be extended from 92 days following grant to the 6 July following the end of the tax year.

Plastic Packaging Tax

- The rate of Plastic Packaging Tax will increase in line with CPI.
- The rate will be increased from £200 per tonne to £210.82 per tonne.
- This change will take effect from 1 April 2023.
- Legislation introduced to amend the penalty rules for late payment to ensure that all late payments are treated consistently starting from the accounting period 1 April 2023.

Homes for Ukraine - Exemptions

- Property tax exemptions and reliefs
  - Temporary reliefs from the ATED and the 15% rate of SDLT for dwellings made available for occupation by individuals granted entry clearance or permission to stay in the UK under the “Homes for Ukraine Sponsorship Scheme”.
  - The relief from ATED will apply to chargeable periods beginning on or after 1 April 2022.
  - For SDLT, the relief will have retrospective effect for transactions with an effective date on or after 31 March 2022.
  - For the SDLT registered social landlord exemption, the measure will come into effect for transactions with an affective date on or after 15 March 2023.
- Income tax and corporation tax exemption
  - Legislation will be introduced to exempt “Thank you” payments made by Local Authorities to sponsors under the “Homes for Ukraine Sponsorship Scheme” from income tax and corporation tax.
  - This measure will have retrospective effect from 14 March 2022 when the sponsorship scheme was launched.

Company Cars – Electric vs Petrol Example

Car	Tesla Model 3		BMW 3 Series	
List Price	£50,000		£50,000	
Fuel	Petrol		Electric	
CO2 g/km	0		155	
Capital Allowances	100% First Year Allowance		6% Writing Down Allowance	
	Capital Allowances	CT Relief (25%)	Capital Allowances	CT Relief (25%)
Year 1	£50,000	£12,500	£3,000	£750
Year 2	£0	£0	£2,820	£705
Year 3	£0	£0	£2,651	£663
Total	**£50,000**	**£12,500**	**£8,471**	**£2,118**
Resell Value	£30,000		£30,000	
(Balancing Charge) / Balancing Allowance	(£30,000)		£11,529	
(CT Charge) / CT Relief (25%)	(£7,500)		£2,882	
Net Cost	**£15,000**		**£15,000**	

Company Cars – Electric vs Petrol Example

	Tesla Model 3 - £50,000		BMW 3 Series - £50,000	
2020/21	Taxable Benefit - 0%	Taxable Benefit Value - £0	Taxable Benefit - 34%	Taxable Benefit Value - £17,000
Basic Rate (20%)	£0		£3,400	
Higher Rate (40%)	£0		£6,800	
Additional Rate (45%)	£0		£7,650	
2021/22	Taxable Benefit - 1%	Taxable Benefit Value - £500	Taxable Benefit - 35%	Taxable Benefit Value - £17,500
Basic Rate (20%)	£100		£3,500	
Higher Rate (40%)	£200		£7,000	
Additional Rate (45%)	£225		£7,875	
2022/23	Taxable Benefit - 2%	Taxable Benefit Value - £1,000	Taxable Benefit - 36%	Taxable Benefit Value - £18,000
Basic Rate (20%)	£200		£3,600	
Higher Rate (40%)	£400		£7,200	
Additional Rate (45%)	£450		£8,100	

Basis Period Reform

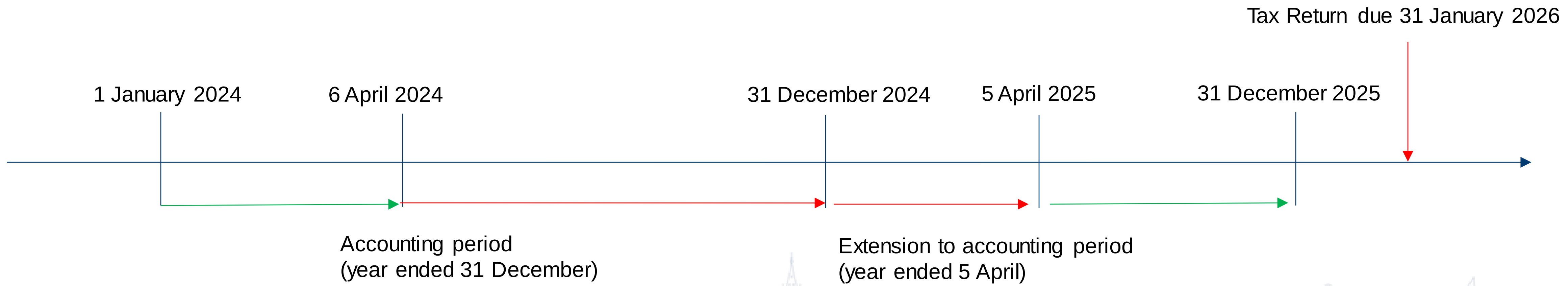
- Change in the basis of taxation for self employed and partnerships.
- Currently taxed on accounting year basis.
- New tax year basis will apply from April 2024.
- The 2023/24 tax year is the transition year:
  - Accounting year basis + period from accounting date to 31 March – overlap profits.
  - Additional profit can be spread over 5 years.

Who does it impact?

- All unincorporated businesses without a 31 March – 5 April year end.
- HMRC estimates that this will effect 7% of sole traders and 33% of partnerships.
- Most likely affected includes:
  - Large and international partnerships
  - Seasonal businesses (e.g. tourism)
  - Farming businesses
- These measures effect any business that chooses to adopt a non-tax year end basis of accounting for commercial or practical reasons.

Current position for December Year End

New Rules for December Year End



- Profits taxed in tax year ended 5 April 2025:
  - Profits from 2024 accounting period between 6 April 2024 and 31 December 2024; plus
  - Profits from 2025 accounting period between 1 January 2025 and 5 April 2025

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Issues with Basis Period Reform

- Estimates are required for profits of second accounting period in the tax year.
- This period may not have ended by the time the Tax Return needs to be filed.
- Particular estimation challenges for seasonal businesses.

HMRC's Suggested Solutions

- Taxpayers will be able to amend a provisional figure at the same time as they file their Tax Returns for the following tax year.
- An extension of the filing deadline for some groups of taxpayers, such as more complex Partnerships or seasonal trades.
- Allowing taxpayers to include in the next year's Tax Return any differences between provisional and actual figures in the previous year.

Exploring Provisional Figures

- The current rules on provisional figures in the HMRC manual SALF206 ask businesses to submit their final figures without delay alongside any amended self assessment.

- The government carried out further engagement on this issue and has decided to relax the guidance on provisional figures to remove the need to submit provisional figures ‘without delay’ in the guidance on provisional figures

- This will allow businesses to amend provisional figures within the normal time limits for making amendments. So for the 2024/25 tax year, this would be before 31 January 2027. This will effectively allow businesses and agents to amend provisional figures at the same time as filing the business’s following year’s tax return.

What if there are losses?

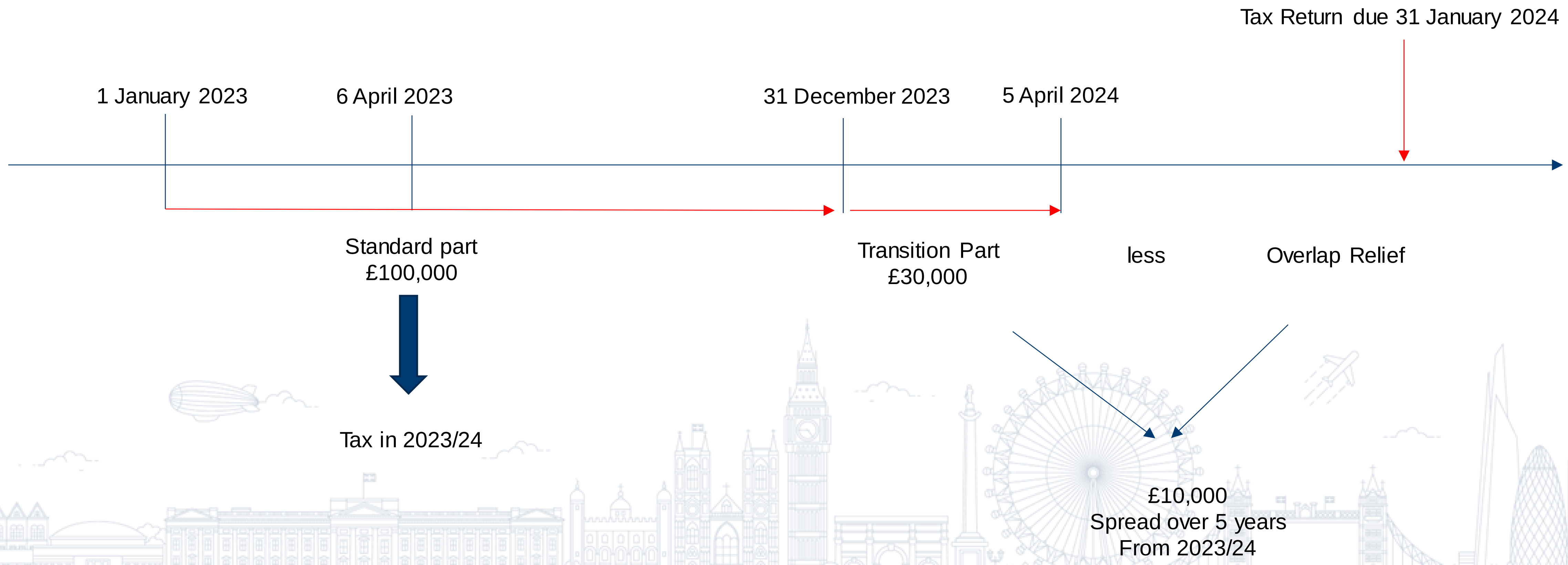
- Process where there is part loss but overall profit (after overlap relief)
- Can be part profit but overall loss
- Overall loss (before overlap relief)

Spreading of Transition Profits – Example: Transition Profits £10k

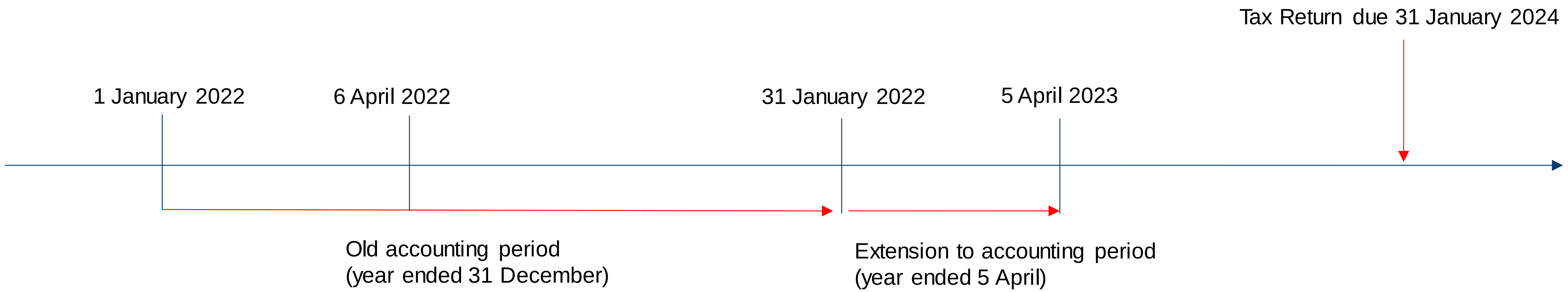
	2023/24	2024/25	2025/26	2026/27	2027/28
Standard	£2,000	£2,000	£2,000	£2,000	£2,000
Trade ceases in 2025/26	£2,000	£2,000	£6,000		
Elect to allocate more to 2024/25	£2,000	£5,000	£1,000	£1,000	£1,000

- No spreading available if business changes its year end prior to 2023/24.
- Spreading is available if year end change is in 2023/24.
- Transition profits are ignored for farmers' averaging and creative artists' averaging calculations.

Transitional Rules – Example 31 December Year End



Should you change your accounting date to 5 April 2023?



Tax Year	Profits Charged	Period
2021/22	01/01/2021 – 31/12/2021	12 months
2022/23	01/01/2022 – 05/04/2023	15 months
2023/24	06/04/2023 – 05/04/2024	12 months

- 3 months’ worth of overlap relief given.
- No spreading of additional profits

Equivalence Rule

- Accounting period ending between 31 March and 4 April effectively treated as ending on 5 April.
- Impact on businesses with year end between these dates:
  - No pro-rating of a few days' worth of profits each year
  - No transition part of profits in 2023/24
- Can elect out of this treatment but must be for 5 tax years.

Taxation of Transition Profits

- Excluded from “adjusted net income” for purposes of personal allowances, high income child benefit charge etc.

- Brought back into tax calculation at step 4 of s23 ITA 2007

- Tax can be reduced by “tax reducers” at step 6 of s23 ITA 2007
  - Double tax relief
  - EIS, SEIS and VCT reliefs

Basis Period Reform – Year of Transition Example

	2022/23		2023/24
Year ended 30 June 2022	£80,000	Year ended 30 June 2023	£80,000
		Period from 1 July 2023 – 31 March 2024	£60,000
		Overlap profits	-£10,000
		Total	£130,000
Total Tax	£23,690	Total Tax	£49,720

- Partner with £80,000 profit share and overlap profits of £10,000
- Additional tax of over £26,000
- Can be spread over 5 years – still £5,200 extra tax per year.
- Impacts on cashflow, drawings – Planning is **KEY**

Innovation & Creative Sector Tax Reliefs

Chris George

Creative Sector Tax Reliefs

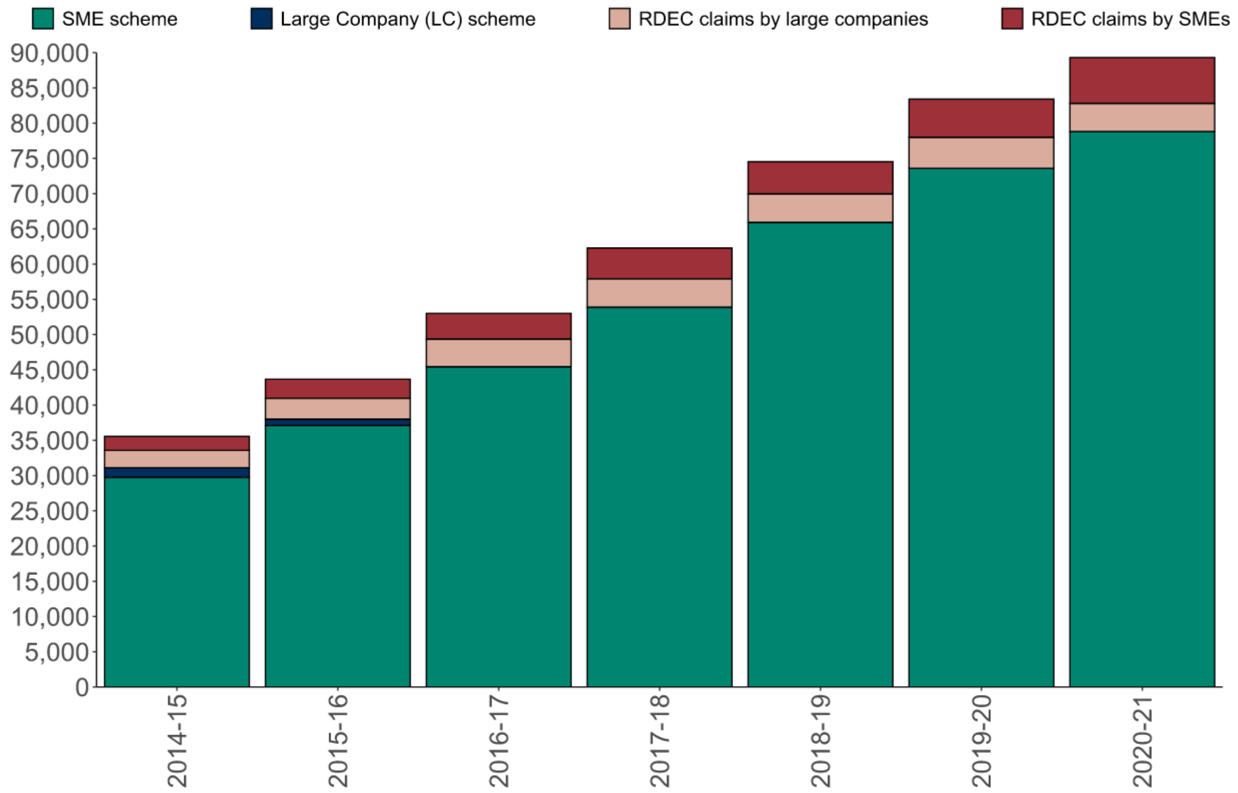
- Reforms are taking place to film, TV and video games tax reliefs
- New Expenditure Credits will be available to qualifying companies for periods ending on or after 1 January 2024
- Video games, films and high-end TV will have an Expenditure Credit of 34% while animation and children's TV will have an Expenditure Credit of 39%

Research & Development

- **RDEC Scheme**
- For Large Companies
- No ability for repayment from HMRC

- **SME Scheme**
- For Small & Medium Companies
- Can be surrendered for a cash repayment from HMRC

Research & Development



- R&D claims have more than doubled in the last 7 years
- Public spending on R&D will increase to £20 billion a year by 2024-25
- Over 39,000 companies making a claim for a cash repayment from HMRC
- Significant error and fraud in the SME scheme, with the generosity of the relief making it a target for fraud

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Research & Development

- Changes to both SME and RDEC scheme from 1 April 2023
- SME deduction is reduced from 230% to 186%
- Repayable tax credit reduced from 14.5% to 10%
- PAYE Cap on repayable tax credit came in on 1 April 2021 (Cap is £20,000 + 3 x PAYE & NIC liability paid)
- RDEC Scheme rate increased from 13% to 20%
- Steps towards a simplified, single RDEC-like scheme for all to come into force from April 2024

Research & Development – SME Example

	Current Relief		Tax Relief from April 2023 Profits ≤ £50,000		Tax Relief from April 2023 Profits > £250,000	
Qualifying Expenditure	£100,000		£100,000		£100,000	
Enhancement	£130,000	130%	£86,000	86%	£86,000	86%
CT Relief on enhancement	**£24,700**	**24.7%**	**£16,340**	**16.3%**	**£21,500**	**21.5%**
Repayable Tax Credit (loss making)	£33,350	33.35%	£18,600	18.60%	N/a	

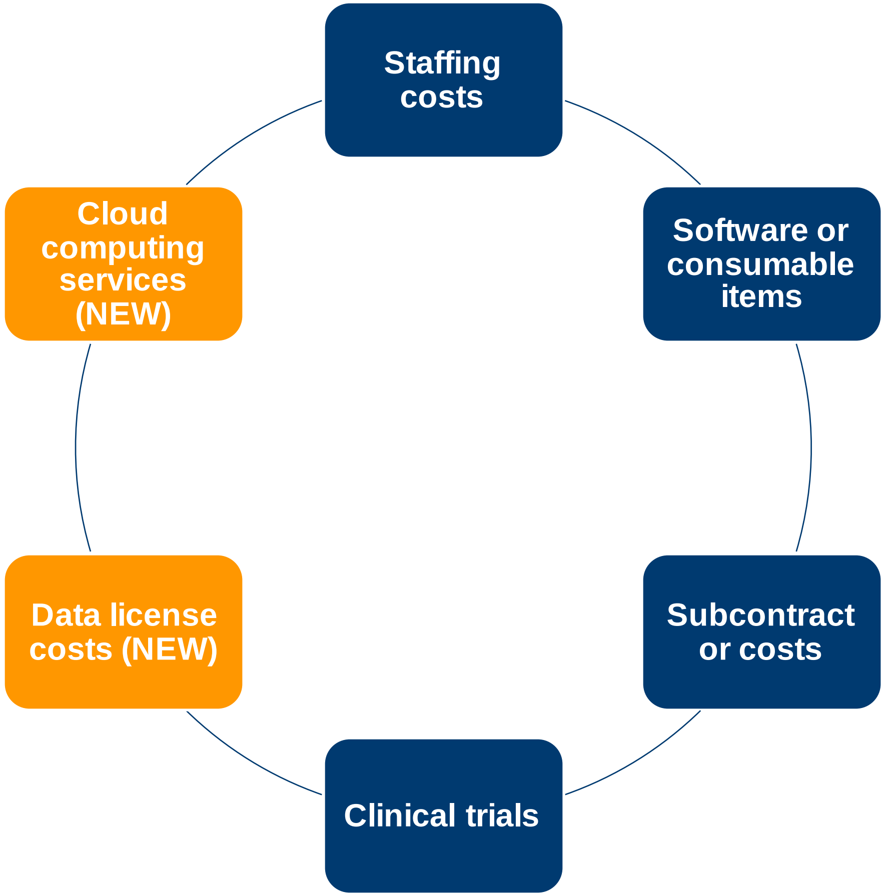
Research & Development - Expenditure Reform

- The reduction in repayable credit will not apply for R&D intensive SME companies

- Those businesses which dedicate at least 40% of their expenditure to qualifying R&D costs will benefit from the higher, 14.5% repayable credit rate

- With the 86% uplift in the qualifying costs, the amount of relief equates to 27% of the qualifying expenditure

Research & Development: Expenditure Reform



Qualifying R&D expenditure

Qualifying R&D expenditure from 1 April

Research & Development - Restriction on overseas expenditure

- Refocusing of the relief to support innovation carried out in UK
- Relief for subcontracted work and externally provided works will be limited to focus on UK activities.
- Expenditure must either be "UK expenditure" on R&D in the UK or "qualifying overseas expenditure".
- Work which is required to be undertaken overseas due to geographical, environmental or social factors or due to the legal or regulatory requirements will still qualify for relief
- Cost of the work and availability of workers are not acceptable reasons for the work being undertaken overseas

Research & Development – Reporting Requirements

- Legislation has been introduced to require that all Corporation Tax returns that contain and R&D claim must be submitted digitally through HMRC's tax return portal. This applies to all claims made after 1 August 2023

- The following information must now be provided in relation to an R&D claim:
  - Description of the activities undertaken
  - Breakdown of the qualifying costs
  - Details of any agent who has advised on the R&D claim
  - Sign off from a senior officer of the company

- Companies will be required to make an online claim notification to HMRC that they intend to make a claim within 6 months of the end of the accounting period. There is an exception to this for companies which have claimed in any of the 3 preceding accounting periods

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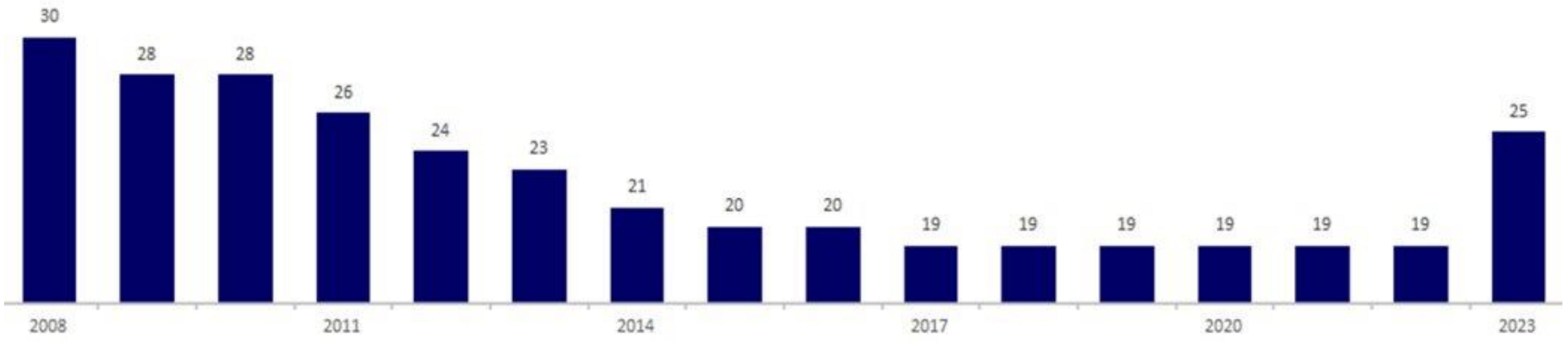
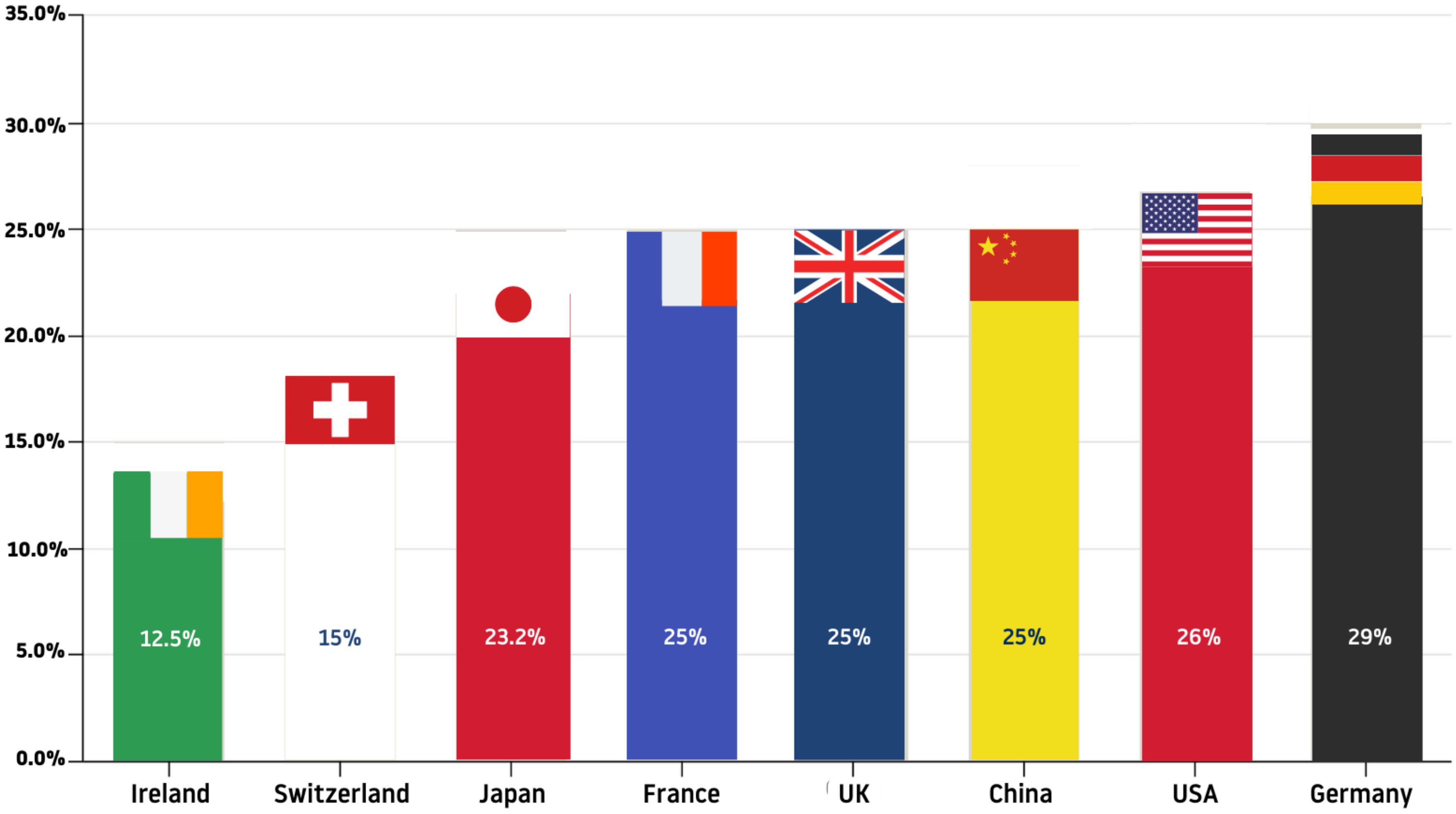
Corporate Tax

Jason Fayers

Historical UK Corporation Tax Rates

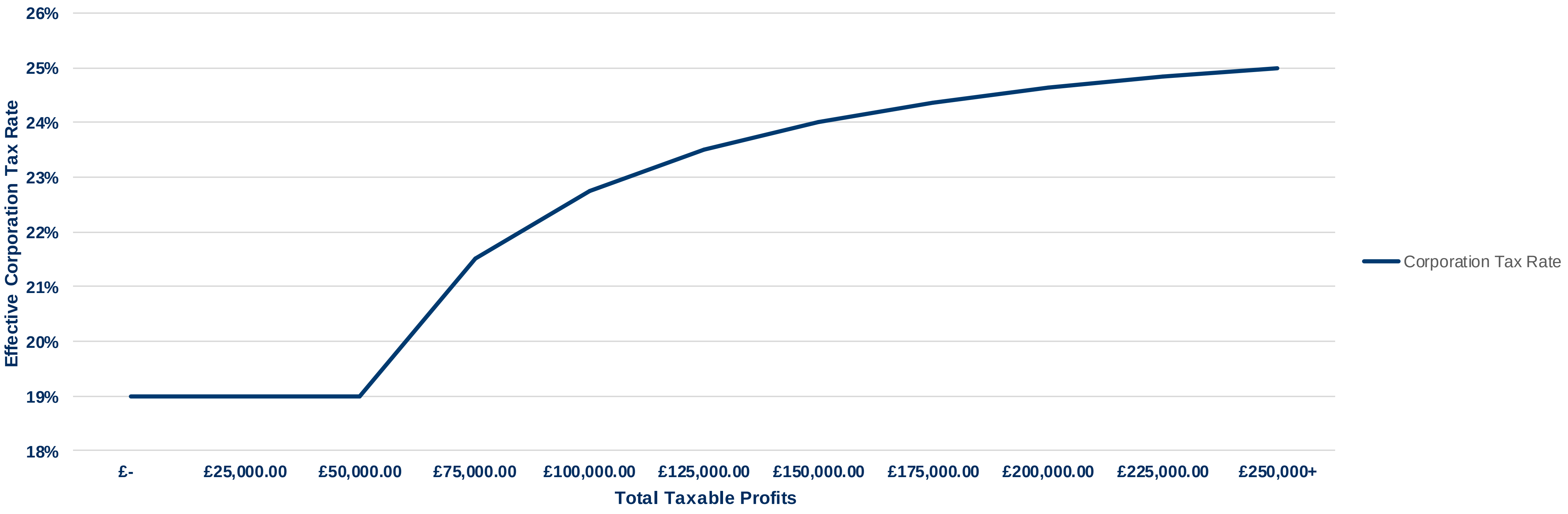


Corporation Tax Rates Across the Globe - From April 2023

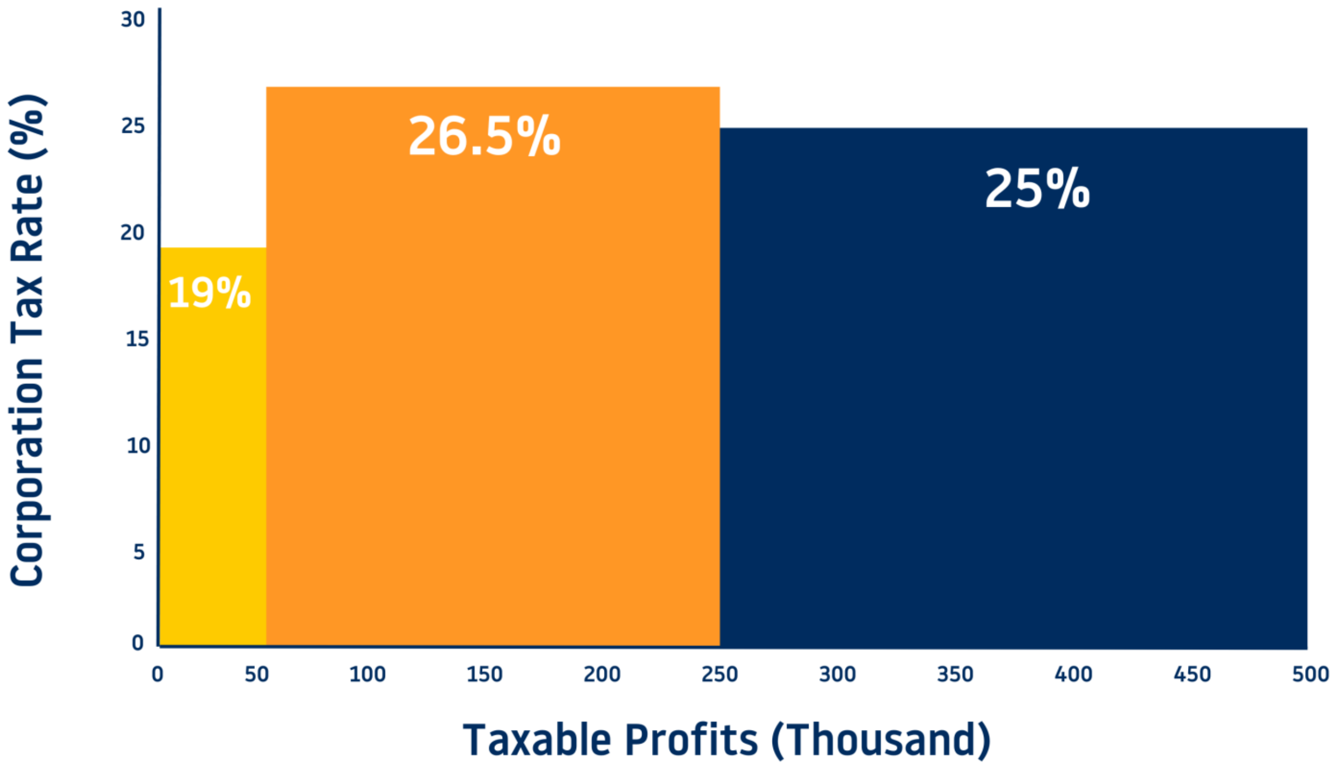


Corporation Tax Rates

Effective Corporation Tax Rates from 1 April 2023

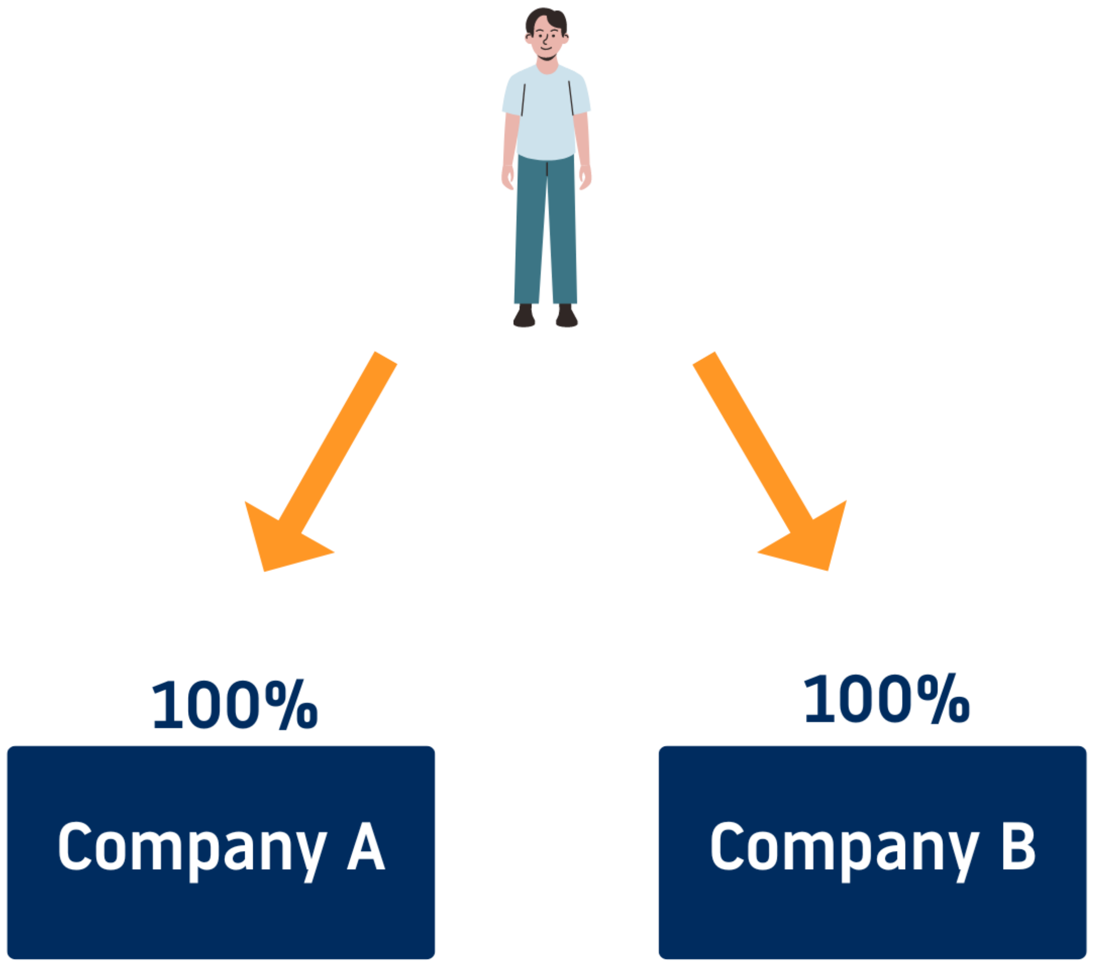


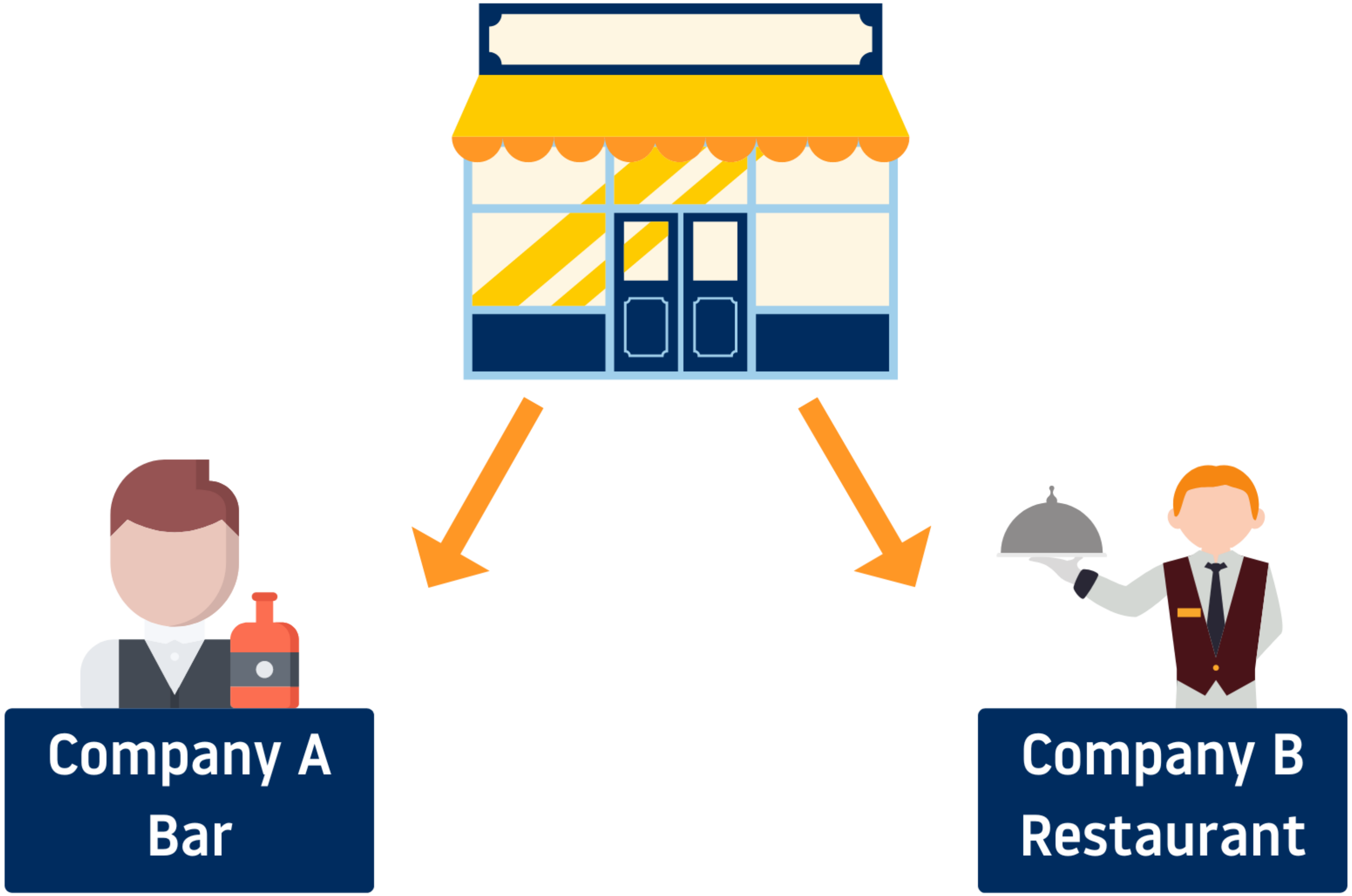
Marginal Rate of Corporation Tax



Associated Companies Changes

- Previously 51% owned companies rule
- From 1 April 2023 the following are associated also:
  - Companies under control by the same person(s) or their associates
  - Substantially interdependent companies
- Dormant and passive holding companies not associated still


100%
Company A
100%
Company B


Company A
Bar
Company B
Restaurant

Group of Individuals

100%

Company A

100%

Company B

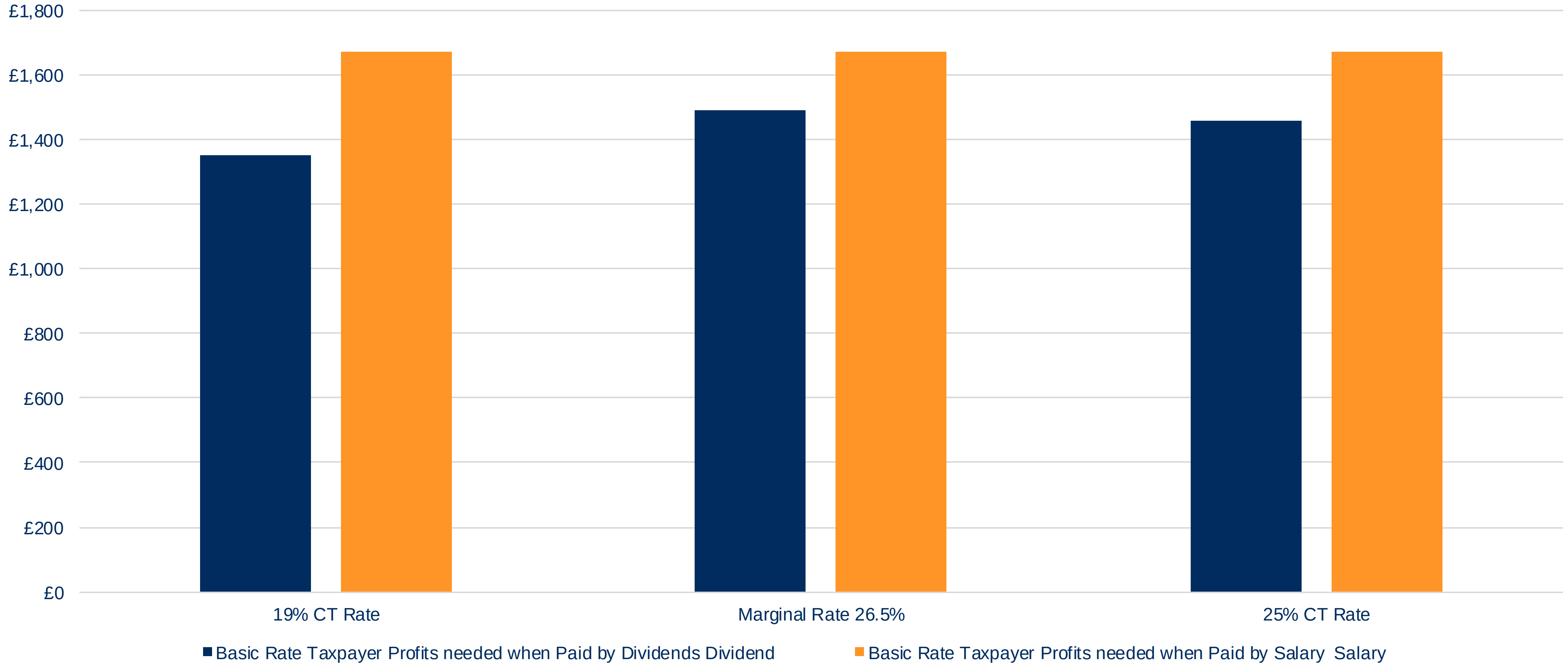
Associated Companies

A change in associated companies can affect the following:

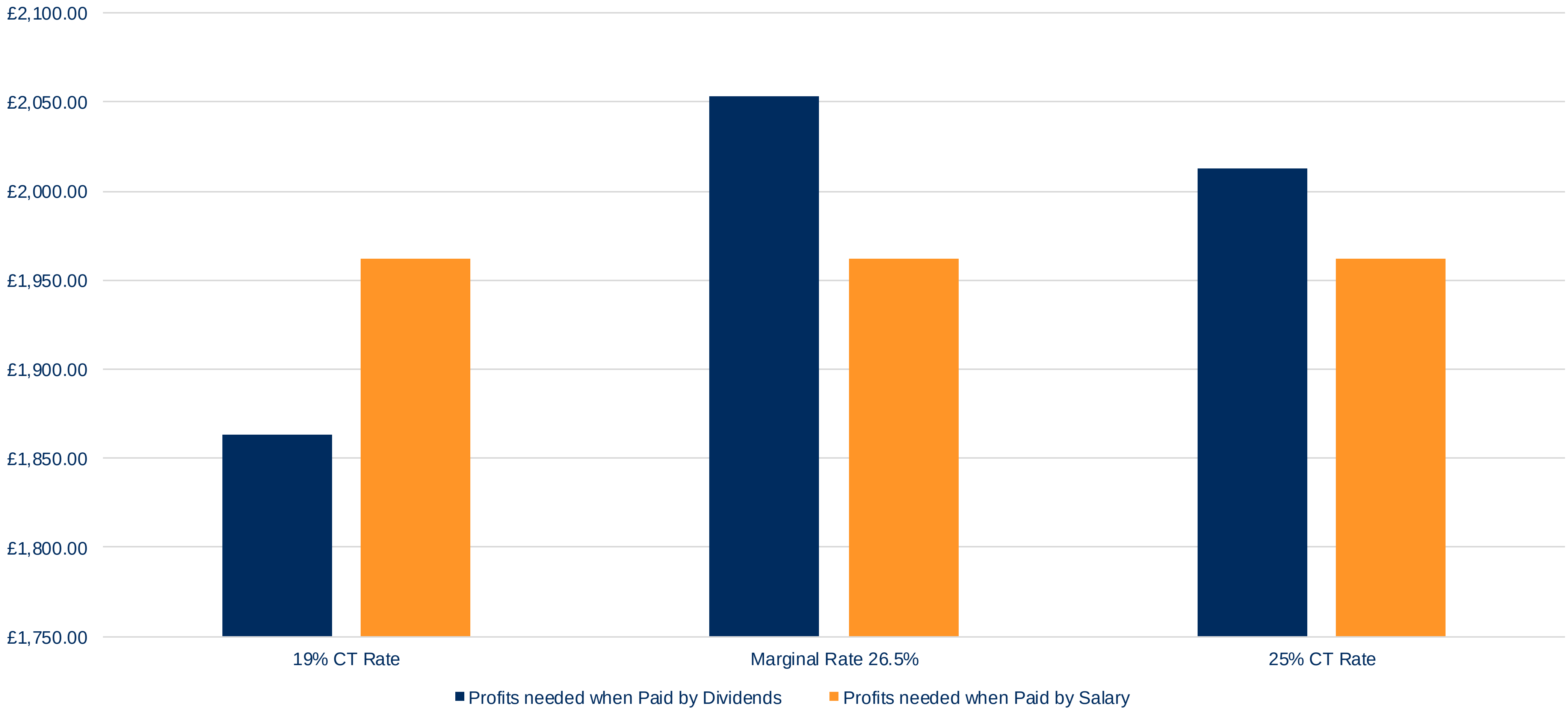
- The new Corporation Tax marginal rate threshold
- Annual Investment Allowances
- Corporation Tax payment dates (i.e. Quarterly instalment payments for Large and Very Large companies)
- R&D tax relief schemes
- Employment Allowance
- Country-by-Country reporting
- Transfer Pricing coverage
- Corporation Interest Restrictions
- Senior Accounting Officer reporting
- VAT Registration Threshold

Transfer Pricing

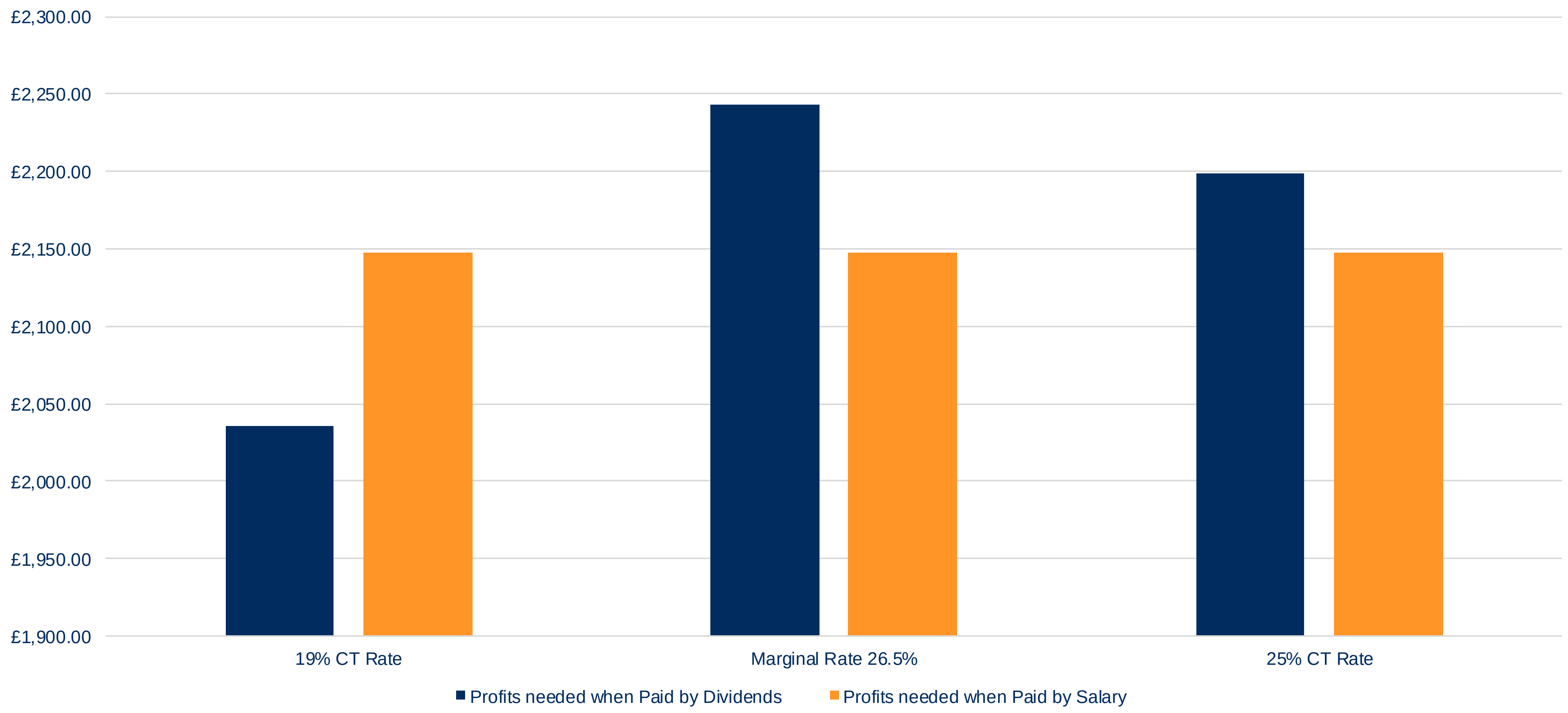
Profit Extraction of £1000 - Basic Taxpayer



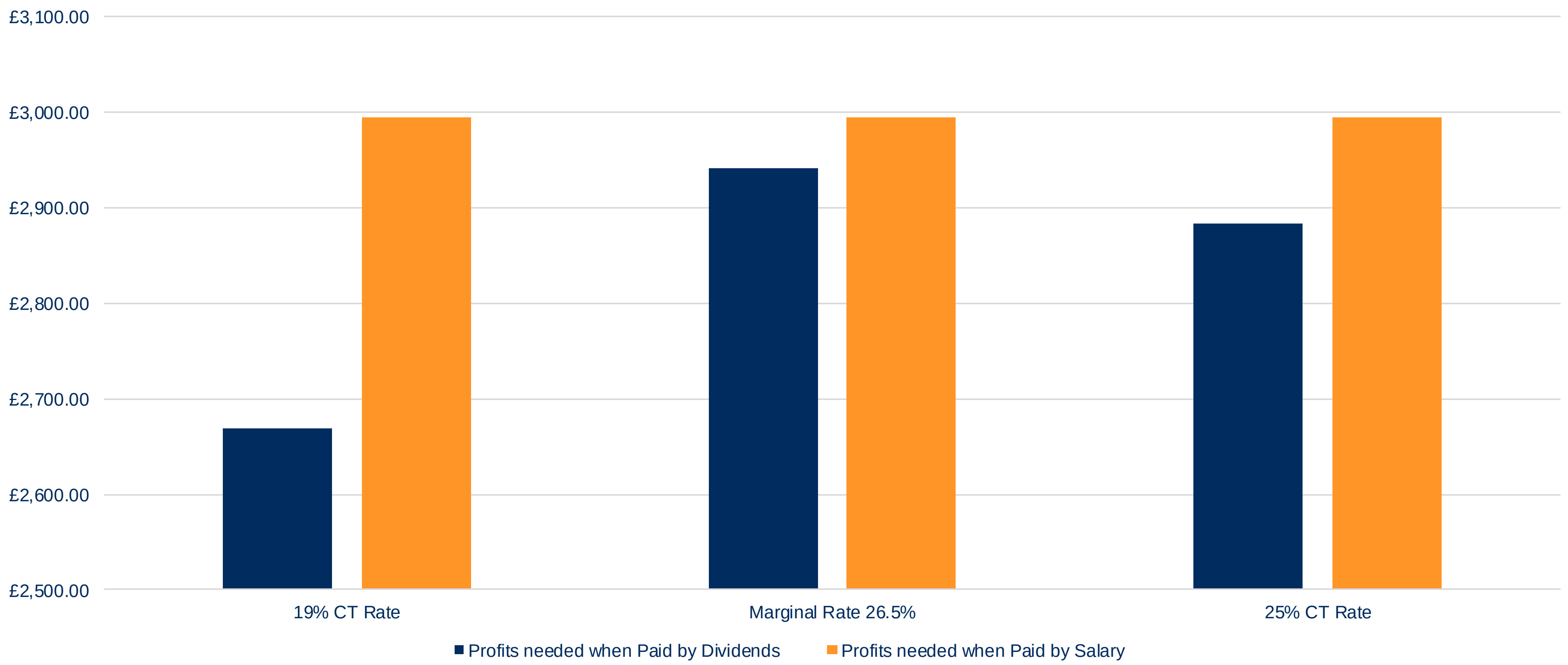
Profit Extraction of £1000 - Higher Taxpayer



Profit Extraction of £1000 - Additional Rate Taxpayer



Profit Extraction of £1000 - Marginal 60% Taxpayer



Corporation Tax Changes: Large Companies

- **Transfer Pricing Documentation**: Master File – a new standard of documentation will need to be completed by large companies from April 2023

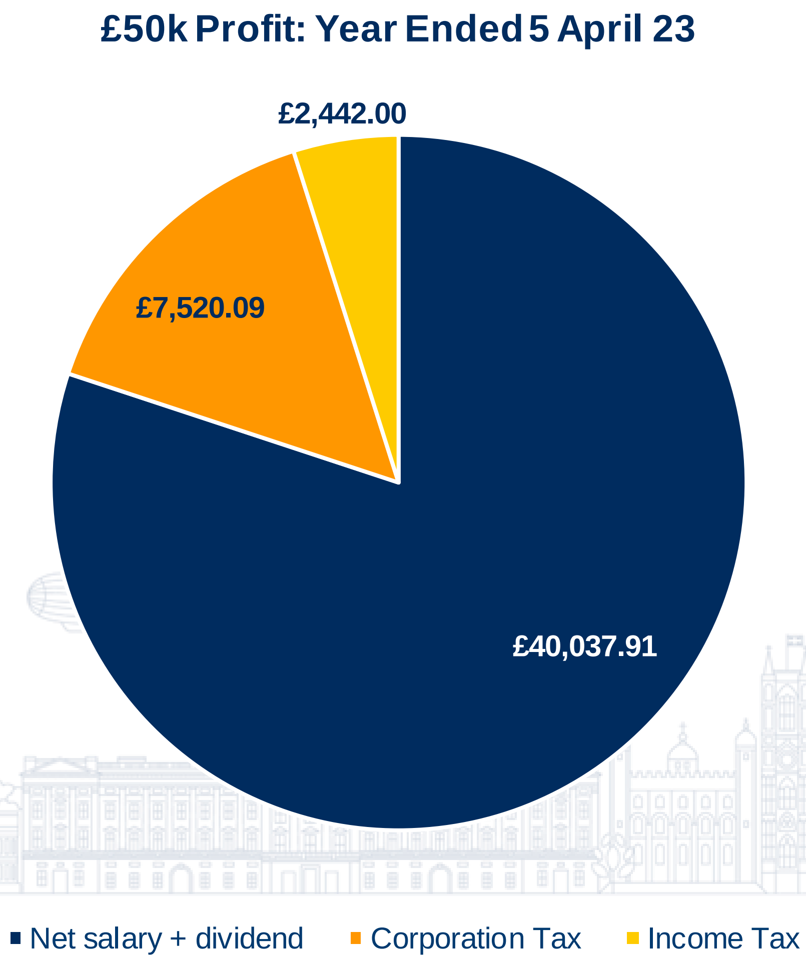
- A new **Income Inclusion Rule** for large, UK headquartered multinational groups requiring companies to pay a top-up tax where their foreign operations have an effective tax rate of less than 15%

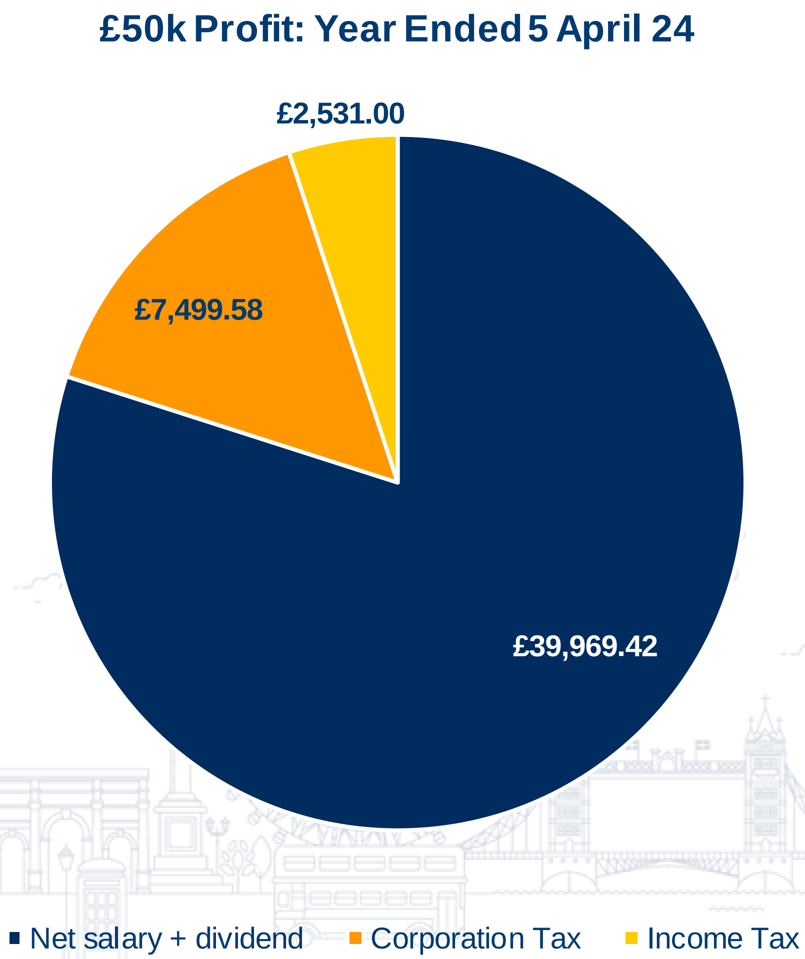
- A new **Qualified Domestic Minimum Top-up Tax** which will require large groups (including UK only groups) to pay a top-up tax where their UK operations have an effective tax rate of less than 15%

Profit Extraction

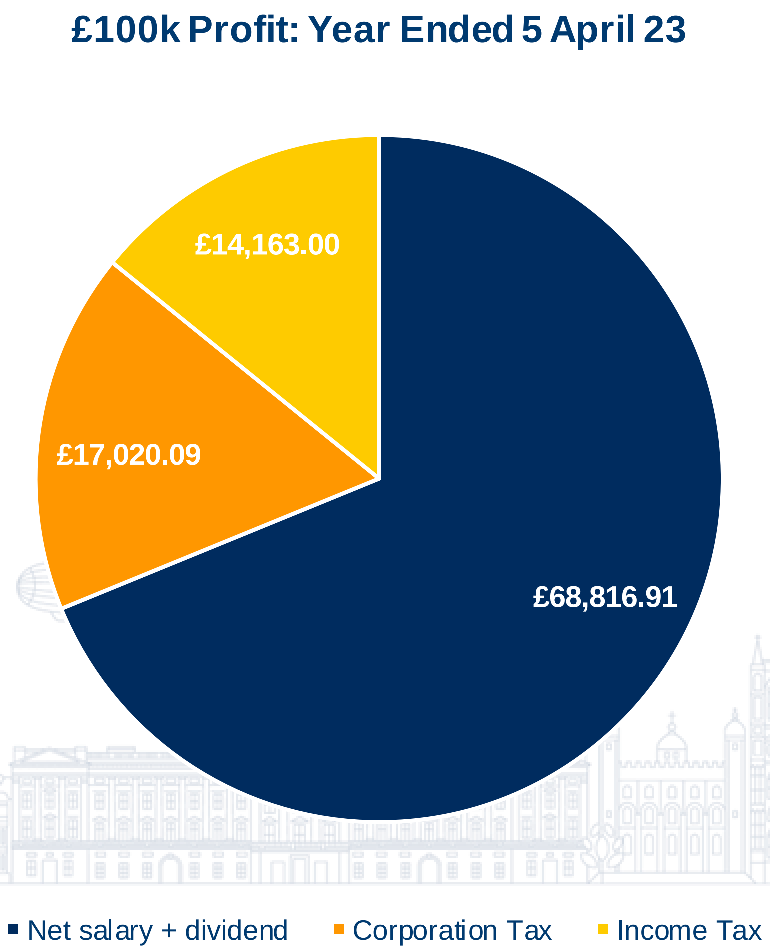
- Profit extraction from a company
- Usually: small salary then a dividend is the most tax efficient method
- Over the next 2 years, this will get more expensive
- Let's consider some examples.....

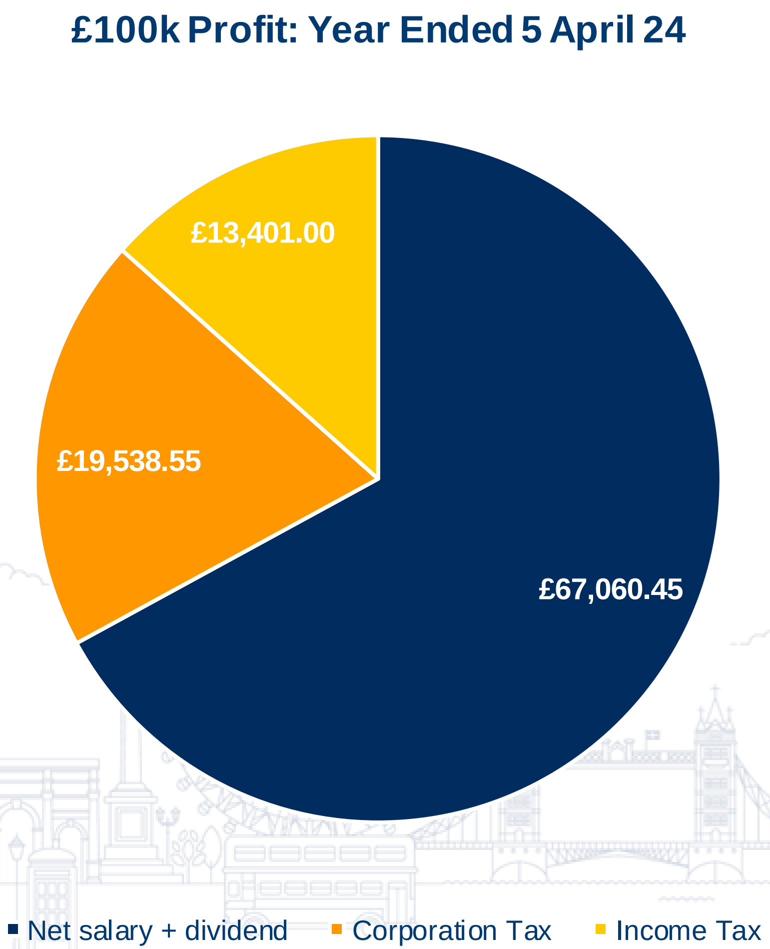
Income extraction £50,000 profit



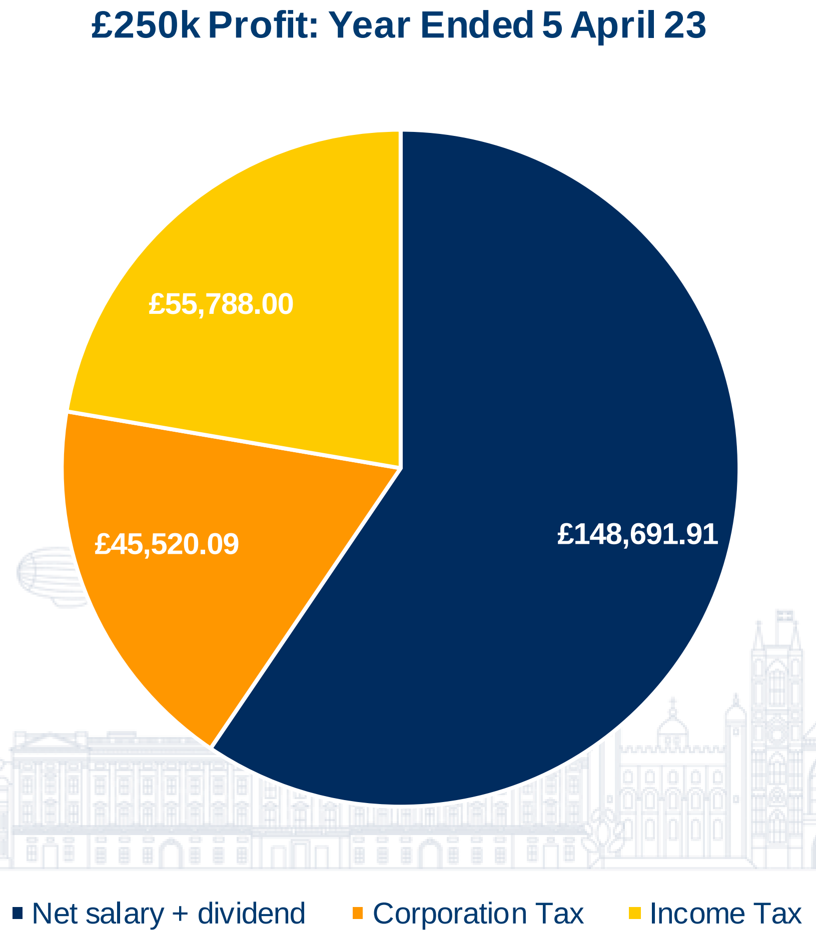


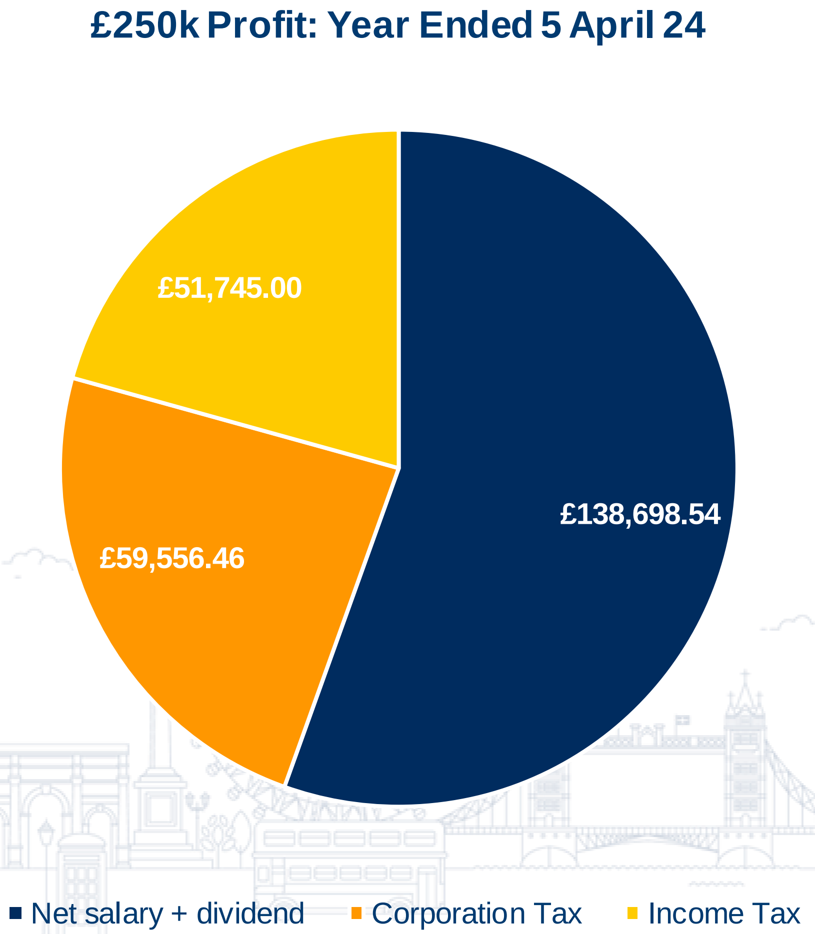
Income extraction £100,000 profit





Income extraction £250,000 profit





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Salary vs Dividend - £50,000

Company's Tax Position	Full Salary (£50,000)	Full Dividends (£50,000)	Salary (£12,570) Dividends (£37,430)
Profit Extraction	£50,000	£50,000	£50,000
Employer's NIC	£5,644	£0.00	£479
Corporation Tax Relief	(£13,911)	(£0.00)	(£3,262)
Net Cost to Company	£41,733	£50,000	£47,217

Individuals Tax Position	Full Salary (£50,000)	Full Dividends (£50,000)	Salary (£12,570) Dividends (£37,430)
Gross Income	£50,000	£50,000	£50,000
Income Tax & NIC Due	(£11,978)	(£3,188)	(£3,188)
Net Income	£38,022	£46,812	£46,812

Salary vs Dividend - £100,000

Company's Tax Position	Full Salary (£100,000)	Full Dividends (£100,000)	Salary (£12,570) Dividends (£87,430)
Profit Extraction	£100,000	£100,000	£100,000
Employer's NIC	£12,544	£0.00	£479
Corporation Tax Relief	(£28,136)	(£0.00)	(£3,262)
Net Cost to Company	£84,408	£100,000	£97,217

Individuals Tax Position	Full Salary (£100,000)	Full Dividends (£100,000)	Salary (£12,570) Dividends (£87,430)
Gross Income	£100,000	£100,000	£100,000
Income Tax & NIC Due	(£32,699)	(£19,995)	(£19,995)
Net Income	£67,301	£80,005	£80,005

Salary Vs Dividend - £250,000

Company's Tax Position	Full Salary (£250,000)	Full Dividends (£250,000)	Salary (£12,570) Dividends (£237,430)
Profit Extraction	£250,000	£250,000	£250,000
Employer's NIC	£33,244	£0.00	£479
Corporation Tax Relief	(£70,811)	(£0.00)	(£3,262)
Net Cost to Company	£212,433	£250,000	£247,217

Individuals Tax Position	Full Salary (£250,000)	Full Dividends (£250,000)	Salary (£12,570) Dividends (£237,430)
Gross Income	£250,000	£250,000	£250,000
Income Tax & NIC Due	(£107,222)	(£81,855)	(£83,268)
Net Income	£142,778	£168,145	£166,732

Capital Allowances

- Plant Pool Capital Allowance - 18% (plant and machinery)
- Special Rate Capital Allowance - 6% (integral assets)
- Structural Buildings Allowance (SBA) - 3% over 33 1/3 years
- 100% Allowance on the installation of electric vehicle charge points up to 31 March 2025
- Super Deductions Allowance - 130% - ceases on 1 April 2023

Capital Allowances: Full Expensing

- New Full Expensing / First Year Allowances:
  - Plant and machinery - Fully Expensed at 100% of cost
  - Special Rate assets- 50% First Year Allowances

- Applies to new assets only (i.e. not used or second-hand assets)

Capital Allowances: Full Expensing

Prior to 1 April 2023

	New Assets	Second-Hand Assets
Plant Pool	130% Super Deduction Allowance	100% AIA *or* 18% per annum
Special Rate	100% AIA *or* 6% per annum	100% AIA *or* 6% per annum

From 1 April 2023 to 31 March 2026

	New Assets	Second-Hand Assets
Plant Pool	100% Fully Expensed *	100% AIA *or* 18% per annum
Special Rate	50% First Year Allowance *and* 50% at 6% per annum thereafter *	6% per annum only

* Once disposed, a Balancing Charge arises equal to the % of the asset Fully Expensed x proceeds

Capital Allowances and the increasing tax rate

A company with a 31 March year end wants to invest £100,000 in new machinery

If purchased before 31 March :

£100,000 at 130% Super Deduction allowances = £130,000
£130,000 x 19% = **£24,700** of tax relief

If purchased after 1 April:

£100,000 qualifies for Annual Investment Allowances at 100% of cost
£100,0000 x 25% = **£25,000** of tax relief

To discuss any of the issues raised, please contact a member of the Scrutton Bland team

0330 058 65559

hello@scruttonbland.co.uk

Via our website

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THANK YOU