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Business Focus

Winter 2014
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Research & Development: can you benefit?

The Government is continuing to promote research and development (R&D) with a range of tax incentives. R&D capital expenditure is liable to an automatic 100% deduction under capital allowances so it is worth considering the possible benefits to your business.

There are two schemes, one for large companies and one for 'small and medium sized enterprise' (SME) companies. Both schemes provide two main elements of relief:

- an increased deduction for R&D revenue spending, and
- a payable R&D tax credit for companies not in profit.

These schemes focus on qualifying revenue expenditure and are only available to companies. The SME deduction scheme will be the most generally used.

The SME scheme

The R&D relief increases the amount your business can obtain in tax relief from the normal 100% deduction to 225%.

If the impact of this revenue deduction is that the company incurs a loss which it cannot relieve until a future period, then it may be possible to convert to a repayable tax credit. In the 2014 Budget it was announced that the rate of loss conversion into repayable credit is now 14.5% (previously 11%). This applies to qualifying expenditure on or after 1 April 2014.

Key conditions

As an SME you must first be sure that HM Revenue & Customs (HMRC) will accept that the activities undertaken constitute R&D. Your R&D does not have to be undertaken in the UK in order to qualify.

You must also make sure the relevant tax rule conditions are met, such as:

- the expenditure must be from a qualifying revenue category (not be capital expenditure)
- the spending must not be incurred in carrying out activities contracted to the company by another person (however a slightly different form of R&D tax credit may apply)
- the expenditure must not have been met by another person (i.e. if the R&D project is whole or part funded by a grant, or other kind of aid, none of the spending on your project can qualify).

Example

Smith Ltd is an SME and incurs qualifying R&D expenditure during the year to 31 March 2015 of £120,000.

- If Smith Ltd is profitable it will be able to claim a deduction on £270,000, which will reduce its corporation tax liability by £54,000 (assuming a 20% rate), giving the company effective relief on the actual expenditure of 45%.
- If Smith Ltd makes a loss of £270,000 (due to R&D expenditure), which would otherwise be carried forward for relief against future trading profits, then it can be converted into R&D tax credit. The revised rate of conversion of 14.5% means a credit payment of £39,150 (£270,000 x 14.5%) which equates to approximately 33% of the original expenditure.

Claiming R&D relief can be a great benefit for your business but requires expert advice. Contact us for more information.

VAT for digital business

A new VAT service starts from 1 January 2015 for businesses supplying digital services in the EU. The 'Mini One Stop Shop' (MOSS) means that these businesses will not have to account and pay VAT separately in each country where they do business.

'Digital services' can include: broadcasting, telecoms and e-services such as apps, e-books, streaming, dating, journals, online newspapers/magazines and smartphone games.

Place of supply change

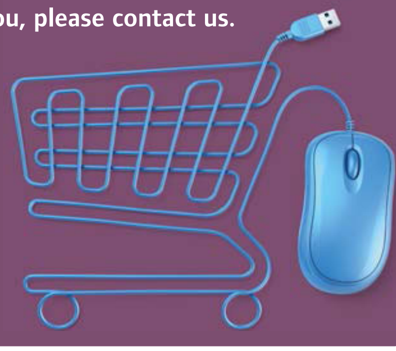
Currently, suppliers of digital services to non-business customers within the EU are subject to VAT in the member state where the supplier belongs. From 1 January 2015 the place of supply for VAT purposes will change to ensure that UK consumers of these services will pay UK VAT no matter where the supplier belongs.

In order that UK businesses supplying digital services do not have to register for VAT in every EU member state where they have customers, the optional VAT MOSS online service has been set up by HMRC. Other EU member states will be building their own systems.

HMRC said in a statement: 'The VAT MOSS is a tool that saves digital services suppliers from having to register for VAT in every member state in which they sell such services. Businesses with their main operation or headquarters in the UK will register with HMRC to use the service. They can register for the online service and then authorise an agent to act on their behalf'.

Between 27,000 and 42,000 UK businesses are expected to register with the service, most of them small and medium-sized enterprises. Registration for the service began in October 2014 and will be available to use from 1 January 2015.

For more information on how the change could affect your business and if MOSS is right for you, please contact us.



Sacrifice for the greater good

Pensions auto-enrolment is one of the most important developments for employers currently coming into effect. Businesses with fewer than 50 employees must implement the process from 1 June 2015. As a consequence, employers will be looking to maximise tax reliefs, while employees will also seek to join the scheme in the most cost-efficient manner possible. A salary sacrifice arrangement will be an attractive option to consider in achieving both goals.

From October 2018 the minimum contributions payable by the employer and employee rise to 3% and 5% respectively. An employer may wish to run a salary sacrifice arrangement alongside their other auto-enrolment provisions.

What is salary sacrifice?

Salary sacrifice arrangements involve a contractual right to one's cash pay being reduced. When drawing up such an arrangement the potential for future remuneration must be given up, and the new contract must state that the employee is entitled to lower cash and a benefit instead.

Under auto enrolment, salary sacrifice arrangements can be used to meet the full 8% contribution. It is essential that membership of the pension scheme can be achieved without the employee having to consent to the salary sacrifice arrangement in advance, and it is crucial that payment options are allowed other than salary sacrifice.

What's the advantage?

Both the employer and employee save money because there are reductions in the individual's gross pay in exchange for the pension contribution by the employer which is tax and NIC free. Therefore there are savings on:

- the employee's NIC payable on the salary sacrificed of up to 12% and
- the employer's NIC payable on the salary sacrificed of 13.8%.

There is no tax saving as the tax saved is cancelled out by the tax relief from HMRC that would have been available on the employee's contribution.

Example

An employee has a salary of £30,000 and surrenders the right to £1,500 (5%) salary in exchange for the employer making a pension contribution of the same amount. Using 2014/15 rates, the new salary is £28,500 with net pay of £22,335. The NIC saving is £180 (£1,500 x 12%). The employer saves 13.8% on the reduced salary of £207.

If there were no such arrangement, the employee has a lower net pay of £22,155 after £1,200 pension contributions are deducted from net pay. This would be topped up by HMRC with tax relief of £300 so that £1,500 goes into the pension scheme.

A salary sacrifice arrangement cannot reduce an employee's cash earnings below the National Minimum Wage.

Considerations for employees

Employees must consider the impact a reduction in pay could have on their personal finances. In particular, entitlement to state benefits such as Statutory Maternity Pay is affected.

If you need more advice with pensions auto-enrolment, or implementing salary sacrifice schemes, please contact us.

Your key tax dates

31 January 2015

Tax returns - don't leave it too late!

The deadline for filing your 2014 self assessment tax return online is 31 January 2015. Returns not filed by this date will result in a £100 penalty. Where the return has still not been submitted after three months, daily penalties of £10 will accrue, continuing for a maximum of 90 days. Further penalties will be payable for prolonged filing failures.

We can prepare and file your tax return on your behalf, as well as advise you on which payments are due and when you should pay them. Contact us for details.

5 April 2015

Plan now to save tax ahead of the year end

The tax year end is 5 April 2015 - but don't wait until then to speak to us about saving tax!

The earlier we can discuss your personal and business arrangements with you, the more likely it is that we can implement sensible strategies to make sure you are legally compliant but also taking full advantages of the tax reliefs and allowances available, and not paying more tax than you need to. Here are just a few possible strategies to consider:

1. Invest in a NISA

On 1 July this year ISAs were greatly simplified and relaunched, and all existing ISAs became New ISAs, or NISAs. Adults are now able to invest in any combination of cash or shares up to a total of £15,000. Savers aged between 16 and 18 can hold a cash NISA with up to £15,000 but cannot open a stocks and shares NISA. (In addition, Junior ISAs, for those aged under 18 who were not entitled to a Child Trust Fund account, allow investment of up to £4,000 in 2014/15.) You have until 5 April 2015 to maximise your 2014/15 tax-free NISA investment, but it's worth shopping around online for the best deals, particularly with interest rates for many products currently being relatively low.

2. Pay into your pension

In some cases personal contributions into pension schemes can attract relief of up to 60%, which makes them an ideal tax-free investment. Pension contributions need to be made by 5 April 2015 for them to be applied against 2014/15 income. Relief is available for tax on annual contributions, limited to the greater of £3,600 (gross) or the amount of the UK relevant earnings, but subject also to the annual allowance (currently £40,000).

3. Should you defer income?

The top income tax rate is 45% and the equivalent dividend tax rate is now 37.5%, so it might be practical to consider delaying the payment of your dividends until after the year end if your taxable income is likely to exceed £150,000, especially if you anticipate that your income in 2015/16 will be less. Contact us for more guidance on this.

4. Take advantage of capital allowances

For a temporary period from 1 or 6 April 2014 to 31 December 2015, the majority of businesses are able to claim a 100% Annual Investment Allowance (AIA) - in effect, a year-one write off - on the first £500,000 of expenditure on most types of plant and machinery (but not cars). There are also some allowances available to encourage 'green' investment, for energy-saving equipment and low CO^2 emissions cars. Typically, a purchase made just before the end of the current accounting year will mean the allowances will usually be available a year earlier than if the purchase was made just after the year end. In the same way, the disposal of an asset may trigger an earlier claim for relief or even an additional charge to tax.

5. Transferring income

If your spouse or partner has little or no income, consider transferring income (or income-producing assets) to them to ensure that they are able to make full use of their personal allowances (£10,000 in 2014/15). However, care should be taken to avoid falling foul of the settlements legislation governing 'income shifting' and you need to consider the legal consequences of transfers. Children also have their own personal allowance, meaning that income of up to £9,440 escapes tax this year, providing it does not originate from parental gifts. Make sure you speak to us before acting.

These are just a few areas to consider and will not apply to everyone. We can help you to make the most of the tax-saving opportunities available to you ahead of the 5 April year end. Contact us for advice tailored to your circumstances.

Tax Round-up

RTI relaxation extended

HMRC has announced that it will exempt employers with fewer than 50 staff from Real Time Information (RTI) late filing penalties until 6 March 2015. Until that date, they will be allowed to submit PAYE information monthly.

RTI requires employers to provide information about tax and National Insurance deductions every time they pay an employee rather than annually. The original deadline for implementation by small firms was in 6 October this year.

The relaxation for small firms is the latest in a series of deadline moves since RTI was rolled out in October 2013.

HMRC's Ruth Owen said: 'We know that those who have had most difficulty adjusting to real-time reporting have been small businesses, so this staged approach means they have a little more time to comply with the new arrangements before facing a penalty'.

Employers with 50 staff or more will still be fined if they file PAYE returns late, after the 6 October 2014 deadline.

Tax powers to be devolved to Welsh government

Finance Minister for Wales, Jane Hutt, has revealed plans for an initiative to allow the Welsh government to collect its own taxes for the first time since the 13th century.

The Welsh government has been unable to vary taxes or borrow money, instead receiving its budget from the Treasury. However, powers over business rates, stamp duty land tax and landfill tax are now due to be devolved to it.

Ms Hutt announced that a Welsh Revenue Authority, responsible for ensuring taxes are collected, would be created. She said that Wales would be able to 'shape taxes which are better suited to Welsh circumstances and proposals'.

A consultation will run until 15 December, with a bill due to be published next July and the new powers due to begin in 2018. There will also be a 'taxpayers charter' designed to outline the rights and responsibilities of both citizens and the authorities.

An inquiry called the Silk Commission, set up last November by the UK Government, recommended devolving tax powers to Wales, including authority to vary a portion of income tax by the year 2020 if approved by a referendum.

Tax Tip

The inheritance tax (IHT) threshold has been frozen at £325,000 until 2018, with any taxable assets over this amount being liable to a 40% rate of tax. But there are some handy IHT exemptions, such as:

- the £3,000 annual exemption
- normal expenditure gifts out of after tax income
- exemption for gifts you make of up to £250 per person per annum to any number of persons.

Contact us for more information on other IHT exemptions.

Reminders for your Winter Diary

December 2014

30 Last day for online submission of 2014 Tax Return for HMRC to collect tax through clients' 2015/16 PAYE code, where they owe less than £3,000.

31 Last day for non-EU traders to reclaim recoverable UK VAT suffered in the year to 30 June 2014.

End of relevant year for taxable distance supplies to UK for VAT registration purposes.

End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes.

End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 December 2013.

January 2015

1 Due date for payment of Corporation Tax for period ended 31 March 2014.

14 Due date for income tax for the CT61 quarter to 31 December 2014.

19/22 Quarter 3 2014/15 PAYE remittance due.

31 First self assessment payment on account for 2014/15.

Capital gains tax payment for 2013/14.

Balancing payment - 2013/14 income tax/ Class 4 NICs.

Last day to renew 2014/15 tax credits.

First payment due date for 2014/15 Class 2 NICs.

Deadline for amending 2013 Tax Return.

Last day to file the 2014 Tax Return online without incurring penalties.

Liability to 5% penalty on any tax unpaid for 2012/13.

February 2015

1 £100 penalty if 2014 Tax Return not yet filed online. Additional penalties may apply for further delay. Interest starts to accrue on 2013/14 tax not yet paid.

2 Submission date of P46 (Car) for quarter to 5 January.

14 Last date (for practical purposes) to request NIC deferment for 2014/15.