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business update

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Improving the tax incentives for innovative SME companies

Research and development (R&D) by UK 'small and medium enterprise' (SME) companies is actively encouraged by Government through a range of tax incentives which continually improves year on year. Qualifying capital expenditure attracts an upfront 100% deduction under capital allowances but the R&D SME relief scheme focuses on qualifying revenue expenditure and is only available to companies.

The scheme provides 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.

The SME scheme

The R&D revenue relief increases the amount a company can obtain tax relief on from the normal 100% revenue 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 can be converted into the repayable tax credit. Budget 2014 announced that the rate of converting such a loss into a repayable credit would increase from 11% to 14.5%. This is set to apply to qualifying expenditure incurred on or after 1 April 2014 onwards.

The SME relief in operation

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

- If Challenge Ltd is profitable it will be able to claim a deduction in respect of this R&D expenditure of £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, on the other hand, Challenge Ltd makes a loss of £270,000 (all attributable to the R&D expenditure) which would otherwise be carried forward for relief against future trading profits then it can be converted into a payable R&D tax credit. The revised rate of conversion of 14.5% would generate a payment to the company of £39,150 (£270,000 x 14.5%) which equates to approximately 33% of the original expenditure.

Some key conditions

To obtain SME R&D relief the first essential matter to determine is whether HMRC would accept that the particular activities constitute R&D. The second is making sure the relevant tax rule conditions are met.

If this is something that you would like to discuss in more detail, please do get in touch.

Reduce employment costs
Incentivise your workforce
Retain key employees

AB Rewards has been created to allow employers to introduce Flexible Benefits to reward their staff, cost efficiently and with minimal need for administration.

AB Rewards provides 2 choices, a straightforward, low cost package, provided through an online portal or a more bespoke package providing both the online portal and tailored benefits/ cost savings.

The online portal allows employees access to the following benefits:

- Cars
- Childcare Vouchers
- Cycle to Work
- Technology such as computers, smart TVs and smart phones
- Discount Vouchers

The employer always remains in control of the benefits to be provided to employees and employees are rewarded for their efforts in the workplace.

AB Rewards is backed by considerable experience in designing and implementing Flexible Benefits schemes for clients.

If you require any further information please get in touch 01642 660300

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Tax saving for some savers

In his speech on Budget day 2014 the Chancellor set the scene stating that 'If you're maker, a doer or a saver: this Budget is for you.' So what did he do for savers?

One surprise announcement related to reducing the tax burden for some in relation to their savings income, meaning interest income. From 6 April 2015, the maximum amount of an eligible individual's savings income that can qualify for the starting rate of tax for savings will be increased to £5,000 from £2,880, and this starting rate will be reduced from 10% to nil.

How does it work?

The starting rate is not available if taxable non savings income (broadly earnings, pensions, self-employed profits and property income) after allowing for the personal allowance exceeds the starting rate limit. This means that in 2014/15 an individual who generally has more than £12,880 (£2,880 staring rate limit plus the £10,000 personal allowance for those aged under 65) non savings income will not be able to benefit from the 10% rate and will suffer the normal basic or higher rates of tax on their savings income. An individual for example, with £11,000 earned income and savings income of £1,000 will benefit from the 10% rate instead of the usual 20% basic rate on the £1,000 savings income, a saving of £100.

Who will benefit?

The proposed changes will increase the number of savers who are not required to pay tax on savings income, such as bank or building society interest. Pensioners who only have modest pensions will in particular benefit. This is because pension income may be their only non savings income and where that is covered in full/mainly by any personal allowances, the first £5,000 of savings income is not taxed at all. This provides a useful income boost. In addition, where it is expected that a saver's total taxable income will be below the total of their personal allowance plus the £5,000 starting rate limit then they can register to receive their interest gross using a form R85, rather than having to first suffer income tax and then reclaim it.

The impact

This effectively means that in some cases in 2015/16 an individual with the right combination of income up to £15,500 may not be liable to any tax at all!

If total taxable income exceeds £15,500, but non savings income is less than £15,500, then part of their savings income will not be liable to tax.

An example to demonstrate

Felicity is 67 and receives annual pensions of £10,500 and has annual gross savings income of £4,000 (none of which is held in a tax free ISA). Her personal allowance for 2014/15 and 2015/16 is £10,500 as she is currently entitled to the higher frozen age allowance this tax year. Next year she will receive the same allowance as those under the age of 65. This means there is no tax on her pension income as it is covered by her personal allowance and her savings income will be taxed as follows:

2014/15	2015/16
The first £2,880 at 10% and the balance of £1,120 at 20% = £512 overall.	There is no tax on the £4,000 savings income. A saving of £512!

If you would like to discuss whether this will affect your tax position please contact us for a review.

Tax free increase for employment-related loans

Where an employer provides an employee/director with a cheap or interest free loan they have to report notional interest (3.25% for 2014/15) on the loan on the form P11D. Where the balance of the loan is not more than a minimum level throughout the tax year no benefit is reportable.

The exemption applies if the total balance, at any point in the tax year, does not exceed a minimum limit and includes the total of low cost or interest free loans, or notional loans arising from the provision of employment-related securities.

From 6 April 2014 where the total outstanding balances on all such loans do not exceed £10,000 at any time in the tax year, there will not be a tax charge and employers will no longer be required to report the benefit to HMRC. Previously for 2013/14 the limit was £5,000.

Up and down like a yoyo

The Annual Investment Allowance (AIA) provides a tax write off against profits for expenditure incurred on plant and machinery (not cars) for most businesses and owners of commercial property.

In the Autumn Statement 2012, the Chancellor announced a temporary increase in the amount of AIA available from £25,000 to £250,000. Budget 2014 further increases the amount of the AIA to £500,000 but it is still described as a temporary increase. This means that the AIA will revert to £25,000 and so capital expenditure plans should take this eventuality into account.

Changes to the AIA – key dates

The maximum AIA was increased to £250,000 for expenditure incurred on or after 1 January 2013. This temporary increase was originally due to end by 1 January 2015.

The amount of the AIA is further increased to £500,000 from 1 April 2014 for companies or 6 April 2014 for unincorporated businesses until 31 December 2015.

What happens if the accounting period of the business straddles the 1/6 April 2014?

A pro rata calculation of the maximum entitlement is required. An example of how this works is shown below.

Example
LED Ltd makes up its accounts to 30 June annually. For the year to 30 June 2014, the AIA limit is calculated as follows:

July 2013 - March 2014	9/12 x £250,000	= £187,500
April 2014 - June 2014	3/12 x £500,000	= £125,000
Total		**£312,500**

But does it matter when the expenditure is incurred in the accounting period?

Yes it does. For expenditure incurred before 1/6 April 2014, there is a limit to the maximum figure available. The maximum allowance will be the AIA that would have been due for the whole of the accounting period to 30 June 2014, if the increase in AIA had not taken place. The company would have been entitled to £250,000 for the 12 months and so this is the limit for the nine months to 31 March 2014.

In the example, if LED Ltd had spent £300,000 in the first nine months of the accounting period relief would be limited to £250,000. LED Ltd can then spend £62,500 (£312,500 - £250,000) in the three months to 30 June 2014 which will qualify for AIA.

If LED Ltd has not incurred any expenditure in the first nine months, £312,500 will be available for expenditure between 1 April and 30 June 2014.

What happens in 2015 and onwards?

The AIA remains at the high level of £500,000 for the 12 months to 31 December 2015. Then on 1 January 2016, the AIA reverts back down to £25,000.

What do I do?

The increase in AIA is positive for businesses but the increase is a temporary measure. There are other restrictions which can affect the availability and use of the AIA so careful planning may be required to ensure that capital allowances are maximised. If you would like to discuss these changes, please do get in touch.

Forewarned is forearmed … RTI developments

New automatic in-year Pay As You Earn (PAYE) penalties for late filing and late payment and in-year interest (charged on tax and National Insurance Contributions (NICs) that are paid late during the year), were due to start from 6 April 2014. Two elements have now been delayed namely, the late filing penalties and alterations in the operation of the late PAYE payment penalties.

Late filing

For 2014/15 and onwards late filing penalties apply on a monthly basis for each PAYE scheme where an employer fails in a given month to make an appropriate RTI return on or before the filing date.

The first tax month of failure will be ignored with the exception of an employer operating an annual scheme. The Regulations set the level of penalties by reference to the number of employees and/or the number of previous penalties for late filing incurred in the same tax year. This means that where returns are required monthly due to employees being paid at least monthly, late returns could result in eleven penalties!

The penalty levels are:

- £100 for schemes with 1 - 9 employees
- £200 for schemes with 10 - 49 employees
- £300 for schemes with 50 - 249 employees and
- £400 for schemes with 250 or more employees.

A 5% tax geared penalty may also apply if a return is more than 3 months late.

These automatic penalties are now set to apply from 6 October 2014 and will be issued quarterly so the first penalty notices for the quarter 6 October to 5 January will be issued in the New Year!

Late payment

For 2014/15 and onwards automatic interest will be charged for late payment of PAYE income tax and NIC. The current system of risk based late payment penalties continues for 2014/15. This means that penalties will continue to be levied once the tax year has been completed for 2014/15. The change to automatic in-year quarterly late payment penalties will now not apply until 2015/16 and onwards.

It is important to avoid these penalties by ensuring that PAYE matters are completed on a timely basis and we are happy to assist in this area.

Cutting childcare costs

Working parents have long argued for more financial support with regard to childcare costs, particularly those, like the self-employed who have been unable to directly benefit from employer supported childcare such as tax-free child care vouchers.

In Budget 2013, the Government announced new tax incentives for childcare. Following consultation on the design and operation of the scheme, the Government has now announced improvements to the proposed scheme.

The relief will be 20% of the costs of eligible childcare up to a total cost of £10,000 per child per year. The scheme will therefore be worth a maximum of £2,000 per child. The original proposal had a cap of 20% of £6,000 per child.

The Tax-Free Childcare scheme will be launched in autumn 2015. All children under 12 within the first year of the scheme will be eligible. Under the original proposal only children under five would have been eligible in the first year of the scheme.

To qualify all parents in the household must:

- meet a minimum income level based on working eight hours per week at the National Minimum Wage (around £50 a week at current rates)
- each earn less than £150,000 a year and
- not already be receiving support through Tax Credits or Universal Credit.

This means that the vast majority of working family units will be able to benefit.

What about existing employer supported childcare?

Where there is workplace nursery provision, this is not affected by the proposals. Tax-free childcare vouchers (or the directly contracted childcare alternative) up to a maximum value per parent of £55 weekly (lower tax free amounts apply for higher and additional rate taxpayers) will continue to be available for current members if they wish to remain within the old arrangements or they can switch to the new scheme.

In making such a decision it should not be forgotten that employees who participate in the existing tax-free childcare voucher scheme rather than taking a salary alternative also save employee national insurance contributions (NIC). This means that a basic rate tax paying couple who both receive childcare vouchers are currently saving annually £1,866 in tax and NIC. Under the new scheme their childcare costs would need to exceed around £9,330 annually for it to be worth changing their arrangements.

Further, employers will still be able to set up a childcare voucher scheme until the new Tax-Free Childcare scheme is launched, meaning there is still an opportunity for employers to also enjoy the NIC savings which childcare vouchers provide. No National Insurance savings will be available under the new proposals.

How will the new relief work?

It is proposed that parents register with the Government and open an online account. The scheme will be delivered by HMRC in partnership with National Savings and Investments, the scheme's account provider. The Government will then 'top up' payments into this account at a rate of 20p for every 80p that families pay in.

We will keep you informed as further details emerge over the next 12 months so that you will be ready to benefit when it is launched in autumn 2015.

Meanwhile if you have any questions please do not hesitate to contact us.

What's yours is mine

From April 2015 married couples and registered civil partners (all referred to as spouses in this article) may be eligible for a new transferable tax allowance. The transferable tax allowance will enable certain spouses to transfer a fixed amount of their personal allowance to their spouse. The maximum amount permitted is 10% of the personal allowance which will be £1,050 for 2015/16.

The option to transfer will be available to couples where neither pays tax at the higher or additional rate. If eligible, one spouse will be able to transfer £1,050 of their personal allowance to the other spouse. It will mean that the transferee will be able to earn £1,050 more before they start paying income tax, a potential saving of £210.

The claim will be made online and entitlement will be from the 2015/16 tax year. Couples will be entitled to the full benefit in their first year of marriage.

If you would like further information on this or on any other personal tax issues please do not hesitate to contact us.

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