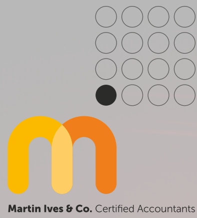

SPRING 2023

BUDGET BRIEFING

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GET IN TOUCH TODAY

We can help you with some cashflow projections.

R&D TAX RELIEF CURTAILED FOR SOME

A guide to choosing your best home

Last Autumn the Chancellor cut the enhanced deduction for expenditure by SME companies on R&D projects from an extra 130% to 86% and the payable tax credit from 14.5% of the loss surrendered to 10%.

These new rates will come into effect for qualifying R&D expenditure incurred from 1 April 2023 onwards.

Some innovative companies complained that they rely on the R&D payable tax credit to provide funding for development costs until they can launch their new products. The cut in the tax credit rate to 10% will hit their cashflow and may mean that they must cease trading.

The Chancellor has listened to these concerns and restored the payable tax credit rate to 14.5% but only for R&D-intensive small companies. To qualify as R&D intensive the company must spend at least 40% of its total expenditure on qualifying R&D costs. This is measured as the expenditure listed in the company's profit and loss account plus the additional amount in the R&D claim less any nondeductible expenditure.

Budgeting for R&D projects just got harder as it is a catch-22 situation - you will not know how much you will get back as R&D tax credits until your total costs are summed up at the end of your accounting year but if you do not meet that 40% cost threshold the R&D project may not be viable.

We can help you with some cashflow projections.

SEED ENTERPRISE INVESTMENT SCHEME BOOSTED

Please ask us for advice if you are considering taking advantage of the SEIS

Ambitious entrepreneurs who want to attract investors can use two different schemes to provide the investor with income tax relief on the value subscribed for shares and capital gains tax relief on the disposal of those shares.

These schemes are: the enterprise investment scheme (EIS) and the seed enterprise investment scheme (SEIS).

The SEIS, designed for young, growing trading companies seeking to raise relatively modest amounts of capital, has until now been subject to fairly restrictive conditions.

From 6 April 2023 the amount that a single company can raise using the SEIS will increase from £150,000 to £250,000. For larger amounts companies should apply for clearance from HMRC to issue shares under the EIS.

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FREE CHILDCARE PLACES INCREASED

The Chancellor announced the extension of free childcare places to children under three years old in England to match the 15 or 30 hours of free childcare currently provided to three and four year olds in term time.

The extra funding will only apply in England and will be rolled-out in stages

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From April 2024 parents of two-year olds will be able to access 15 hours of free childcare per week.

From September 2024 parents of children aged nine months up to three years old will be able to access 15 hours of free childcare per week.

From September 2025 parents of children aged nine months up to three years old will be able to access 30 hours of free childcare per week.

To qualify for 30 hours of free childcare under the current scheme the parents must be working and each earning at least £659 per month. Where the adjusted net income of one or both parents is above £100,000 this is reduced to 15 hours. It is not clear yet whether these limits will remain in place under the new scheme.

The practical barrier to providing these free childcare places is the availability of space in nurseries. To tackle that the Government will allow childcare providers to change the ratio of staff to children from 1:4 to 1:5 for twoyear olds. It is also providing all newly registered childminders with a start-up grant of £600 and those who register with a childminder agency will receive a grant of £1,200.

The payment made by the Government to nurseries to provide these free places will be increased by around 30%. Currently the amount paid per hour of care is well below the actual cost of providing care, so the free places have to be cross-subsidised by charging other parents more.

As education is a devolved matter any decision to expand the free childcare places in Scotland, Northern Ireland and Wales will be up to those regional governments.

PENSION ALLOWANCES INCREASED

The Chancellor announced the relaxation of three different pension allowances to encourage older taxpayers to remain an active part of the workforce or to return to employment if they have retired early.

The pensions annual allowance provides a cap on the total contributions a taxpayer and their employer can pay into the individual's pension fund in a tax year without triggering a tax charge. This cap can catch individuals who belong to final salary pension schemes as the annual allowance is measured against the growth in the fund, subject to a complicated formula, rather than amounts paid in.

This annual allowance, which has been frozen at £40,000 for the last nine years, will increase to £60,000 on 6 April 2023. It will still be possible to carry forward unused annual allowance for three tax years.

Taxpayers with adjusted net income in excess of £200,000 per year and income including all pension contributions of over £240,000 have their annual allowance tapered down by £1 for every £2 of income over the higher figure down to a minimum of 4,000.

That income threshold rises to £260,000 and the minimum value for the tapered annual allowance increases to £10,000, both from 6 April 2023.

Individuals who have retired early and have drawn some of their taxed pension benefits from a money purchase pension scheme are subject to a money purchase annual allowance (MPAA) of £4,000. This means that if the taxpayer and their employer contribute more than £4,000 per year to the taxpayer's pension fund a tax charge will apply at the taxpayer's marginal rate.

The MPAA cap was previously set at £10,000 per year until 2016-17 and the Chancellor has restored it to that level from 2023-24.

PENSION SAVINGS LIFETIME CAP REMOVED

The pensions lifetime allowance effectively caps the amount that can accumulate in a person's pension fund and be extracted with favourable tax treatment.

This covers all contributions paid in and any organic growth in the fund.

Where the lifetime allowance (currently £1,073,100) is exceeded the pensioner must pay a lifetime allowance charge when they access their pension pot. This tax charge applies to the excess above the lifetime cap and is charged at 25% on amounts drawn as a regular pension and at 55% on amounts drawn as a lump sum.

The Chancellor announced that the lifetime allowance would be abolished - probably in 2024 - but in the meantime the lifetime allowance charge would not apply from 6 April 2023.

This will allow pension savers to build up unlimited pension pots which are protected from tax while within the fund.

Currently any pension saver can take a tax-free lump sum of up to 25% of their pension fund once that individual reaches the minimum pension age for the fund. However that tax-free lump sum will now be limited to a maximum of £268,275, so if the fund grows to more than £1,073,100 the pensioner cannot avoid tax on a full quarter of the total fund.

A word of warning: the Labour Party has pledged to reinstate the pension lifetime allowance cap if they come to power after the next General Election. Those with large pension savings may want to plan to extract funds before the date of the first Labour Budget, if or when that happens.

> The Chancellor announced that the lifetime allowance would be abolished

HOW TO COPE WITH CORPORATION TAX RISE

The Budget confirmed that the main rate of corporation tax will rise from 19% to 25% on 1 April 2023 but the small profits tax rate will stay at 19% where the company's profits do not exceed £50,000.

The Chancellor failed to highlight that the effective marginal rate of corporation tax will be 26.5% on profits in the marginal relief band between £50,000 and £250,000. This band can start at a much lower level as those profit thresholds are divided by the total number of associated companies and are also reduced if the company's accounting period is shorter than 12 months.

There are several measures that the directors of a family company can take to avoid the high marginal tax rate of 26.5% which we can help you consider.

First we can check how many companies your company is associated with. Any dormant companies can be ignored, as can passive holding companies which do nothing other than pass dividends through to shareholders. Working out which companies are associated can be complicated where family members each run their own companies.

Next we consider how much of the profit you need to extract from your company and whether those payments will reduce the taxable profits below £50,000. Salary and pension contributions will reduce taxable profits but dividends will not.

In the past you may have taken a modest salary with the rest of your cash needs paid out in the form of dividends, which are taxed at a lower rate and are not subject to national insurance contributions (NIC).

Taking a higher salary may be tax-efficient if it brings your company's taxable profits into the 19% band but we also need to consider the employer's NIC burden on your salary where the £5,000 employment allowance is not available.

If you do not need to extract funds immediately from your company, consider asking the company to make an employer pension contribution instead as this will reduce taxable profits and is not subject to NIC. As long as your total remuneration package including pension contributions is reasonable for the work you do HMRC will not normally challenge the payment of pension contributions by the company.

> There are several measures that the directors of a family company can take to avoid the high marginal tax rate of 26.5%

ALLOWANCES FROZEN AND CUT

It is easy to forget the hidden tax rises which are created by frozen and cut allowances, so here is a quick reminder.

The tax-free personal allowance will be frozen at £12,570 for six years from 202122 to 2027-28 and the related marriage allowance is fixed at £1,260 for the same period.

Although income tax rates have not changed, the threshold at which taxpayers start to pay higher rate tax It is essential that, where possible, we consider the most favourable outcomes for you and your business will be frozen at £50,270 for the six years to 2027-28. With inflation running at around 10% this will pull more people into paying 40% tax every year.

The band of income where child benefit is clawed back from the highest earner in the family has been £50,000 to £60,000 since 2013. If your income is within that range or higher and you or your partner receive child benefit, you must declare that benefit on your tax return and some or all of it will be clawed back. An easier solution may be to opt out of receiving child benefit.

The threshold for 45% tax has been cut from £150,000 to £125,140 from 6 April 2023 so be prepared to pay more if your income is within that range.

The capital gains annual exempt amount has been fixed at £12,300 for three years and for most taxpayers this allowance covers modest gains made on their share portfolios.

This exemption will be cut to £6,000 on 6 April 2023 and £3,000 on 6 April 2024. As a result many more taxpayers will have to declare their modest capital gains.

Any dividends covered by the dividend allowance escape tax. This allowance has been fixed at £2,000 since 2018-19 but it will be cut to £1,000 for 202324 and £500 for 2024-25. Companies whose shares are held by a number of family members who take advantage of this allowance may need to review the dividend strategy for 2023-24 and later years.

Finally the turnover threshold where businesses must register for VAT and start to charge VAT on their sales has been frozen at £85,000 from 2017-18 to 2025-26. It is important to monitor your cumulative sales on a rolling 12-month basis to spot exactly when you exceed the VAT registration threshold.

With these pressures on tax liabilities it is essential that, where possible, we consider the most favourable outcomes for you and your business.

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ALL CHANGE FOR CAPITAL ALLOWANCES

The 'super deduction' capital allowances, which provide companies with a deduction of 130% of the cost of new plant and machinery, will end for expenditure incurred after 31 March 2023 as scheduled.

The Chancellor has proposed a new system of full expensing of the cost of all plant and machinery, including IT equipment, purchased new and unused by companies between 1 April 2023 and 31 March 2026. This is effectively a 100% first year allowance for the assets which would have qualified for the super deduction.

The Chancellor indicated that this relief may be made permanent after a review but that review is likely to happen after the next General Election, so the lifespan of this new tax relief may be in doubt.

Most businesses (not just companies) already qualify for the annual investment allowance (AIA) which provides tax relief on 100% of the cost of plant and machinery in the year of purchase for up to £1m of expenditure per year. The AIA covers a wider range of assets including items acquired second hand and plant that is leased out but not cars.

Assets qualifying for the special rate deduction of 50% will continue to benefit from that rate when the items are purchased new and unused by companies until 31 March 2026.

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