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UK Developments

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Introduction

- Following the chaotic aftermath of the short-lived Liz Truss administration, there has thankfully been a return to stability and calm under Rishi Sunak and Jeremy Hunt.
- The Spring Budget 2023 included some significant tax changes, but these were balanced and the markets reacted favourably.
- The message from the Chancellor was that he will stabilise the economy and make sensible, calculated changes to the tax system when they can be fully costed and afforded.
- There was one controversial change in relation to pensions, but this was relatively minor within the bigger picture.

Corporation Tax Rate

- The UK main rate of corporation tax increased to 25% on 1 April 2023 for companies with profits in excess of £250,000
- The previous rate of 19% is retained for small companies with profits up to £50,000
- There is a marginal rate for profits between £50,000 and £250,000
- Tax payment dates are unchanged

Capital Expenditure

- A 100% tax deduction for capital expenditure on eligible plant and machinery has been introduced with effect from 1 April 2023
- The deduction will be available for expenditure incurred between 1 April 2023 and 31 March 2026
- There is no cap on the deduction
- The Government intends to extend the deduction beyond 2026 if possible
- The intention of the deduction is to encourage capital investment

Capital Expenditure

- The £1 million Annual Investment Allowance is retained for a further two years
- For special rate pool expenditure, an enhanced deduction of 50% is available from 1 April 2023
- For many businesses, a full deduction for capital expenditure is likely to be available

Capital Expenditure – will this have the desired effect?

- The Government want the changes to encourage investment by businesses
- However, the increase in the CT rate discourages investment
- Businesses have been hit by price and wage inflation plus the CT increase
- We are seeing much more careful consideration of capital expenditure – with deferral being the main aim unless the expenditure is business critical
- Whilst inflation remains stubbornly high, there is a likelihood that capital projects will be delayed

R&D Tax Relief

- HMRC have stated that they consider that the generous R&D rax relief system has been subject to abuse
- HMRC are actively auditing R&D claims when previously they adopted a very light touch approach
- New rules are being introduced to reduce the numbers of frivolous claims
- There are risks for both clients and advisors
- A new approach is necessary

R&D Tax Relief – New Conditions

- Claimant companies must notify HMRC of their intention to claim R&D tax relief within 6 months of the end of the relevant accounting period. This applies for accounting periods ending on or after 1 April 2023
- Claims will have to be signed by a named senior officer of the claimant company
- A detailed R&D report must be filed and this must state the name of the agent that has advised the company on completing the claim
- A separate Additional Information Form must be filed as part of the corporation tax return
- There will be penalties for failed claims

R&D Tax Relief - Practicalities

- Historically, R&D claims have been prepared by tax advisors
- This is no longer viable in most instances
- HMRC is focussing on the definition of R&D – there have been too many frivolous claims
- The key element of a claim is the explanation of the “scientific or technological advance” that the R&D project seeks to achieve
- This requires detailed specialist knowledge which is outside the ability of most tax advisors
- Many tax advisors are referring R&D claims to reputable specialists

Investment Zones

- The Government will introduce 12 new Investment Zones across the UK.
- These will be specific areas which will be given funding to enable them to offer specific incentives to businesses
- The Investment Zones benefit from a package of tax reliefs including:

  - SDLT relief
  - Employer’s NIC relief
  - Enhanced capital allowances
  - Relaxed planning permission

- The location of the Investment Zones is still being determined

Transfer Pricing

- The Government confirmed in the Spring Budget 2023 that large multinational businesses operating in the UK will be required to maintain a master file and a local file in a format set out in the OECD transfer pricing guidelines.
- HMRC are continuing to consult on the introduction of a summary audit trail, which is a short questionnaire detailing the main actions undertaken in preparing the local file.

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Pension Changes

- This was the controversial part of the Spring Budget.
- The Chancellor increased the maximum tax-free pension contribution from £40,000 to £60,000 per year.
- The Chancellor also announced the lifetime allowance will be abolished in future Budgets. It currently stands at £1,073,100.
- The measures have been attacked as only benefitting the wealthiest in society. However, one of the key reasons for these changes is to avoid penalising doctors as their NHS salary and pension arrangements were routinely being caught by the lifetime allowance cap.

Overall outlook for the UK

- 2023 will remain a year of challenges.
- Inflation remains higher than predicted.
- Interest rates have continued to rise which has a knock-on effect for mortgage holders.
- 1.4 million fixed rate mortgages end this year.
- Employment market is tough – lack of employees so high wage demands.
- However, recession has been avoided and we are cautiously optimistic.