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Issue 1 2021

Claiming capital allowances

Businesses and owners of commercial property planning major capital purchases, take note.

The temporary increase to the Annual Investment Allowance (AIA) limit is set to continue for another year.

The AIA limit rose to £1 million two years ago, and was due to revert to £200,000 from 1 January 2021. But to stimulate investment, the £1 million limit now remains until 31 December 2021. The AIA gives 100% same-year tax relief for most qualifying capital expenditure on plant and machinery, up to a fixed limit. Relief for cars is given by other means.

To maximise tax relief on capital expenditure, the small print is critical: and timing of purchases and sales of capital assets particularly important. When the rates of AIA change, the amount of AIA available depends on your accounting period, as well as the amount and timing of the expenditure. Looking towards the end of the year, when the £1 million limit expires, special care will be needed. The message is that any substantial capital expenditure would be better made before 1 January 2022, and bespoke calculations will be needed for businesses with accounting periods spanning this date. We are always on hand to compute the capital allowances available to your business and make sure the most advantageous claims are made.

Just one click? Your Business Tax Account

Think of it as the portal to HMRC's online services.

Many businesses will already have made use of their Business Tax Account (BTA), for example in connection with Making Tax Digital for VAT. But they may not have explored all the services on offer, and HMRC is currently encouraging all businesses to access their BTA to do just that.

check the data HMRC has received from your full payment submissions and employer payment summaries, and the payments it has received. The PAYE section also has a new feature to allow you to check your Employment Allowance status.

The BTA is designed to allow you to manage all your business taxes online, with just one sign in. It can be used by sole traders, partnerships and limited companies. Basically, it should summarise your business tax position for any tax you have registered for, from VAT and income tax self assessment, to corporation tax and the Construction Industry Scheme. For best results, look to use just one Government Gateway ID for all taxes, and consolidate access to just one ID if needs be.

You can use the BTA for a range of tasks. It has two distinct areas: firstly, a top menu to manage your account, view secure messages and get help. From this 'Manage account' area, you can add or remove online access to particular taxes; give an employee access to a particular tax; authorise an agent to deal for you; or change account details such as address, phone or email. Secondly, there is a business tax summary (or home page). From this, you can make payments, file returns and carry out other tasks. It's a quick way to get an at-a-glance overview of your liabilities and payments. Via the PAYE for employers service, for instance, you can



Current pressures on business make this a particularly good time to get to grips with the BTA. A business having new compliance responsibilities around imports and exports at the end of the Brexit transition period, for example, will find the BTA a useful management tool. And if you want to apply online for time to pay either an income tax self assessment liability, or a VAT liability under the VAT deferral new payment scheme, the BTA will provide the route to do so. (Details of this VAT payment scheme are covered elsewhere in the Newsletter). More details, including steps to set up a BTA, can be found here <http://bit.ly/3hICjtw>.

Health-check your Self-employment Income Support Scheme claim

With the Scheme rolled out at pace, plus change to the rules along the way, errors can creep into claims.

HMRC may charge penalties if you are overpaid and fail to notify it of the fact within the correct timescale. Notification should be made within 90 days after the date you receive an amount to which you were not entitled. HMRC states that it is not looking for innocent errors or small mistakes. Where someone didn't know they didn't qualify for a grant when they received it, HMRC will only charge a penalty if the grant is not repaid by 31 January 2022.

There are some key areas worth revisiting. Check, for example, that there isn't a significant discrepancy between the amount(s) HMRC has advised you were due, and amount(s) received. Overpayment could potentially occur if you have a business that has permanently stopped trading; or (because companies aren't eligible for SEISS) if you have incorporated a sole trader or partnership business since 5 April 2018. Or indeed, if you misunderstood the rules and claimed when you weren't eligible.

The process to notify HMRC of an error, or to make repayment, involves completing an online form, then making payment. HMRC is unlikely to contact you unless it needs more details or there is a problem with your payment. The detail is here <http://bit.ly/35besxF>.



Construction: level playing field

New measures tackle VAT fraud in construction and abuse of the Construction Industry Scheme (CIS) rules.

From 1 March 2021, the VAT domestic reverse charge for supplies of building and construction services changes the way VAT is accounted for in some scenarios. It affects most supplies of building and construction services where both supplier and customer are registered for VAT in the UK, and the supplies are reported within CIS. Please see <http://bit.ly/38j5Mae>.

Unless last-minute amendments are announced, there will also be change to the CIS rules from 6 April 2021 to 'level the playing field for all within the construction sector'. These give added bite to HMRC powers. HMRC will be allowed, for example, to amend the CIS deduction amounts claimed by sub-contractor companies on their Real Time Information Employer Payment Summary returns, in circumstances where employers don't provide evidence of eligibility and otherwise fail to cooperate with HMRC. In addition, HMRC's penalty powers will be enhanced where false information is given when applying for gross payment status or payment under deduction within the CIS. This could be, for instance, where someone exerts influence or control over a false registration. Finally, there is clarification regarding the cost of materials to be taken into account by a contractor when operating the CIS on a payment to a sub-contractor. The cost is only deductible where directly incurred by sub-contractors to fulfil their own contract with their contractor. We are happy to advise further.

Deferred VAT payments: what now?

What are the options if you took up the government's offer to defer VAT payments between 20 March 2020 and 30 June 2020, and still need to pay?

The first option is to settle the liability, in full, on or before 31 March 2021, and HMRC has reminded taxpayers financially able to pay that they should do so. The second option is to use the VAT deferral new payment scheme, announced in the government's Winter Economy Plan. This can provide you with up to an additional year to pay. The third option, where more time than this is likely to be needed to pay, is to contact HMRC: this link provides guidance here <http://bit.ly/3fQrovQ>.

New payment scheme

The VAT deferral new payment scheme means that instead of settling the full amount by the end of March 2021, you can pay by equal monthly instalments, and no interest will apply. All instalments must be paid by the end of March 2022, and the scheme gives you the discretion to choose how many monthly instalments you make, with a minimum of two and maximum of 11. Using the scheme

does not prejudice your applying for a time to pay arrangement for other HMRC debts or outstanding tax. To use the scheme, you opt in, online, and it falls to the taxpayer to do this. HMRC systems do not allow us, as your agents, to opt in on your behalf.

Tip

Watch the deadline. You must opt in before the end of March 2021.

Certain terms and conditions apply: see <http://bit.ly/3q2akb1>. You must, obviously, still have deferred VAT to pay: you must also be up to date with your VAT returns, and able to pay the deferred VAT by direct debit. Your first instalment must be paid before the end of March 2021.

In order to get ready for the opt-in, HMRC requires you to have created a Government Gateway account, if you don't already have one, and to have submitted any outstanding

VAT returns from the last four years. In addition, any errors on your VAT returns must be corrected as soon as possible. Corrections received after 31 December 2020 may not show in the deferred VAT balance.

HMRC advises that you must make sure you know how much VAT is owed, taking into account both the amount originally deferred and any sums you may already have paid. It also requests that if you intend to make any payment towards the deferred VAT before the scheme begins, you do so as soon as possible in order for it to show the correct deferred VAT balance.

At this particularly testing time for business, it's important to take stock of levels of committed expenditure, coupled with realistic appraisal of overall liquidity and ability to repay. We are on hand to discuss the best way forward for your business. Please don't hesitate to contact us for advice.

Corporation tax to go digital

Making Tax Digital. It's at the heart of the government's vision of a modern, transformed tax administration. With a consultation now running, Making Tax Digital (MTD) for corporation tax is on its way.

MTD: at a glance

For the government, MTD for corporation tax (CT) is about cutting down errors causing a £2.1 billion corporation tax gap. The system turns on three basic principles:

- keeping certain records digitally, using MTD compatible software
- online filing of quarterly income and expenditure updates with HMRC by means of this software
- a finalisation process after the end of the accounting period.

The MTD for CT regime is likely to be tailored at both ends of the spectrum, with the largest companies (those with profits over £20 million, paying CT through the Quarterly Instalment Payments regime) and the smallest, micro-entities having their own niche requirements.

The changes

At this stage, the detail is provisional, but the overarching framework is fairly clear.

Digital record keeping: the consultation states that 'digital records kept within the entity's software may also form the prime record for their accounts. To comply with MTD, accounting and tax adjustments relating to the period will need to occur either in that software or alternatively in linked software'.

Tip: what might need to change?

Some companies may need to move to new MTD compatible accounting systems. For others, as with MTD for VAT, it may be possible to use existing software, including spreadsheets, and to connect to HMRC systems via bridging software. It's likely that a range of software solutions will also be acceptable for MTD for CT.

Which records? for both income and expenditure, the date, amount and category of each transaction will need to be recorded digitally, as a minimum. The categories for income for smaller businesses are expected 'to have some parity with' categories for MTD for income tax. They are likely to include dividend payments, loans and other benefits provided to directors, participators and others, including director loan balances.

Quarterly updates: quarters will be aligned with the accounting period. The deadline for updates will be one month from the end of the quarter.

Various tax and accounting adjustments turn the raw data into GAAP compliant accounts, and indicate the company's final tax position. At present, these are usually carried out at the end of the accounting period. The current proposal for MTD for CT is that it will be possible to adjust quarterly figures to indicate such adjustments, but it will not be mandatory.

End of year: MTD doesn't spell the end of the annual CT return, CT600 process. Instead, the return will be submitted via MTD compatible software. The current position, whereby claims to the usual allowances and reliefs are submitted at this point, is likely to remain.

Other points to note are that the government is also considering the possibility of using MTD for CT as the occasion to align filing dates for tax and company law purposes, by bringing forward the company tax return filing date. Also that HMRC expects that iXBRL tagging to become integrated into MTD software, facilitating greater accuracy. Tagging transactional level data is not required by the proposals on the table at present.

When?

The government is now consulting on how MTD will best work for CT. In the medium term, there may be change to the small print, but it's unlikely that there is any going back now, given the government commitment to MTD, and its planned roll-out to other taxes.

- the consultation runs until 5 March 2021. You can put your views on MTD for CT by replying to the questions in the consultation before then. Small and medium-sized businesses can opt to use a shorter version, accessed via the 'Respond online' button <http://bit.ly/3qfAbfV>
- you will be able to test the system for MTD for CT with a voluntary pilot from HMRC, expected from April 2024
- MTD for CT won't be mandatory before April 2026.

How this will affect you

HMRC anticipates that the business population with turnover below the £85,000 compulsory VAT registration threshold will find the transition to MTD for CT most challenging. If your business needs to adapt its processes, invest in new software or update systems to enter MTD, it's as well to be aware of this now. Note, too, that your company may have different reporting requirements for MTD for CT and MTD for VAT. Software that complies for one may not meet all the obligations of the other.

We are happy to advise further here. Please don't hesitate to discuss any areas of concern with us.

And charities?

MTD for CT is about 'entities within the charge to corporation tax'. This potentially gives it wide impact, with implications for charities, community amateur sports clubs and other not-for-profit organisations. When the question was first raised some years ago, the government suggested that the non-trading activities of charities would be outside MTD, and charitable trading subsidiaries inside. There is now a shift in thinking, and the current proposal is that all charities that are within the scope of CT and are required to file a company tax return should enter MTD for CT. As government intentions become clearer, we will of course update you further.

AJU	1,822	12,349,000
EJK	3,480	238,681,000
HPL	1,062	85,678,000
KEE	485	8,369,000
NAH	8,569	189,301,000
QDP	6,602	102,698,000
TIK	890	24,697,000



R&D tax credit cap

What do new rules around R&D tax relief mean for small and medium-sized enterprises?

Government concern about abuse of small and medium-sized enterprise (SME) R&D tax relief means that with effect from 1 April 2021, there is a cap to the amount of payable SME tax credit which can be claimed in any period. Assuming that the proposals go through as anticipated, this will be £20,000 plus three times the total PAYE and National Insurance contributions (NICs) liability for the period. The PAYE/NICs bill to look at isn't just the bill for those involved in the R&D work. It applies to the company's entire PAYE and NICs spend, as well as the PAYE and NICs of connected persons carrying out subcontract R&D for the company, or supplying workers to the company.

The measure is not intended to penalise bona fide claimants. Companies claiming a payable credit less than £20,000 will not be affected. And if the company meets two tests, a claim of any size will not be capped. The conditions are that its employees are creating, preparing to create or managing intellectual property; and that less than 15% of its R&D qualifying expenditure is spent with connected persons.


HMRC scrutinises R&D claims thoroughly, and being able to substantiate your R&D expenditure is particularly important. Though there aren't record keeping requirements specific to the relief, the overarching corporation tax requirement to keep sufficient records should be borne in

mind. In an R&D context, this is likely to mean payroll records, work-logs or timesheets and invoices from anyone providing you with workers, such as agency workers. We should be delighted to help you check the detail of your expenditure and claim.

For those new to the regime, an SME, for R&D tax relief purposes, is a UK limited company, subject to UK corporation tax; with fewer than 500 staff, and a turnover of under 100 million euros (or balance sheet total under 86 million euros). For companies making a profit, SME R&D relief provides an enhanced deduction against profits for R&D revenue spending of 130%. This comes on top of relief for the actual expenditure, effectively providing up to a total 230% deduction. Loss-making companies have the option to surrender a loss in exchange for a cash repayment. This is currently calculated at 14.5% of the surrendered loss.

R&D tax relief is sometimes said to be a missed opportunity for smaller companies, which could, on occasion, undertake an innovative scientific or technological project advancing their business, without realising the activity could qualify for relief. If this prompts you to take stock of your own business activities, please don't hesitate to contact us for an in-depth discussion.

Why you need supply chain mapping



Do you know where every item you need to bring your product to market comes from? From raw material to finished goods? Every step of the journey, from A to B, and ultimately to you? Which roads, whose waggons, which warehouse?

Supply chain mapping is all about documenting the procedures and relationships that make up an organisation's business process. Knowing your supply chain doesn't just mean knowing your suppliers, where they're located and how supplies get from them to you. It's knowing who your suppliers' suppliers are, and their suppliers, and so on, all the way to the horizon. The tool isn't just for the bigger business. A micro business will benefit from a clear strategy here, too.

Supply chain mapping is important for business resilience. The more links in the chain, the bigger the potential for any disruption to feed back to you. Having data on suppliers, sites, parts, products, transport routes can help insulate you against risk. It enables you to identify pinch points. Look at lead

times. Check reliance on single suppliers. Then you can make your Plan B. A key component comes from a supplier in financial difficulty. If they go out of business, can you source it elsewhere? You rely on haulier Y: it's suffering a Covid-related shortage of drivers. How else could you ship your product?

Having a grasp of the supply chain means your business can be proactive rather than just reactive. It can also enhance business reputation. Whether you're looking to establish green credentials, minimise carbon footprint, or implement best practice on modern slavery, knowing your supply chain will help get you there. It also evidences compliance and transparency to your customers.

In current circumstances, this is a particularly topical issue: it will certainly help in coping with post-Brexit logistics. There is a range of help available at local level: see for example, <http://bit.ly/34Qpo3B>. This link from Scottish Enterprise can also be used for UK-wide supply-chain guidance <http://bit.ly/3nFMBg3>. As always, we are on hand if you would like to talk further.