Veterinary Tax Matters

DRIVING LIFELONG PROSPERITY

Spring 2023

THE RIGHT TAX PATH

Welcome...

In this issue we look at some upcoming changes to be aware of as we enter a new tax year including basis period reform for individuals and partners, the implications of a new corporation tax rate and an overhaul of the R&D tax regime and rates.

SIGN UP TO RECEIVE OUR BUSINESS UPDATES

Hazlewoods LLP and Hazlewoods Financial Planning LLP produce regular updates, using our expert commentary to provide you with information about our services, events and topical premium business news.

SIGN UP/UPDATE ONLINE: **http://bit.ly/hazlewoods**

INSIDE

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

BASIS PERIOD REFORM – ALL SYSTEMS GO

Under new rules, individuals and partners will be taxed based on profits arising during the tax year rather than the profits for the accounting period ending in the tax year. The rules take effect from April 2024 with a transitional period in the 2023/24 tax year.

This change will only affect self-employed individuals and partners who do not currently prepare their accounts to 31 March or 5 April.

The new rules were originally due to tie in with the timing for making tax digital (MTD) for income tax. Although MTD has now been delayed until April 2026 at the earliest, the government is still ploughing ahead with basis period reform.

HOW WILL IT IMPACT ME?

An example of how the taxable profit will be calculated for an existing business, drawing its accounts up to 31 December in the transitional year, is as follows:

- Profits for the period from 1 January 2023 to 31 December 2023 (as currently); plus
- Profits for the period from 1 January 2024 to 5 April 2024; less
- Overlap relief brought forward

In the 2024/25 and subsequent tax years you will be taxed on part of the profit from two accounting years:

- 6 April 2024 to 31 December 2024 (circa nine months of the accounting period to December 2024); plus
- 1 January 2025 – 5 April 2025 (circa three months of the accounting period to 31 December 2025)

This will clearly lead to an acceleration of tax liabilities and, as such, it is anticipated that any additional tax liability arising as a result of the transitional rules in 2023/24 (e.g. profit for the accelerated period to 5 April 2024 less any overlap profit) can be spread over five tax years, rather than all being taxed up front.

This is still, however, likely to lead to an accelerated tax liability in most cases and could potentially tip you into a higher marginal rate of tax, which could lead to cash flow issues.

IMPACT ON COMPLIANCE DEADLINES

The reform could also cause particular issues for businesses with a later year end when trying to determine the relevant profits to allocate prior to the relevant filing deadline.

For example, the tax return filing deadline for the 2023/24 tax return will be 31 January 2025. This would give a business with a December year end just one month to finalise their accounts and allocate profits for the 1 January 2024 – 5 April 2024 period, which is unlikely to be feasible in most cases.

HMRC has considered how to address this and have recently confirmed that this will be dealt with by allowing taxpayers 12 months (in line with the current amendment window) to amend any provisional figures.

HMRC guidance currently requires businesses to provide final figures 'without delay' but this wording will be relaxed to allow taxpayers to amend provisional figures at the same time as filing their following tax return.

Although this is a welcome announcement, it will likely lead to a further administrative burden for businesses having to apportion profits and file amended returns each year. Businesses may, therefore, want to explore other options available including a change of year end to 31 March or 5 April.

Aligning the accounting year end to the tax period is likely to be the most straightforward option administratively to meet tax filing obligations, although it is appreciated that this may not always be the best solution commercially.

HOW WE CAN HELP

We can model the tax impact of the transitional period for you and how this may affect your cash flow position over the coming years.

We can also assist you with exploring your options to determine the best route for your business to deal with the ongoing requirement to report on a tax year basis.

CORPORATION TAX RATE CHANGE – PRACTICAL IMPLICATIONS

With effect from 1 April 2023, standalone companies with profits exceeding £250,000 are subject to tax at the new main rate of 25%. Companies with profits below £50,000 will continue to be taxed at the current rate of 19%. Companies with profits of between £50,000 and £250,000 will be taxed at the 25% rate but will be entitled to marginal relief.

The introduction of different tax bands and a higher main rate will have a number of practical implications for companies to be aware of, as well as some possible planning opportunities/decisions to consider.

ASSOCIATED COMPANIES

For groups of companies, the above profit thresholds will need to be divided by the number of 'associated companies' to determine the rate of tax payable.

From 1 April 2023, a company will be associated with another if, at any time in the chargeable accounting period (a) one company has control of another, or (b) both companies are under the control of the same person or group of persons.

This is an extension to the existing rules where, broadly, one company must be a 51% subsidiary of the other or both companies must be 51% subsidiaries of the same company.

Full details on the new definition for associated companies can be found in our article here: https://t.co/9eY4AQ64BA

PRACTICAL POINT 1

Taking a simple example, two associated companies will have revised profit thresholds of £25,000 (small profits rate) and £125,000 (main rate). Assuming the first company has profits of £45,000 and the second of £5,000, the companies will pay corporation tax at 25% (with marginal relief) and 19% respectively.

Combining the activities (if commercially viable) and rationalising the number of group entities to just one would result in all profits being taxed at the lower rate of 19%.

Similar rules will also apply to quarterly instalment payments and more companies could find themselves subject to accelerated payments due to the wider definition of an associated company.

LOSSES

With a change in corporation tax rates, companies will need to consider additional factors when determining the best use of any losses.

Where rates are static, a company that has incurred losses would normally look to carry these back or group relieve where possible to potentially obtain a tax repayment or reduce tax payable in the current year respectively.

However, carrying forward any losses realised in the most recent accounting period (ending prior to 1 April 2023) for future offset would potentially attract tax relief at the higher tax rate of 25%.

PRACTICAL POINT 2

If there is uncertainty around when the company will return to being profitable, the company could initially consider claiming loss relief in an earlier period and then reviewing this at a later date.

For example a company makes losses of £250,000 in its accounting period to 31 December 2022. It could initially make a claim to carry back the loss to the period ending 31 December 2021 with a possible repayment of tax of up to £47,500 (at 19%). It would then have the option to potentially revisit the claim before the amendment window for that return closes on 31 December 2024, when there is more visibility around future profitability and potentially save tax at 25%.

REMUNERATION PLANNING

For owner managed businesses, consideration should also be given to the most tax efficient remuneration package of salary versus dividends. Where the company is paying tax at 25%, in some cases it may now be more tax efficient for a director to be remunerated by full salary and taking dividends only to utilise their tax free allowance (of £1,000 for 2023/24).

PRACTICAL POINT 3

Some scenarios where a higher salary or bonus could be more tax efficient rather than paying a dividend include:

- A director whose total remuneration is likely to exceed £550,000 for the tax year
- Companies eligible for R&D tax relief where a proportion of the director's salary costs could potentially be claimed for enhanced relief
- An employee/director that has a higher base salary or other non-savings income, such that any dividends received would be taxed at the higher/additional rate.

TAX ROUND UP

MTD FOR IT DELAYED ONCE AGAIN

Making Tax Digital (MTD) for income tax was due to come in from April 2024 but has now been delayed by a further two years until April 2026, at the earliest.

New, higher thresholds for mandation have also been announced with self-employed individuals and landlords only being required to comply from April 2026 if they have gross income of over £50,000. From April 2027, those with gross income of over £30,000 will also be mandated.

A date to comply for those individuals with income of below £30,000 or partnerships is yet to be confirmed.

EMI OPTIONS AND EXERCISE OF DISCRETION BY DIRECTORS

HMRC has updated their guidance in relation to the use of directors' discretion for enterprise management incentive (EMI) options.

In many cases EMI options are likely to include provisions allowing for certain discretions to be exercised by the directors of the company. Care should be taken when taking such decisions which require the use of discretion, however, as where it is deemed that the amendment has resulted in a fundamental change to the terms this could result in the loss of the tax advantages of those options afforded under an EMI scheme.

In general, where discretion is exercised for something other than an amendment to a performance condition or a matter of judgement (e.g. whether someone should be treated as a 'good' leaver), then HMRC's opinion is that it could amount to a fundamental change to the terms of the EMI option. For example, exercising a discretion to bring forward the date upon which the option may be exercised would fall into this category.

Whilst the inclusion of discretion in the drafting of the scheme rules will not in itself have a direct impact on the EMI status, the tax advantaged benefits could be lost at the point the directors choose to exercise their discretion. We would therefore recommend that care is taken prior to the use of discretion and that professional advice is sought if unsure of the possible knock-on effect following such a decision.

LATE PAYMENT INTEREST RATES

HMRC interest rates are linked to the Bank of England base rate and, as such, have been subject to multiple increases in recent times. As of 13 April 2023, the late payment interest rate has increased to 6.75% for most taxes.

This is more than double the rate just 12 months previously and the additional cost should be factored into consideration when looking to agree a time to pay arrangement with HMRC. Those already subject to a time to pay arrangement may want to look at accelerating payments where possible to reduce the cost of the debt.

ATED

A company or other non-natural person holding a residential property with a value in excess of £500,000 is subject to the annual tax on enveloped dwellings (ATED) rules.

2022 was a revaluation year requiring properties to be revalued as at 1 April 2022 to determine whether the rules apply with effect from 1 April 2023. As a result many more companies could find themselves within the regime for the 2023/24 tax year if they now breach the £500,000 threshold following revaluation.

Not all properties are subject to the charge as certain exemptions and reliefs apply but a return may still need to be filed, with penalties applying for failure to do so.

UP TO A POINT- A NEW PENALTIES REGIME FOR VAT

Since 1 January 2023, a new points-based penalty regime has been in place for late statutory VAT return submissions and payments of VAT liabilities.

The new points system will incur penalties starting at £200 and the rules apply to any VAT accounting periods beginning on or after 1 January 2023.

LATE SUBMISSION PENALTIES

For every VAT return that is submitted late, one penalty point will be incurred. When points exceed the set threshold (which is dependent upon how regularly your VAT returns are filed) a £200 penalty will be levied, followed by a further £200 penalty for subsequent late submissions whilst you are still at that threshold.

Frequency of VAT returns	Penalty points threshold	Compliance period
Annually	2	24 months
Quarterly	4	12 months
Monthly	5	6 months

Points can be incurred even in cases of nil and repayment VAT returns. Points will not, however, be levied for the first VAT return when newly registered, the final VAT return after cancelling your registration and one -off returns which cover a period other than a month, quarter or year.

Points are reset after the business has complied for a set period of time as shown in the above table.

Example

A company filing quarterly returns has accumulated three penalty points. It files its next return late and therefore reaches the penalty points threshold of four points and is issued a £200 penalty.

It files its next two returns on time but then submits its following return late. As it has not had 'good compliance' for a period of 12 months, the company will receive a further £200 late filing penalty.

LATE PAYMENTS OF VAT

Late payments of VAT will be subject to a two stage system of fixed penalties followed by daily penalties.

No penalties will be incurred if the VAT liability is paid within 15 days of the due date. Overdue payments after this period will be subject to penalties as follows:

Number of days after due date	Penalty
16 – 30 days	Fixed 2% penalty of the amount outstanding at day 15
31 days	Fixed 2% penalty of the amount outstanding at day 31 (in addition to the 2% calculated at day 15 above)
31 days	Daily penalties at a rate of 4% per annum

Example

A business pays its VAT liability of £20,000 seven months after the due date.

It will be subject to fixed penalties of £800 (e.g. 4% x £20,000) and daily penalties of £400 (e.g. 4% x £20,000 x ~6/12 months) incurring a total penalty of £1,200.

Summary

Now more than ever, insufficiency of funds should not deter a taxpayer from at least filing. More importantly, businesses anticipating difficulty paying a VAT liability should strongly consider seeking a 'time to pay' agreement with HMRC.

R&D TAX RELIEF REFORM

A number of changes to R&D tax relief came into effect from April 2023, in one of the biggest shake ups to the regime since its inception.

Some changes were announced back in 2021 but there was a surprise announcement to vary the rates of relief in the Autumn Statement at the end of last year and possibly the biggest change of all proposed for next year. The changes set out below are effective for accounting periods beginning on or after 1 April 2023, unless otherwise stated.

CHANGES TO THE RATES OF RELIEF

Changes to the rates of relief apply with effect from 1 April 2023, hailed as a rebalancing of the generosity of the reliefs in the Autumn Statement announcement. Based on projections, however, there will be more losers than winners.

The RDEC scheme rate is increasing from 13% to 20% which will give an overall tax saving equal to 15% of the company's R&D expenditure (compared to 10.53% currently).

The SME additional deduction is decreasing from 130% to 86% which will result in a reduction in a company's CT liability of 21.5% of R&D expenditure (or 16.34% if subject to corporation tax at the lower 19% rate) compared to 24.7% currently.

The SME payable tax credit is also decreasing from 14.5% to 10%, with an overall impact of almost halving the cash credit that could have been claimed previously. 'R&D intensive' loss making SME's will still be able to claim a 14.5% tax credit.

EXTENSION TO QUALIFYING COSTS

As previously announced, the definition of costs qualifying for R&D relief has also been extended to include data and cloud computing costs. It will not be possible to make a claim, however, where the costs can be recouped, for example, if the company later goes on to sell the data.

Pure mathematics is now also included within the definition of qualifying R&D.

RELIEF FOCUSED ON UK ACTIVITIES

With a focus on R&D activities being carried out in the UK, costs incurred in the use of third-party overseas subcontractors and externally provided workers (EPWs) will no longer be qualifying unless it is necessary to undertake the R&D overseas, for example, for environmental testing or due to regulatory reasons.

The commencement date for this has now been pushed back by one year to April 2024.

ADVANCE NOTIFICATION

Another key change to be aware of is that new claimants, as well as companies that have not claimed R&D tax relief in the last three calendar years, will need to notify HMRC, within six months of the end of the accounting period in which R&D took place, that they intend to make a claim.

No advance notice is currently required and therefore businesses will need to review expenditure and R&D activities earlier and take action where appropriate by completing a standardised claim notification form.

ADDITIONAL INFORMATION REQUIREMENTS

A new form in support of an R&D claim will also need to be submitted for all claims made on or after 1 August 2023 with details of projects undertaken, a breakdown of the qualifying costs, the workers involved in R&D activities, as well as details of the agent that has helped to prepare the claim.

Claims prepared by Hazlewoods Innovation taxes team would already include most of the required information, however, for some firms this could be a big procedural change.

We are currently awaiting confirmation on whether a form will be required in all cases if a full claim report has been submitted, as this would result in additional admin for all.

DIGITAL CLAIMS

Since April 2023, new legislation mandates that any corporation tax returns that include an R&D claim must be submitted digitally via HMRC's online tax return portal. This includes amended returns and the only exception is for companies that are exempt from filing online.

A 'SIMPLIFIED' SINGLE SCHEME

Narrowing the gap between the rates of relief for the two schemes appears to be a first step towards a single R&D incentives scheme which has been proposed to take effect from April 2024.

A consultation on this has now been released and HMRC proposals seem to be favouring a scheme similar to that of the existing 'above the line' RDEC scheme which will apply to all companies regardless of size.

HMRC ENQUIRIES

HMRC have been placing increasing scrutiny on R&D tax relief claims in recent months in an attempt to flush out any irregular and potentially fraudulent claims.

They have recently sent over 2,000 nudge letters to R&D tax relief claimants asking the companies to check their claims are complete and correct.

If you are considering submitting an R&D claim you should carefully consider whether you believe the company has genuinely undertaken projects aimed at achieving an advance in science or technology.

MEET THE TEAM

PHIL SWAN
01242 680000
phil.swan@hazlewoods.co.uk

MARK HARWOOD
01242 680000
mark.harwood@hazlewoods.co.uk

SUZANNE HEADINGTON
01242 680000
suzanne.headington@hazlewoods.co.uk

RACHEL VINES
01242 680000
rachel.vines@hazlewoods.co.uk

SCAN THE QR CODE TO ACCESS OUR LATEST EDITION OF TAX FACTS 2023/24

Your up-to-date guide for all you need to know about personal and business tax rates and allowances for the current tax year.

Click 'share' and select 'Add to Home Screen' on your phone for easy access or to download a copy of the Tax Facts booklet pdf.

Visit our dedicated tax page at www.hazlewoods.co.uk/services/tax.

SIGN UP TO RECEIVE OUR BUSINESS UPDATES

Hazlewoods LLP and Hazlewoods Financial Planning LLP produce regular updates, using our expert commentary to provide you with information about our services, events and topical premium business news.

SIGN UP/UPDATE ONLINE: **http://bit.ly/hazlewoods**

Staverton Court, Staverton, Cheltenham, GL51 0UX
Tel. 01242 680000

www.hazlewoods.co.uk/sectors/vet-accountants

HAZLEWOODS
DRIVING LIFELONG PROSPERITY

HLB
WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY AND ACCOUNTING NETWORK