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Saffery Champness
CHARTERED ACCOUNTANTS

Could corporation tax changes impact your business?

Planned corporation tax changes may not be as headline-grabbing as changes to income tax, yet the new rules are expected to have an effect on many businesses. It is worth considering how your business might be impacted by the changes announced by the Chancellor in recent Budgets. In this article, we cover some of the key measures coming into force, as well as changes further afield, plus other updates that will be relevant to many businesses.

Tax relief on fixed asset additions

As readers may be aware, tax relief for fixed asset additions is given by way of capital allowances. However, business owners need to be aware of some recent changes, as follows:

Super-deduction

For the period 1 April 2021 until 31 March 2023, the government introduced the new super deduction, which gives 130% tax relief on qualifying plant and machinery investments (subject to a couple of exceptions). There are some transitional rules in terms of the way relief is given where a company has an accounting period that straddles 31 March 2023. Broadly, the super-deduction rate is time- apportioned for days falling prior to 1 April 2023 over the total days in the accounting period. By way of an example, for a September 2023 year-end, an amended rate of 115% would be applied to all expenditure in the period regardless of when it was incurred. This could therefore affect the tax relief a business was expecting to receive on its capital expenditure depending on when it is incurred.

Annual Investment Allowance

The Annual Investment Allowance (AIA) gives 100% tax relief on qualifying expenditure in the year of

purchase. Until 31 March 2023, the allowance is £1 million per year (this is a use it or lose it allowance – any unused allowance cannot be rolled forward to the next accounting period), however from 1 April 2023 this will be reduced to £200,000. Transitional rules will apply to accounting periods that span 1 April 2023. Only a single AIA is available to groups of companies or companies under the same person that are related to each other.

Green cars and electric charging points

Where a business buys a brand new/unused car with emissions of 0g/km, corporation tax relief of 100% is available in the year of purchase. This relief is also available on the installation of electric car charging points.

In addition, the P11D benefit charge for personal use on zero emission cars is only 2% for the financial year 2022-23. This means that if you are looking at replacing cars within your business, it is particularly tax efficient to purchase a zero emissions car at present.

If you are planning significant capital expenditure it may be worth considering the timing of this expenditure in order to obtain maximum benefit from these reliefs, although you may also wish to take into account the effect of the increase in the corporation tax rate of 25% from 1 April 2023 (see further details below).

Extended loss carry back claims

The government introduced a temporary extension to the trading loss carry back rules for businesses to allow trading losses to be carried back three years instead of just one. This is a temporary measure that will apply to losses for accounting periods ending between 1 April 2020 and 31 March 2022. The benefit is that for companies who had a particularly challenging time during Covid-19, they can relieve these losses against previously profitable periods and obtain a cash repayment from HM Revenue & Customs (HMRC) on historic tax liabilities.

Research and development tax credits

Research and development (R&D) projects are defined as those that seek to achieve an advance in a field of science or technology through the resolution of scientific or technological uncertainty. For those companies that qualify for the regime, the tax relief can be significant. For small or medium-sized enterprises (SMEs) with qualifying R&D, activities are entitled to a 230% enhanced deduction on qualifying expenditure when calculating UK taxable profits, thereby providing additional tax relief of 24.7% (based on the current rate of UK corporation tax of 19%). This relief will become more valuable, increasing to 32.5% of qualifying expenditure, when the main rate of corporation tax in the UK rises to 25% from 1 April 2023.

There is a scheme known as R&D expenditure credit (RDEC) that either large companies or SMEs that have subsidised expenditure or undertake R&D on behalf of a large company may qualify for. The tax relief on qualifying R&D expenditure incurred for RDEC is c.10.5%.

Patent Box relief

The UK's Patent Box regime is a complex but generous tax incentive introduced to encourage innovation by helping to reduce the costs of patenting for companies. The regime, broadly, offers an additional deduction in calculating taxable profits, with the effect that the relevant intellectual property profits are taxed at a reduced corporation tax rate of 10%. Again, this regime will become more valuable when UK corporation tax rates increase to 25%.

To qualify for Patent Box, a company liable to UK corporation tax must make profits from exploiting qualifying patented inventions (or certain other medicinal or botanic innovation rights). The company must either own qualifying patents, or hold exclusive licenses for the rights to those patents.

Increase in corporation tax rates

As noted above, UK corporation tax rates are expected to increase to a main rate of 25% for companies with taxable profits in excess of £250,000. There will also be a small company rate of 19% for companies with taxable profits of less than £50,000. However, when taxable profits fall between the two bands, these profits are chargeable at a marginal rate that, when calculated, equates to a 26.5% charge. Therefore, where a company expects to have profits between £50,000 and £250,000, it would be beneficial to consider any opportunities to mitigate the amount of taxable profits subject to the marginal rate.

Timing of tax payments

In addition to the change in rate, HMRC has made changes to the way that companies are considered to be connected for the purpose of calculating whether a company falls within the quarterly instalment regime (QIPs). Broadly speaking, a company will fall into the QIPs regime where its taxable profits exceed £1.5 million. However, this limit is currently divided by the number of 51% companies within the group . Going forward, from 1 April 2023, the limit will be divided by the number of companies under common control (which can include individual shareholders). Therefore, if you have a number of independently owned companies (that are not grouped), we recommend considering the impact of these new rules, as the companies could unexpectedly fall into the regime going forward, which would result in the corporation tax liability being payable sooner than originally anticipated.

Plastic packaging tax

Plastic packaging tax (PPT) came into effect on 1 April 2022 and we recommend that manufacturers and importers of plastic packaging work through the government guidance to determine whether they need to register. Those liable will have 30 days to register and will need to commence filing a PPT return from July 2022.

The aim of these rules is to incentivise businesses to use recycled materials in the production of plastic packaging. Broadly, the rules apply a rate of £200 per tonne on plastic packaging with less than 30% recycled plastic manufactured or imported into the UK (including packaging on goods which are imported).

HMRC Support for mid-size businesses

HMRC's Mid-Sized Businesses Team (MSB) is currently trialling a new initiative to offer taxpayers within their remit (that is, those with either 20 or more employees or a turnover of over £10 million) extra support through a temporary Customer Compliance Manager (tCCM). The tCCMs will provide a nominated point of contact and additional one-to-one support to taxpayers who require it, such as those with greater tax complexity, those with a number of open HMRC interventions, or those going through significant growth or key business life events. This support will be time-limited, depending on each taxpayer's needs, and agreed following discussions with them.

Taxpayers may be approached by HMRC to offer additional support or, alternatively, clients and agents can reach out to them. As the team is small, it is likely they will not be able to offer tCCM support to everyone requesting it, although they are aiming to help as many as possible. Specifically, for queries that don't require tCCM input, but that could benefit from HMRC assistance, such as one-off questions, or issues that are currently with HMRC but that are delayed, then they are encouraging agents and clients to reach out to them for help.

How can Saffery Champness help?

If you have any further queries on any of the issues raised here, or would like to discuss your corporation tax position, please get in touch with:

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