STRAIGHT TALKING BUSINESS ADVICE FROM
ENSORS CHARTERED ACCOUNTANTS

SPRING/SUMMER 2021

BUSINESS E+

ROAD TO RECOVERY?

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It is nice to be able to introduce this edition of E+ at a time where there is a degree of optimism in the air. Health-wise the UK appears to have stolen a march on most other countries with its rapid vaccine roll out which, hopefully, will lead to the "irreversible" release of lockdown restrictions within the planned timetable.

Business-wise, nearly all economists are predicting a strong "bounce" for the UK economy boosted, at least in part, by the pent-up consumer demand (as well as savings and government stimulus in their pockets…). They've been wrong before but let's hope it all comes true. I have a feeling however, that there will be bumps in the road along the way. Certain industries – such as hospitality – have literally got to start from scratch and tend to only really start making money once they reach near capacity levels at their venues. If social distancing remains to any great degree, then it will be a real challenge for affected businesses to return to profitability in the short term.

Continued overleaf ➤

Ensors

Making you more than just a number

Cover Story *continued*

In this newsletter Mark Upton, our Head of Business Recovery, looks at some of those "bumps" that are going to present themselves as obstacles for businesses over the coming months. The eventual turning off of government stimulus (be it furlough, HMRC's approach to debt collection or supported lending schemes requiring repayment) will have quite a dramatic impact on businesses and the people that work for them. That package of stimuli has allowed businesses much needed time to make long term decisions, but it has also put off the inevitable in certain situations. As ever, taking early advice is essential if there are issues that worry you and we would be pleased to help any of our clients plot a way through.

The other hot topic for office-based businesses is how and when people will return to the office. Some prominent businesses have said that they never will. Their staff will "work from anywhere" which could be home, client's premises, a serviced office location or even the local café. There will inevitably be a reduction in demand for office space in larger cities, as this filters down, and as lease events occur over the next few years. Most businesses that we talk to however, wish to strike a balance – taking the best of both approaches – creating an agile workforce who can work from home for some of the time but with a clear and strong cultural pull towards being in the office with colleagues for the majority of the time. When it is safe to do so, this is the approach that we will take as we think it is best for our business, the development and training of our apprentices and for client service.

We have also had a Budget since our last edition and there are a number of articles in the newsletter that deal with the changes to the tax regime as a result. The introduction of the "Super Deduction", that seeks to reward those companies that invest in capital equipment, was fairly prominent in the Chancellor's speech however, Robert Leggett shows on page four that, like most perceived tax giveaways, there are some important issues to watch out for before diving in.

The Budget was ultimately silent on changes to capital gains tax (CGT) despite some pretty strong rumours that it was set to increase significantly. The rumours helped to buoy M&A activity in our Corporate Finance team who continue to be extremely busy helping clients buy and sell businesses as well as secure funding. As described in more detail on page y, 2020 was a great year for our CF Team as they completed a record number of transactions which saw them top the league table in the whole of the East of England. They have also recently won "Private Equity Deal of the Year" at the coveted Insider M&A Awards for their part in the Vanilla Electronics deal. This is a remarkable achievement given the majority of that year was spent working remotely, sometimes completing transactions without ever meeting the people involved!

Finally, in this edition we introduce Zoe McLaughlin in our popular Meet the Team interview. Zoe has recently been promoted to Associate Partner which adds further to the number of colleagues who have been with the firm right through from trainee level. Internal promotions like this really endorse the training and development culture at Ensors and it is great to add Zoe to the senior team, even if I have now found out that she is a TV soap addict!

I hope you enjoy reading our newsletter and wish you all the best.

NEWSBITES...

Employee Ownership Trusts

Following the major changes to Entrepreneurs Relief back in March 2020 and the impact this had on the tax charges levied on business owners looking to sell, the adoption of Employee Ownership Trusts has certainly come into its own as a means of alleviating some of the tax liabilities.

In addition, it can be a valuable resource when looking at ways to reward loyal and valuable members of staff when, under current economic conditions, traditional remuneration opportunities can be very limited. For more information on how Employee Ownership Trusts can be utilised please read our blog online https://www.ensors.co.uk/blog/employee-ownership-coming-to-a-business-near-you/

Patent Box changes

From 1 July 2021 the original Patent Box will cease and all companies that are still claiming under the old rules will move into the new Patent Box. Why the change?

With international tax avoidance increasingly under the spotlight, it became clear that preferential IP regimes, such as the UK patent box, allow globally mobile enterprises to pick and choose where to have their IP profits taxed. To counter this, a new international framework was been drawn up that requires substantive economic activity as a condition for access to all preferential IP regimes. For more information on the new Patent Box rules please read our blog online https://www.ensors.co.uk/patent-box-blog

Off-Payroll working rules

HMRC's off-payroll working rules, historically known as 'IR35', were first introduced over 20 years ago and were designed to ensure that workers providing services to a client through an intermediary, such as a personal service company, and who would have been an employee if they were contracted directly, pay broadly the same tax and National Insurance contributions (NICs) as employees.

These rules changed significantly from 6 April 2021 and have seen responsibility for determining workers' employment status shifting from the intermediary to the end client in many circumstances. For more information on the new Off Payroll Working rules please read out blog online https://www.ensors.co.uk/off-payroll-working-blog

CHALLENGES TO BUSINESSES
as we come out of the pandemic

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It is a fact that every single business has been challenged by trading during the pandemic and there remain considerable challenges as we return to 'normality'. Many businesses have, of course, successfully adapted to changing trading conditions, demonstrating incredible resourcefulness, and we have seen illustrations of that throughout all sectors of our client base.

The unprecedented support provided in the form of the furlough scheme, business rates support, deferment of HMRC liabilities, CBILS and 'Bounce Back' loans have undoubtedly ensured that many businesses are in a position now to take advantage of the easing of lockdown restrictions. Some predictions are that during the first half of 2022 the economy will be back to pre-Covid levels of activity and this will be driven by pent-up consumer demand as life begins to return to normality.

However, it is also the case that many businesses will be emerging from lock down and entering the new trading period with additional debt burdens and other challenges. The deferment of liability that was available and having taken on CBILS and Bounce Back loans will mean that many businesses are carrying additional debt and they may also be facing a changed market that has developed throughout lockdown.

It will therefore be important to try and understand the financial circumstances of the businesses that you are going to be trading with as we emerge from lockdown and the measures of support are removed. Throughout lockdown there has, to all intents and purposes, been a stay in the ability of businesses to issue winding up petitions and this has now been extended until 30 June 2021 so there may be a flurry of court activity as soon as the restriction is removed.

The position that HMRC takes will also be interesting. Currently HMRC are providing a lot of assistance to businesses and our experience is that Time to Pay arrangements are fairly readily accessible over as much as a 24 month period, representing a significant shift from the pre-Covid position. We have even heard of a 5 year agreement being reached.

But combine that with the fact that there is an enormous government debt to repay and that HMRC have regained preferential status as a creditor in insolvency proceedings, I cannot see that HMRC's compliant position will last for too long.

The Budget, the Superdeduction and the Extended Loss Carry Back

On the face of it, the March Budget gave businesses several valuable new reliefs, to help cashflow and to incentivise investment through these (hopefully!) latter stages of the pandemic. For many businesses these will indeed be valuable, but think before you claim them, as the increase in corporation tax to 25% from April 2023 will have an impact.

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ALL THAT GLITTERS IS NOT GOLD

THE PLANT & MACHINERY SUPERDEDUCTION

The "superdeduction" will give companies (not unincorporated businesses – more on that later…) a Capital Allowance of 130% on their qualifying "main pool" plant and machinery expenditure. Pretty exciting stuff (for a tax adviser!). This is much better than writing down allowances at 18%, and still an improvement even if you were able to claim a 100% deduction under the Annual Investment Allowance (AIA).

With a corporation tax rate of 19%, this means that a profitable company spending £100,000 on new machinery would find it only costs them £75,300, whereas under the AIA it costs them £81,000 (Note: the temporary £1m AIA has been extended until 31 December 2021, before it is, theoretically, due to revert to £200,000 per annum).

There are restrictions to think about:

- The relief will only be available for expenditure incurred from 1 April 2021 until 31 March 2023. Apportionments apply for periods that straddle 31 March 2023;
- Any expenditure under a contract entered into before 3 March will not be eligible;
- Only new assets are eligible; second-hand purchases will not qualify;
- The relief will not apply to cars, long-life assets, assets for leasing out, in the period of cessation, or in certain tax avoidance scenarios.

All well and good, but what's the catch?

Ordinarily, when an asset is disposed of that has been subject to a Capital Allowance claim, the disposal price is deducted from the Capital Allowances pool (the residue of Capital Allowance expenditure on which writing down allowances are claimed each year). It is only if that pool has been exhausted that a balancing charge will be crystallised; taxing so much of the disposal value as exceeds the pool.

With the Superdeduction, the expenditure will need to be kept separately, so a balancing charge will always arise on disposal. But of course, chances are the disposal will take place after the rise in corporation tax, and the balancing charge will be taxable at 25%... If it doesn't, then the balancing charge will be multiplied by a factor of up to 1.3 to reflect the additional tax relief claimed on acquisition.

Example 1 looks at the effect of the change in tax rate and the balancing charge. As can be seen, upfront in 2021, the superdeduction is more beneficial than claiming under the AIA. However, if there was a substantial Capital Allowances pool to offset the balancing charge, then a claim this year under the existing AIA rules could actually be more tax efficient over the four year ownership period of the asset, as £6,250 of the £24,700 upfront saving under the superdeduction is clawed back because of the balancing charge, giving an overall saving of £18,450 compared to £19,000 under the AIA.

More stark is that if the expenditure is delayed until 2023 when the new tax rate comes in, then a claim under normal AIA will save more tax than the superdeduction even in year 1. This is because the higher corporation tax rate actually outweighs the 130% deduction. By the time a balancing charge is factored in, waiting for the AIA in 2023 looks much more generous.

What this really tells the cynic in me, is that having decided to pre-announce the rise in Corporation Tax rates, the Government realised that companies would be incentivised to delay their capital expenditure until April 2023; exactly the opposite of what they want to happen. The superdeduction is there to eliminate most of this effect, but for many businesses it will not be a reason to accelerate expenditure that they would not otherwise have been making.
Of course what tax relief is really available after the end of the superdeduction will depend on what happens to the AIA between now and then, and whether your expenditure exceeds this and is only eligible to writing down allowances. Bigger businesses spending much larger amounts on plant and machinery may therefore still decide to accelerate expenditure. Some businesses may also have a limited plant and machinery pool so that the balancing charge point is not relevant.

So why hasn't the superdeduction been made available to unincorporated businesses? Because no income tax rises have been announced, so there is no reason for unincorporated businesses to defer capital expenditure.

As a side note, if it takes the superdeduction to stop companies deferring their plant and machinery expenditure until the new tax rate, then there is still a possibility that companies may look to defer revenue expenditure until after April 2023 to gain higher tax relief. This is likely to become more prevalent as the date approaches. Accelerating income (bearing in mind accounting standards), may also become the order of the day.

50% FIRST YEAR ALLOWANCE FOR SPECIAL RATE POOL EXPENDITURE

Special rate pool expenditure, which would receive a lower level of writing down allowance of just 6%, is not eligible for the superdeduction. However, a 50% First Year Allowance will instead be available for a two year period from 1 April 2021. This would cover items such as integral features in a building, including electrical installations, plumbing, heating and air conditioning etc.

EXTENDED LOSS CARRY BACK

Businesses can normally carry back trading losses to the preceding year. The temporary extended loss carry back allows both companies and unincorporated businesses to carry back remaining losses to the preceding three periods.

For Corporation Tax, the extended relief applies where the loss is made in a period ending between 1 April 2020 and 31 March 2021, or between 1 April 2021 and 31 March 2022.
For Income Tax, the extended relief applies where the loss is reportable in either the 2020/21 or 2021/22 tax years.

A £2m cap applies in respect of losses arising in each of those two periods, and losses must be used against the earliest years first. This is slightly unfortunate, as where both periods are loss making, one will often find that the earlier loss making period has used up all of the profits which might otherwise be available for the later losses. For unincorporated businesses who are eligible, an extended carry back claim will almost certainly be the right thing to do in order to claim a refund as soon as possible. However, for companies, we must once again bear in mind the 2023 increase in Corporation Tax rates. In that case, some companies may find that by carrying the loss forward rather than using the carry back rules, they will relieve the loss at 25% rather than 19%, receiving a bigger refund. Of course, if cashflow right now is critical, then a refund may be preferable, even if it doesn't give the best long-term result.

For groups of companies, the £2m cap applies across the whole group, and the nominated company will need to submit an allocation statement to HMRC. However, a £200,000 deminimus threshold allows each company to claim up to that amount without being subject to the group cap or the allocation statement.

A claim will normally need to wait for the completion of the tax return for the loss making period. However, in cases where the loss can be proven to be large enough (for example, using management accounts), a claim up to the deminimus amount can be made at an earlier point in time.

Overall, the new reliefs are welcome temporary measures to help businesses through the current economic climate. However, they may not be as good as they initially appeared, and companies need to think carefully before making a claim or changing their investment plans.

Example 1

Isaac Lott Hauliers Ltd purchases a new truck for £100,000 and keeps it for four years before selling it for £25,000

Purchase Date	April 2021 With AIA	April 2021 With Superdeduction	April 2023 With AIA
Year 1 deduction	100,000	130,000	100,000
CT saving @ 19%/25%	19,000	24,700	25,000
Sale 4 years later			
Disposal proceeds	25,000	25,000	25,000
Balancing charge	–	25,000	–
CT charge @ 25%	–	6,250	–
Total taxes saved	19,000	18,450	25,000

CONSTRUCTION

All change for VAT

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From **1 March 2021** there was a major change to VAT accounting for certain supplies of building and construction services. The new Domestic Reverse Charge (DRC) rules have shifted the responsibility for accounting for VAT from a VAT registered supplier to the customer.

The DRC will apply where:

- the customer is registered for VAT in the UK, and
- payment for the supply is reported within the Construction Industry Scheme (CIS), and
- the services supplied are standard or reduced rated, and
- the supplier is not an employment business supplying either staff or workers, or both.

When the DRC applies, the invoice issued by a supplier:

- should be net of any VAT due;
- must show that the reverse charge applies and the VAT rate; and
- make clear that it is the customer's responsibility to account for VAT.

HMRC's suggested invoice wording is:

"Customer to account to HMRC for the reverse charge output tax on the VAT exclusive price of items marked 'reverse charge' at the relevant VAT rate as shown above".

VAT due from a customer where the DRC applies is included on the customer's VAT return in Boxes 1 and 4 (to the extent that the VAT is reclaimable under the normal rules). The net value is included in Box 7. The supplier should show the net value of the supply in Box 6 of its VAT return.

The DRC will not apply where a customer advises in writing that for that supply the customer is an:

- End User – for example, an occupier or developer; or,
- An Intermediary Supplier.

When the DRC does not apply, the onus is on the customer to notify its status in writing to the supplier. Without notification from the customer that it is an End User or Intermediary Supplier VAT should not be charged on impacted supplies from 1 March 2021. VAT charged incorrectly because the DRC should have applied cannot be reclaimed by the customer. HMRC guidance on end users, intermediaries and notification can be read at: https://www.gov.uk/guidance/vat-reverse-charge-technical-guide

The cashflow effect of the DRC on contractors that utilise VAT paid by customers, pending submission of VAT returns, may be significant. Such businesses may become net VAT claimants and may wish to consider changing to monthly VAT returns to facilitate the recovery of VAT on business expenditure.

Q&A with Zoe McLaughlin

Zoe joined Ensors in 1998 as a student accountant, qualifying as a Chartered Certified Accountant in 2002. In the early years of her career Zoe worked alongside a wide variety of clients including corporates, partnerships, sole traders and charities before choosing her final career path in Corporate Services. in 2016, she took on responsibility for managing the whole Corporate Services group in Ipswich as well as the specialist Pension team. In 2018 and following a very busy and successful year, Zoe was promoted to a Director and in April 2021 she was again promoted to Associate Partner.

Why did you choose to go into Accountancy?

I didn't choose it at all. I wanted to work in Insurance. My first job interview was at an Insurance consultancy firm. When I got there, I realised that the agency had misled me, and the role was in the accounts department studying for AAT. I got the job and I never looked back!

Why did you choose Ensors?

I moved to Ensors as I wanted to develop beyond AAT and Ensors were offering a study package to progress with the ACCA exams. I was also aware of the strong reputation it had in the local area and was keen to join a growing firm.

What do you really enjoy about your job?

I love the variety that my role gives me not only in dealing with different business types; Companies, Pensions schemes, Charities but also the variety in sectors; Manufacturing, Software, LATCOs. The list is endless. As an auditor you are privileged to gain a unique insight into a client's business and operations and can really add value in advice that is given.

What is the most unusual task you have been asked to carry out?

I haven't really been asked to do anything unusual, but I've attended some interesting stock takes counting all manner of items in warehouses, in the rain, in hard hats and in steel-toe cap boots!

What was your first day at work like?

My first day at work was back in May 1998 so I don't remember it vividly. It was very different back then. Most of our work was done on paper. We had typing pools, dot matrix printers and dial up internet connection!

What's your favourite TV programme?

There is nothing better than to round off a hard day at work with a catch up of my favourite soaps; East Enders, Coronation street and if I can fit it in Emmerdale and Holby City… I love them all!

TOP DEALS ADVISOR
in the East of England

A huge congratulations goes out to the Ensors Corporate Finance team who, in the latest Experian report published for the 2020 calendar year, were placed 1st in the financial advisor rankings for the East of England with 29 deals completed. This is an increase of 32% on 2019 when the team completed 22 deals and were ranked in 2nd place in the Experian report.

This is a remarkable achievement in a year that has seen unprecedented levels of uncertainty both from the COVID pandemic and the UK's transition out of Europe.

What can the Corporate Finance team help with?

- Business sales & acquisitions;
- Management buy-outs & buy-ins;
- Employee Ownership Trusts;
- Diversification & divestment;
- Re-financing & re-structuring;
- Financial modelling;
- Financial due diligence; and
- Valuations.

"As we are due to complete on the sale of our business tomorrow I just wanted to thank you both for a sterling effort and extremely good advice and support all the way through. I know that you are being paid for this work but there is value received and value not received and this is definitely the former."

David Watson

From left to right:
Trevor Plowman, Simon Martin, Ben Croston, Andrew Warner, David Scrivener, James Spencer

For a FREE consultation with any of the Ensors team contact Jane Newley on 01473 220022 or jane.newley@ensors.co.uk

For further information on any of the articles in this newsletter and contact details please visit **www.ensors.co.uk**

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