STRAIGHT TALKING BUSINESS ADVICE FROM
ENSORS CHARTERED ACCOUNTANTS

AUTUMN/WINTER 2023

BUSINESS E+

Exceptional times

As we head into the final quarter of 2023, it has certainly proven to be an interesting year from a business perspective. We all breathed a sigh of relief as COVID restrictions were lifted and we were seemingly returning to normal. Little did we know that we were returning to a 'normal' of not a couple of years ago, but several decades ago with both high-interest rates and high inflation.

Malcolm McGready
PARTNER

Continued overleaf ➤

Exceptional times *continued*

Following on from the unprecedented challenges of COVID, businesses quickly had to adjust to this new reality. I reflect on some of the commentary from 2008/9 when interest rates plummeted, coupled with warnings of not building cheap debt into your balance sheet. Those warnings seemed somewhat empty in the weak economic environment that followed, which perpetuated low-interest rates. Now of course we can see the impact of the cost of borrowing rising back towards the levels many of us grew up with.

It's not just the cost to businesses, but the cost for consumers as well which has an impact. I used to tell some of our newer staff about the interest rate I paid on my first mortgage. They were aghast! Unfortunately, as they come up to the end of their fixed-price deals, it is a reality they are now facing. With rising rents and utilities, this all feeds into the cost of living and a reduction in demand for businesses as disposable income falls.

It's not all doom and gloom though. As with the 2008/9 recession, businesses in our region prove to be surprisingly resilient. I do reflect on some of the commentary from 2008/9 when it was felt there was a risk that business leaders might lack the experience of dealing with a deep recession. However, given the experiences of recent years dealing with an unfolding and uncertain situation seems to be a pre-requisite to being in business these days.

The press also have a habit of talking the economy down and, anecdotally, when the GDP figures come out, it is never quite as doom and gloom as has been painted.

We've also recently had party conference season where, with a general election in sight, the political parties have begun setting out their stalls. There is a long way to go of course before these early soundings make their way into manifestos, but inheritance tax has become something of a political football. Whether to abolish to tax entirely, or to remove some of the exemptions, such as business property relief, or just to leave it as it is. Danny Clifford looks at inheritance tax in the edition of Business E+.

One of the projects HMRC has had in hand for a while, is to tighten up on R&D tax credits. It was widely acknowledged that the system was open to abuse and Ann Minson, from our Corporate Tax team, picks this up which will be pertinent to anybody claiming, or considering claiming, R&D tax relief.

One way or another, it seems no doubt that there is more change ahead!

Alconbury We have moved!

This year saw our third office move and upscale in less than two years.

After over 15 years at Ermine Business Park, the **Huntingdon office** has relocated to **Incubator 2** at **Alconbury Weald**. The development forms part of Alconbury Enterprise Campus, which boasts dynamic, open working spaces with top-of-the-range facilities and a strong focus on sustainability.

The team took space in February following a fit-out by BCPM and design input from Cann Creative. The office offers a more modern and collaborative working environment through a larger open-plan space.

Office Partner, James Francis, says of the move "I'm proud to introduce our new home to the hardworking team members of Huntingdon office, professional contacts and clients alike. This new space will allow for growth within the team and an enhanced positive, collaborative working environment".

New partner **Mark Hewitson**

In August we welcomed our eighteenth Partner to the firm, **Mark Hewitson**, who based at our Saxmundham office, oversees the day-to-day running with fellow Partner Carl Page.

Mark's well established career spans over 30 years in financial services, with his industry experience leading him to specialise in a blend of property, technology, and professional services. Prior to joining Ensors, Mark held the role of Partner at two regional accountancy firms, working with owner-managers to support and develop their businesses through the use of digital accounting solutions.

Mark says: "I was delighted when I was offered the opportunity to join the leadership team at Ensors. I take immense pride in the relationships that I have built over the years, becoming a trusted advisor to many business owners in East Anglia. Building strong and resilient relationships is a value that Ensors and I share, and their reputation is a testament to the principles they have nurtured over the years".

Chief Operating Officer appointed

In early 2023, the Ensors partnership appointed its first Chief Operating Officer, **Ian Little**.

He is an experienced Accountant with the Institute of Chartered Accountants (ICAEW) qualification, and has held a number of chief financial positions, making him perfectly placed to oversee the day-to-day operations of the firm.

Working closely with partners and the central teams, Ian will provide essential direction to ensure the continuation of growth. His accountancy background, coupled with three charitable trustee positions, provides a greater understanding of the integral functions of Ensors. A friendly and approachable expert, Ian embodies the firm's core values.

Should you plan now for **inheritance tax** changes?

Danny Clifford
PARTNER

Inheritance Tax under its current guise has been with us for almost 40 years. There were some major changes in 2006 when Gordon Brown's government altered some of the rules in relation to the inheritance tax of certain trusts and there has been some 'tinkering around the edges' over the years, including the introduction of the Residence Nil Rate Band from April 2017.

However, the basic structure, for example, the concept of 'Potentially Exempt Transfers' (PETs – i.e. the need to survive 7 years after a gift is made for it to fall outside of the IHT estate) and the main reliefs for business and agricultural property have remained unchanged.

There has been plenty of speculation and rumours of impending change over the years, sometimes prompting people to take action.

A number of trusts were established in 1997 ahead of the General Election that put New Labour and Tony Blair into power. Those trusts were made in anticipation of changes thought to be likely under New Labour – changes that never came to pass.

In the last few years there have been a number of studies and reports into IHT, notably by the (now disbanded) Office of Tax Simplification in 2019 and by an All Party Parliamentary Group in January 2020. Both had multiple suggestions that ranged from the minor to the radical.

On Tax Administration and Maintenance Day in November 2021 the Government announced that meaningful reform of IHT was 'off the table' for the duration of this Parliament. However, we are now nearing the end of the current Parliament and IHT may become something of a battleground for the two main parties.

In September this year, it was rumoured that Rishi Sunak was considering cutting, possibly even scrapping IHT – though the Government denied this.

However, there are also rumours that Labour are looking to make changes to reduce Business Property Relief (BPR) should they (as seems likely) form the next Government.

That is somewhat disturbing news for businesses, their owners and those who invest in unlisted companies. BPR gives IHT relief at either 50% or, more commonly 100%, on the value of certain shares, businesses and property used in those businesses.

It is relevant to note that the companies/ businesses involved must have an activity that is mainly in the nature of a trade (as opposed to investment) and that the trading activity cannot be 'dealing in land'.

I mention this to make it clear that the relief is already targeted such that, it benefits those carrying on a trading business. It follows therefore that were it to be diminished, it would be trading businesses that would bear the brunt.

Scrapping the relief entirely would cause huge damage and seems unlikely unless it is mitigated by some other change (e.g. a reduced rate of IHT on business property, or a business property nil rate band akin to the Residence Nil Rate Band.)

Alternatively, the scope of the relief could be scaled back, for example:

- It could be altered such that a minimum 5% ownership of the business is required to qualify. That would immediately knock out the relief on AIM investments that many portfolios now contain – and would clearly impact the value of those investments considerably.
- The treatment of let cottages that can sometimes qualify for relief where part of a larger trading business (following the principle in Balfour), could be changed such that those let properties never qualify.

There are, obviously multiple possibilities, ranging from complete withdrawal of BPR that would significantly impact many businesses, to specific changes to parts of the legislation reducing the impact. The former would increase the IHT take more considerably, the latter would be more of a political statement than a 'revenue raiser'.

The question arises; how much should you let these possible future changes to tax rules, dictate your actions now?

I would not recommend taking action now, solely to avoid a tax change that may never come. However, if you have been considering undertaking planning/making gifts and have just not yet progressed those thoughts, it would make sense to push forward with those plans now under the current regime.

Moreover, if you have been putting off or just never gotten around to considering your IHT planning, again it makes sense to take advice now.

Whether changes to the IHT regime are forthcoming or not, it seems unlikely that the regime for IHT planning will be more beneficial under the next Government (regardless of its colour) than it is now.

R&D TAX RELIEF
More change on the horizon

Companies are currently getting to grips with significant changes in how they file their research and development tax relief claims, but there could be even more seismic changes on the horizon for 2024.

Ann Minson
DIRECTOR

Filing measures to combat R&D claim fraud

HMRC has recently published an analysis indicating that approximately 25% of all R&D tax relief claimed is overstated, either because of errors in the claim or as a result of fraud. We have already witnessed increased levels of HMRC enquiries into claims in an attempt to reduce losses to the Treasury. In addition, in the current year, two new compliance requirements have been introduced to aid this process.

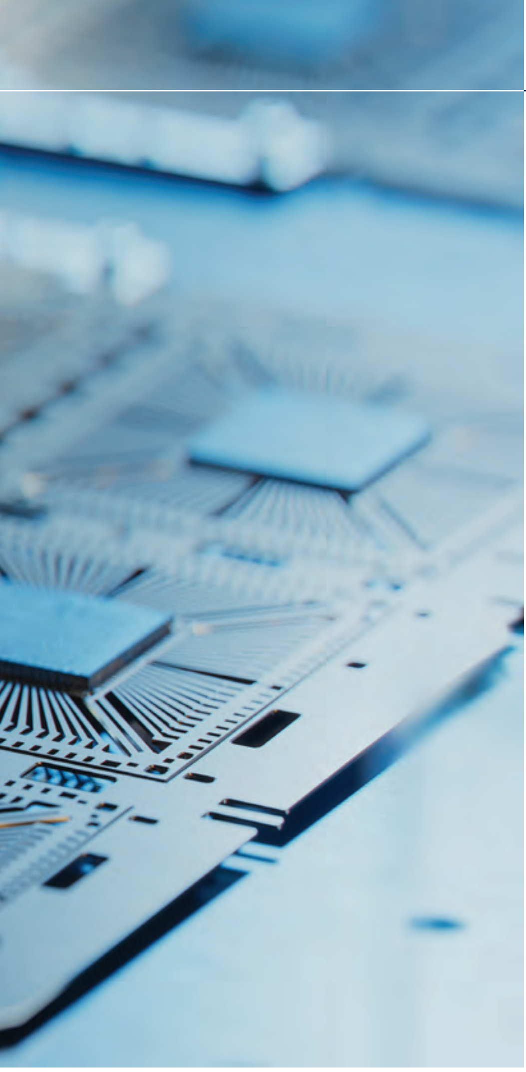
From 8 August 2023, any company filing an R&D claim in its corporation tax return, must first submit an online Additional Information Form (AIF) to HMRC. Any claim received by HMRC where no AIF has been filed will not be processed, meaning that HMRC will remove it from the corporation tax return. Communication from HMRC has indicated that in the first month from 8 August, approximately 50% of all claims submitted have been rejected because no AIF had been filed.

The AIF requires a company or its adviser to disclose details of the projects undertaken, why they are considered to be qualifying R&D and an analysis of costs on a project-by-project basis. The disclosure must also name the individual at the company with overall responsibility for the claim and any professional advisers involved. The intention of the AIF is to allow HMRC to improve risk management of claims, so that they can focus enquiry activity on claims that appear more likely to be overstated, either mistakenly or as a result of fraud.

In addition, for accounting periods beginning on or after 1 April 2023, companies intending to claim R&D tax relief for the first time (or who have not claimed in the previous three years) must notify HMRC of their intention to claim within six months of the end of their accounting period. If the notification deadline is missed, no claim will be permitted, so it will be vital for these companies to consider their eligibility much sooner than was previously the case. The Government's hope is that this will rein in the activities of less scrupulous providers of R&D claim support.

More changes are on the way

In 2023 there was a welcome deferral of the introduction of the restriction on companies' ability to claim for the costs of subcontractors and other workers outside the UK. However, this measure has only been postponed; it will be introduced from 1 April 2024. Its impact will be to reduce the claims of companies that outsource R&D to non-UK resident providers unless there are qualifying reasons why the R&D cannot practically be undertaken in the UK.



It should be noted that this will be a tightly applied test, based on geographical, cultural, or regulatory factors; economic reasons, or staff availability will not be acceptable reasons for using non-UK providers.

Even more significantly, the familiar two-tier approach to R&D tax relief may be coming to an end, with a further announcement on this expected in the Autumn Statement. If this reform goes ahead, the two size-based schemes will be merged into a single system, based on the R&D Expenditure Credit rules, with an anticipated implementation date of 1 April 2024. It is hoped that these changes should reduce areas of confusion, for example where businesses are carrying out R&D as part of customer contracts, but it would also mean a reduction in the level of relief for many SMEs. However, R&D intensive SMEs would instead be able to claim a more generous R&D tax credit, based on the current SME scheme. Simply put, this will be available to companies where more than 40% of their (or their group's) expenditure comprises of qualifying R&D costs, in line with the Government's policy of continuing to support innovative companies.

The next few months will continue to see significant change for R&D tax relief and having the support of a trusted advisor remains vital. Nevertheless, for companies that are conducting eligible R&D, these remain valuable incentives that should be claimed where possible.

The Upper Tribunal recently decided in favour of the taxpayer in *Laing O'Rourke and Willmott Dixon*, meaning employers may be able to reclaim NIC in circumstances where they **paid employees car allowances** and reimbursed **business mileage at a rate lower than 45p per mile.**

Josh Smith
CORPORATE TAX MANAGER

Reclaim NIC on car allowances?

To qualify for an NIC repayment, the car allowance payments must represent 'relevant motoring expenditure'. This is defined in detail in the case, with emphasis on there being a sufficient obligation on the employee to maintain a private car for business use. Such terms would usually be contained within the company's car policy document or employees' contracts.

The amount of any claim is calculated based on the business mileage claimed, multiplied by 45p, less the amount reimbursed per mile e..g if an employee who travelled 5,000 business miles were reimbursed 35p per mile, then they have been 'underpaid' £500 compared with the standard rate per mile. This amount can be used to offset the NIC on a fixed car allowance payment, in this case allowing an employer's NIC reclaim at 13.8% of £69 per year.

Claims can go back to 2017/18, so if the employee numbers and/or mileage were significantly higher, the repayments could be much higher too.

Where available, NIC relief could also extend to employees, where it is likely the employer would administer any claims on an employee's behalf.

It's important to note, that any car allowance payments made on or after 6 April 2018 under 'optional remuneration' or other salary sacrifice arrangements, are not eligible for NIC relief.

HMRC APPEAL? It remains to be seen whether HMRC will be granted permission to appeal to the Court of Appeal.


AI

AI in the finance function for businesses

Artificial intelligence (AI) is the ability of a computer to perform tasks that typically require human intelligence, such as learning, reasoning, and problem-solving.

AI systems are built to learn from data and improve their performance over time without being explicitly programmed.

Lucy Moore
DIRECTOR

AI is a rapidly developing field, and new applications are emerging all the time. As AI systems become more sophisticated and powerful, they are likely to have a major impact on many aspects of our lives.

In basic terms, AI is the ability of computers to think and learn just like humans. AI systems can be trained to perform a wide range of tasks including playing games, diagnosing diseases and self-driving cars. AI is a powerful technology that has the potential to revolutionise many industries and aspects of our lives.

It is swiftly transforming the finance function for businesses of all sizes. It can automate tasks, improve accuracy, and provide insights that can help businesses make better decisions.

Businesses below the audit threshold, may not have the same disposable resources as larger businesses, but they can still benefit from using AI in the finance function. There are a number of affordable AI solutions available, and many of them are designed specifically for small businesses.

Basic versions of these programmes have been on the market for a while, but there is now a broad range of options, and it can be used in many different functions across your entire business, including finance functions.

Focusing on your finance function, its uses range from accounts payable and accounts receivable, to reporting and forecasting. In addition to these specific tasks, AI can also be used to improve the overall efficiency and effectiveness of the finance function. For example, AI can be used to:

- Identify and reduce fraud
- Improve risk management
- Optimize tax planning
- Make better investment decisions

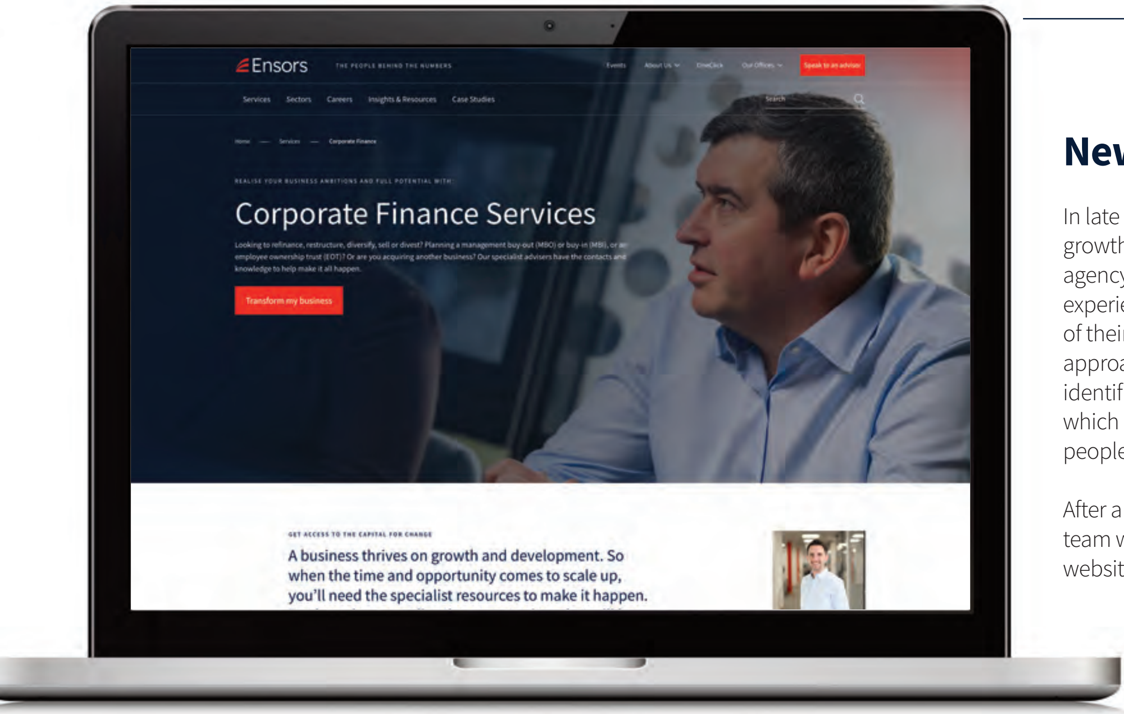
AI can help businesses to automate tasks, improve accuracy, and gain insights that can help them make better decisions. It's not necessarily that it will do all the thinking for you, but AI can do the heavy lifting for you. It can look at many data inputs and draw an initial conclusion which you can then work off.

However, AI does need to be used with care and consideration, although there are some downsides, these must be weighed up against the benefits.

AI systems can be vulnerable to hacking and other forms of cybercrime. If hackers are able to gain access to an AI system, they could potentially steal sensitive data, or manipulate the system to commit fraud or cause issues. AI systems are often complex and opaque, which can make it difficult to understand how they make decisions. This can lead to a lack of transparency and accountability in the finance function.

AI systems are trained on data, and if that data is biased, the AI system will also be biased. This could lead to discrimination against certain groups of people, perhaps during credit scoring or loan approvals. This brings us back to the saying 'rubbish in rubbish out', meaning that AI can only work on the data it has available and if that data is flawed, so could the result.

If you are a business owner or decision maker, I encourage you to consider how AI can help you to improve your finance function, but to make sure that you consider all aspects. AI is no longer just something for the future or for large businesses, there are a number of affordable AI solutions available, that are designed specifically for small businesses which could help you.



New website launch

In late 2022, Ensors set their sights on digital growth and reached out to local marketing agency StrategiQ to create an online experience that would represent the quality of their services but also the personal, approachable nature of their teams. They identified a requirement for a new website which modernised their image with their people and customers at the forefront.

After a six month project, the Marketing team were thrilled to launch their new website in April 2023.



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