ADVICE FROM THE MANUFACTURING TEAM AT
ENSORS CHARTERED ACCOUNTANTS

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MANUFACTURING MATTERS

Moving to a Brighter Future

By **Chris Barrett** – Manufacturing Partner

As I sit here writing this article on the eve of another weather storm due to hit the UK, having seen so many in recent weeks, it also feels like another is brewing within the Government, as we build up to an Autumn Statement being delivered by the Chancellor.

Continued overleaf

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Moving to a Brighter Future *continued*

By the time this newsletter is published, we will have seen the Chancellor stand up and deliver his update and projections on the UK economy.

What I am sure we all wish to see is the plans being proposed to drive future growth both locally and nationally, and what part will the manufacturing sector provide to achieve this. In return, will the Chancellor be looking to loosen the purse strings in advance of next year's Budget, to provide further support and incentives to manufacturers, to enable increased investment, and will he ensure stronger local infrastructure for businesses to call upon?

At the moment there doesn't appear to be a sway of economists expecting too much to be given away this month, but who knows what rabbit may be pulled out as we approach the 22nd November.

We appear to be standing on the threshold of opportunity, to decide upon how we move forward, with ongoing trade agreement negotiations taking place with differing countries, and inflation beginning to move in the right direction. Skilled resource still continues to be challenging, whilst driving efficiencies will certainly accelerate.

However, the combat used by the Bank of England to deal with inflation has been to raise interest rates 14 times since 2021 to 5.25%. These rises appear to have stabilised with no additional increases to have taken place in the last two months, and therefore hopefully provide certainty to manufacturers when investing, but hoping the Government will provide further incentives to do so in the next two weeks.

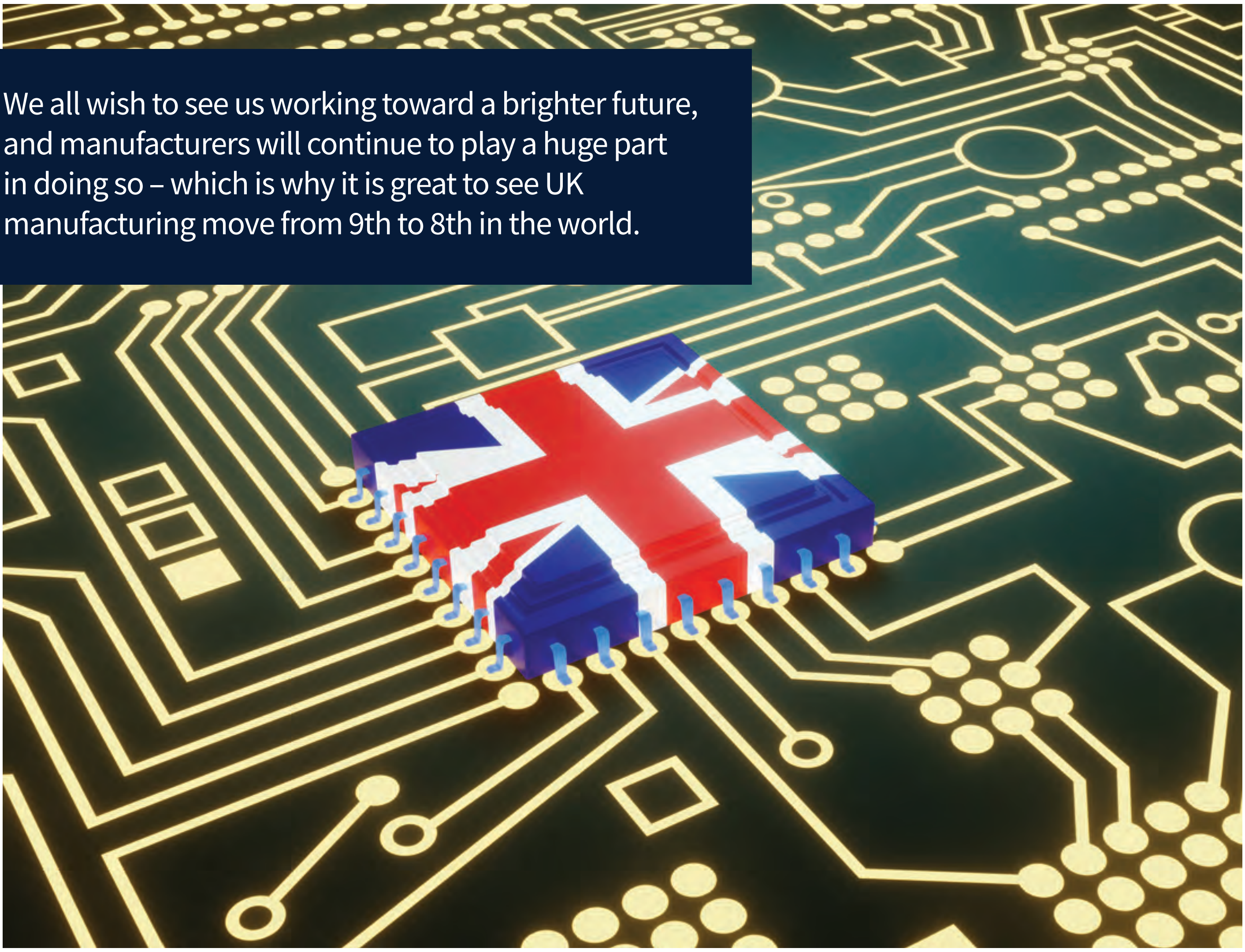
Aside from inflation, having recently read articles in regard to the AI Summit held in the UK, it will be very interesting to see how this landscape will evolve for the manufacturing industry, and the hope it provides to combat some of the difficulties in recruitment & efficiencies – but will once again require sustainable investment by Government in the coming months and years ahead.

We all wish to see us working toward a brighter future, and manufacturers will continue to play a huge part in doing so – which is why it is great to see UK manufacturing move from 9th to 8th in the world.

Following our theme of investment incentives & opportunity, included within our current edition is Corporate Tax Director, Josh Smith, explaining the changes following the Spring Budget in regards to Capital Allowances, plus Ann Minson, also Corporate Tax Director, detailing further information on the Summer changes to R&D tax relief and what to watch out for in 2024.

I hope you enjoy reading this edition and wish you all a successful conclusion to 2023 and an enjoyable Christmas and Happy New Year.

We all wish to see us working toward a brighter future, and manufacturers will continue to play a huge part in doing so – which is why it is great to see UK manufacturing move from 9th to 8th in the world.



MORE CHANGE ON THE HORIZON

By **Ann Minson** – Innovation Tax Director

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.

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.

Capital allowances and the new full expensing

By **Josh Smith** – Manager

The super deduction, the 130% first-year allowance for eligible capital expenditure, is no longer available for spending incurred post-31 March 2023. For qualifying amounts incurred from 1 April 2023 a new temporary first-year allowance, running until 31 March 2026, known as 'full expensing' will instead be available.

100% relief will be given for main rate expenditure (e.g. plant, manufacturing equipment, IT equipment, furnishings) which would ordinarily only qualify for 18% writing down allowances. If £100,000 of qualifying assets were purchased, this would result in year one tax savings of £25,000 vs £4,500 (a corporation tax rate of 25%) using traditional writing down allowances.

Whilst the relief may appear to be a reduction based on the previous super deduction, given the increased corporation tax rate of 25%, companies within this rate will still obtain relief of 25p per £1, the same amount previously achieved with 130% relief at 19% corporation tax.

In addition to the full expensing, a 50% relief for special rate expenditure (e.g. electrical or lighting systems) is available; such expenditure would ordinarily qualify for only a 6% writing down allowance per year.

Taking the earlier example of £100,000 of qualifying assets purchased, there are year one tax savings of £13,250 (including writing down allowances on the remaining 50%) vs £1,500 using just writing down allowances.

These new reliefs are generally available for assets purchased new and unused and exclude assets such as cars, most assets used for leasing and assets purchased from connected parties.

If an asset on which full expensing relief has been claimed is sold in the future, the company will be required to bring in an immediate balancing charge equal to 100% of the disposal value. Similarly, an immediate 50% balancing charge is brought into account for special rate assets, on which the 50% relief was claimed, with the remaining 50% being deducted from the special rate pool.

In certain cases where a property is being sold with fixtures in place, where full expensing had been claimed, it can be possible to avoid the need to bring in a balancing charge if a section 198 election is utilised in the right way on sale; this election sets the value at which capital allowance items move across to the buyer.

The annual investment allowance (AIA) remains at £1million. Similarly, structures and buildings allowances (SBAs) remain unchanged, giving a writing down allowance of 3% on all qualifying expenditure.

Full expensing vs annual investment allowance

With 100% relief under full expensing (no annual limit) and AIA (limited to £1m per year), the question comes as to which relief to claim. It's clear the AIA should first be allocated to any special rate expenditure which doesn't qualify for full expensing. Secondly, to main rate assets purchased second hand, to be leased, or from connected parties given the lack of availability for full expensing. Any remaining AIA may be used against main rate assets that could qualify for full expensing, given the lower likelihood of clawbacks or immediate balancing charges on disposal; however, whether this is the correct course of action will depend on the expected residual value and timing of any disposal.

AIA does however need to be shared between group companies and companies under common control, therefore any allocation of AIA should be carefully considered if there are such companies involved to ensure maximum relief is obtained.

If you are considering any significant capital purchases, start speaking to your advisors early to plan effectively. Our experienced Corporate Tax team will always welcome a conversation around such planning methods.

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“Kalsec is an ingredient supplier for the food and beverage industry and have worked with Ensors for the last 20 years. We have found their service and advice professional and efficient, particularly valuing how Ensors know our business and people. We are a private and sustainable business operating in complex financial environments. In recent years, our European trading activities have increased, and we now work under several European jurisdictions. Ensors have provided comprehensive advice on several key areas such as corporation tax planning, joint venture incorporation and VAT compliance. As a thriving UK-based international business with strong capital investment and robust future growth planned, we firmly believe Ensors’ continuous support as the independent and dependable financial adviser and auditor plays an important part in our ongoing success.”

James Smith – Managing Director, Kalsec Europe Ltd

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