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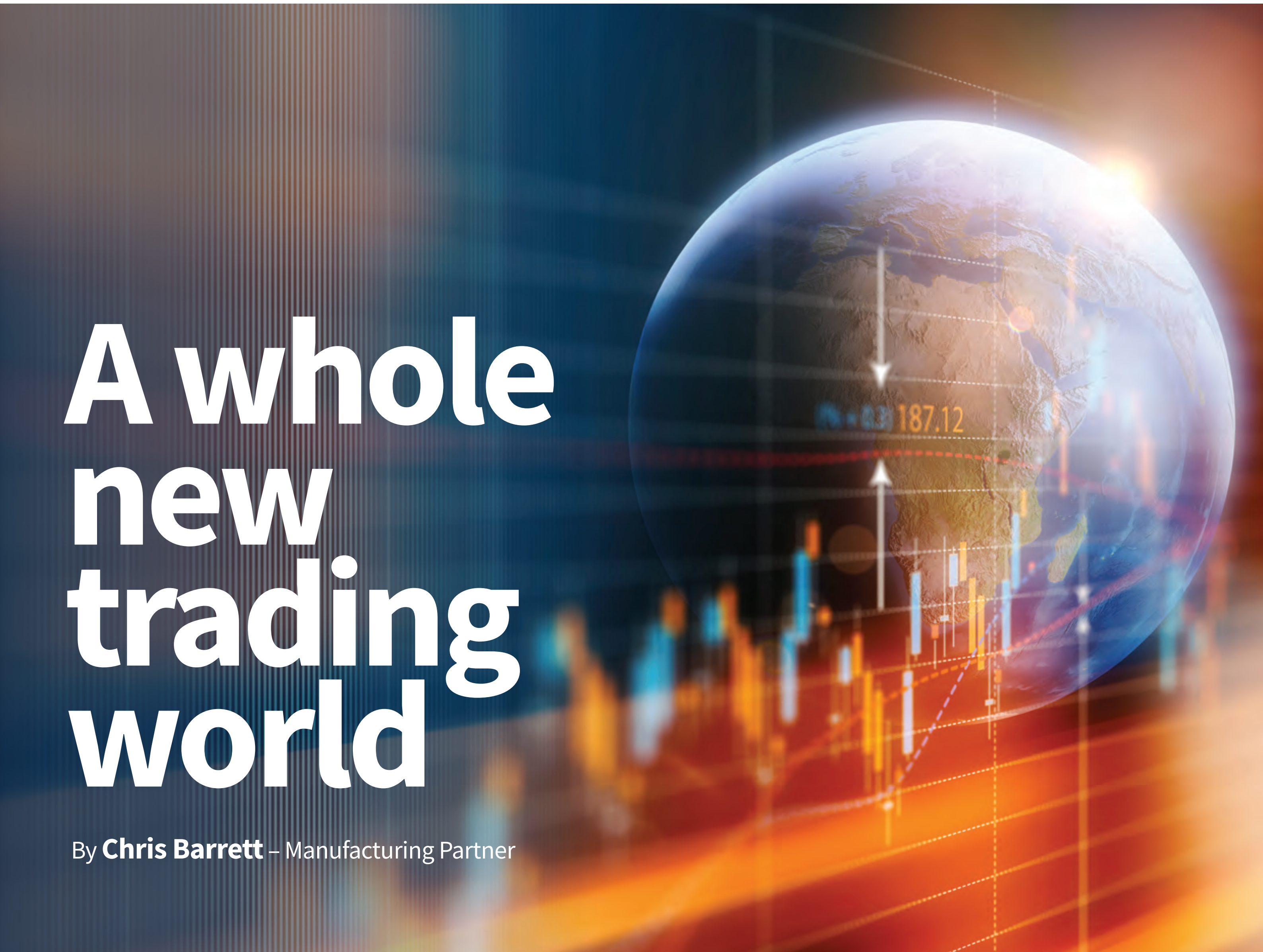

A whole new trading world

By **Chris Barrett** – Manufacturing Partner

As the South East basks in another mini heatwave, I step back to understand the change in the UK climate and how it has evolved over recent times.

Continued overleaf

Ensors

A whole new trading world *continued*

During the pre-industrial era, research shows the South-East only experienced these current temperatures once every 50 years, however it is believed climate change has made these heatwaves here 10 times more likely and are looking to become even more frequent, so I suggest you stock up on suncream!

But as our weather climate continues to change around us, the World is also changing in its trading conditions.

Undoubtedly, the change in US politics over the last six months and the proposed imposition of new tariffs, are changing how the UK will look to trade in the future.

It was stated earlier this year by the UK Government, that globalisation is over amid the backdrop of higher levies, and whilst a trade deal has been announced between the UK and the US, research suggests that trust has fallen in the US as a trusted growth market. This is not unsurprising and I expect it will take some time for that trust to be rebuilt.

With the impact of Trump's worldwide tariffs being proposed, exports from the UK will likely adapt to consider other global markets, especially following recent trade deals such as with India. It still, however, remains a volatile international trading market and economic growth for the UK remains stubbornly low.

Alongside this, increased domestic tax costs following the Autumn Budget are now being felt, particularly with the changes in employer national insurance rates kicking in.

Fortunately, inflation has stabilised at much lower levels following the height back in 2023/24, and interest rates have gradually been declining too, but have recently been held at 4.25%.

Despite all the changes happening around the world, the UK – and in particular the South East – appears to continue to remain robust in its outlook.

With so much change over the last five years post-COVID, it seems that manufacturers have continued to remain positive, despite the different challenges being faced. That's not to say manufacturers are not feeling these impacts, but are learning to adapt.

Certainly from a regional perspective, the announcement of Sizewell C construction should see an increase in economic growth within the region and also opportunities for local manufacturers in their support of this project too.

2025 seems to have brought with it a 'New Trading World' for businesses to navigate, and we hope the UK government will react appropriately in seeking to gain market access across like minded economies through new trade agreements, to help ensure our manufacturers still have new opportunities to trade, with strong global markets and build on for longer term growth.

With all this in mind, included within our current edition is Corporate Tax Director, Ivan Woolgrove, providing his possible predictions for the forthcoming Autumn budget amidst the backdrop of these effects, plus Ann Minson, also Corporate Tax Director, outlining an update and healthy reminder of the Research and Development Tax relief changes from last year.

I hope you enjoy reading this edition and wish you all an enjoyable Summer.

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IF YOU WERE CHANCELLOR WHAT WOULD YOU DO?

By **Ivan Woolgrove** – Corporate Tax Director

I am sure we would all agree that being the UK Chancellor of the Exchequer, would not be an easy job, but realistically, what could, or would 'we' do differently with the current circumstances?

On the one hand there is the Country's economic position with uncertainties caused by the imposition/ongoing discussion regarding tariffs from across the Atlantic, stubbornly low growth figures, the tax rises announced last autumn beginning to bite, the slowdown in recruitment and the impacts of new, as well as continuing, conflicts around the globe.

The Chancellor needs to balance which hand will win at any given time and this will often be a knife-edge decision.

At the time of writing, the Bank of England have kept interest rates on hold at 4.25% and we understand this may have frustrated the Chancellor, who will have an eye on borrowing costs and growth in the UK economy, both of which would benefit from a drop in rates.

In the same week as the interest rate decision, there was the release of the UK public sector borrowing figures for May, showing another rise to £17.7bn, the second highest for the month on record and above that predicted by a poll of economists from the City of London.

What decisions would these circumstances lead you or I to make? More importantly, what might this Chancellor do?

Could the Chancellor be said to be struggling to keep within the 'set in stone' spending rules and does the low growth of the economy suggest the headroom from last autumn's budget will be lost?

There are economists who think that due to our underperforming economy, and when taken together with higher borrowing costs, it may mean that a further £10bn to £20bn of funds will be required by the time of the autumn 2025 budget.

If this is correct, it is thought unlikely that the Chancellor will seek this additional requirement for funds from further spending cuts and so if we assume that amending the fiscal rules remains off the table, the option that is left is further tax rises.

It has been reported that the Deputy Prime Minister sent the Chancellor a list of tax-raising ideas at the time of the Spring Statement.

It should be remembered that any potential new tax rises are set against the Labour manifesto promising not to increase certain defined taxes. This seemed to morph slightly into what is now the almost constant mantra that the government will not increase taxes for working people (by whatever restricted definition is currently being used). We should also remember the vow made after the Budget in October 2024, that the government would not come back and increase tax or borrowing on the same scale as those announced at that Budget.

We may yet see a similar and rather tortured approach to language to justify the government's decisions, if any of the following are what is in store for this autumn:

- A further freeze in the income tax and national insurance thresholds beyond April 2028 seems to be more and more likely now; it is thought this could generate around £4bn a year. It was reported that one of the suggestions by the Deputy Prime Minister, specifically targeted the 45% tax rate for this freeze to bring more people into the highest rate of income tax. This could suggest that such taxpayers are not within the government's definition of working people.
- It was also reported that the Deputy Prime Minister wanted to abolish the current tax-free dividend allowance of £500. This may raise approximately £325m each year.
- Increasing the tax on dwellings owned by entities such as companies was suggested, as the data being used indicated that most of the people paying the ATED charge are living in big homes in London.
- Landlords are another target of this government and are again in the crosshairs with the Renters Rights Bill. A further increase in taxes on rental income cannot be ruled out for property businesses owned by both corporate and non-corporate entities.
- One option to increase taxes that would not be popular and would be a direct about turn from the Labour manifesto (but would be the simplest and the most effective measure), is to reverse the employee's national insurance cut made by the last Conservative government. At the time, this was said to be worth £20bn. Could the adverse economic and world circumstances justify this as a potential change?
- An area that the Chancellor has so far left alone is the tax-free uplift to asset values that applies on death. We could see this relief removed as part of continuing the changes to what happens at death with inheritance tax.
- It was reported that the Deputy Prime Minister proposed removing inheritance tax relief for shares traded on the Alternative Investment Market (AIM). This relief currently provides an exemption for 50% of the value of the shares held at death. Removing it completely is thought to potentially raise between £100m and £1bn per year.
- A further target in the inheritance tax sphere could be changes to the lifetime gifts regime. Presently in most cases, if a donor survives seven years, there will be no inheritance tax on the gift. We could see fewer options to pass wealth down the generations, free of tax, during the lifetime coming in.

Out with the old, in with the new

By **Ann Minson** – Innovation Tax Director

Following two or more years of turbulence while HMRC has tried to close down perceived abuse of the R&D tax regime, we are now into the brave new world of the integrated R&D Expenditure Credit ('New RDEC'). This applies to accounting periods beginning on or after 1 April 2024 and replaces the previous R&D Tax Relief for SMEs and the old R&D Expenditure Credit that was available to large companies and certain SMES.

New RDEC is available to SMEs and large companies alike and is very different from the old SME Enhanced Relief. It replaces the additional tax deduction, (the 'enhancement'), with a 20% tax credit based on qualifying R&D spend. As this credit is taxable, the value of claims under New RDEC is 15% of qualifying expenditure. For non-taxpayers, this can take the form of a cash credit equal to 16.2% of the qualifying costs, provided the company would have been loss-making prior to its New RDEC claim. Otherwise, the cash credit is equal to 15% of the qualifying costs.

There is also a change regarding R&D performed under contract that could have a widespread impact on the manufacturing sector. Before New RDEC, if the claimant was an SME it could only claim the old Enhanced Relief for its in-house R&D. If it was carrying out R&D under contract, it could claim the old RDEC as long as its customer was a large company and/or not a UK tax resident. Otherwise, no claim could be made. Likewise, for large companies, only in-house or R&D performed for large/non-UK tax resident customers could be claimed. However, the lack of a clear definition of when R&D was performed under contract has made this a hot topic, with HMRC taking several cases to the Tribunal on this point, which have been largely unsuccessful.

In contrast, under the new RDEC, the party that initiates the R&D makes the claim (although the exception for non-UK-resident customers or certain tax-exempt bodies still exists). The claim is made by the customer when it is reasonable to expect that they intended or contemplated the contractor having to perform R&D to deliver on the contract. Otherwise, the contractor is entitled to claim, regardless of whether they are an SME or a large company. As a result, some companies that have been used to claiming R&D relief will find they no longer qualify, but others may find the new rules working in their favour.

Putting this into a manufacturing context, if a customer provides a very detailed technical specification that indicates an understanding of the technology involved, this is a good indication that they anticipate the contractor will have to perform R&D. In that case, it is the customer who can make the claim.

In contrast, if the spec is light on technical detail and the product is not one where the customer would be expected to be familiar with the technology, there is a possibility the contractor could claim, although this will hinge on the underlying details. HMRC has said that it means not only reviewing the contract, but also scoping and tendering correspondence, so that all evidence is taken into account. Incidentally, it is not enough to agree with your customer which of you will claim if the facts do not support the position taken, but it could be helpful to include an R&D claim clause in the contract.

As always with tax matters, it is better to be proactive rather than reactive. Taking advice on whether (or when) your contractual arrangements might allow a claim, is much better than 'taking a punt' on a claim that would be vulnerable to an HMRC challenge. Of course, there have been some horror stories recently about inept or even fraudulent R&D advisors, so always make sure you are taking your advice from a trusted source.

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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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