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Tax support for innovation and growth

Rebecca Benneyworth MBE BSc FCA



Tax measures to support innovation

- Research and development tax relief
 - SME scheme with payable tax credit
 - “other scheme” with new above the line relief
- Patent box
- Creative sector – new reliefs
- Capital allowances
- Employment allowance
- Business Premises Renovation allowance
- Childcare support?

R & D – SME scheme

- Total deduction for qualifying expenditure is now 225%
- R & D losses can be surrendered for payable tax credit (with no cap)
- The current rate of payable tax credit is 11% of the loss
- So for £100 expenditure the payable tax credit is
 - £225 tax deduction x 11% = £24.75
 - This assists with funding until the R & D starts to produce results
 - Surrender losses or carry forward?

R & D qualifying spend

- Materials
- Power, water and fuel
- Staff costs – now no restriction on time spent on R & D
- External staff provider costs (outsourced staff)
- Computer software
- Minimum spend abolished
- Altogether more flexible scheme than 5 years ago

R & D practical issues

- Accounting systems identifying qualifying expenditure
 - Particularly aware of 1 April as this is always the effective date of changes
 - Made in respect of “expenditure on or after”
- Consideration of what are qualifying R & D projects
 - Recent research indicates that only around 30% of SME’s who could claim R & D do so
- “Going concern” test – this is an EU requirement and limits the ability to surrender losses for repayment

Definition of R & D

- Lots of guidance on HMRC's website
- A project which seeks to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty
 - What is the scientific or technological advance?
 - What were the scientific or technological uncertainties?
 - When and how were the uncertainties overcome?
 - Why was the knowledge being sought not deducible by a competent professional?

R & D size criteria

- These are double the normal EU tests
- So you are SME if you have:
 - Fewer than 500 employees and either:
 - Turnover below €100 million
 - Balance sheet value below €86 million
- Include linked enterprises using a 25% ownership test
- You are not permitted to claim under SME scheme if you
 - Receive grant aid of any sort towards the project, or
 - Carry on subcontract R & D

R & D Large company scheme

- Bear in mind the other two types of SME claimant
- “Old” R & D scheme
 - 130% tax relief on qualifying expenditure
 - Same definition as for SME scheme
 - No payable tax credit
- New above the line relief
- Finance Bill 2013

Above the line R & D relief

- A 10% income item in P & L
- This makes the credit visible on the accounts
 - More likely to influence behaviour
- The credit is taxable
- So 8% after the long term rate of CT of 20%
- The credit can be deducted from the tax due
- Or set off against other tax liabilities
- Or in some circumstances repaid to claimant companies – going concern test

Above the line relief

- Commenced 1 April 2013
- Until 1 April 2016 can either claim old relief or new relief
- From 1 April 2016 this is the only form of relief for those not able to claim SME relief

The patent box

- Tax rate of 10% on profits from patents
- UK or EU patents
- Or the profits from an exclusive licence to exploit a patent
- The accounting issues are currently the most challenging
- Calculation of “Relevant IP profits”
- Transitional period
- Patent losses?

Qualifying company

- Either:

A – the company holds qualifying IP rights or an exclusive licence at any time in the AP

B – the company has held such rights or licence and receives income taxable in the current AP which derives from the right at a time when a valid election had been made

Qualifying company – group company

- If a member of a group must also satisfy C in addition to A or B

C – active ownership – all or almost all of the IP rights held are subject to significant management activity or the company meets the development condition in respect of them

Development condition

- A – company has carried out qualifying development and not joined or left a group since then
- B – company has carried out qualifying development but has joined or left a group, but has carried on similar activities for at least 12 months since the change of ownership
- C – company is a member of a group and qualifying development activity carried out by another group company
- D - company is a member of a group in which a company which has joined the group carried on qualifying development activity which has continued for 12 months after the change in ownership

Qualifying development

“... if it creates or significantly contributes to the creation of the invention, or it performs a significant amount of activity for the purposes of developing the invention or any item or process incorporating the invention, including ways in which the invention might be used or applied.”

Relevant IP profits

- These are the profits to which the special rate applies
- Two alternative methods of computation
 - Standard method
 - Streaming
- But streaming is mandatory in certain cases
- Standard method essentially apportions the profits in relation to turnover split
 - Several adjustments to eliminate “non IP” element
 - Real challenges in the accounting records

Patent losses

- If patent box election in force can only be claimed against patent profits
- So you may not wish to claim if you anticipate losses
- Consider carefully as if you withdraw you will need to stay out for five years

Commencement

- Elections apply until revoked
- FY 2013 – 60% of IP profits attract reduced rate, then
 - FY 2014 – 70%
 - FY 2015 – 80%
 - FY 2016 – 90%
 - FY 2017 – 100%
- Straddling periods split and apply rates as above

Creative sector reliefs

- Two new schemes but alike in key respects
 - High end television and animation
 - Video games
 - Must be “culturally British”
- Modelled on film tax relief introduced in 2007
- This has been very successful and not subject to wide abuse
- Limited companies only
- Additional deduction plus payable tax credit

Creative sector reliefs

- “High end” television described in legislation
 - Length, type of programme (no game shows or reality!)
 - Costs £1 million per broadcast hour
- Uplift on qualifying expenditure 100% of UK expenditure
- Restricted to 80% of core spend
- Losses – surrender for 25% payable tax credit
- Commences 1 April 2013
 - Next series of Downton?
 - Next series of Doctor Who?

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Capital allowances in enterprise zones

- Hedged about with many conditions
- In both an enterprise zone **and** a designated development area
- New (not replacement) plant
- Expansion or new business moving into an enterprise zone
- 5 Year window starting April 2012

Employment allowance

- £2,000 allowance against employer NIC bill
- Starts 6 April 2014
- Admin designed to be as easy as possible
- Take credit through the RTI system
- Likely to be of immense importance to smaller companies and businesses

Business Premises renovation allowance

- Encourages re-use of redundant commercial premises in designated development areas
- Has been around for several years
- OTS proposed abolition
- But renewed support for the scheme in Budget 2011
- Now extended for a further 5 years

BPRA - details

- Owner or tenant of commercial premises in a designated development area
- Empty for at least 12 months prior to redevelopment
- 100% capital allowances on capital expenditure to bring back into use
 - But not on any new build
- Must use as qualifying business premises once completed
 - But can be let to business user

Designated development area

- Not the same as Enterprise zone
- Presently given by the Assisted Areas Order 2007
- Allowance can be deferred and 25% of cost claimed in later years
- No disposal within 7 years or allowances reclaimed

Childcare support

- Announced pre Budget 2013
- Starts in 2015
- Parents save in designated account
- 20% ingoing tax relief
- Can only be used to pay for qualifying childcare
- Maximum £6,000 per child per annum
- Income limit £150,000!

Any questions?