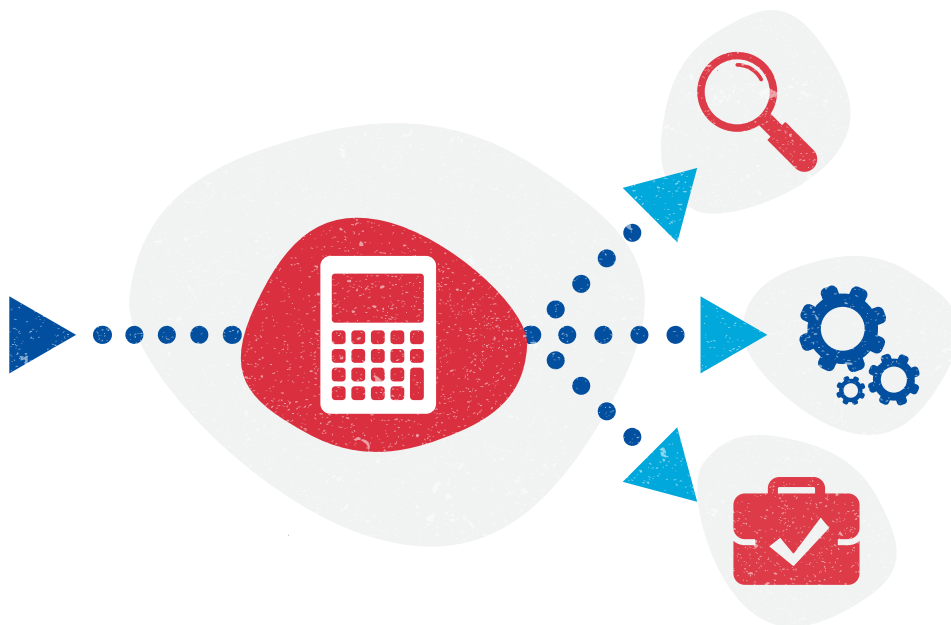


Corporate tax year end planning

Tax guide



This material is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice.

UK corporation tax has been a flat rate of 19% for most company profits for a number of years however from 1 April 2023, the main rate of corporation tax increased from 19% to 25%, if profits are larger than £250,000, and a new 19% small profits rate of corporation tax was introduced for companies whose profits do not exceed £50,000. If taxable profits fall between the lower limit and upper limit, the taxable profits are charged at the main rate of 25% and reduced by marginal relief.

Given the change in rates, when approaching the financial year-end, it is now more important to consider the opportunities that remain via tax reliefs to optimise working capital and business performance prior to the year-end.



Our top tips for companies

Maximise capital allowance claims

Capital allowances year-end planning is a well-trodden path and should be undertaken whilst bearing in mind commercial considerations. A review of proposed capital expenditure and disposals should be undertaken to ensure that capital allowance claims are maximised.

This is particularly important when buying or selling a commercial property as allowances may be lost if steps are not taken to identify qualifying expenditure prior to the sale / purchase. It is also important to consider timings of capital expenditure to see if higher rates of allowances can be claimed by using first year allowances or enhanced capital allowances.

Generally, where first year allowances are not claimed, companies and other businesses are entitled to claim an annual investment allowance (AIA), providing 100% tax relief on the first £1m of qualifying expenditure in a 12-month period. The AIA limit of qualifying spend has changed over the years but has been £1m since 1 April 2019. Unused AIA will be lost as there is no provision for the unutilised portion of the allowance to be carried forward. In effect, AIA acts like a type of de minimis provision. Any additional expenditure above the maximum limit is written off under the normal capital allowances rules, at either the 18% rate or the special rate of 6% (the special rate applies to integral features, long life assets and polluting cars). This therefore places more importance on identifying any spend qualifying for enhanced capital allowances to try and achieve 100% tax relief in year of expenditure if the AIA limit is breached. If you are concerned you may be impacted, please speak to your usual PKF Francis Clark adviser.



Our top tips for companies

First year allowances (FYA)

The super-deduction is a special first year allowance which temporarily increased reliefs, allowing companies investing in qualifying new and unused plant and machinery assets to claim an enhanced capital allowances of 130% (or 50% on qualifying costs on integral features), subject to meeting certain conditions. The super-deduction allowances are available for qualifying expenditure incurred from 1 April 2021 to 31 March 2023.

The Spring Budget 2023 replaced the super deduction with a further temporary tax incentive (first year allowances – full expensing) for companies investing in qualifying new and unused plant and machinery assets incurred from 1 April 2023 to 31 March 2026. Under this temporary incentive companies receive 100% first year relief (50% first year on special rate expenditure) without a cap.

There are also 100% FYAs available on expenditure on plant and machinery (new and unused) for use primarily in a designated freeport or investment zone tax sites up to 30 September 2026.

Qualifying expenditure on designated energy-saving or environmentally friendly items can provide an opportunity to maximise a claim with an additional entitlement to 100% relief via enhanced capital allowances (ECAs). ECA for new and unused electric cars and cars with zero CO2 emissions, gas refuelling stations and zero emission goods vehicles and those for electrical vehicle charge points. The 100% relief currently available on zero emission cars acquired up to 31 March 2025.

The 100% tax relief on ECA is in addition to the 100% AIA limit, so can be particularly useful in a year with a high capital spend.

FYAs and ECAs can improve cash flow and encourage businesses to invest in capital assets, as the tax benefits of doing so are more immediate with potentially enhanced relief.

Therefore, maintaining the timing of the business capital additions (and disposals – clawback of the some of the FYA relief), especially with accounting periods straddling the 31 March 2023 becomes important both when determining the relevant FYA regime a company can claim, and where a company is undertaking larger projects that span the different regimes.

Research & development allowances

Research and development capital allowances are, in effect, another 100% first year allowance. Relief is by no means restricted to high-tech and pharmaceutical industries - many businesses have found that a potential claim has been overlooked and have been able to identify valuable research and development activities, where they previously believed none existed (for example, manufacturers, software and telecommunications industries, food and drink technology, etc.).

Structure and buildings allowance (SBA)

The SBA provides 3% straight line tax relief (10% straight line if in a freeport or investment zone tax site) for the cost of new or renovated commercial structures, where construction commenced on or after 29 October 2018. The allowances can be claimed once the building comes into qualifying use.

Relief is limited to the original cost of construction or renovation, relieved on a straight-line basis across a fixed 33 $\frac{1}{3}$ (previously 50) year period, regardless of ownership changes. No balancing charges or allowances will apply, so there will be no clawback on sale – the allowances will pass on to the next owner. Care will need to be taken to consider when contracts are entered into for construction, where there are residential elements to a property and when the relevant interest is a lease. When the property is sold the SBA claimed will reduce the base cost of the asset, thereby increasing the eventual capital gain.

Our top tips for companies

Consider quarterly instalment payments (QIPs)

Large and very large companies are required to pay their corporation tax liability in four quarterly instalments. A large company is a company whose taxable profits in a 12 month accounting period exceed £1.5 million but are less than £20million. A very large company is one with taxable profits exceeding £20million. The timing of the QIPs is different under the two different QIP regimes; under the very large scheme the corporation tax liability is due for payment before the end of the relevant accounting period.

For periods beginning on or after 1 April 2023, a group for QIPs purposes will no longer include only a company and its 51% related group companies, but instead the rules have been broadened to include a company and its associated companies.

Associated companies are companies that are considered related or associated where one entity controls another, participating in the management, control, or capital of the other. Also, they are under common control – two or more entities fall under the control of a third company.

A company will need to divide the relevant threshold limits by the number of associated companies, including itself, when determining whether it is large or very large for QIPs purposes.

The new definition is wider and looks beyond the legal share ownership, and so potentially increases the number of companies within the large and very large QIP regimes. Given the increased interest rates charged by HMRC for late payment, it is important that companies consider their payment obligations in a timely manner to avoid unnecessary interest charges.

Provide 'green' company cars

There are tax incentives in place to encourage the use of energy efficient company cars. The rate of capital allowances that can be claimed on a car is dependent upon the CO2 emissions. Under current rules, allowances on cars bought can be claimed at 18% where CO2 emissions are up to 50g/km, decreasing to 6% for cars with emissions above 50g/km. As highlighted above, a 100% first year tax deduction on the cost of a new and unused car where emissions are 0g/km or less (or the car is electric) can also be claimed. Benefit in kind percentages are also considerably lower for green vehicles.

Review timings of chargeable asset disposals

If deemed to be commercially viable, it may be worth delaying the sale of an asset being considered close to the year-end into the following accounting period. This can assist with cashflow as payment of corporation tax on the gain arising is deferred by 12 months. The reinvestment of proceeds to purchase relevant business assets can defer the chargeable gains via roll over relief, provided that certain time limits and conditions are met. If you are considering the reinvestment of proceeds, please speak to one of our advisers who can discuss the application and conditions of the relief with you.

Consider provisions carefully

Where there is sufficient evidence to demonstrate the accuracy of the calculation, tax relief may be available in the year a provision is made. Otherwise, the tax deduction is deferred until payment is made. A general provision is not allowable for tax purposes.

Examples of the provisions usually considered are listed below:

- *Bonus accruals: where the decision is made to pay a bonus pre-year end, sufficient steps must be taken to justify its recognition in the accounts. For such a provision to attract relief in the year accrued, an obligation to make the payment must exist at the year-end and the payments must be made within nine months of the end of that accounting period*
- *Bad debts/stock: specific provisions made for bad debtors and/or slow moving, damaged or obsolete stock attract tax relief in the year the provision is created*
- *Dilapidations: obtaining a detailed quote for works, prior to the year-end, is usually required*

A deduction from profits is generally available for pension contributions on a paid basis and not in respect of the amount recognised in the profit and loss account. It is therefore important to ensure payments are made before the end of the accounting period to accelerate relief.

Further thought may also be given to whether pension contributions could be made to directors and/or shareholders instead of dividends, thus increasing the tax relief gained by the company.

Our top tips for companies

Clear overdrawn loan accounts

In certain instances, a 33.75% (previously 32.5%) tax charge may arise on loans made to shareholders / directors unless the loan has been repaid or cleared within nine months of the end of the accounting period. It is therefore recommended that companies review outstanding loans and consider clearing them within that window to avoid a tax charge. It should be borne in mind that rules are in place to counter arrangements that involve loans being repaid shortly before the year-end only to be redrawn early in the next accounting period. Whether pension contributions could be made to directors and/or shareholders instead of dividends, thus increasing the tax relief gained by the company.

Consider research & development and other corporate tax reliefs

Companies should review their activities to consider whether any projects carried out in the year include elements of research & development (R&D). Typically, if work is being carried out to overcome a scientific or technical uncertainty, we recommend speaking to one of our R&D specialists as a claim may be possible. Enhanced R&D deductions and/or tax credits (RDEC) are available for revenue expenditure on R&D including staff costs, consumables, other relevant costs such as power, fuel, water, and software.

The R&D tax credit rules have been updated from 1 April 2023 with a few welcome changes, including relief to companies innovating in pure mathematics and incurring costs relating to cloud computing and data. Companies should also note that there are now advance notification and additional information requirements that must be complied with to make a claim.

For expenditure incurred on or after 1 April 2023, the RDEC rate, for large companies, has increased from 13% to 20%. However, the additional deduction for small and medium sized enterprises (SMEs) has decreased from 130% to 86%, and the SME credit rate has decreased from 14.5% to 10%, unless the SME is deemed a R&D intensive company.

The RDEC is equal to 20% of qualifying R&D expenditure and is treated as a taxable receipt in calculating the profits of the trade for the accounting period. A credit against any corporation tax liability of the same amount is available. A repayable tax credit may also be available to loss making companies.

Land remediation relief (LRR) can provide tax relief where companies are subject to corporation tax. Qualifying costs include the remediation of contaminated land, removal of asbestos from buildings, breaking-out buried structures and the treatment of harmful organisms and naturally occurring contaminants such as Japanese Knotweed, radon, and arsenic.

Consider the corporate interest restriction rules

The corporate interest restriction rules may affect a company or group where it has interest (and amounts considered by the legislation to be similar to interest) in excess of £2m on which relief is claimed for tax purposes. The rules apply to disallow interest expenses to the extent that the net interest expense exceeds the company's interest capacity. Where there is a concern that the company may be impacted by these rules, please speak to one of our tax advisers who can help by reviewing the position in advance of the year-end and provide relevant recommendations as to how to best manage the tax impact of the restriction.

Consider the corporate loss rules

The amount of taxable profits against which carried-forward losses can be relieved is restricted to 50% on a group-wide basis, after taking account of a £5m deduction allowance.

The tax treatment of corporate capital losses has been brought into line with the treatment of income losses from 1 April 2020. The proportion of annual capital gains that can be relieved by brought-forward capital losses is therefore now also restricted to 50%. Capital losses have also been brought into the £5m deduction allowance.

Companies should also consider available current year losses and how these may be utilised to mitigate taxable profits, whether at a company level or group level. This could involve the surrender of losses to another group company.

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Bristol
0117 403 9800

Exeter
01392 667000

Plymouth
01752 301010

Poole
01202 663600

Salisbury
01722 337661

Southampton
02380 012890

Taunton
01823 275925

Torquay
01803 320100

Truro
01872 276477