Finance Directors Update Course

February 2024

Now, for tomorrow

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Please use the Q&A to ask any questions. We will do our best to answer them during the webinar or will raise it on your behalf during the Q&A at the end with all of our presenters – so don't go away!

Any outstanding questions will be responded to directly, except in cases where the question has been asked anonymously.

Feedback & CPD Certificates

This is a CPD Course and provides 3 hours of relevant CPD.

Please use our feedback form to request your CPD certificate for attending. Certificates will be sent out by the end of March, once your attendance has been verified.

We appreciate all feedback, which helps us to plan future events to ensure they meet your needs.

The recording from today's webinar will also be available in the next couple of weeks.

www.surveymonkey.co.uk/r/FDupdateSept24

Our Speakers

Chris Danes
Tax Partner &
Chairperson

Richard Maitland
Employment Tax
Partner

Beverley Scott
Corporate Tax
Partner

Chris Liu
Transfer Pricing
Partner

Jonathan Dowding
Tax Director

Alison Horner
VAT & Indirect Tax
Partner

Robin Prince
VAT & Indirect Tax
Partner

Neil Parsons
Financial Reporting
Director

Tim Dee-McCullough
Sustainability & ESG
Technical Director

Jay Bhatti
Senior Research &
Development
Manager

Agenda

FD Update Course

Thursday 8th February 2024

08.30 – 08.45	Chris Danes Partner	Introduction Welcome and insights on the current market conditions
08.45 – 09.00	Richard Maitland Employment Tax Partner	Employment Tax Roundup focussed on NIC, NMW, IR35, overseas working, National Insurance on Car Allowances and legislative points coming in April
09.00 – 09.30	Beverley Scott Tax Partner	Corporate Tax Full expensing allowance, capital allowances and other topical issues
09.30 – 10.00	Jonathan Dowding Tax Director Chris Liu Partner	International Tax Transfer Pricing rules, methodologies and international tax considerations for inter-company transactions and Pillar 2 consideration
10.00 – 10.30	Alison Horner VAT & Indirect Tax Partner Robin Prince VAT & Indirect Tax Partner	VAT Customs compliance audit, Plastic Packaging Tax (PPT) and other topical issues
10.30 – 10.45	Break	
10.45 – 11.25	Neil Parsons Financial Reporting Director	Financial Reporting and Company Law Update Update on developments in narrative reporting, IFRS, UK GAAP and Company Law and recent publications by the Financial Reporting Council.
11.25 – 11.40	Tim Dee-McCullough Sustainability & ESG Technical Director	Interaction of ESG matters on reporting requirements IASB / FRC expectations on consideration of climate change commitments in financial statements, an update on IFRIC and an overview of the sustainability horizon
11.40 – 12.00	Jay Bhatti Senior Research & Development Manager	Research & Development Focus on the upcoming merging of the SME and RDEC schemes, detailing the updated claim process and eligibility criteria
12.00 – 12.30	Full panel	Q&A

Agenda

Accounting for ESG

Wednesday 28th February 2024

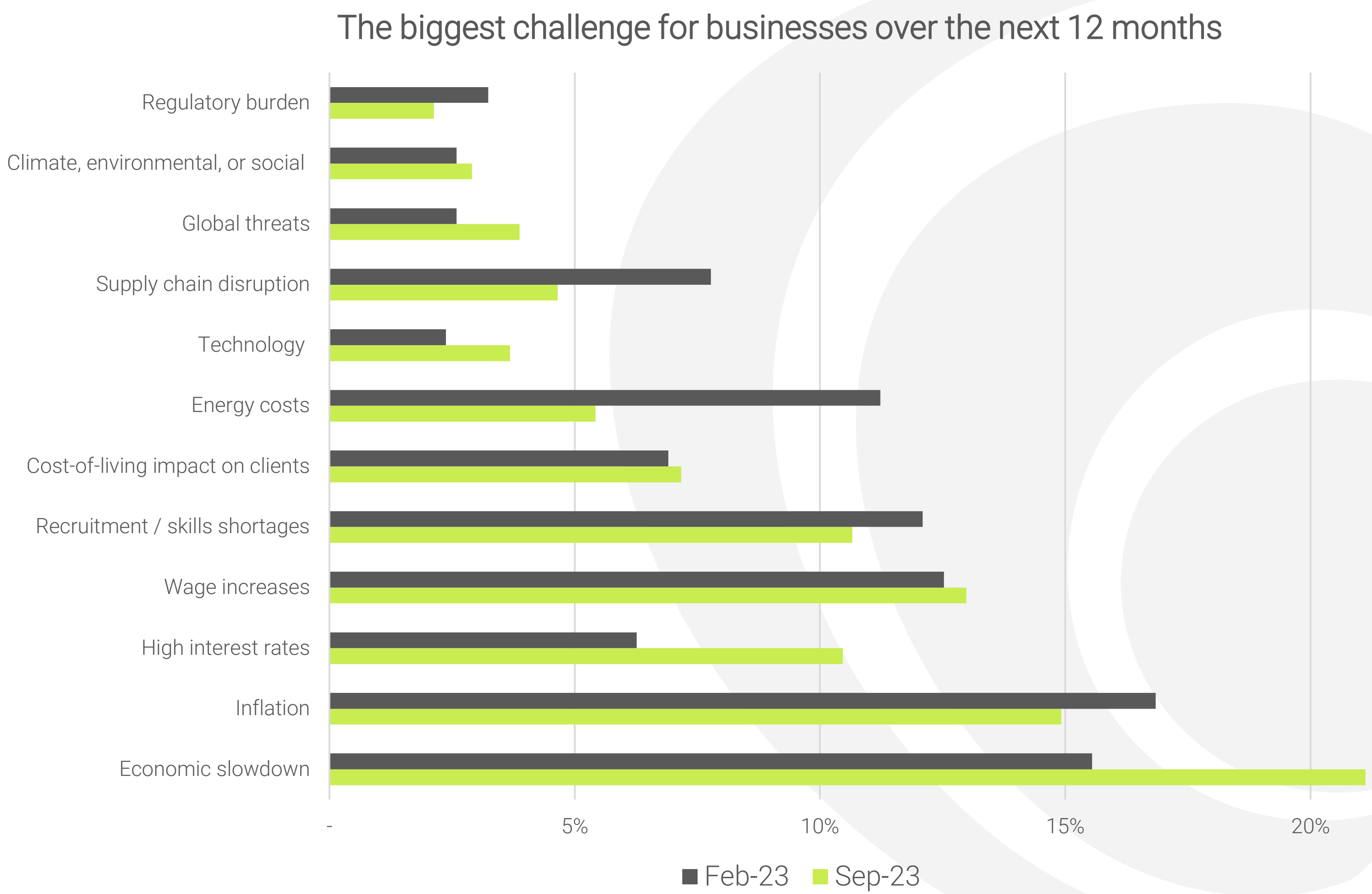
10.00 – 11.00 CPD: 1 hour	Mark Lumsden-Taylor Sustainability & ESG Partner Tim Dee-McCullough Sustainability & ESG Technical Director	Accounting for ESG • IASB / FRC expectations on climate change commitments being considered in the financial statements and for critical valuations • IFRIC update on net zero commitments as a constructive obligation and an overview of the sustainability horizon and what companies need to do to prepare • Overview of the sustainability horizon, including CSRD/ESRS, ISSB and TNFD, when each wave will hit, and what companies need to do to prepare

Employment Law Update

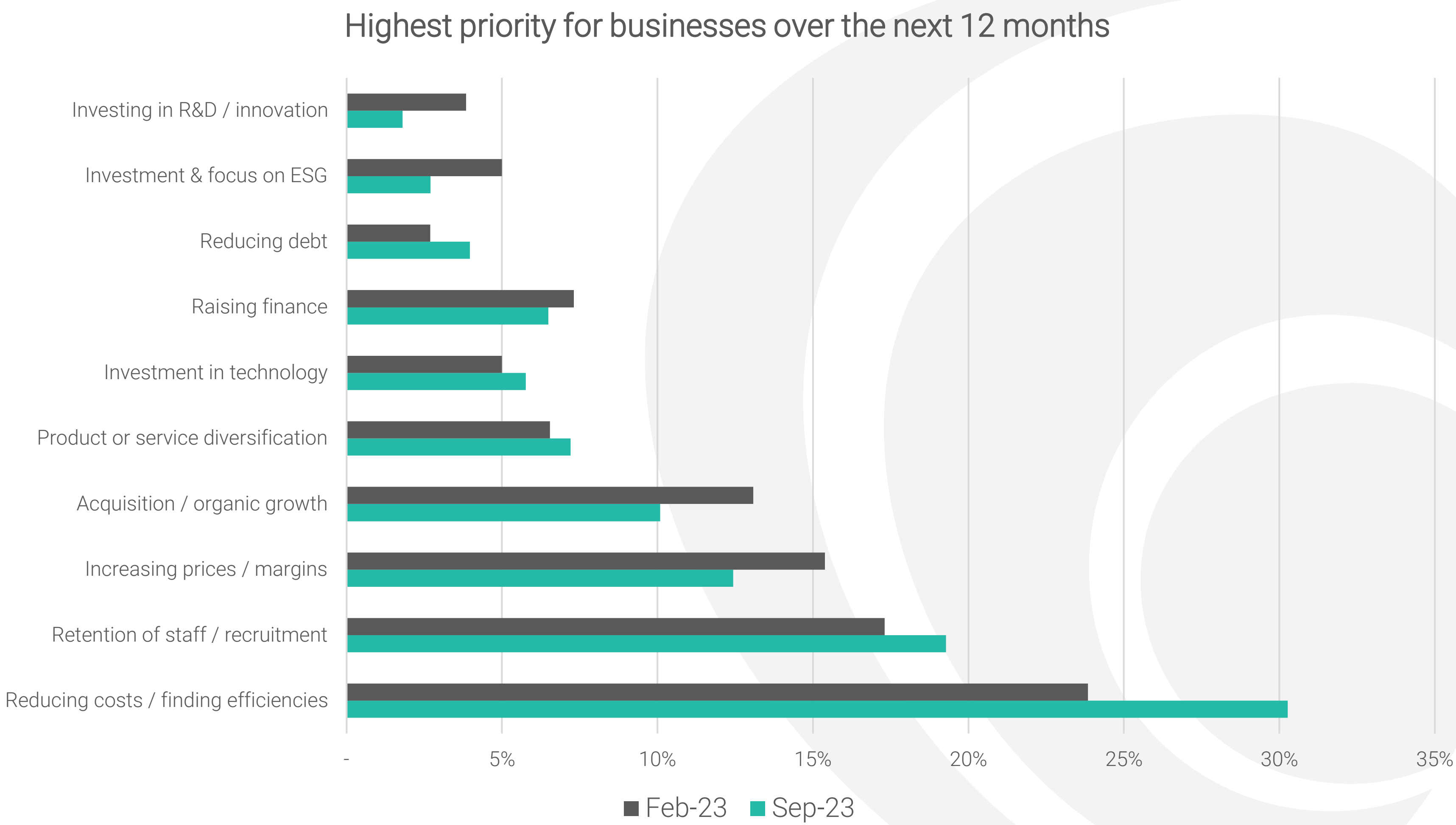
Thursday 29th February 2024

10.00 – 11.00 CPD: 1 hour	Stephanie Pote Senior HR Consultant Joanna Rose HR Consultant	2024 Employment Law update • Minimum wage increases • Changes to holiday accrual for irregular hours and part-time workers • Changes to consultation requirements under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE), • Revised procedures for flexible working requests • Statutory rights for workers under atypical contracts • Changes to regulations on Harassment • New provisions for family leave and safeguards around protection from redundancy for pregnant employees or those returning from parental leave

Poll Results – September 2023



Poll Results – September 2023



Employment Tax

Richard Maitland
Tax Partner

richard.maitland@mha.co.uk

Employment tax – key changes

- Key changes impacting tax and payroll compliance
- National Insurance Contributions – January 2024 reduction in Employee NIC
- National Living Wage – 1 April 2024 – rate increases and age threshold reduces
- Possible further changes in Spring Budget ?

Employment tax – risk and opportunity areas

- IR35 – Employment tax rules regarding 'intermediaries'
- Broader issue of Employment tax status (employed vs. self-employed) in labour supply chains
- Overseas working – international remote working
- UK and local jurisdiction issues – Employment tax and social security; but also permanent establishment, immigration, employment legal rights, data protection etc
- National Insurance on Car Allowances – potential refund opportunity
- Understand nature and extent of each of these populations

Corporate Tax

Beverley Scott
Tax Partner

beverley.scott@mha.co.uk

Capital Allowances – have you identified all of your expenditure?

- Dates of expenditure are important – how do you track these?
- Do you know the capitalisation policy? Should this be revisited? Definition of revenue v capital has not changed.
- Historic expenditure can be included in a later corporation tax return provided that it has not been previously claimed.
- Are you within time to amend an earlier period to accelerate the relief available?
- Unique window for commercial buildings between 2006 – 2008 although this is now of limited benefit with the passing of time.

Capital Allowances – which do you choose?

Pool	Rate	Type of asset	Time period
Main Rate Pool ("MRP")	18%	Plant & machinery	Ongoing
Special Rate Pool ("SRP")	6%	Integral features	Ongoing
Long life Assets	6%	Useful life of more than 25 years (when new) but limited application in reality	Ongoing
Structural Buildings Allowances ("SBA")	3% (straight line basis)	Cost related to construction or renovation of commercial structure	Ongoing (introduced in 2018)
Short Life Assets	18%	Assets with a useful economic life of less than 8 years	Ongoing
Annual Investment Allowance	£1m	Can be allocated to any "pool" but not cars.	Ongoing
Super Deduction	130% on MRP 50% on SRP	As categories above BUT other conditions apply	1 April 2021 to 31 March 2023
First Year Allowances	100% MRP 50% SRP	See below	From 1 April 2023 Now permanent

Full Expensing / First Year Allowances ("FYA")

Qualifying Expenditure

The conditions for Full Expensing are the same as those for the Super Deduction.

- The asset must be new and unused.
- The asset must not be used for leasing or hiring out to other persons (exceptions for property lessors).
- Cars do not qualify. Note however that new cars with zero CO2 emissions qualify for 100% First Year Allowances until 31 March 2025.

Property Investors PropCo/OpCo Structures, and Leasing as Part of a Service

Full Expensing and 50% FYAs are not available on assets to companies that lease or hire out the asset to other persons, unless:

- Leasing as a service
- Property letting

Disposals

Where a company sells an asset on which 100% or 50% FYAs have been claimed, the company will be charged to tax on the full disposal proceeds as a balancing charge.

Full Expensing / First Year Allowances ("FYA")

Full expensing (MRP)	FYA at 50% (SRP)
Machines such as computers, printers, lathes	Integral features of a building:
Office equipment such as desks and chairs	Electrical and lighting systems
Vehicles such as vans, lorries and tractors (not cars)	Cold water systems
Tools such as ladders and drills	Space or water hearing systems, powered systems of ventilation, air cooling or air purification systems
Construction equipment such as excavators, compactors and bulldozers	Lifts, escalators and moving walkways
Certain fixtures such as kitchen and bathroom fittings and fire alarm systems in commercial properties and furnished holiday accommodation	Solar Panels
Computer software (by election)	Cars are generally Special Rate but they do not qualify for the 50% allowance.
Storage systems	Thermal insulation of buildings (conditions apply).
Car park lighting	Cushion Gas
Portacabins moved from site to site in the construction industry	

Full Expensing or AIA?

Feature of Scheme	Full Expensing	Annual Investment Allowance
Limit	Uncapped	£1 million across groups and connected companies
Type of expenditure	Main rate only	Main rate and special rate
New/Second hand	Must be new and unused	May be new or second hand
Businesses	Companies only	Companies and unincorporated
Assets leased to others	Not eligible (except background plant in a building)	Eligible, except most residential
Disposal	Immediate balancing charge	Reduces the pool of expenditure, may create balancing charge

Capital Allowances – Impact of change in associated companies?

- Annual Investment Allowance is a “group” allowance.

- Restricted in 4 ways; single companies, Group companies, Group companies under common control and Other related companies under common control.

- Groups and companies are related where:
  The companies share premises; or
  They have similar activities

- In these cases, Annual Investment Allowance is restricted to £1m in total to be shared across the wider collective of companies.

- Above condition is assessed on a year-by-year basis

Capital Allowances – Gunfleet Sands v HMRC

- Gunfleet Sands together with other group companies incurred c.£48m in connection with the construction and installation of wind farms
- Included within this expenditure was professional costs relating to environmental impact, metocean, geophysical and geotechnical studies, and on project management relating to the design and construction of the windfarms.
- HMRC denied the claim for Capital Allowances on these costs on the basis they were too remote and not 'on the provision of plant and machinery' (s.11 CAA 2001)
- Appeal was made to the First Tier Tribunal (heard in Nov 2021, published in 2022)
- First Tier Tribunal found in favour of both the appellants and HMRC on various key points, notably, allowing a significant proportion of the professional fees

Capital Allowances – Gunfleet Sands v HMRC

- Both Appellants and HMRC appealed to the Upper Tier Tribunal. Hearing in June 2023.

- Upper Tier Tribunal reversed the decision of the First Tier Tribunal in relation to the professional studies and narrowed the scope of the fees that could be claimed.

- Upper Tier Tribunal disagreed with the application of 'necessity'

- They also confirmed that the revenue/capital 'test' was an independent test and it does not automatically follow that all capital costs are allowable even if they relate to a qualifying asset.

- Is this further evidence of a contradiction in the Green Policy?

- Is there a wider application to other industries such as construction?

Capital Allowances – What should you be doing?

- Do you know your AIA group?
- Are you forecasting your capital spend?
- Upfront analysis has never been more important!
- Similarly, claims and elections reviews are also important – we do have the benefit of hindsight available to us BUT this can come at a price of an extended enquiry window.
- How does this affect your cash tax / deferred tax position and your overall ETR – can you influence the date of expenditure? Particularly important now we have marginal bands again

International Tax

Chris Liu
Transfer Pricing Partner

chris.liu@mha.co.uk

Jonathan Dowding
International Tax Director

jonathan.dowding@mha.co.uk

Transfer pricing update – key takeaways

- Transfer pricing is not just cost plus.
- Documentation report is not just benchmarking study write-up.
- IP charge is not just royalty payment.
- Financial transaction transfer pricing is not just interest rate benchmarking study.

Why is transfer pricing important?

- For very large groups (with consolidated revenues over €750 million), there are Master File, Local File and Country by Country Reporting requirements.
- For large groups in the UK, there are transfer pricing documentation requirements in the UK tax legislation.
- For small and medium enterprises in the UK, there are SME exemptions, but these are unilateral.
- Event driven – fund raising, refinancing and M&A due diligence.
- Increasing transfer pricing enquiries by tax authorities all over the world on financial transaction transfer pricing and push onto profit split model.

Change in the UK transfer pricing documentation requirements

- For accounting periods starting on or after 1 April 2023, multinational groups with a consolidated group revenue over €750M are required to prepare a transfer pricing Master File and a Local File in the UK. The format of the Master File and the Local File is consistent with that set out by the OECD Guidelines.

- However, transfer pricing documentation preparation is always required by the UK tax legislation unless a Group is qualified as a small or medium enterprise. The new requirement is only to align the format of the transfer pricing documentation with the OECD prescribed format. Therefore, if there were transfer pricing enquiries/audits undertaken by HMRC in relation to the historic period (e.g., year ended 31 December 2022), it would be expected that the Group should have had transfer pricing documentation in place.

Change in the UK transfer pricing documentation requirements

The ‘old’ documentation requirements (which are still valid for groups with consolidated revenues below €750M) include:

- Primary accounting records;
- Tax adjustment records;
- Records of transactions with associated businesses; and,
- Evidence to demonstrate an “arm’s length” result.

Overseas workers and PE risks

1. Common for MNEs to ‘test the waters’ overseas without a local subsidiary.
2. Indirect Tax registration often required before direct tax / PE registration needed.
3. Several overseas worker arrangements that can result in an overseas PE.
4. Domestic PE rules can vary significantly between jurisdictions; some locations are inherently high risk.
5. Double tax treaties can help, though still subject to local interpretation, and many now modified by the MLI.
6. Use of PEOs / EORs doesn’t necessarily mitigate overseas PE risks.
7. Failures can result in penalties and interest on overseas tax liabilities, increased risk of local tax audit, and reputational damage.

UK Withholding Tax

- Requirement to withhold tax on payment / deemed payment of ‘yearly’ interest, subject to certain exemptions, or making a valid claim under an appropriate Double Tax Treaty or requesting direction from HMRC to pay gross to a DTTP holder.

- 1 June 2021 - changes to domestic legislation effectively withdrawing the provisions of the EU Interest and Royalties Directive for payments to associated companies.

- DTT claims and DTTP requests must be made for reduced WHT or exemption to apply

- Penalties and interest can be levied where interest has been paid gross, even where 0% WHT rate would have been available.

- HMRC’s guidance relating to TTL EOOD case can potentially mitigate s87 TMA 1970 interest (but only to 4 May 2023).

- Self-assessment for Royalties, allowing for payment gross where ‘reasonable belief’ test is satisfied but beware 1 June 2021 changes.

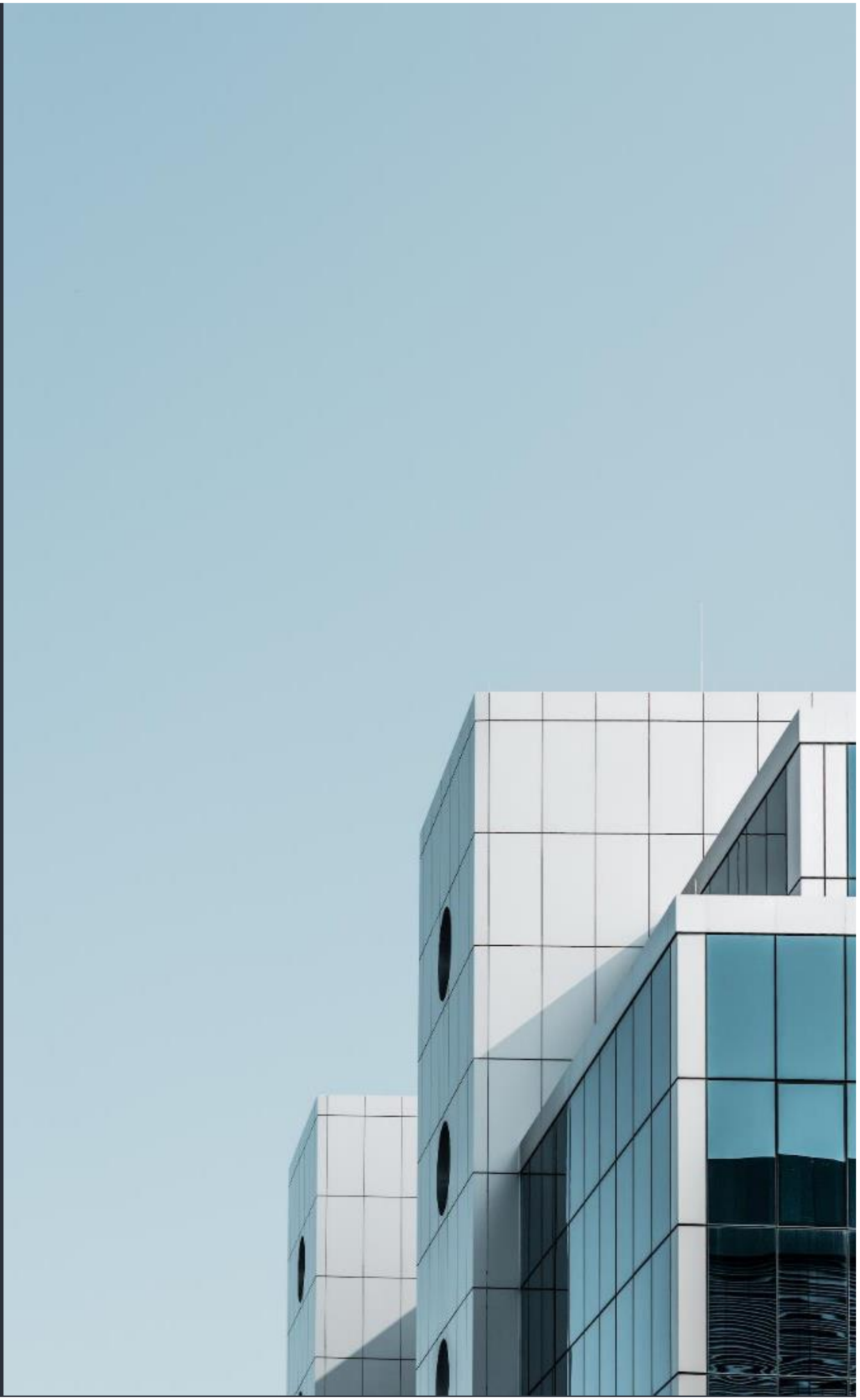
BEPS 2.0 – Pillar 2

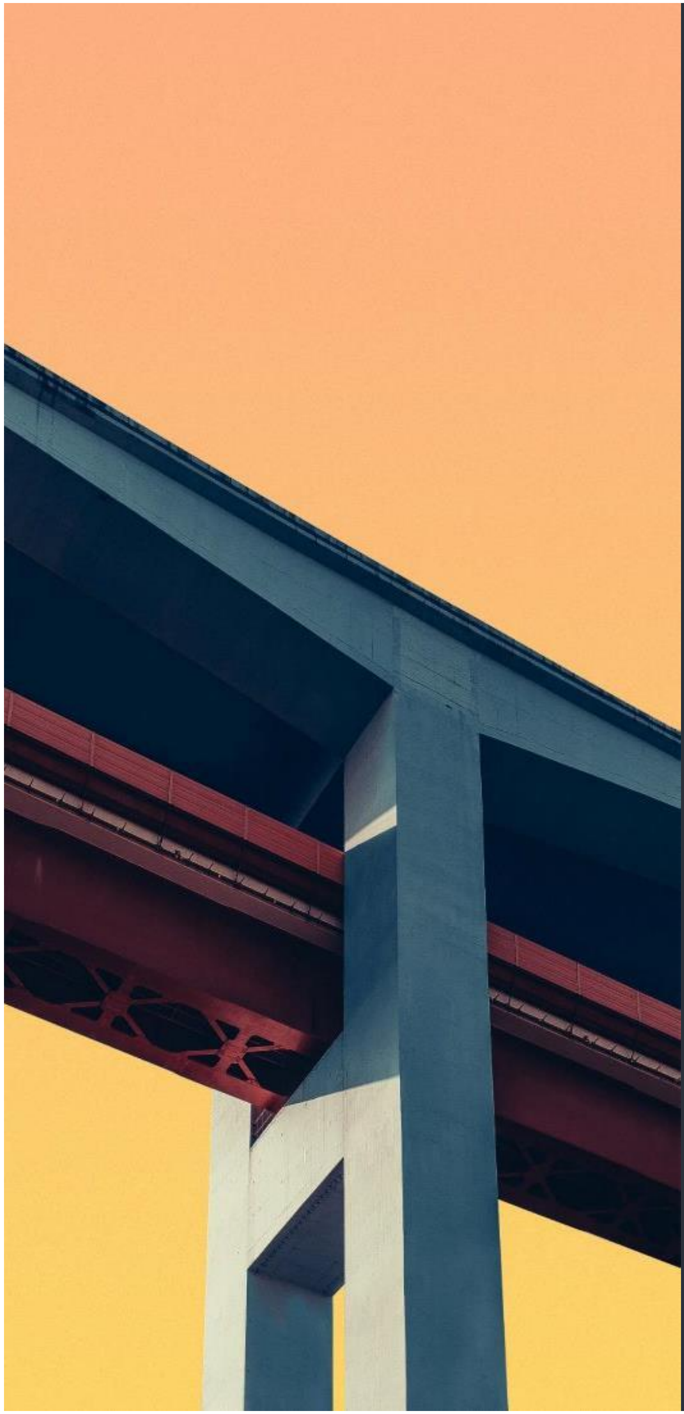
Designed to enforce 15% minimum tax rate

Rules apply to groups with gross revenue > €750m

Reporting requirement in each jurisdiction

Significant reporting requirement for ultimate parent

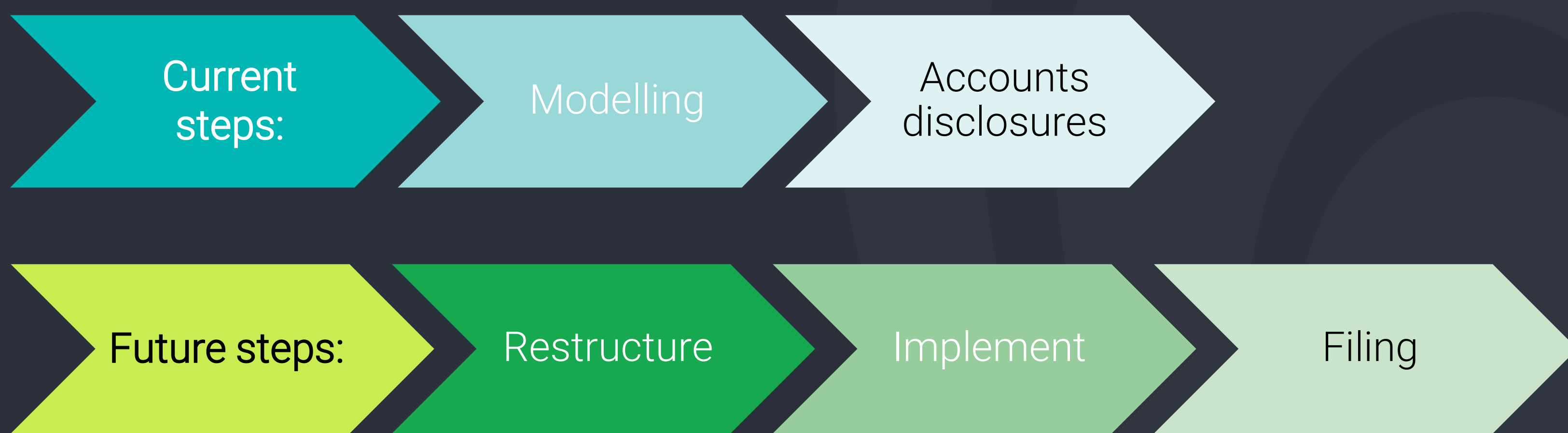




Compliance Requirements

1	AP from 1 January 2023	Disclosure requirements in statutory accounts.
2	From 1 January 2024	Accrue additional BEPS 2.0 taxes as they apply.
3	30 June 2025	Register with the Tax Authorities.
4	30 June 2026	First Pillar 2 return to be filed in the UK for 2024 – 18 months after end of AP.
5	31 March 2027 & beyond	Second Pillar 2 return to be filed in the UK for 2025, then same day each year going forward – 15 months after end of AP.

Compliance Steps



VAT

Alison Horner
VAT & Indirect Tax
Partner

Robin Prince
VAT & Indirect Tax
Partner

alison.horner@mha.co.uk

robin.prince@mha.co.uk

Plastic Packaging Tax

A PPT is now applicable in the following countries:

- UK – from 01/04/2022
- Spain – from 01/01/2023
- Italy – from 01/01/2023

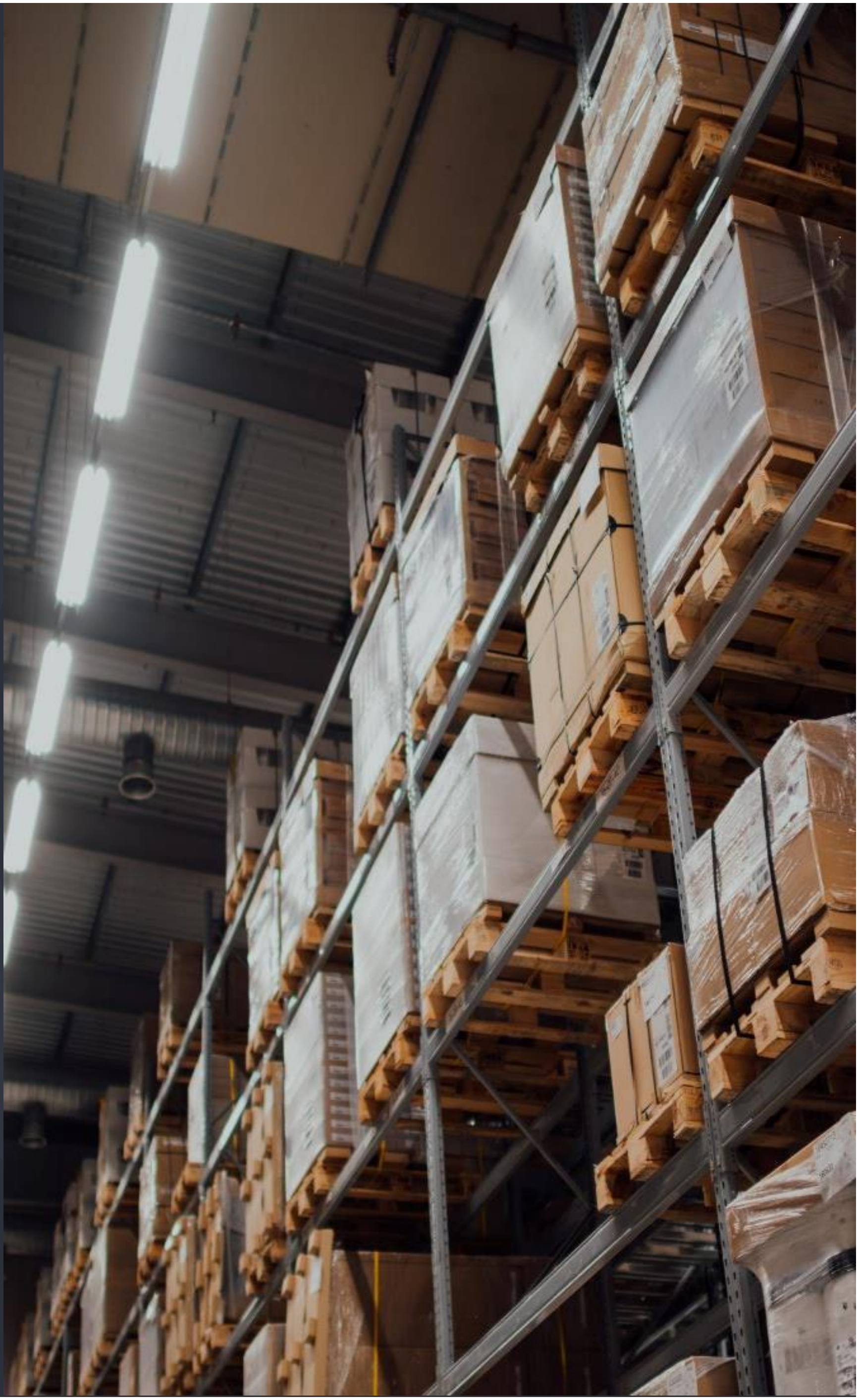
Germany will introduce from 01/01/2024

Plastic Packaging Tax

What are the tax rates?

Country	Tax
UK	£210.82 pMT
Spain	€0.45 per kg*
Italy	€0.45 per kg*
Germany	Annual levy

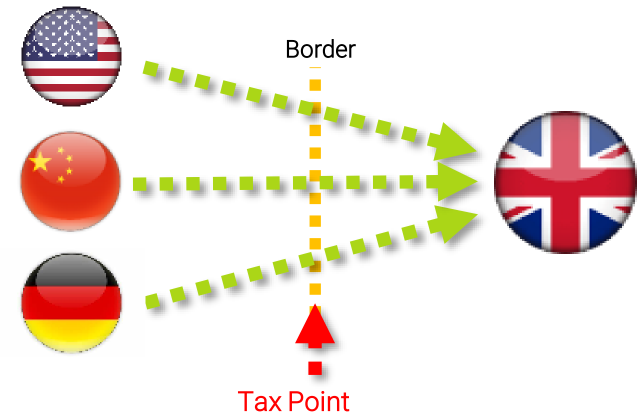
* Tax only due on non-recycled content



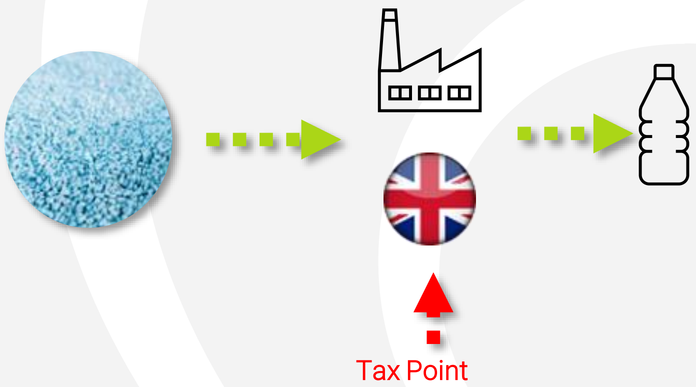
Plastic Packaging Tax

When does it apply?

Import



Manufacture of finished plastic packaging component



Plastic Packaging Tax

Bottles designed for single use	Carrier bags	Biscuit wrappers	Clothes hangers for use in the supply chain
Bottle tops or caps	Bin liners and refuse sacks	Pallet wrap	Plant pots designed to be sold with plants inside
Labels designed to present the goods	Food bags (such as sandwich bags)	Plastic film around a box	Kimble tags
Ready meal trays	Flexible food pouches	Nappy sacks	Reusable plastic crates
Film designed to protect produce	Film windows on items	Disposable plastic bowls and plates	Pick bins used in warehouses
Yoghurt and soup pots	Salad bags	Gift wrapping such as ribbon and sticky tape	Ready meal & vegetable pouches & packets
Wrap designed to group products together	Crisp packets	Tamper proof seals	Medical sharps bin (single use)

Plastic Packaging Tax

UK Approach

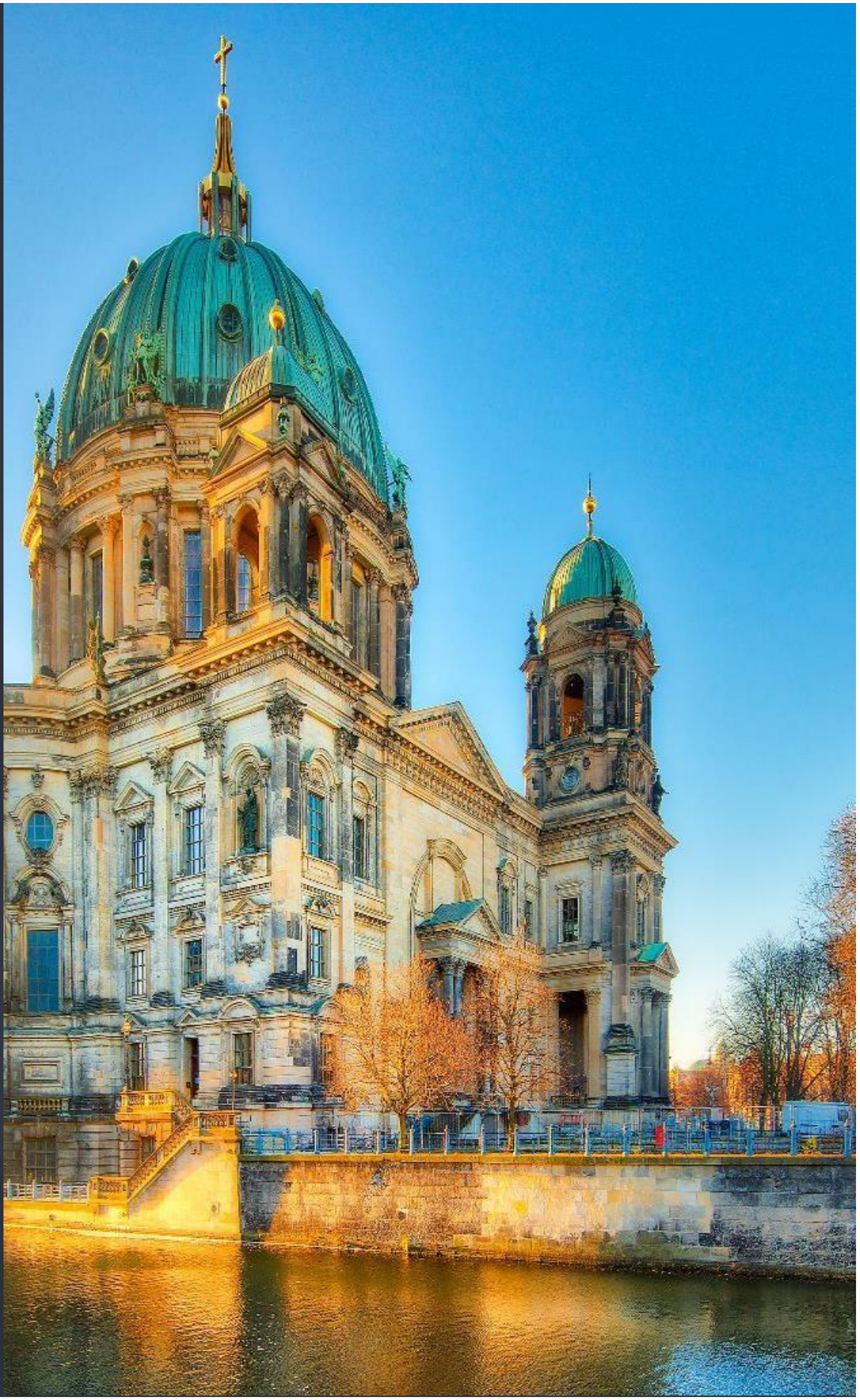
- Exemption on packaging with 30%+ recycled plastic content
- Other exemptions are on packaging for human medicines, point of sale, etc.
- Registration threshold is 10MT of taxable plastic packaging per rolling 12-months
- Registration process is simple – now generates automatic penalties
- PPT return is also simple but supporting evidence may be substantial

Plastic Packaging Tax

German Approach

- EU Directive no Tax but administrative fees.
- In Germany: Single-Use Plastic Fund Act – no tax and tax rules do not apply
- Register
- Ban from placing such products on the market for non-registered persons
- Plastic fee for 2024 will be determined in 2025

www.bakertilly.de/en/news/detail/plastic-tax-in-germany-single-use-plastic-fund-act-leads-to-new-obligations-for-manufacturers.html



Plastic Packaging Tax

Risks/key considerations

- DDP imports will render the seller subject to PPT obligations
- Seller may need to provide accurate specifications on plastic content and weights (e.g. on product spec/commercial invoice)
- Accurate records must be retained to evidence weights and recycled content
- Failure to register on time will incur penalties
- HMRC are reviewing registrations and raising automatic penalties

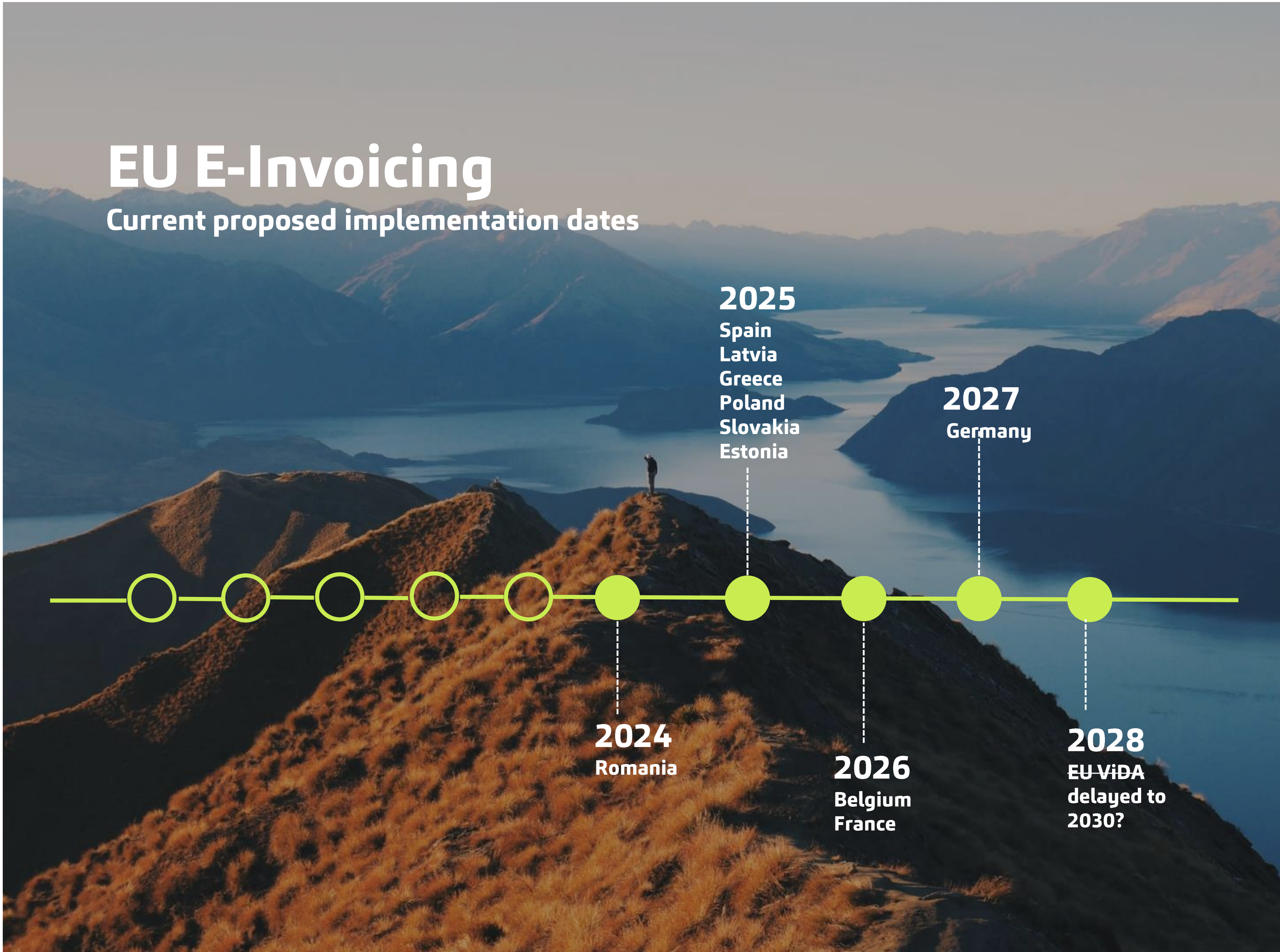
CBAM - EU

- What is it – Carbon Border Adjustment Mechanism

- Who does it affect – EU importers of certain products
- What products – Cement, Aluminum, Steel, Iron, Fertilizers, Hydrogen and Electricity.
- Phased introduction with reporting only in 2024.
  - 2026 CBAM obligations and carbon certificates relating to the supply chain
  - 2034 fully embedded emissions and reporting.

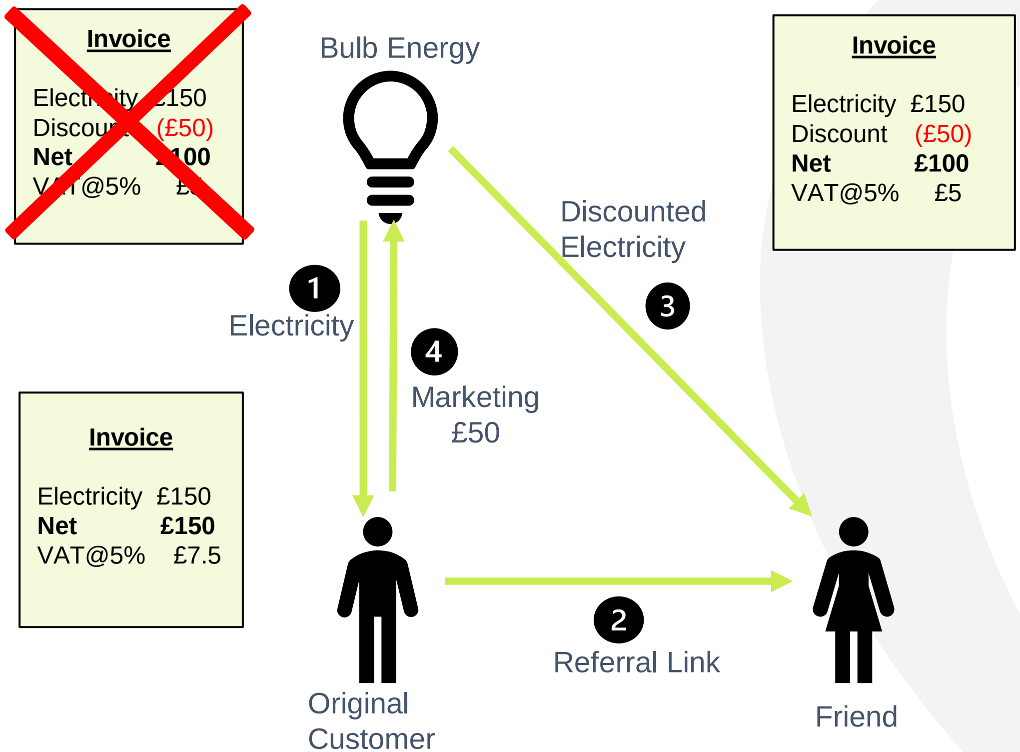
What about the UK?

- Consultation period
- UK will introduce a CBAM in 2027
- CBAM liability will rest with the importer.
- It will not involve certificates which can be traded.
- Sectors and Products that will be affected - Aluminum, Cement, Iron, Steel, Ceramics, Glass, Fertilizers and Hydrogen.


EU E-Invoicing
Current proposed implementation dates
2024
Romania
2025
Spain
Latvia
Greece
Poland
Slovakia
Estonia
2026
Belgium
France
2027
Germany
2028
~~EU ViDA~~
delayed to
2030?

Refer a friend bonus scheme

Simple Energy ltd v HMRC



Background

- Bulb Energy ran a refer a friend promotion where its customers could share a sign-up link with a friend.
- If the friend signed up, both the Customer and Friend received up to £50 credit on their energy bill.

Dispute

- HMRC took the view that the credit given to the Existing Customer was not a discount but was payment for a referral service.
- HMRC accepted that the credit provided to the friend was a discount.

Court Finding

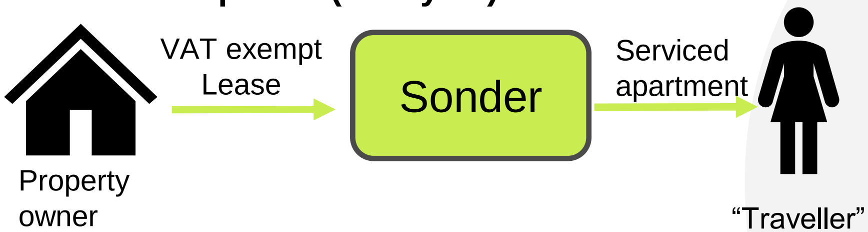
- The Tribunal held that the referral bonus was not a reduction in consideration for electricity.

Provision of margin supplies

Tour Operators Margin Scheme

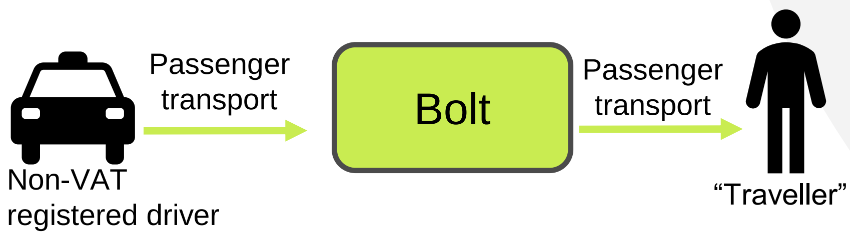
- The tour operators margin scheme (TOMS) is a special scheme for businesses that buy and sell certain travel services.
- It applies to supplies of accommodation, transport, catering and other services that are sold as part of a package.
- Under TOMS, you do not account for VAT on the cost of buying in the services, but only on the margin you make when you sell them to your customers.

Sonder Europe Ltd (5 July 23)



- Sonder provided accommodation to travellers. The accommodation was in the form of self-contained apartments which Sonder had leased from third party landlords.
- Sonder asserted that it provided services to travellers which were the kind commonly provided by travel agents.
- HMRC argued that TOMS did not apply as Sonder had changed the nature of the supply.

Bolt Services UK Ltd (15 December 23)



- Bolt provided passenger transport services to travellers. The transport was provided by private hire vehicles (PVH) operated by independent driver.
- Bolt asserted that passenger transport by a PVH is a kind of service which is commonly provided by travel agents.
- HMRC argued that TOMS did not apply as Bolt did not make supplies of a kind commonly provided by travel agents.

Comment

- It is noteworthy that both cases were heard by the President of the First-tier Tribunal, Greg Sinfield.
- HMRC has appealed the judgement in Sonder and is believed to be applying to appeal Bolt.
- It is understood that Uber have a similar appeal that will be before the Tribunal in the first half of 2024.

Break

We will resume shortly

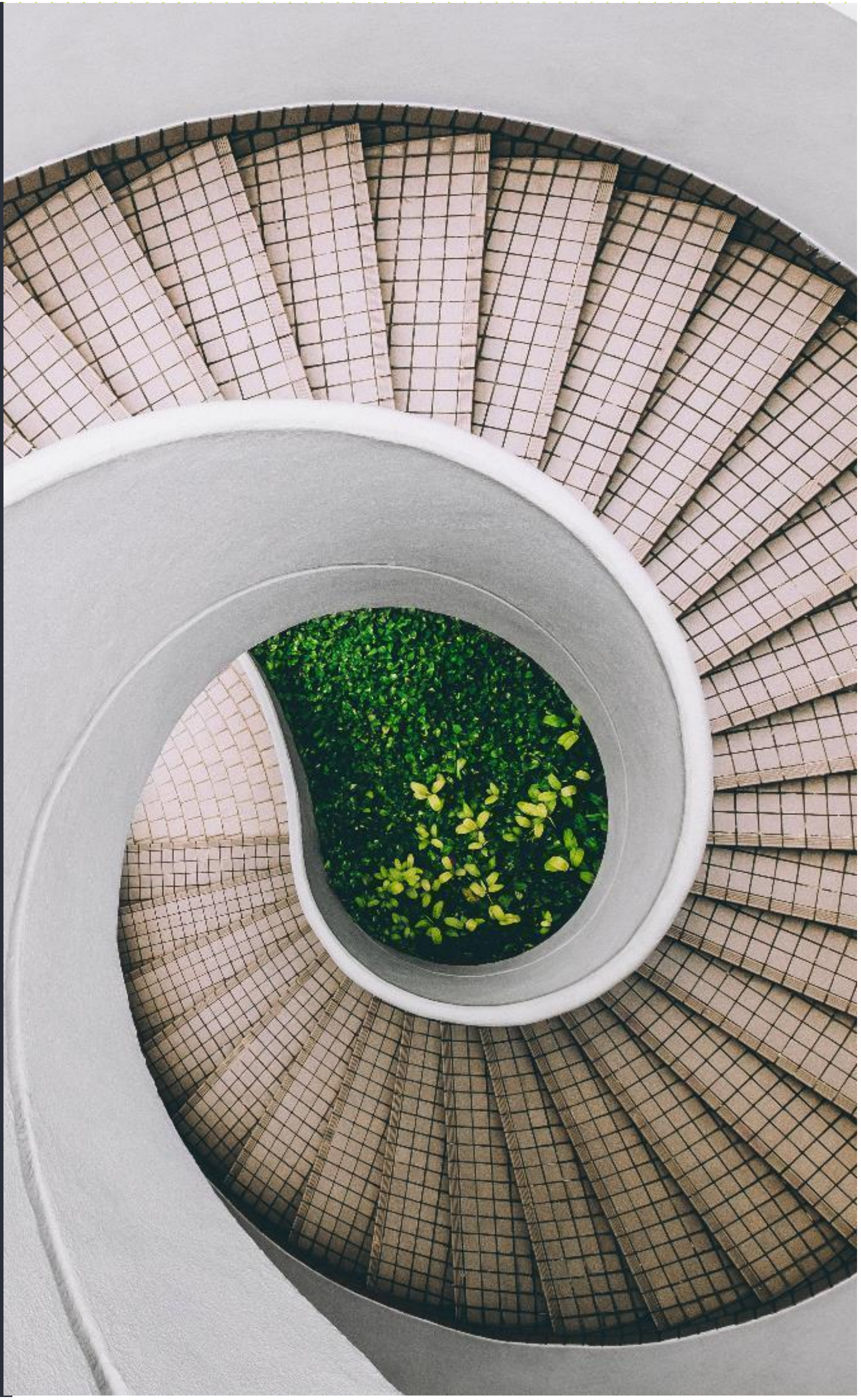
Financial Reporting and Company Law Update

Neil Parsons
Financial Reporting
Director

Agenda

1. The Financial Reporting Council's view of reporting quality
2. Narrative Reporting and Company Law
3. IFRS Update
4. UK GAAP Update
5. Special considerations for the new reporting season

The Financial Reporting Council's view of reporting quality



FRC views on Corporate Reporting

FRC views on Corporate Reporting

Annual Review of Corporate Reporting (2022/2023):

“We are pleased to note that the general quality of corporate reporting across the population of FTSE 350 companies we reviewed has been maintained. Our reviews resulted in a similar number of substantive questions to previous years, and we were able to resolve these enquiries through open and constructive engagement with companies. This is a positive outcome in the context of a challenging trading and reporting environment.”

FRC: CRR Annual Review of Corporate Reporting October 2023

FRC views on Corporate Reporting

Annual Review of Corporate Reporting (2022/2023):

“Companies have faced several years of economic and geopolitical turbulence following the pandemic and Russia’s invasion of Ukraine. Interest rate rises in response to persistent inflation, the related impact on consumer behaviour, and limited growth remain immediate concerns in many economies. There are also considerable uncertainties surrounding companies’ exposures to climate change and their plans for the transition to a low carbon economy.”

“This presents a challenging environment for financial reporting as companies need to consider, and communicate to investors, how these issues affect their business, as well as the assumptions underpinning the values of assets and liabilities in their financial statements.”

FRC: CRR Annual Review of Corporate Reporting October 2023

FRC: CRR's Top Ten Reporting Topics

1. Impairment of assets
2. Judgements and estimates
3. Cash flow statements
4. Strategic Report and other Companies Act matters
5. Financial instruments
6. Income taxes
7. Revenue
8. Provision and contingencies
9. Presentation of financial statements and related disclosures
10. Fair value measurement

New addition this year. Alternative performance measures (APMs) was removed this year.

Quality of UK private company reporting


FRC
Financial Reporting Council

Thematic Review:

Reporting by the UK's largest private companies

January 2024

Thematic Review: Private Companies

Reporting by the UK’s largest private companies

“The quality of reporting was mixed, particularly in terms of how clearly companies explained material matters that were complex or judgemental.”

“Accounting policies for complex transactions and balances were often untailored, providing boilerplate wording. Entity-specific policies are particularly critical for revenue, where the better examples explained the nature of each significant revenue stream, the timing of recognition and how the value of revenue was determined.”

The disclosure of financial instrument risks such as liquidity risk was generally boilerplate and generic, describing the nature of risks without fully explaining why they are relevant. Better examples explained the specific nature of the risk and quantified the exposure and sensitivity to potential future changes.”

FRC: CRR Thematic Review: Private Companies (January 2024)

Thematic Review: Private Companies

Reporting by the UK’s largest private companies

“The best strategic report disclosures focused on the elements of development, performance and position that are key for an understanding of the company, explaining them in a clear, concise and understandable way that was consistent with the disclosures in the financial statements. Good quality reporting does not necessarily require greater volume.”

“To enable users to fully understand a business, disclosures should explain the nature of its operations and how it fits into a wider group structure.”

FRC: CRR Thematic Review: Private Companies (January 2024)

Thematic Review: Private Companies

Reporting by the UK's largest private companies

"Many of the issues we identified could have been avoided if a sufficiently critical review of the annual report and accounts had been conducted prior to finalisation. This includes taking a step back to consider whether the report as a whole is clear, concise and understandable, omits immaterial information and whether additional information is necessary to understand particular transactions, events or circumstances. It also includes a review for internal consistency and more detailed presentation and disclosure matters."

FRC: CRR Thematic Review: Private Companies (January 2024)

Thematic Review: Private Companies

Reporting by the UK's largest private companies

1. Users and materiality
2. Strategic Report
3. Primary Statements and accounting policies
4. Revenue
5. Judgements and estimates
6. Provisions and contingent liabilities
7. Financial Instruments
8. Climate Reporting

FRC: CRR Thematic Review: Private Companies (January 2024)

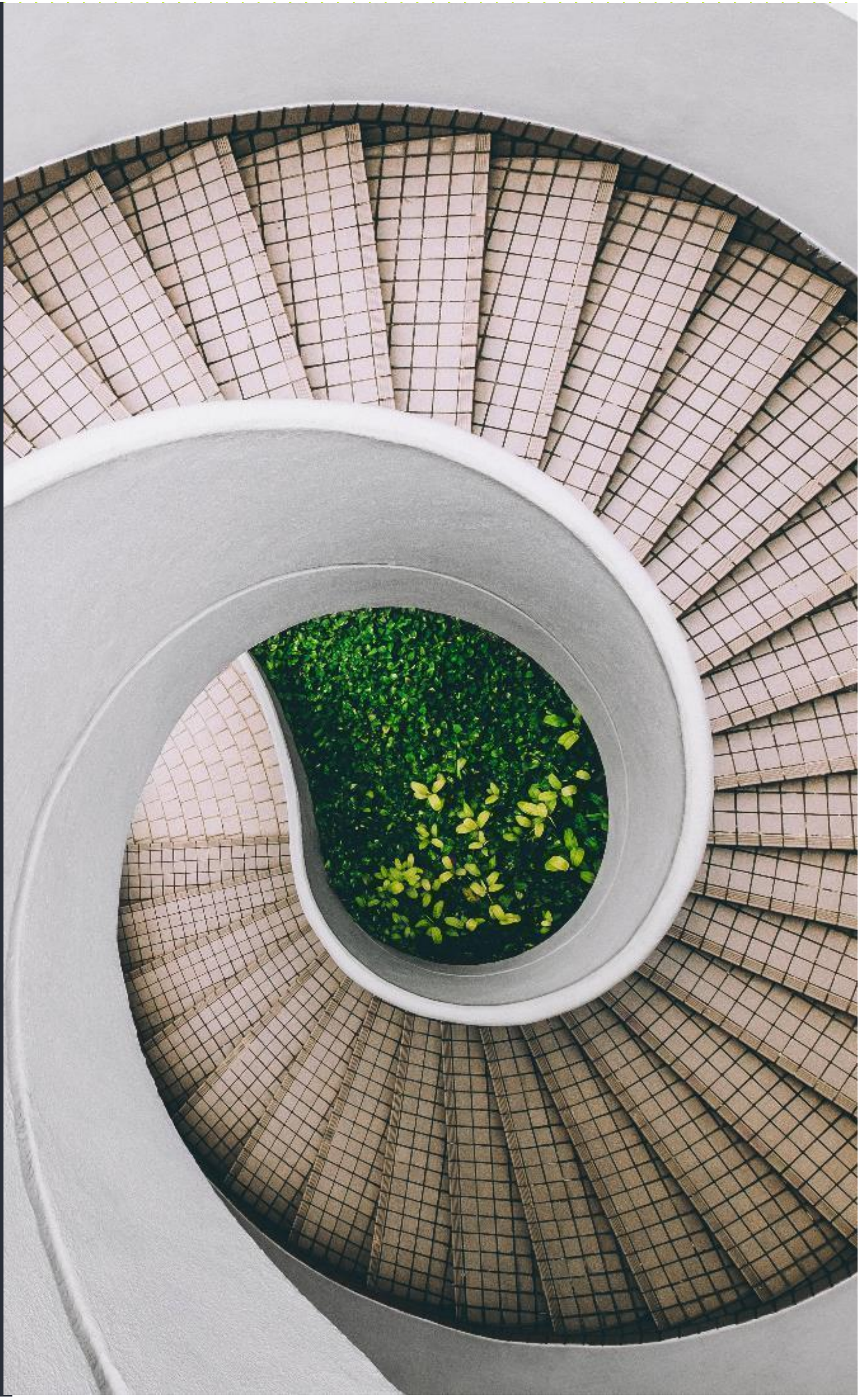
Thematic Review: Private Companies

Key reporting expectations for large private companies

- Provide a strategic report that contains a balanced analysis focused on the elements of development, performance and position that are key for an understanding of the company.
- Explain how the company or subgroup fits into a wider group structure to allow a user to understand fully the context in which it operates.
- Tailor accounting policies for transactions and balances that are complex or judgemental and keep policies under review to ensure that they remain complete, relevant and accurate.
- Disclose revenue policies explaining the nature of each significant revenue stream, when it is recognised and how its value is determined.
- Provide specific details of judgements taken and clearly explain the rationale for the conclusion reached.
- Clearly distinguish which estimates have a significant risk of material adjustment to the carrying amount of assets and liabilities in the next financial year. Provide additional quantitative detail where it is necessary for an understanding of the significance of the estimate.
- Disclose clearly the nature of the obligation giving rise to a provision and the associated uncertainty in timing or amount for significant provisions.
- Explain the nature of each significant financial instrument risk within the company. Where necessary for an understanding of the exposure this should include quantification and provide information on the sensitivity to potential future changes.
- Conduct a critical review of the annual report and accounts prior to finalisation. This includes considering whether the report as a whole is clear, concise and understandable, as well as checking for internal consistency and more detailed presentation and disclosure matters.

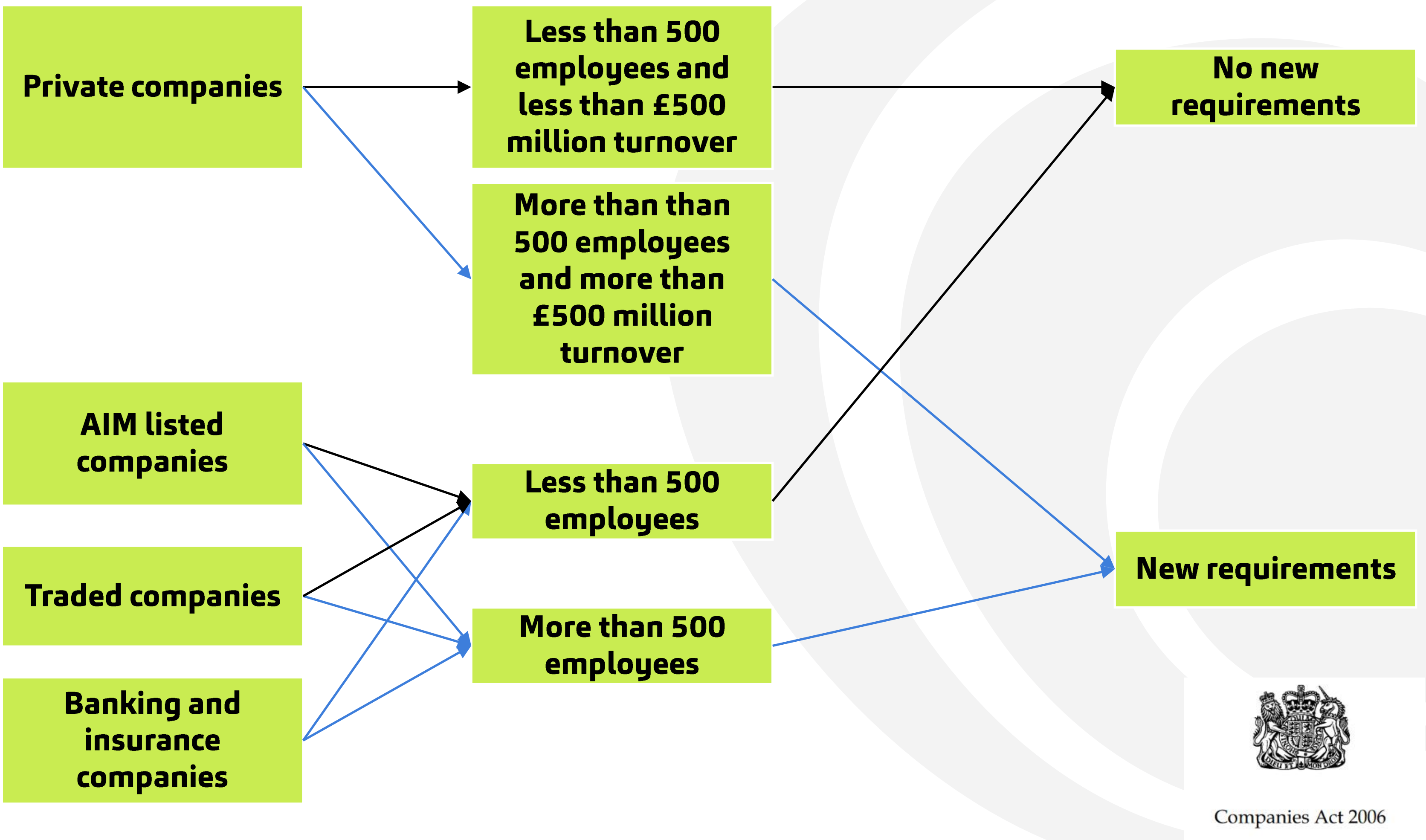
FRC: CRR Thematic Review: Private Companies (January 2024)

Narrative Reporting and Company Law



Narrative reporting – Companies Act 2006

General overview of changes to the Strategic Report under Companies Act 2006



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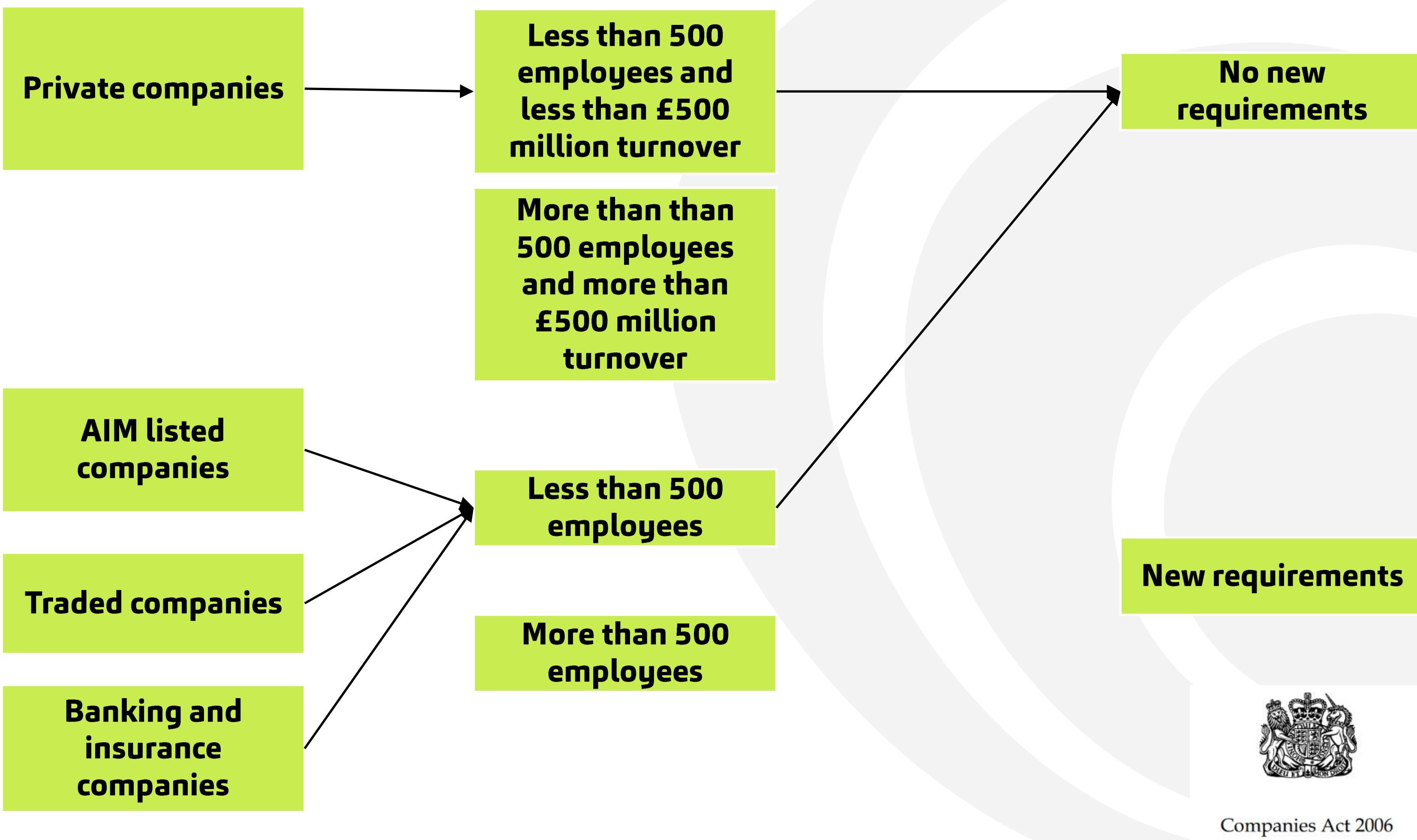
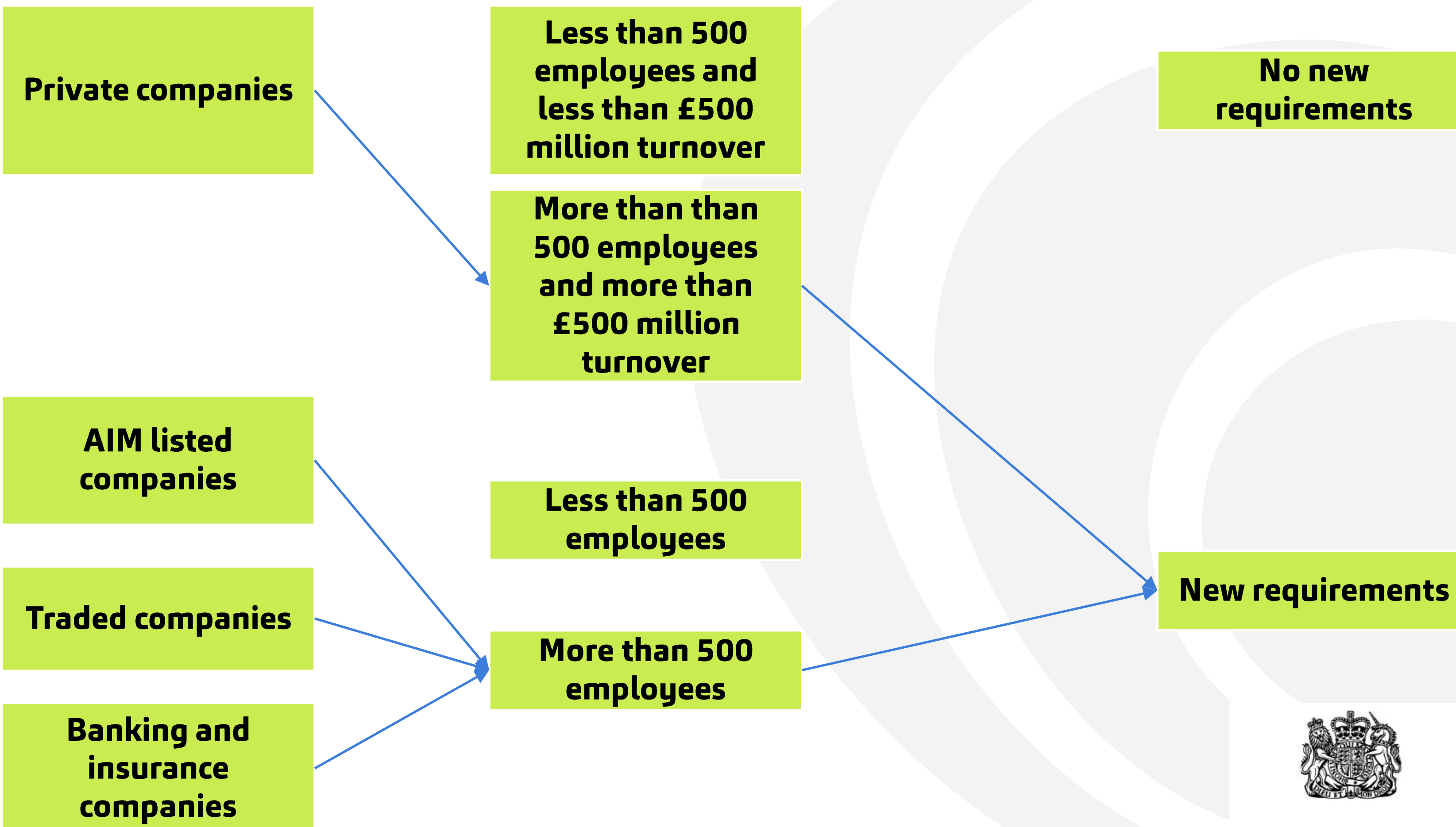
General overview of changes to the Strategic Report under Companies Act 2006



Narrative reporting – Companies Act 2006

General overview of changes to the Strategic Report under Companies Act 2006



Companies Act 2006

Narrative reporting – Companies Act 2006

New requirements in Strategic Report - Additional Mandatory Climate Related Disclosures

- Amendments to s414CA and s414CB Companies Act 2006 effective for periods on or after 6 April 2022
- Disclosures of specified climate-related non-financial information and KPIs that is aligned with, but not identical to, the four overarching pillars of the TCFD recommendations (governance, strategy, risk management, metrics and targets).
- Disclosures must be included within a Non-Financial and Sustainability Information Statement within the annual report.

- Applies to companies traded on a UK recognised market, banking and insurance companies (Provided that they have > 500 employees).
- Applies to AIM companies (Provided that they have > 500 employees).
- Applies to UK registered companies and LLPs with > £500 million turnover AND > 500 employees
- CLARIFICATION AND CARE NEEDED: s414CA 2006 is clear that the “number of employees” is the “average number of persons employees” employed.

Narrative Reporting – Companies Act 2006

Other Strategic and Directors' Report Developments

- ~~Audit and Assurance Policy Statement (See INRS on 28 July 2023).~~
- ~~Material Fraud Statement (See INRS on 28 July 2023).~~
- ~~Risk and resilience statement (See INRS in on 28 July 2023).~~
- ~~Policy and Disclosure of Distributable profits (See INRS on 28 July 2023).~~

NOTE THAT THE UK GOVERNMENT HAS SHELVED ABOVE REQUIREMENTS AND WILL REVISIT AGAIN IN THE FUTURE.

Companies Act 2006

Narrative reporting – fully listed companies

Corporate Governance Codes

- Revised QCA Code (effective from 1 April 2024) issued in November 2023
- Revised UK Corporate Governance Code 2024 (effective from 1 January 2025) published in January 2024
- Guidance on UK Corporate Governance Code (effective from 1 January 2025) published in January 2024

Narrative reporting – fully listed companies

Comply or Explain Diversity Disclosures for Premium Listed Companies and Standard Listed Companies

- Amendments to Listing Rules LR 9.8.6R and LR 14.3.33 effective for periods on or after 1 April 2022
- New targets for board composition on a comply or explain basis
- At least 40% of board members should be women, at least one senior board position (CEO, chairman, CFO, Senior Independent Director) should be a woman
- At least one board member should be from an ethnic minority (which excludes white ethnic groups).

Specific disclosure is required as to whether a listed company has met the above targets on board diversity at a chosen reference date during the accounting period.

If the targets are not met disclosure is required as to the reasons for not meeting those targets

FCA

Narrative reporting – fully listed companies

Diversity Policies – Disclosure and Transparency Rules

- Amendments to Disclosure and Transparency Rules DTR effective for periods on or after 1 April 2022.
- New paragraph DTR 7.2.8AR inserted.

The Corporate Governance Statement must contain a description of:

- *the diversity policy applied to the issuer's administrative, management and supervisory bodies and the remuneration, audit and nomination committees of those bodies with regard to aspects such as, for instance, age, gender, ethnicity, sexual orientation, disability or educational, professional and socio-economic backgrounds*
- *the objectives of the diversity policy*
- *how the diversity policy has been implemented*
- *the results in the reporting period*
- *If no diversity policy is applied by the issuer, the corporate governance statement must contain an explanation as to why this is the case.*

Note: where an issuer qualifies as small or medium under the Companies Act 2006 in the financial year to which the corporate governance statement relates the disclosures are not applicable.

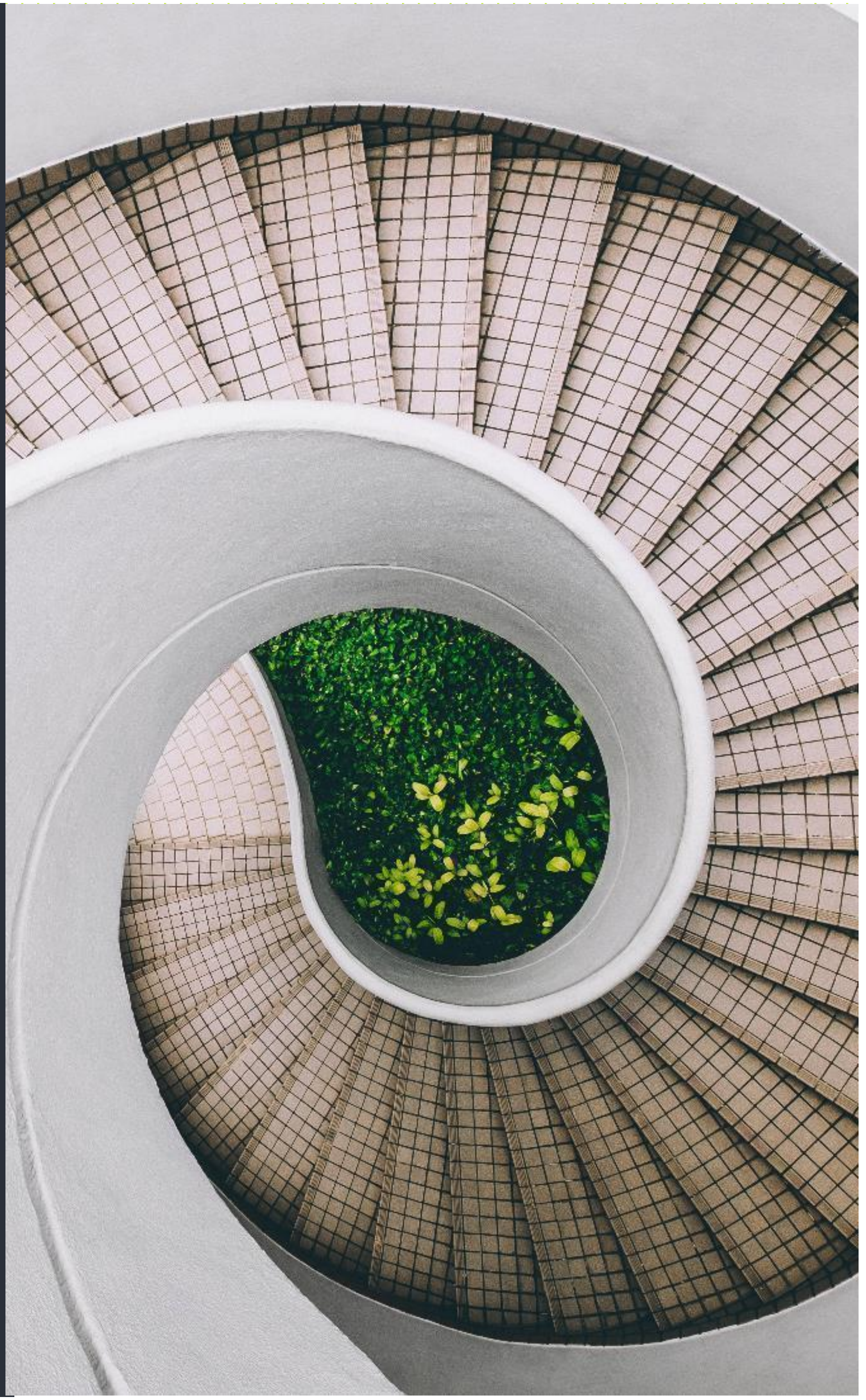
Companies Act 2006 – filing of accounts

Economic Crime (Transparency and Enforcement) Act 2022

- Will amend filing requirements for small and micro-entities at Companies House
- Small companies must file a directors' report
- Small companies and micro-entities must file a profit and loss account
- There are expected to be statutory exemptions to the filing of full profit and loss information
- Changes to law expected in 2024
- Also, there will be a phase out of filing of accounts in paper form by end of 2025.

Companies Act 2006

IFRS Update



Overview of new IFRS Standards and Amendments

Periods on or after 1.1.2023

- IFRS 17 Insurance Contracts
- Amendments to IAS 8 – Definition of accounting estimates
- Amendments to IAS 1 - Disclosure of accounting policies
- Amendments to IAS 12 – Deferred tax arising from a single transaction
- Amendments to IAS 12 – Pillar Two Model Rules

Periods on or after 1.1.2024

- Amendments to IFRS 16 – Lease liability in a sale and leaseback transaction
- Amendments to IAS 1 – Classification of Liabilities as current or non-current
- Amendments to IAS 1 – Non-current liabilities with covenants
- Amendments to IAS 7 and IFRS 7 – Supplier finance arrangements

Periods on or after 1.1.2025

- Amendments to IAS 21 – Lack of Exchangeability (not yet adopted in UK).

IFRS®
Accounting

Amendments to IAS 12– Pillar two model rules

On 8 October 2021 agreement was reached between 136 countries for a two-pillar approach to international tax reform (‘the OECD agreement’). Amongst other things, Pillar One proposes a reallocation of a proportion of tax to market jurisdictions, while Pillar Two seeks to apply a global minimum effective tax rate of 15%.

On 23 May 2023, the International Accounting Standards Board (the IASB) issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12 (the Amendments). The Amendments introduce:

- A mandatory temporary exception to the accounting for deferred taxes following from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity’s exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

<u>The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023</u>

IFRS®
Accounting

Amendments to IAS 12

Pillar Two Model Rules (Amendments) – BEP 2.0

Pillar Two Model Rules amendments:

Effective for accounting periods on or after 1 January 2023

As an exception to the requirements in this Standard, an entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

Disclosures:

- Disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes
- Disclose separately its current tax expense (income) related to Pillar Two income taxes.

IFRS® Accounting

Amendments to IAS 12

Pillar Two Model Rules (Amendments) – BEP 2.0

An affected entity shall:

"In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation"

Disclose:

- qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period

  "Note: This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range."

- Where information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.

Disclosure of material accounting policies

The IASB amended IAS 1 and the and the Practice Statement, to require companies to disclose their **material** accounting policy information rather than their **significant** accounting policies. The amendments are effective for annual periods beginning on or after 1 January 2023.

Accounting policy information is expected to be **<u>material</u>** if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if **<u>that information relates to material transactions, other events or conditions</u>** and:

•the entity **changed its accounting policy** during the reporting period and this change resulted in a material change to the information in the financial statements;

•the entity chose the **accounting policy from one or more options permitted by IFRSs**—such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value;

•the accounting policy **was developed in accordance with IAS 8 in the absence of an IFRS** that specifically applies.

IFRS® Accounting

Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed.

Disclosure of material accounting policies

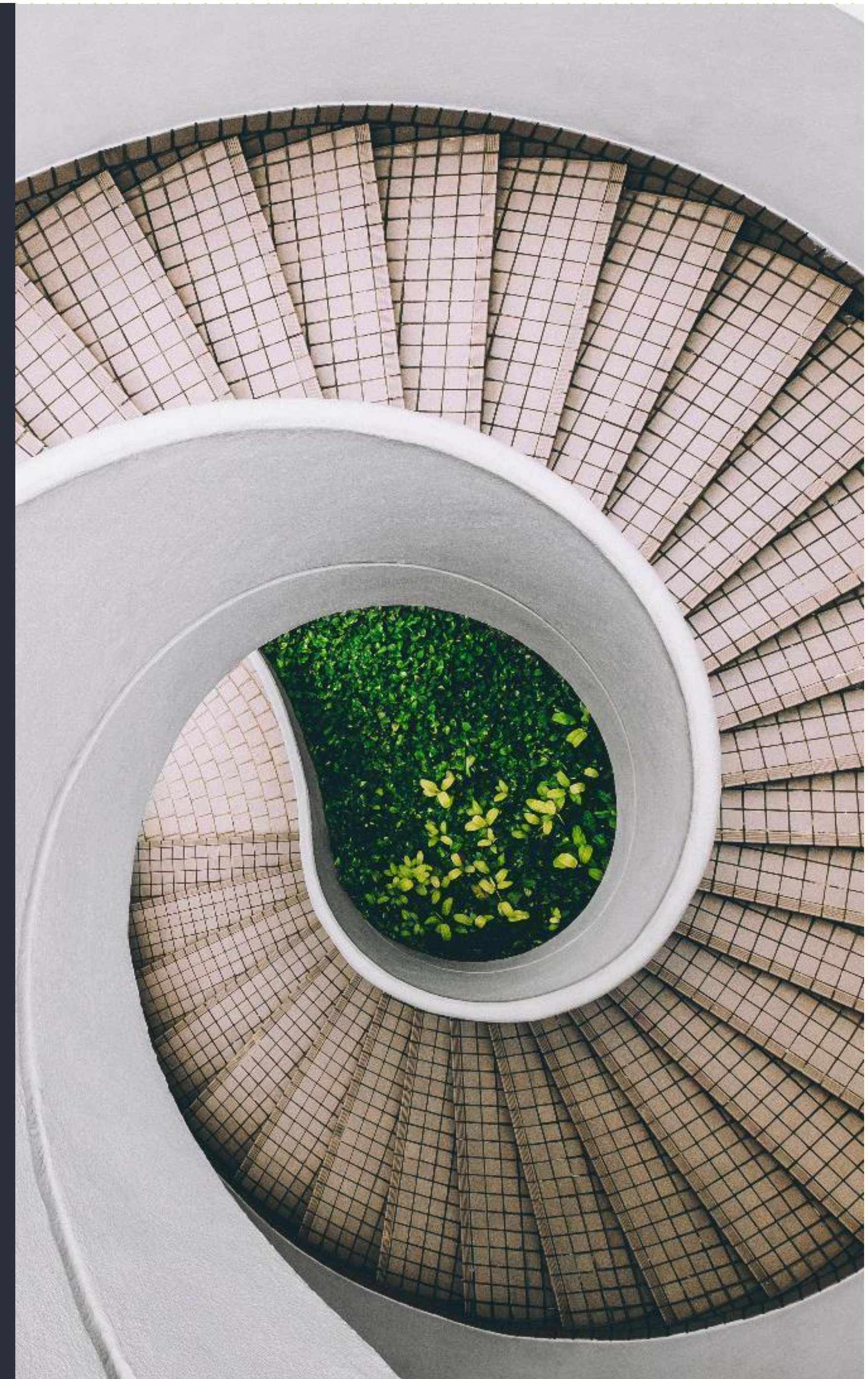
- the accounting policy relates to an area for which an entity is required to **make significant judgements or assumptions** in applying an accounting policy, and the entity discloses those judgements or assumptions; or

- the accounting required for them is **complex and users of the entity's financial statements** would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one IFRS to a class of material transactions

Determining whether accounting policies are material or not requires greater use of judgement. Therefore, audit teams are encouraged to review the accounting policies to ensure consistency with the amended standard.

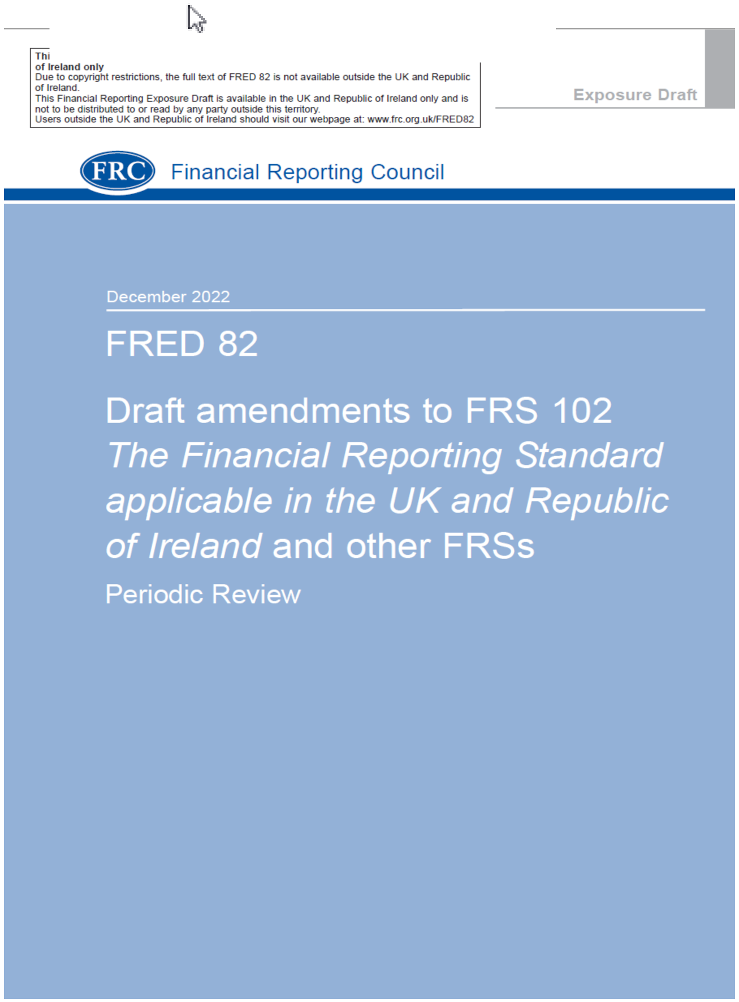
IFRS® Accounting

UK GAAP Update



Draft Amendments to FRS 102 (FRED 82)

Periodic amendments to FRS 102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of Ireland only
Due to copyright restrictions, the full text of FRED 82 is not available outside the UK and Republic of Ireland.
This Financial Reporting Exposure Draft is available in the UK and Republic of Ireland only and is not to be distributed to or read by any party outside this territory.
Users outside the UK and Republic of Ireland should visit our webpage at: www.frc.org.uk/FRED82

Exposure Draft

FRC Financial Reporting Council

December 2022

FRED 82

Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and other FRSs

Periodic Review

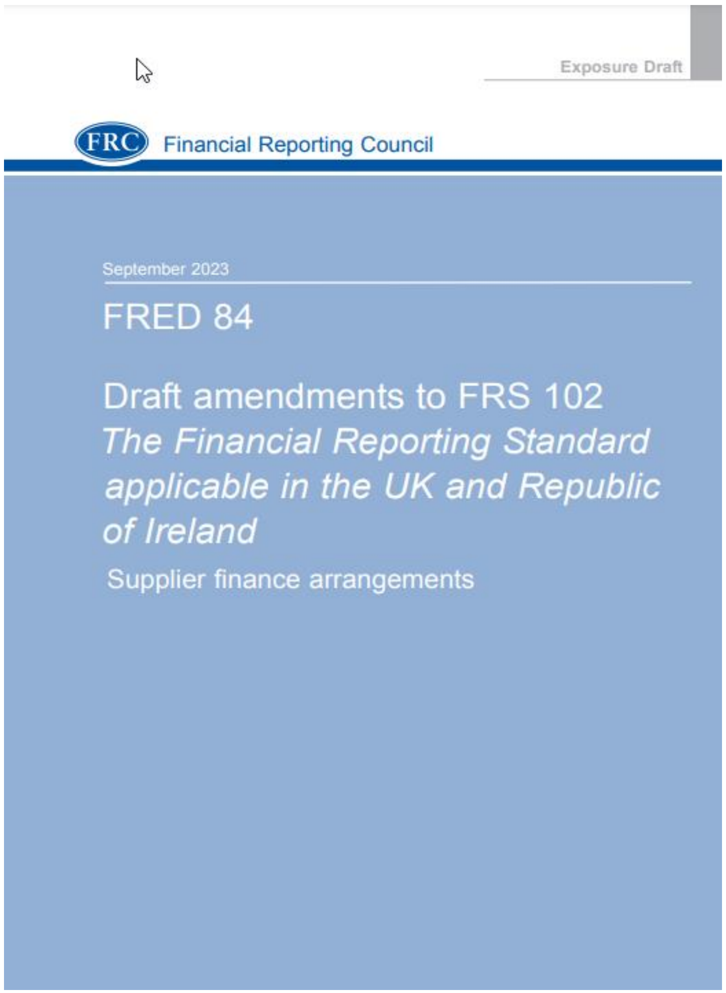
Details

Key Highlights

- **Periodic review of FRS 102 – consultation period to 30 April 2023 (implementation delayed by 12 months)**
- **Amendments intended to apply for periods on or after 1 January 2026 (with early adoption permitted)**
- **New revenue recognition model following IFRS 15** (modified retrospective method of implementation for previous FRS 102 reporters)
- **Lease accounting for lessees using IFRS 16 principles** but more optional simplifications proposed (modified retrospective method of implementation for previous FRS 102 reporters)
- **Introduces IFRS 13 Fair Value Measurement**
- **Deferral in this FRED of the inclusion of IFRS 9 expected loss model** for financial assets at amortised cost for entities using Section 11 rules (additional consultation questions in this FRED and separate future consultation will happen)
- **Prevention of entities switching to the IAS 39 option** for measurement of financial instruments
- **Other amendments and editorial corrections.**

Draft Amendments to FRS 102 (FRED 84)

Supplier Finance Arrangements



Exposure Draft

FRC Financial Reporting Council

September 2023

FRED 84

Draft amendments to FRS 102
The Financial Reporting Standard applicable in the UK and Republic of Ireland

Supplier finance arrangements

Details

Key Highlights

- **<u>Amendments intended to apply for periods on or after 1 January 2025 (with early adoption permitted)</u>**
- Consultation period ended on 31 December 2023
- Broadly defines supplier finance arrangements
- Extensive disclosure requirements
- No new recognition and measurement criteria
- Of interest in UK in particular following <u>Carillion financial collapse in 2018</u>
- Follows similar requirements introduced into IFRS.

Draft Amendments to FRS 102 (FRED 84)

Supplier Finance Arrangements

Features of a supplier finance arrangement

- One or more finance providers offers to pay amounts an entity owes to its suppliers
- The entity agrees to pay the finance providers at the same date as, or a date later than, suppliers would be paid
- The arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date.
- Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.

Draft Amendments to FRS 102 (FRED 84)

Supplier Finance Arrangements

Disclosures

- the terms and conditions of each supplier finance arrangement (including, for example, extended payment terms and security or guarantees provided)

- for each supplier finance arrangement, as at the beginning and end of the reporting period:

i. the carrying amount of financial liabilities recognised in the entity's statement of financial position that are part of the arrangement and the line item(s) in which those financial liabilities are presented

ii. the carrying amount of financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers

iii. the range of payment due dates (for example, 30 to 40 days after the invoice date) of financial liabilities disclosed

- as at the beginning and end of the reporting period, the range of payment due dates of trade payables that are not part of a supplier finance arrangement

Draft Amendments to FRS 102 (FRED 84)

Supplier Finance Arrangements

Disclosures

- the terms and conditions of each supplier finance arrangement (including, for example, extended payment terms and security or guarantees provided)

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ii. the carrying amount of financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers

iii. the range of payment due dates (for example, 30 to 40 days after the invoice date) of financial liabilities disclosed

- as at the beginning and end of the reporting period, the range of payment due dates of trade payables that are not part of a supplier finance arrangement

Amendments to FRS 102

Pillar Two Model Rules (Amendments) – BEP 2.0

Pillar Two Model Rules amendments:

Effective for accounting periods on or after 1 January 2023

As an exception to the requirements in this Standard, an entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

Disclosures:

- Disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes
- Disclose separately its current tax expense (income) related to Pillar Two income taxes.

Amendments to FRS 102

Pillar Two Model Rules (Amendments) – BEP 2.0

An affected entity shall:

"In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation"

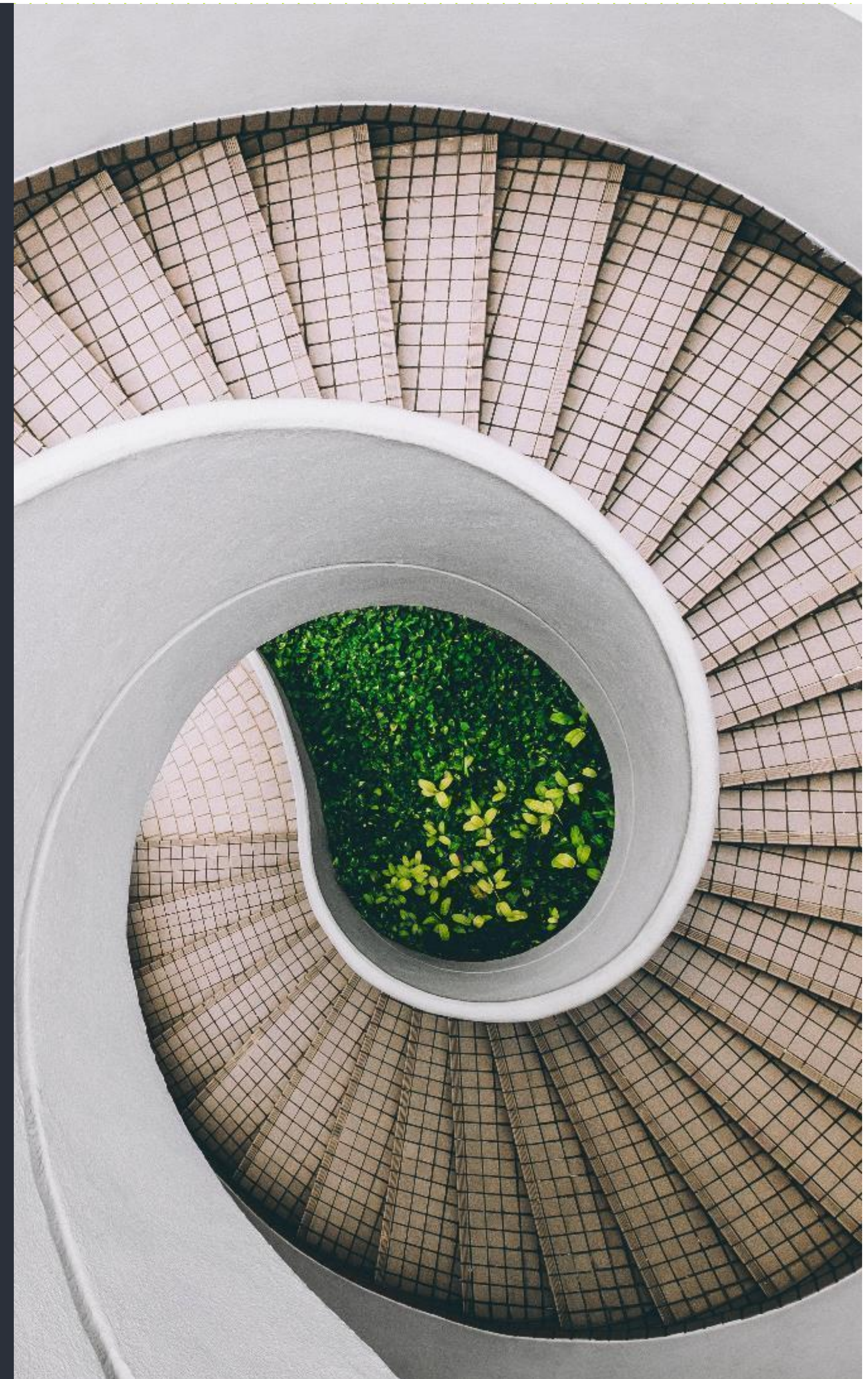
Disclose:

- qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period

  "Note: This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range."

- Where information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.

Special considerations for the new reporting season



Reporting on the effects of rising inflation, interest rates and other uncertainties – key areas

Relevant key reporting areas to consider in the impact of the rising inflation and interest rates include:

- **Financial instruments** - impact on ECL calculations, consider the guidance provided in IFRS 9 to determine whether any changes to existing contractual arrangements represent a substantial modification or potentially a contract extinguishment

- **Disclosures for financial instruments** - in relation to liquidity and sensitivity

- **Fair value measurements** – impact on market prices for investment properties

- **Revenue from contracts with customers** – impact on contracts with significant finance component at inception

- **Income Taxes** – forecasts of future taxable income and recoverability of deferred tax assets due to future profitability

- **Employee benefits** – impact in measuring defined benefit liabilities, recognition and measurement of pensions including assets in respect of surpluses

- **Leases** – inflationary clause in contracts that impact lease payments

- **Impairment of assets** - impact on cashflows, discount rates, impairment indicators and tests

Reporting on the effects of rising inflation, interest rates and other uncertainties – key areas

- **Inventories** – impact on net realisable value (NRV) calculations

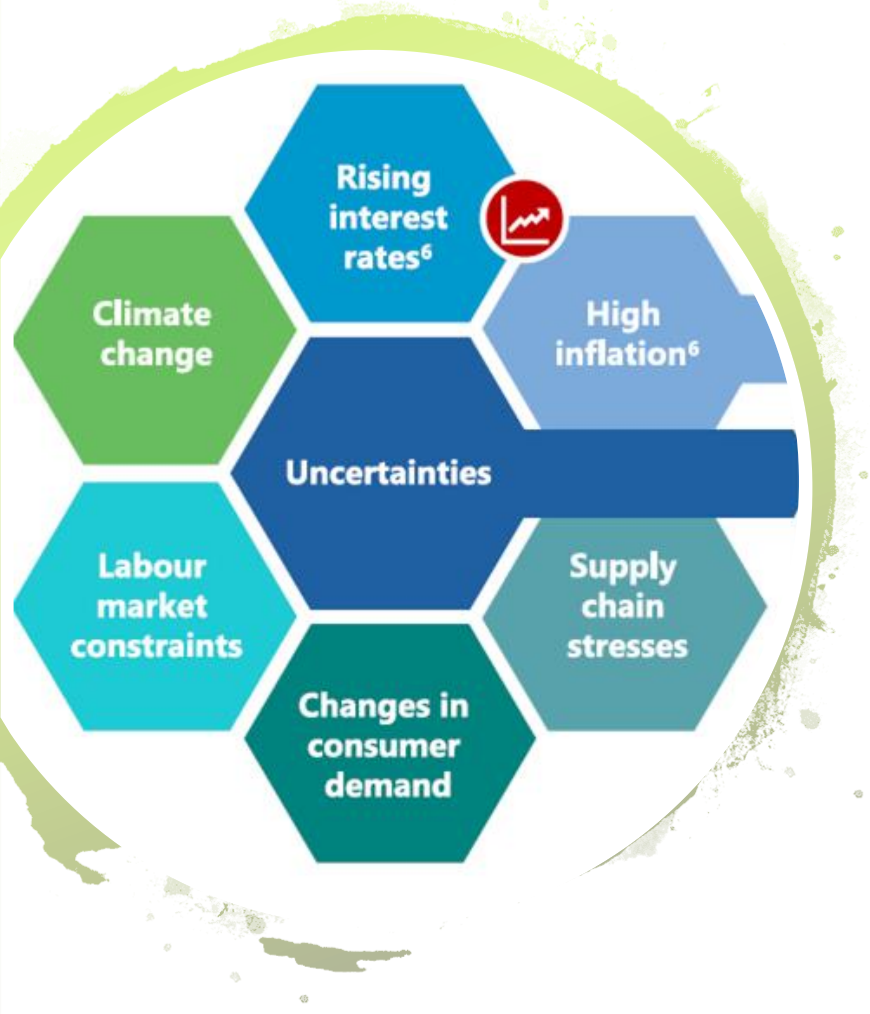
- **Provisions, contingent liabilities and assets** - impact of discount rates and inflation estimates on provisions (including decommissioning obligations, and the recognition and measurement of onerous contracts)

- **The Effects of Changes in Foreign Exchange Rates** – impact on average rates when consolidating foreign operations

- **Presentation of financial statements** – disclosure of significant estimation certainty and judgements in when inflation, interest rates and assumptions related to discount rates represent a source of significant estimation uncertainty, such that company should explain how the assumptions have been calculated and disclose sensitivity analysis to support potential impact on estimates

- **Events after the reporting period** – determination of whether events after the reporting period are to be reflected as adjusting events and for non-adjusting events what additional disclosures are required to be provided.

Reporting on the effects of rising inflation, interest rates and other uncertainties – narrative reporting



- Going concern and viability
- Taskforce on climate related financial disclosures (TCFD) and other climate related disclosures
- Updates to financial instruments disclosures
- Principal risk and uncertainties
- Changes in business environment
- Impacts on business model
- Relevance and impact on financial position and performance

*source FRC

FRC Publication – What makes a good annual report?

FRC Guidance – What makes a good annual report:

- Seven corporate reporting principles
- The 4Cs of effective communication
- Overarching principle of materiality.

Materiality

Corporate reporting principles

- **A**ccurate
- **C**onnected and consistent
- **C**omplete
- **O**n-time
- **U**nbiased
- **N**avigable
- **T**ransparent

4Cs of effective communication

- **C**ompany specific
- **C**lear, concise and understandable
- **C**lutter free and relevant
- **C**omparable

Good ARAs take **ACCOUNT** of corporate reporting principles and the **4Cs** of effective communication

FRC 2023 Thematic Reviews

The FRC issued out 3 Thematic review documents in 2023:

FRS 17 ‘Insurance Contracts’ Interim Disclosures in the First Year of Application

The report summarizes the key findings of FRC’s thematic review of disclosures in 2023 interim accounts relating to the implementation of IFRS 17 ‘Insurance Contracts’, which became effective on 1 January 2023.

IFRS 13 ‘Fair value measurement

This thematic summarizes briefly the financial reporting requirements on fair value measurements and related disclosures.

CRR Thematic review of climate-related metrics and targets

This review considers the TCFD metrics and targets disclosures of twenty UK premium and standard listed companies operating in four sectors covered by TCFD sector-specific supplemental guidance.

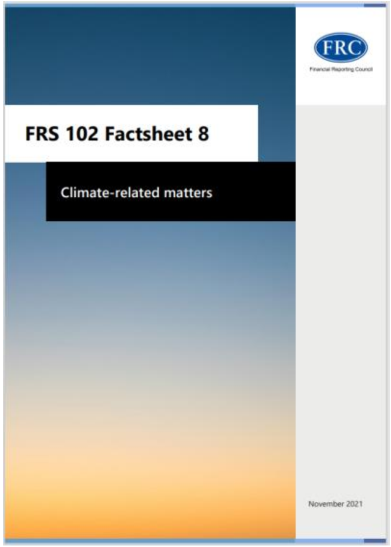
Interaction of ESG matters on reporting requirements

Tim Dee-McCullough
Sustainability & ESG Technical Director

tim.dee-mccullough@mha.co.uk

How does climate risk impact my financial statements?

- Both the IASB and FRC consider existing requirements to require organisations to consider climate-related matters when their effect is material to the financial statements
- Consideration of climate risk (and other ESG risks) is an integral component of MHA's audit approach
- Climate risk increasingly factored into material valuations, provisions and going concern assessment
- Importance of 'connectivity' between front half disclosures and financial statement assumptions




IFRS Accounting

Republished July 2023

Educational material

Effects of climate-related matters on financial statements

In June 2023, the International Sustainability Standards Board (ISSB) issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. In the light of these new IFRS Sustainability Disclosure Standards, the IFRS Foundation is republishing this educational material to remind stakeholders of the long-standing requirements in IFRS Accounting Standards to report on the effects of climate-related matters in the financial statements when those effects are material. Consideration of the ISSB's Standards may help companies better identify matters, including climate change, that affect the financial statements and help companies apply IFRS Accounting Standards.

This educational material was first published in November 2020 and is intended to support the consistent application of requirements in IFRS Accounting Standards. The educational material has been updated to reflect an agenda decision published by the IFRS Interpretations Committee in July 2022 and minor editorial changes.

Climate change is a topic in which investors and other IFRS stakeholders are increasingly interested because of its potential effect on companies' business models, cash flows, financial position and financial performance. Most industries have been, or are likely to be, affected by climate change and efforts to manage its impact. However some companies, industries and activities will be affected more than others.

IFRS Accounting Standards do not refer explicitly to climate-related matters. However, companies must consider climate-related matters in applying IFRS Accounting Standards when the effect of those matters is material in the context of the financial statements taken as a whole. Information is material[1] if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements (hereafter, investors) make on the basis of those financial statements, which provide financial information about a specific company. For example, information about how management has considered climate-related matters in preparing a company's financial statements may be material with respect to the most significant judgements and estimates that management has made.

The table below sets out examples illustrating when IFRS Accounting Standards may require companies to consider the effects of climate-related matters in applying the principles in a number of Standards. The list is *non-exhaustive*—there could be other instances where climate-related matters are relevant when applying IFRS Accounting Standards, for example those on the measurement of defined benefit obligations. Related information can be found in an article by Nick Anderson, member of the International Accounting Standards Board. This educational material complements that article, adding for example specific paragraph references to IFRS requirements to assist those applying IFRS Accounting Standards. For purposes of illustration, the descriptions in the table do not always explain the relevant requirements completely; it is therefore important to refer to the requirements in the Standards when preparing financial statements. This document does not address management commentary.

1 Companies may find the IFRS Practice Statement 2 Making Materiality Judgements useful in assessing whether the effect of climate-related matters is material. The article by Nick Anderson includes further information on making materiality judgements.

Effects of climate-related matters on financial statements | June 2023 | 1

Physical vs Transitional climate risks

Physical risks

- Risks associated with disruption to business activities arising from climate change
- **Acute risks:** one off disruptions such as hurricanes, floods and fire
- **Chronic risks:** more gradual changes such as changing rain patterns and rising sea levels

Transitional risks

- Risks arising with the transition to a low carbon economy
- **Policy and legal risks:** government, regulation, carbon pricing and capping
- **Technology risks:** risk of obsolescence due to 'greener' technology
- **Market risk:** significant change in consumer behaviour and expectations with consumers looking for low carbon goods and services
- **Reputational risk:** Stakeholders have higher expectations of how businesses respond to climate change issues

Common areas impacted

- **Valuation of non-monetary assets (goodwill and intangibles, fixed assets/PPE, inventories):** Climate-induced changes may indicate that an asset ceases to be available, becomes commercially obsolete or needs to be replaced sooner than previously expected. Such factors affect the useful life of an asset under IFRS / FRS 102. If an asset is measured at fair value using the income approach, climate-related uncertainties may, for example, lead to changes in estimates of cash flows or to changes in the assessment of risks associated with achieving these cash flows. Impact of climate / 'net zero' commitments in cash flow projections

- **Valuation of financial assets (particularly where measured at amortised cost, or a level 2 or 3 fair value):** Climate-related events such as floods and hurricanes can lead to business disruption or to a need for impairment charges on assets, thus affecting the creditworthiness of companies as borrowers. Political and regulatory changes introduced to combat climate change could also have a detrimental effect on creditworthiness in the affected sectors

- **Provisions and contingent liabilities:** The speed and scale of climate change, and also political and regulatory measures by governments in response, could affect the recognition, measurement and disclosure:

  - The need to create additional provisions for new or existing obligations that are now considered probable. These could relate, for example, to fines for environmentally damaging activities or for non-fulfilment of climate targets
  - An asset might be decommissioned earlier, so that cash outflows for obligations connected to the decommissioning occur sooner than planned
  - If the cost of fulfilling a contract increases or the benefit from contract performance decreases, they may become onerous contracts

IFRIC decisions – November 2023

- IFRIC unanimously voted **not** to take all three topics onto their agenda (subject to consultation), stating that existing IFRSs are sufficient – but provided detailed rationale for their assessment

Does a commitment to reduce or offset greenhouse gas emissions create a constructive obligation?

- Constructive obligation (if one exists) would be owed to all people adversely affected by the emissions so would extend to the public at large
- Constructive obligation depends on the facts of the commitment & the circumstances surrounding it
- Management would apply judgement to reach a conclusion considering those facts & circumstances
- If no constructive obligation exists, no provision is recognised

Does such a constructive obligation meet the IAS 37 criteria for recognising a provision?

- **Present obligation as a result of a past event:** A public statement to reduce/offset future emissions is not a present obligation. Present obligation only arises when the entity has emitted the greenhouse gases that it has committed to offset
- **Probable outflow of resources:** reducing future emissions does not in itself lead to an outflow of resources as the entity receives other resources. However, offsetting emissions does lead to an outflow of resources as no benefits are received in exchange
- **Reliable estimate:** criterion likely to be met, given ease of calculation

If a provision is recognised, should the associated expenditure be recognised as an asset or expensed?

- Expensed, unless it gives rise to (or forms part of the cost of) an asset, such as PPE

THE SUSTAINABILITY HORIZON UK & EUROPE

2019
Streamlined Energy and Carbon Reporting introduced in the UK, requiring disclosure of energy consumption (in kWh), together with scope 1 and 2 emissions (metric tonnes)

2021
Taskforce for Climate-related Financial Disclosures (TCFD) framework mandatory for premium listed groups in the UK

2023
TCFD implemented into UK Companies Act and now mandatory in full for 2023 for both large private and public companies where turnover exceeds £500m and average employees exceed 500

IFRS sustainability reporting
Incorporates TCFD reporting, will be considered for use in UK reporting from 2025, traditional materiality approach. Call for Evidence issued by Department for Energy Security and Net Zero on scope 3 reporting under IFRS S2 (October 2023)

ISSA 5000
Proposed IAASB assurance standard for sustainability assurance engagements, expected from 2025

Corporate Sustainability Reporting Directive (CSRD)
Wide-ranging new European Sustainability Reporting Standards, applicable to non-EU groups with material EU turnover or large EU subsidiaries/branches from 2027/28, applies ‘double materiality’

Taskforce for Nature-related Financial Disclosures (TNFD)
Considers environmental impact on ecosystems, biodiversity and indigenous communities, applies ‘double materiality’, effective date not yet known

Scope 4 emissions reporting
Not yet required by established frameworks, Scope 4 considers the emissions ‘avoided’ by a business, such as the carbon footprint of tenants and deliveries

Research & Development

Jay Bhatti
Senior Research &
Development Manager

jay.bhatti@mha.co.uk

The Updated R&D Claim Process

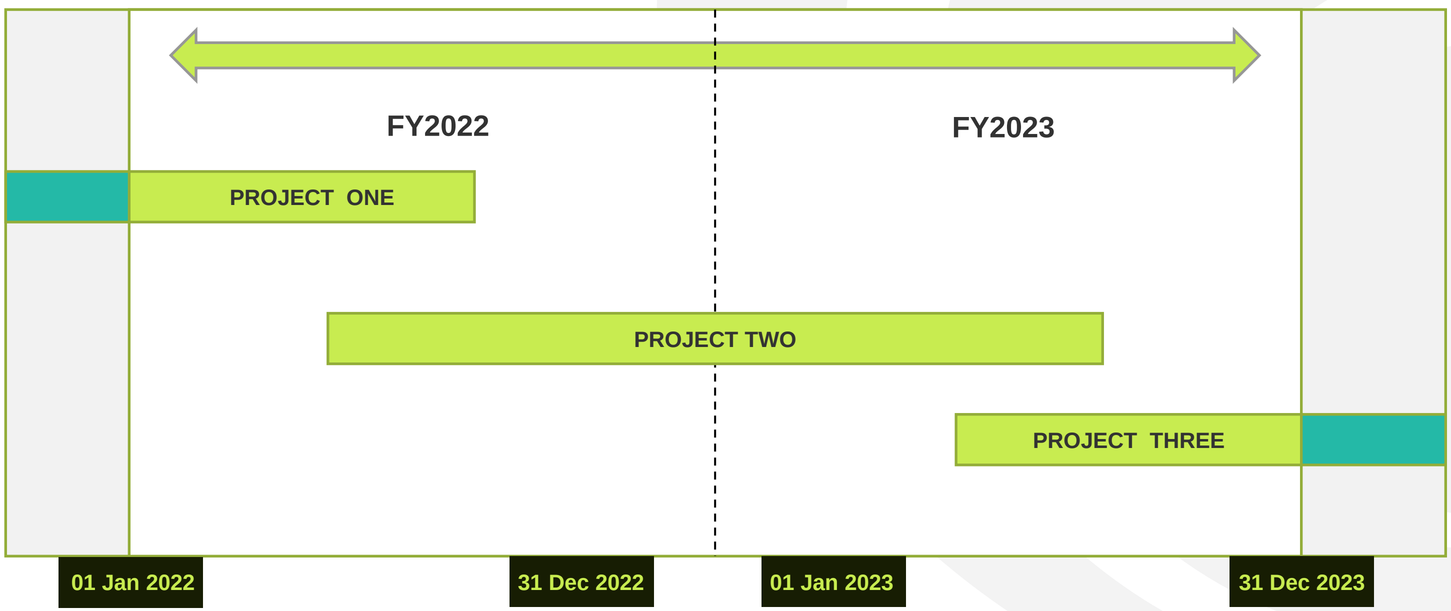
1. Preparation
2. Workshop
3. Technical interviews
4. Financial data gathering
5. Review
6. Submission Additional Information Form 1st Sub and then the Tax Return
7. Receive payment – typically within 3 months of submission

R&D – Activity timeframe

The R&D scheme captures expenditure for any accounting periods ended within a maximum of 24 months prior to claim submission to HMRC.

However, if the Company has not claimed before (within the last 3 years), then **from 1st April 2023, a pre-notification to HMRC needs to be made for periods ended after this date. The deadline is <u>6 months from the year end</u> to make this notification.**

R&D activities rarely fall neatly into Accounting Periods. An example of their treatment is shown below:



R&D – Eligibility Criteria

Basic conditions to be aware of before claiming

SME Scheme Or / And RDEC Scheme

Company within the charge to UK Corporation Tax, claim is made within 24 months of Year End.

Company is a Going Concern, even if making claims retrospectively.

R&D activities must relate to the trade of the company, or a trade the company is preparing to operate.

R&D cannot be contracted/subsidised to the company for SME scheme but can be for RDEC.

Expenditure must be:

- Revenue in nature;
- Included in company's profit/loss accounts, or;
- Capitalised as intangible asset on the balance sheet.
- Deductible in the period

Excludes capitalised tangible fixed asset expenditure.

Grants or subsidies cannot be received in respect of the expenditure for SME scheme, but can be for RDEC

Scheme is selected based on whether Company is SME or a Large Company

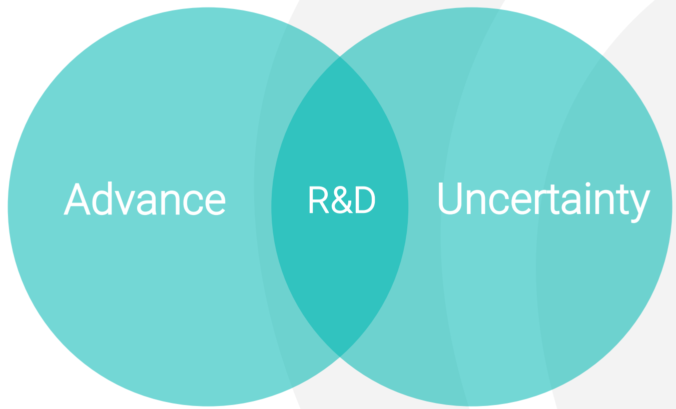
(This must take into consideration group and shareholding structures).

SME Criteria:

- Less than 500 employees, and either;
- Less than €100m turnover; or;
- Less than €86m balance sheet assets.

What is Research & Development for Tax Purposes?

- New process, material, device, product or service;
- Appreciable improvement;
- Extend overall knowledge or capability;
- Duplicate existing effects.



- Scientifically possible;
- Technologically feasible;
- Achievable in practice;
- Not readily deducible by a competent professional;
- System uncertainty.

"R&D takes place when a project seeks to achieve an advance in science or technology through the resolution of scientific or technological uncertainty"

BEIS Guidelines

Research & Development

Staff

Employees and Directors

Salaries, bonus, secondary class 1 NIC's, pension contributions

Staff time spent doing:
- Feasibility studies
- Technical discussions
- Experiments/ writing code
- Recording & data keeping

Cannot include benefits in kind.

Consumables

Material scrapped, prototypes

Utilities

Materials used for R&D:
- Gas/light/water to support offices
- Prototypes/mock-ups
- Can not be assets like cars .

Sub-contractor (SME only)

No international subs from 1st April 2024

Subcontracting activities that are part of the R&D

Usually paid through invoices

An outsourced task to a supplier:
- Specialist service
- Technical consultation
- Recording & data keeping

EPW

Contract staff provided by third party staff provider

No international subs from 1st April 2024

Not an employee or Director

Subject to supervision, direction and control

Staff supplied by agencies
- They work under the supervision, management and control of your lead staff
- Can include labour
- Cannot be Sole-Traders or Directors of the Claimant Company
- No benefits in kind.

Software

Software, Licenses

Software License:
- CAD/FEM software
- Code software
- Cannot include software infrastructure, e.g. cloud service

Changes being introduced from 1 April 2021

SME tax credit cap introduced from 1 April 2021 for loss making SMEs.

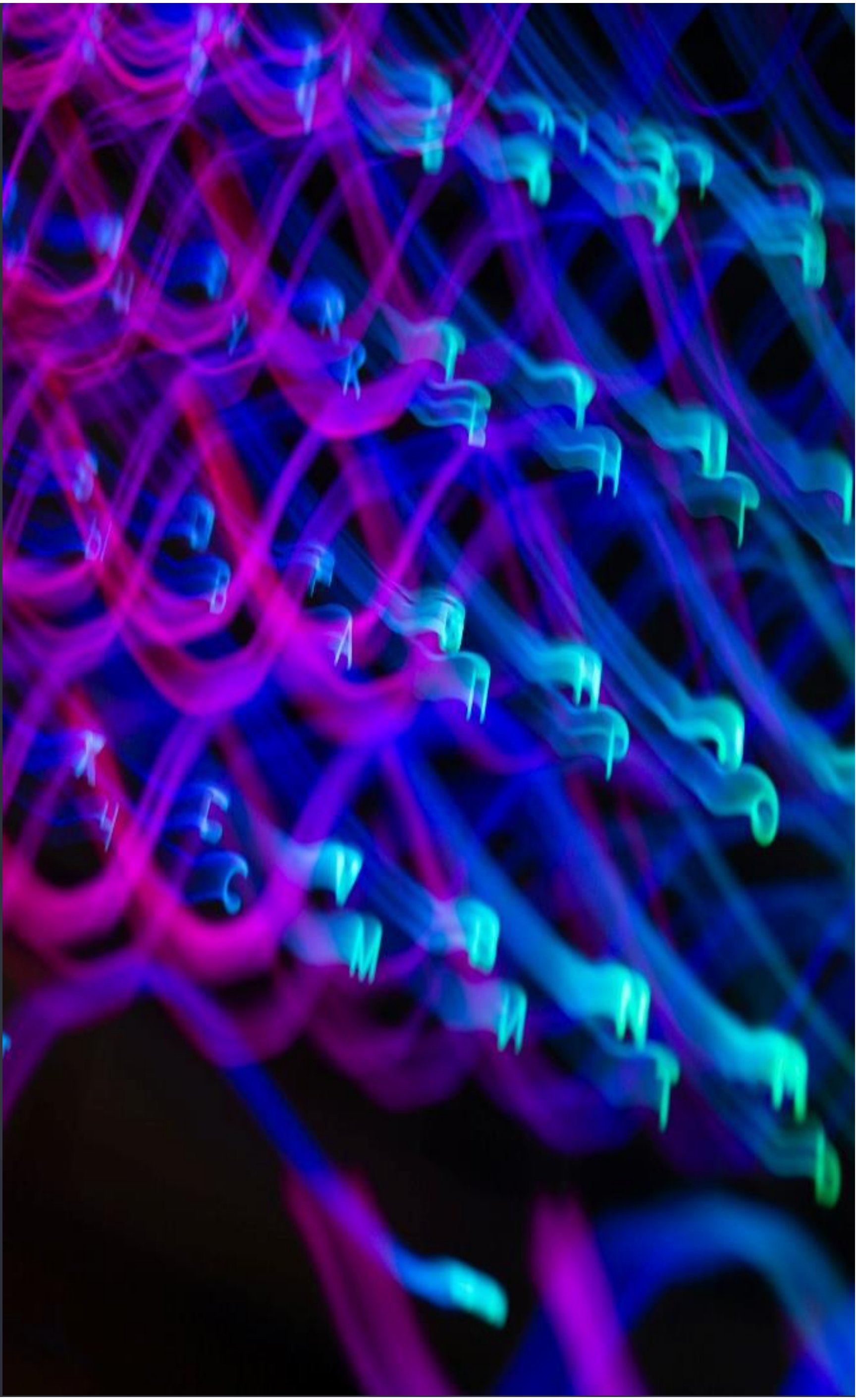
R&D tax credit limited to £20,000 + 3x total PAYE+NIC liability of the company for the year. (Related party PAYE+NIC liabilities attributed to the R&D can be included within the CAP.)

The claim is not capped:

- If the R&D tax credit is less than £20,000.
- If the R&D claim meets the following two tests:
    a. The company's employees are creating, preparing to create or actively managing intellectual property arising from the R&D project.
    b. Its expenditure on work subcontracted to, or externally provided workers provided by, a related party is less than 15% of its overall R&D expenditure.

Many genuine SME claims will be affected:

- Companies outsourcing large parts of their R&D projects.
- Companies where consumables or software form a large proportion of their R&D costs.



Changes being introduced from 1 April 2023

- Pre-Notification for claimants that have not claimed in the last 3 years, and have a year end on/after 1st April '23
- SME Enhancement Rate cut to 86%, & Cash Credit Rate of 10% if the Company is Loss making, but not "SME Intensive" – see definition later
- RDEC Rate Increased to 20%, Credit subject to notional Tax Rate of 25%
- From 8th August 2023 – ALL Submissions must complete <u>mandatory</u> Additional Information Form (AIF) – prior to Tax Return submission
- Expansion of R&D to include Pure Mathematics, and expenditure to include Cloud & Data Costs

Changes being introduced from 1 April 2024

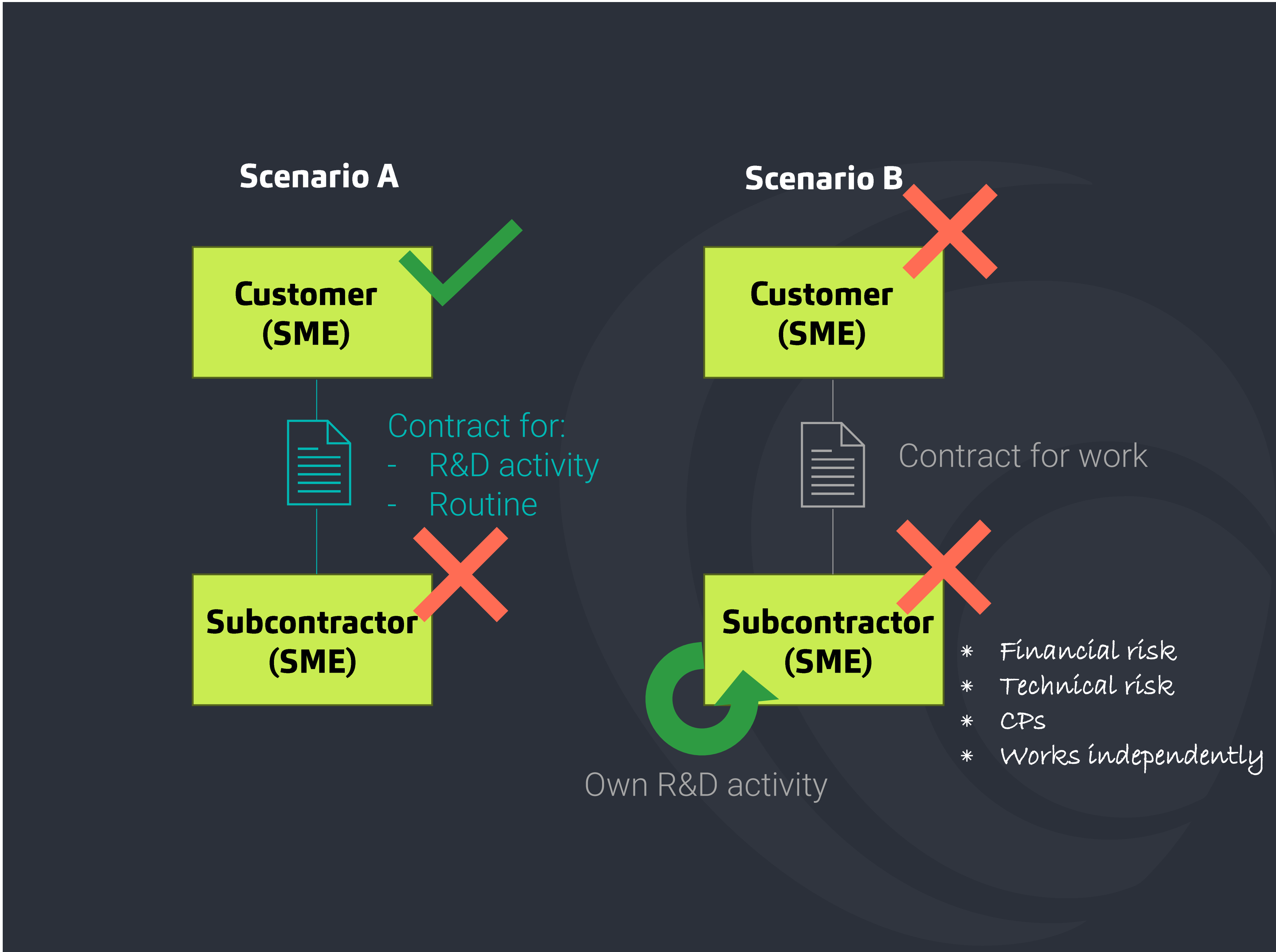
- Merger of the SME & RDEC Schemes – as HMRC recently concluded consultation – Headline Benefit Rate of 20% (like RDEC Scheme)

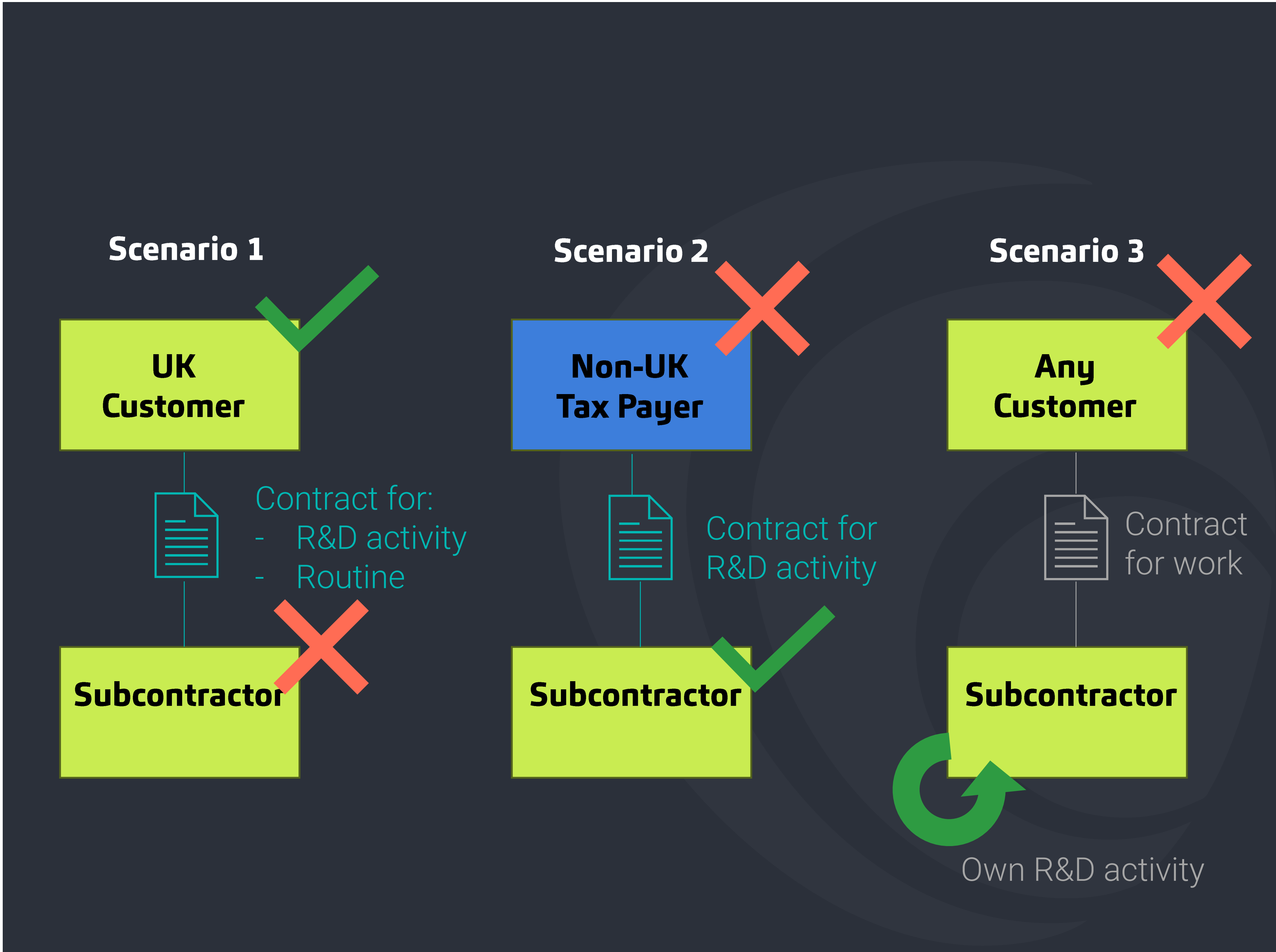
- Creation of "SME Intensive Scheme" – applicable to highly loss-making SMEs – 86% Deduction & 14.5% Cash Credit = 27p per £1 claimed

- Exclusion of International Subcontracting – delayed from original intended intro for 1 April 2023, as Govt. assessing impact.

- Clarity on Subcontracted R&D & Grant Subsidised R&D

SCHEME	"Old Schemes" AP End On/Before 31 March 2023	"Interim Schemes" AP Start On/After 1 April 2023	"Future Schemes" AP START On/After 1 April 2024
SME (High loss-making example)	130% Enhancement Rate 14.5% Cash Credit Benefit Rate = 33.3p per £1 Subsidised R&D Spend = No Subcontracted R&D Spend = No HMRC Treating Contractual Deliverable as Subcon R&D = Yes	86% Enhancement Rate 10% Cash Credit Benefit Rate = 18.6p per £1 Subsidised R&D Spend = No Subcontracted R&D Spend = No HMRC Treating Contractual Deliverable as Subcon R&D = Yes	N/A
RDEC	13% RDEC Rate 19% Nominal CT Rate on RDEC Credit Benefit Rate = 10.5p per £1 Subsidised R&D Spend = Yes Subcontracted R&D Spend = Yes	20% RDEC Rate 25% Nominal CT Rate on RDEC Credit Benefit Rate = 15p per £1 Subsidised R&D Spend = Yes Subcontracted R&D Spend = Yes	N/A
SME Intensive (If 30% of Overall Spend is R&D Related)	N/A	86% Enhancement Rate 14.5% Cash Credit Benefit Rate = 27p per £1 Subsidised R&D Spend = No Subcontracted R&D Spend = No HMRC Treating Contractual Deliverable as Subcon R&D = TBC	86% Enhancement Rate 14.5% Cash Credit Benefit Rate = 27p per £1 Subsidised R&D Spend = Yes Subcontracted R&D Spend = No Deliverable as Subcon R&D = No HMRC Treating Contractual Deliverable as Subcon R&D = No
Merged Scheme	N/A	N/A	20% RDEC Rate 19% CT Nominal Rate on RDEC Credit Benefit Rate = 16.2p per £1 Subsidised R&D Spend = Yes Subcontracted R&D Spend = Maybe* Deliverable as Subcon R&D = No


Scenario A
Customer (SME)
Contract for:
- R&D activity
- Routine
Subcontractor (SME)
Scenario B
Customer (SME)
Contract for work
Subcontractor (SME)
Own R&D activity
* Financial risk
* Technical risk
* CPs
* Works independently



Scenario 1
UK Customer
Contract for:
- R&D activity
- Routine
Subcontractor
Scenario 2
Non-UK Tax Payer
Contract for R&D activity
Subcontractor
Scenario 3
Any Customer
Contract for work
Subcontractor
Own R&D activity

With New Scheme from 1st April 2024, HMRC is finally acknowledging & validating how consultants have approached subcontracting for years.

BUT, beware …

Compliance teams still denying relief where contracts involved in claims for periods pre-April 2024

Questions

Chris Danes
Tax Partner &
Chairperson

Richard Maitland
Employment Tax
Partner

Beverley Scott
Corporate Tax
Partner

Chris Liu
Transfer Pricing
Partner

Jonathan Dowding
Tax Director

Alison Horner
VAT & Indirect Tax
Partner

Robin Prince
VAT & Indirect Tax
Partner

Neil Parsons
Financial Reporting
Director

Tim Dee-McCullough
Sustainability & ESG
Technical Director

Jay Bhatti
Senior Research &
Development
Manager

Save the dates

Upcoming CPD courses

Accounting for ESG

Date: Wednesday 28th February
Time: 10am – 11am
CPD: 1 hour

Employment Law update

Date: Thursday 29th February
Time: 10am – 11am
CPD: 1 hour

Finance Directors Update Course

Date: Thursday 19th September
Time: 8.30am – 12.30pm
CPD: 3 hours