Finance Directors Update Course

September 2024

Now, for tomorrow

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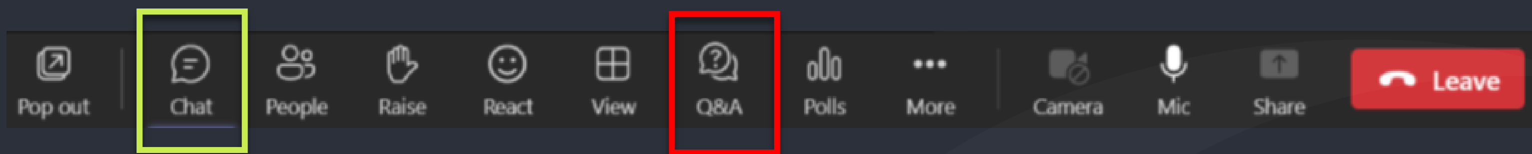
Thank you for joining us



A copy of the slides has been sent to you this morning, are available to download from our website, via the QR code here, or via the link in the Chat, where you will also find other useful information.

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 (not asked anonymously) will be responded to directly.

Please keep your microphone muted & camera off.

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 November, 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/FDupdateSep24

Our Speakers

Chris Danes
Tax Partner &
Chairperson

Richard Maitland
Employment Tax
Partner

Beverley Scott
Corporate Tax
Partner

Jonathan Dowding
International Tax
Director

Robin Prince
VAT & Indirect Tax
Partner

Carlison Morris
Financial Reporting
Partner

Kanika Mishra Pathak
Research & Development
Tax Director

Agenda

FD Update Course

Thursday 19th September 2024

08.30 – 08.45	**Chris Danes** Partner	**Introduction and insights on the current market conditions**
08.45 – 09.00	**Richard Maitland** Employment Tax Partner	**Employment Tax update**
09.00 – 09.30	**Beverley Scott** Tax Partner	**Corporate Tax update**
09.30 – 10.00	**Jonathan Dowding** International Tax Director	**International Tax update**
10.00 – 10.30	**Robin Prince** VAT & Indirect Tax Partner	**VAT & Tax Governance update**
10.30 – 10.45	**Comfort Break**	
10.45 – 11.40	**Carlison Morris** Financial Reporting Partner	**Audit, Accounts and Financial Reporting Standards update**
11.40 – 12.00	**Kanika Mishra Pathak** Research & Development Tax Director	**Research & Development Tax Credits and compliance issues**
12.00 – 12.30	**Full panel**	**Q&A**

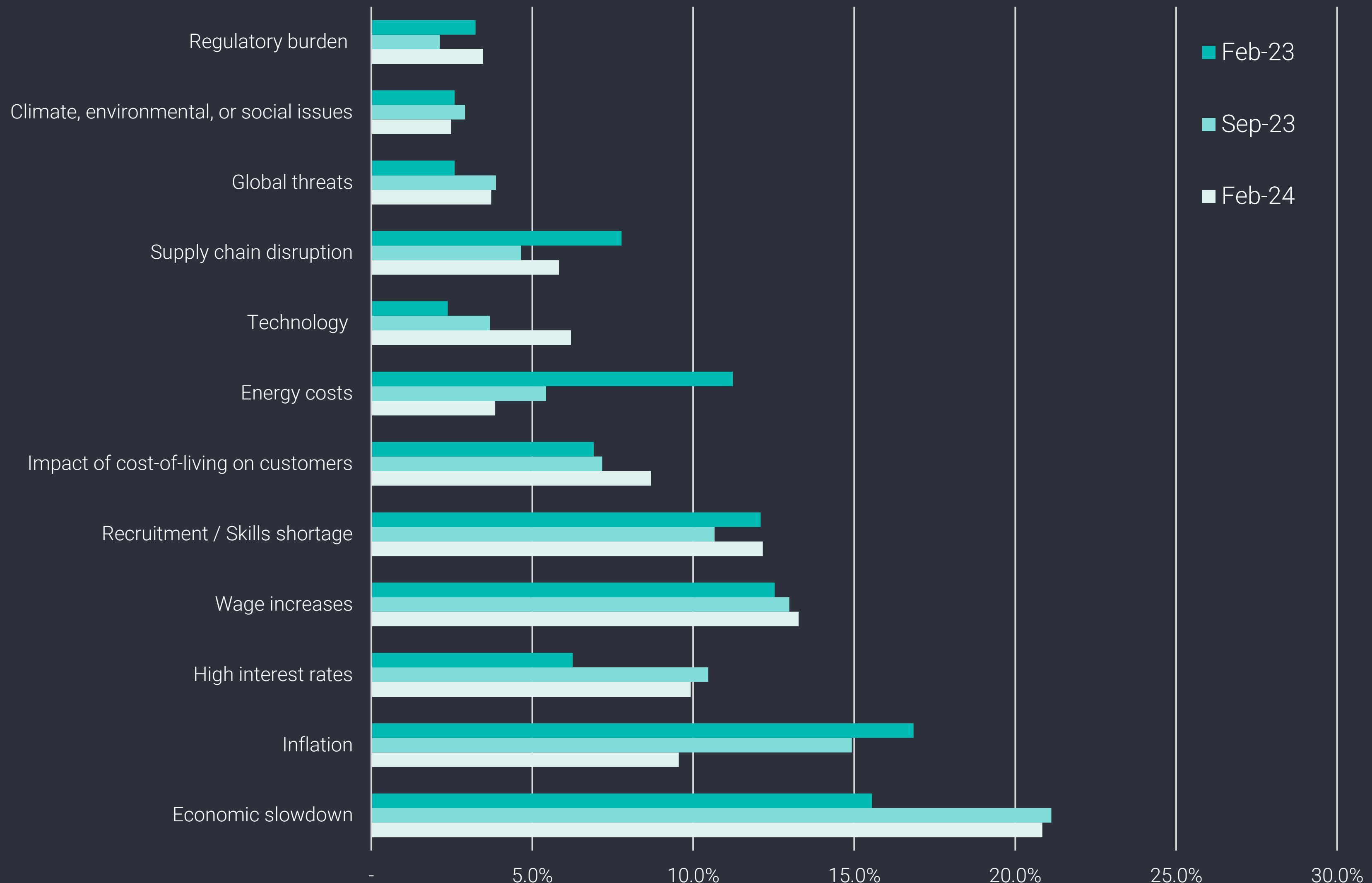
Agenda

Accounting for ESG

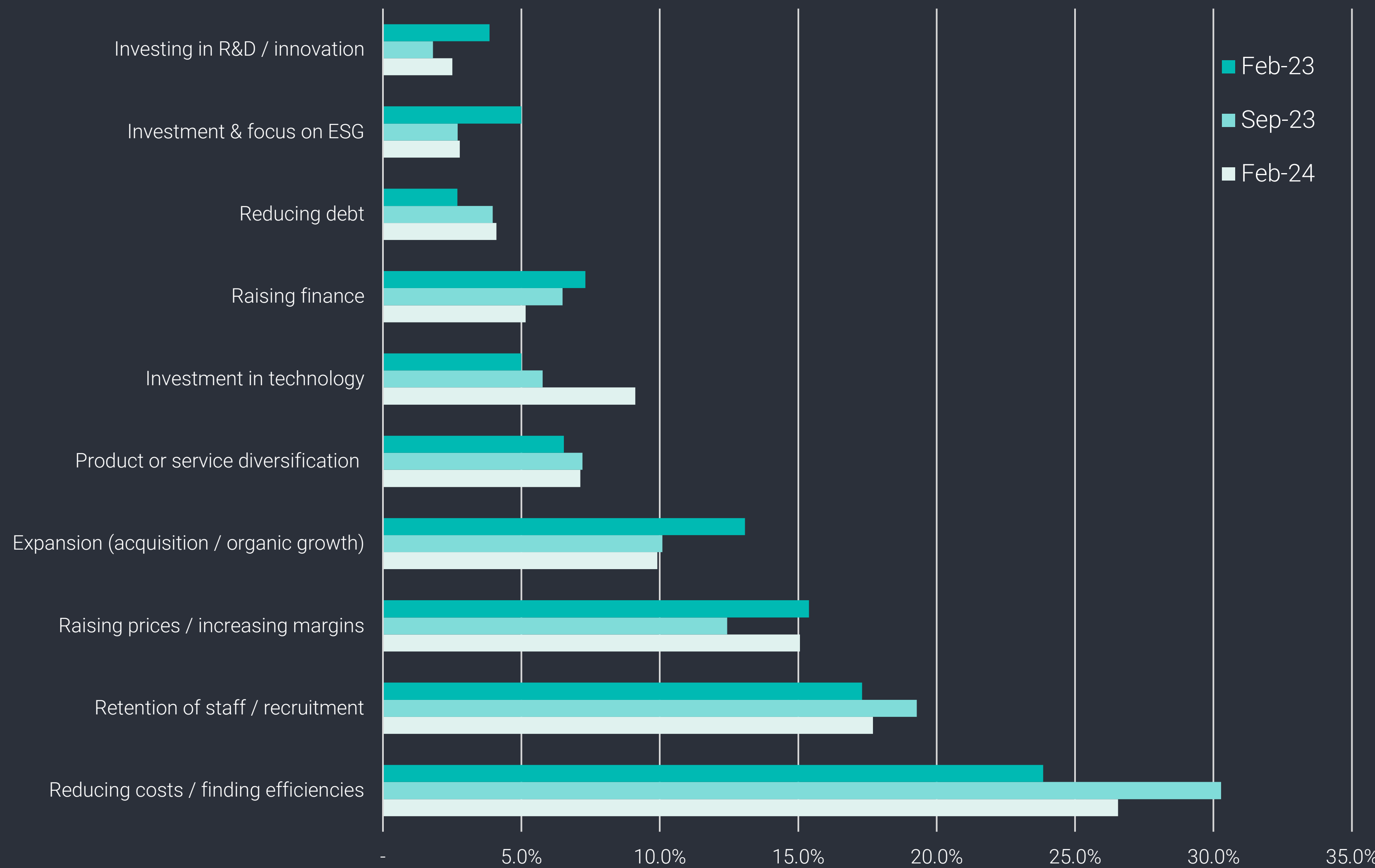
Thursday 26th September 2024

14.00 – 15.00 **CPD: 1 hour**	**Mark Lumsden-Taylor** Sustainability & ESG Partner **Tim Dee-McCullough** Sustainability & ESG Technical Director	**Accounting for ESG** Following the General Election, this course will provide an update on the ESG reporting landscape in the UK and Europe, critical developments in emissions reporting and other sustainability requirements, together with a briefing on current ESG financial reporting matters.

Poll Results – Top 3 challenge for businesses over the next 12 months



Poll Results – What is the highest priority for your business over the next 12 months?



Autumn Budget

- The Autumn Budget is on Wednesday 30 October

- Labour has pledged to make the tax system fairer, deliver economic stability with tough spending rules, and grow the UK economy

- You can follow all of our budget commentary and insights on our website

  www.mha.co.uk/spotlight-on/autumn-budget-2024

Employment Tax

Richard Maitland
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Employment tax – key recent developments

- Key developments impacting tax and payroll compliance since February 2024, including the Spring Budget
- Further reductions in the rate of Employee National Insurance Contributions
- Mandatory payrolling of benefits - from April 2026
- April 2024 increases in minimum wage rates
- Looking ahead to the Autumn Budget

Employment tax – risk and opportunity areas

- Autumn Budget – what can we expect ?
- "Labour will not increase taxes on working people" - but what about employers ?
- Maximising salary sacrifice – pension contributions and EVs
- National Insurance on Car Allowances – potential refund opportunity
- Key risk areas:
    - Employment tax status (employed vs. self-employed) in labour supply chains
    - Construction Industry Scheme – Gross Payment Status & Domestic Reverse Charge for VAT

Corporate Tax

Beverley Scott
Corporate Tax
Partner

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Corporate Tax update

- Things have been rather quiet since our last Budget (6 March 2024) – the “Budget for Long term growth”
- No major changes were announced – possible extension of full expensing to leased assets…. “when fiscal constraints allow”?
- No open consultations….
- What can we expect from the upcoming Budget?
- Business Tax Roadmap
“Investment is at the heart of this government’s growth mission”
- Commitment to not increase Corporation Tax throughout the term and retain full expensing

Corporate Tax recap

- Corporation tax rates from 1 April 2023:

  £0 - £50,000 19%
  £50,001 – 250,000 Marginal band
  (effective rate of 26.75%)
  £250,001 25%

- Watch out for associated companies (not 51% group companies anymore)

- Capital Allowances:

Main rate pool	18%
Special rate pool	6%
Structural Buildings Allowances	2%

- Annual Investment Allowance still at £1m v. Full Expensing (more conditions to satisfy here)

Corporate Tax fundamentals

- What can / should you be doing now?
- Never forget the fundamentals:

  Employer pension contributions – pay them last day of AP!

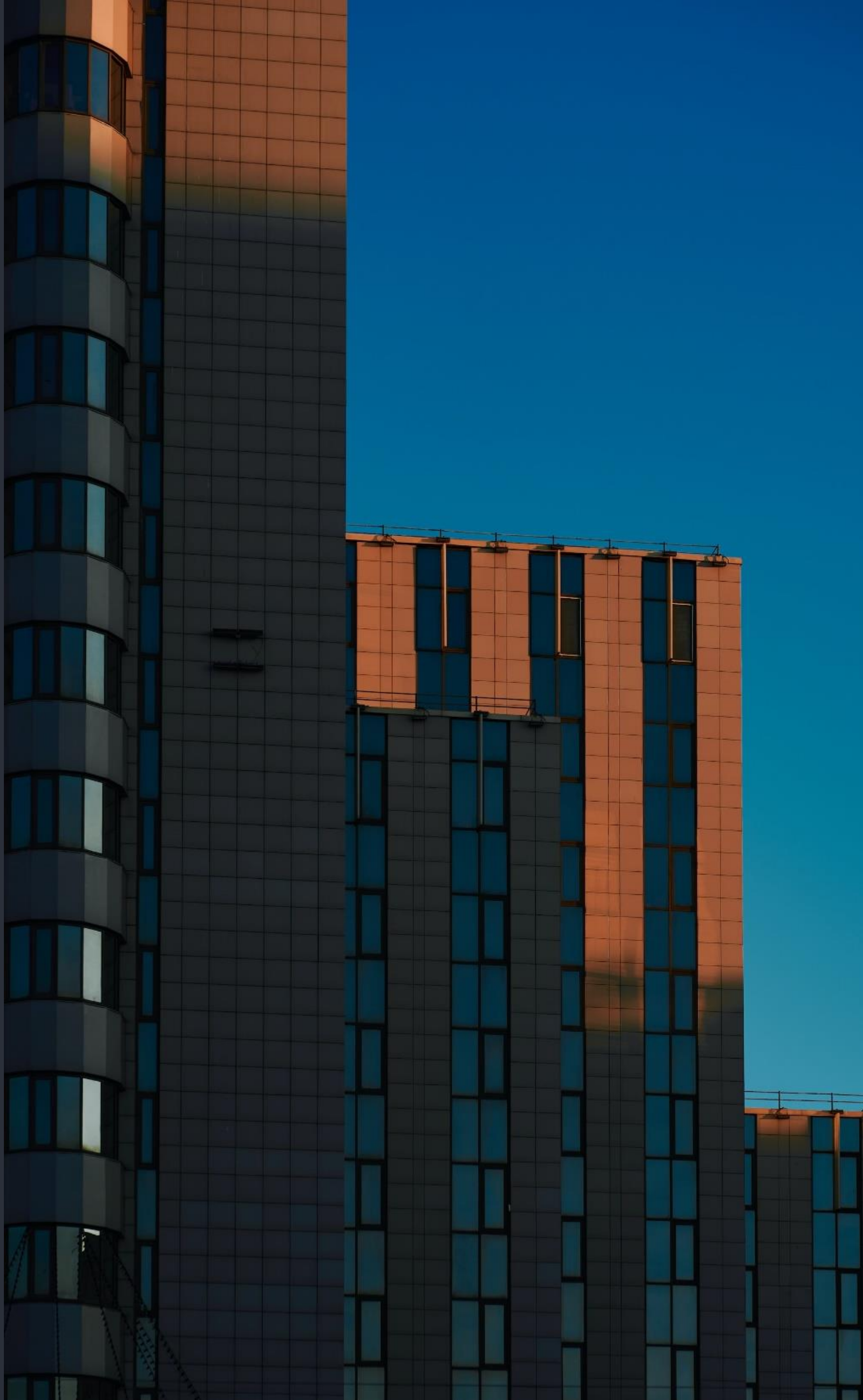
  Remuneration accruals – watch for over provisions

  Payment of capex – 4 month rule

  Analysis of expenditure – do it as you go

  Review any arrangements you may have in place with HMRC – such as capital allowances agreements on refits etc.

  Transfer pricing arrangements



Corporate Tax fundamentals

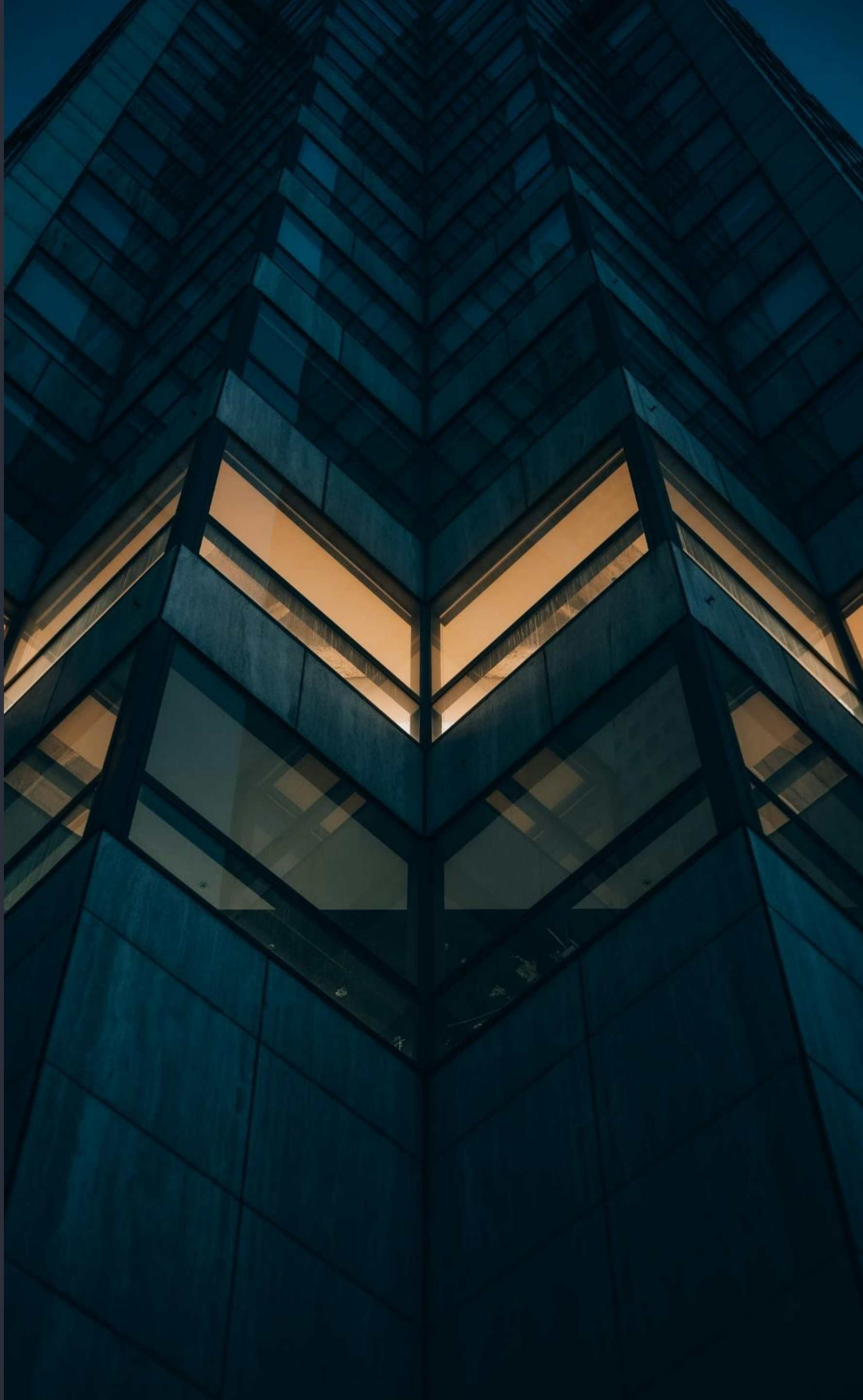
- Are you maximising your reliefs:

  Capital Allowances
  Research & Development
  Patent Box
  Creative Tax Reliefs – Theatre, Video Games, Animation

- Corporation Tax Payments

  Are you managing your instalment payments appropriately? Do you forecast for the "cashflow tax pinch" when you have 6 payments in one year

  Interest rates are currently 6% (only 4.75% on overpayments)



Uncertain Tax Positions

- Announced in Budget 2020 and effective for returns filed on or after 1 April 2022

- "The Uncertain Tax Treatment legislation is intended to help reduce the legal interpretation portion of the tax gap by promoting early identification and disclosure to HMRC of tax uncertainties by large businesses in scope." HMRC Manual UTT11000

- Companies that satisfy the following criteria fall within the legislation:

  UK turnover above £200m and/or
  UK Balance Sheet total over £2bn

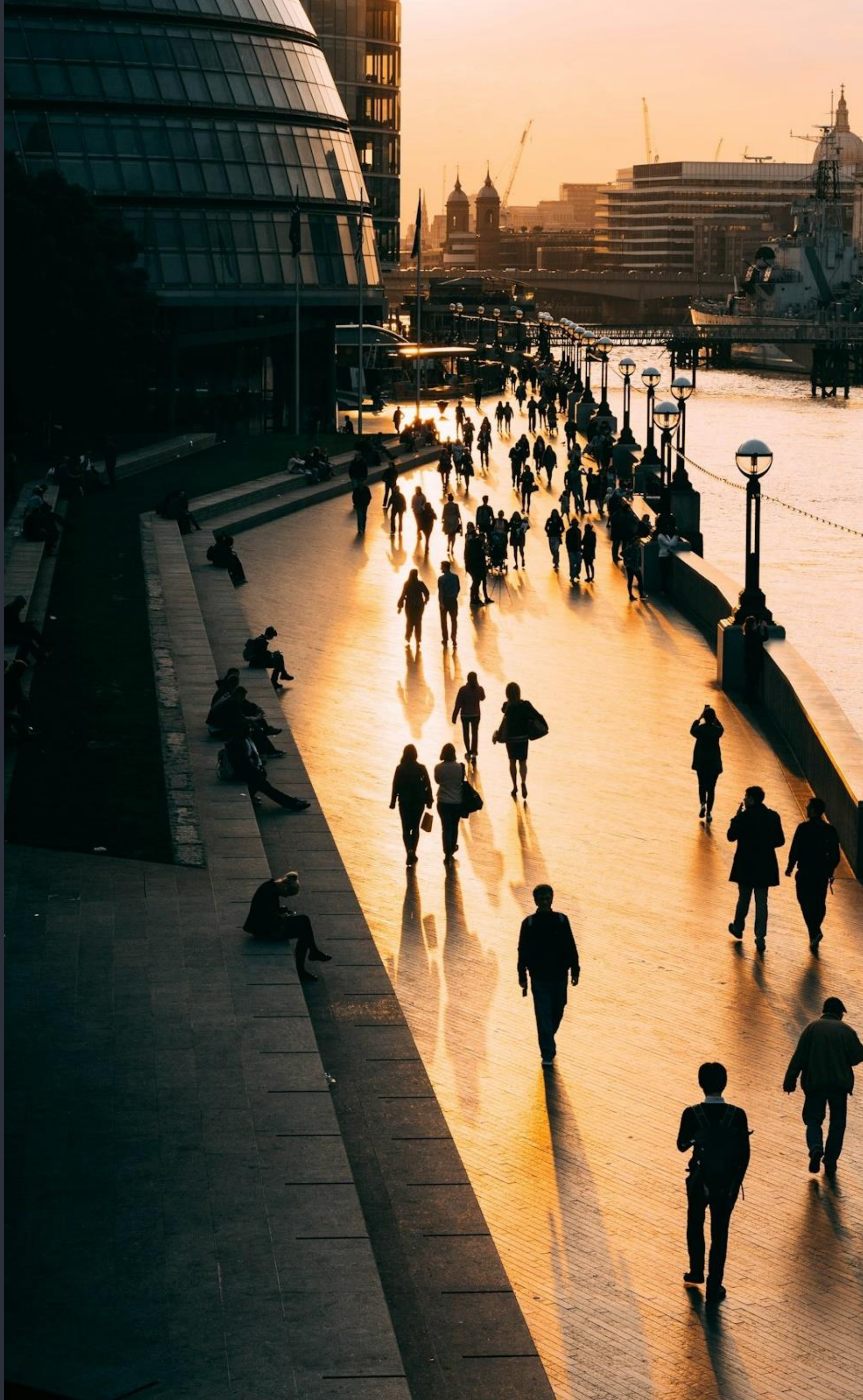
- Usual aggregation rules apply for groups (51% subsidiaries not associated companies)

Uncertain Tax Positions

- There is a requirement to notify HMRC where the notification criteria and threshold test are met
- Threshold criteria – 'tax advantage' of £5m
- Notification criteria – one or both of the following:

  Provision made in the accounts and/or
  HMRC's known interpretation of the law

- There are exemptions available from notification
- Taxes in scope – Corporation Tax, Income Tax, VAT
- Certain taxes are excluded from the scope of the legislation such as Digital Services Tax, Banking Surcharge, Bank Levy



International Tax

Jonathan Dowding
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Director

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Apple State Aid Case

- Sweetheart Tax deal concerning Irish Tax Rulings which resulted in reduced tax rates being paid by Apple in Ireland over several years.
- Apple’s ETR in Ireland was below 1% some years.
- ECJ have now found (following 8 years of appeals) that the tax arrangements amounted to illegal State Aid.
- Dispute brought by the EU Commission, not Apple or the Irish Government.
- Ireland is now required to collect > EUR 13bn in back taxes (plus interest) covering the period 2003 to 2014.
- Remains to be seen whether other countries will be making a claim for a share of this EUR 13bn.
- This decision was unexpected but is in line with current BEPS initiatives and their stated aim to prevent a ‘race to the bottom’ with respect to tax.

UK competitiveness

Country	UK	Netherlands	Ireland
Corporate Income Tax Rate	25% (19% up to £50k)	25.8% (19% up to EUR 200k)	*12.5% (25% on passive income, 33% on capital gains)*
Corporate Gains	Substantial Shareholding Exemption fully exempts gains on qualifying sale of shares	Dutch Participation Exemption can fully or partly exempt income / gains from qualifying investments	Irish Participation Exemption can fully exempt gains on qualifying sale of shares
Dividend WHT	No UK Dividend WHT	15% 0% where EU Parent-Subsidiary Directive applies	25% 0% where EU Parent-Subsidiary Directive or other Irish domestic exemption applies
Interest WHT	20% on yearly interest Clearance request generally required for reduced DTT WHT rates	0% 25.8% on interest paid to related companies situated in low-tax jurisdictions	20%
Royalty WHT	20% UK payer can self-assess whether reduced DTT WHT rate is applicable	0% 25.8% on interest paid to related companies situated in low-tax jurisdictions	20%
Ease of doing business	Most extensive global DTT network and still accepted as a generally business-friendly location	Good DTT network, though local regulation, tax and legal systems can be complex to navigate and generally less business friendly in recent years	Reasonable DTT network. Very business friendly jurisdiction prioritising foreign investment

Pillar 2 – What is it?

Designed to ensure 15% global minimum tax rate

Rules apply to groups with gross revenue > €750m

Reporting requirements in multiple jurisdictions

Significant reporting requirements for affected Groups

Reporting in group

US Company

Singapore Company

UK Company

UK requirements

Accounting Period from 1 January 2023	Detailed disclosure requirements in Accounts
In FY24	Accrue additional Pillar 2 taxes as they apply. Data review required. Pillar 2 software to be selected.
30 June 2025	Register for DDT with the UK Tax Authorities.
30 June 2026	First Pillar 2 return to be filed in the UK for FY24.
31 March 2027 & beyond	Second Pillar 2 return to be filed in the UK for FY25, then same day each year going forward – 15 months after APE.

UK Registration for DTT (and MTT)

Pillar 2 Local Registration Requirements:

Groups or single entities with:

- At least one entity located in the UK; and,
- Consolidated group annual revenues of 750 million euros or more in at least two of the last four accounting periods.

Must register for Pillar 2 top-up taxes.

Filing Member: The filing member, which will be the ultimate parent entity ("UPE") by default, must use HMRC's online service to register. The UPE can nominate another group entity as the filing member, and this nominated group entity does not need to be UK tax resident.

Deadline: Registration must be completed using HMRC's online service within six months of the end of the group's first accounting period that started on or after 31 December 2023.

Example: A group with a 12-month accounting period starting on 1 January 2024 and ending on 31 December 2024, will have until **30 June 2025** to register for Pillar 2 top-up taxes with HMRC, even where no top-up tax is payable.

Information to be provided for UK registration

1. The Name and registered address of the UPE and filing member (if different)
2. The Company Registration Number (CRN), and Unique Taxpayer Reference (UTR) where either the UPE (or the filing member if different) is a UK entity
3. Details of whether the group has entities located only in the UK or also in other jurisdictions
4. The start and end date of the group's accounting period
5. Contact details and contact preferences for one or two individuals or internal teams in the group
6. Contact postal address for the group

Post-Registration Requirements:

- Change of Filing Member: Any change must be updated via the online service within six months.
- Other Changes: Any updates to registration details must be made within six months of the change being made.

Compliance steps

Current opportunities:

Modelling

Accounts disclosures

Compliance steps

Future opportunities

Restructuring

Implement

Filing

Disclosures in FY23 Financial Statements

Disclose Group ETR

Territories where ETR is <15%

Aggregate profit, tax & weighted average ETR in those territories

Any other jurisdictions falling within scope

Mandatory temporary exception – don't disclose DTA / DTL in relation to Pillar 2

Example Group disclosures

The Group operates in a number of jurisdictions and there are factors which impact the effective tax rate which are out of the Group's control. The effective tax rate for the financial year 2023 was XX% (2022: 39%) as a result of XXXXX.

For periods commencing on or after 1 January 2024, additional reporting requirements will apply to ensure the effective tax rate will be at least 15% in all countries, subject to various complex calculations. This is in line with the minimum taxation rules announced by the G7 and progressed by the OECD Inclusive Framework on Base Erosion and Profit Shifting. These rules have been implemented in the UK via the Multinational Top Up Tax legislation during the year.

Historically the Group's effective rate has been above 15%, however the Group does operate in a small number of jurisdictions where the corporation tax rate is below 15%. The Group has assessed its exposure to Multinational Top Up Taxes and any impact will be immaterial.

In addition, the Group is taking advantage of the temporary deferred tax exemption within the "International Tax Reform — Pillar Two Model Rules (Amendments to IAS 12)" in relation to the current year and retrospectively in accordance with IAS 8. This means the Group does not recognise and does not disclose information about deferred tax assets and liabilities related to OECD pillar two income taxes.

Pillar 2
Scope

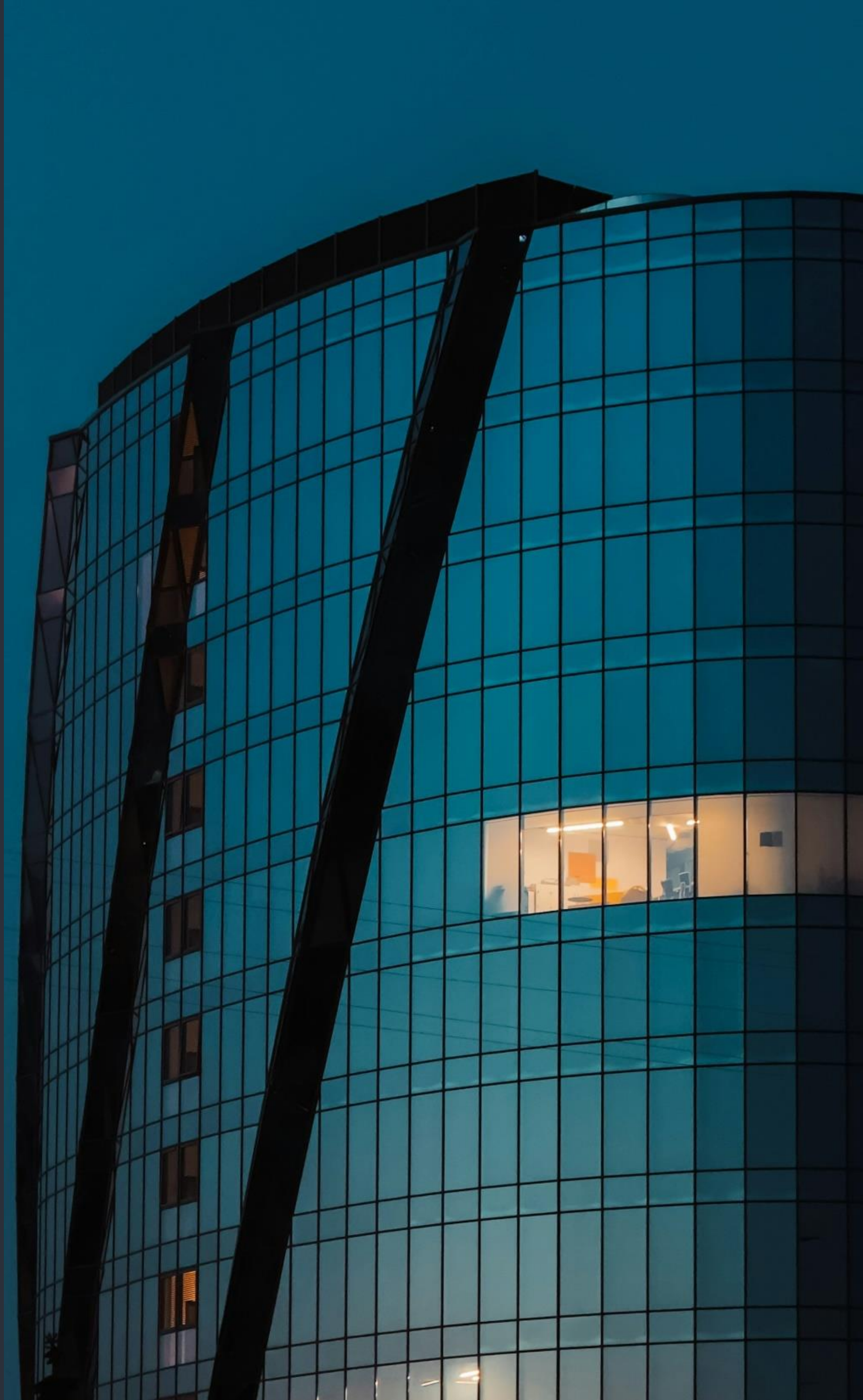
Summary of Pillar 2 Priorities

1 Impact Assessments

2 Accounting disclosures & registering with local tax authorities

3 Test capabilities of global accounting

4 Consider rationalisation restructuring opportunities



Pillar 1
Amount B

- Pillar 1 Amount B has no de minimis - unlike Amount A and Pillar 2.
- However, Amount B should only be relevant to certain businesses (i.e. distributors operating in jurisdictions deciding to adopt Amount B).
- LRD margins may be restricted where amount B applies.
- Use of impact assessments to help determine potential effect of these rules.
- Consideration should be given to restructuring in some scenarios

Double Tax Treaty Considerations

- New DTTs and old DTTs modified by the MLI.
- What is the MLI?
- What are some of the issues being encountered?
- Dual tax residency in a more complex global tax landscape.
- MAP process now the only way to resolve double taxation in some scenarios.
- Importance of refreshing analysis of tax residency status.

VAT

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Staff Entertainment & Gifts

Gifts

- Input tax incurred on the purchase of gifts is only recoverable if it they are given away as a 'business gift'.
- If the gift costs less than £50 (excluding VAT), no output tax will be due.
- The £50 limit applies per person within a rolling 12-month period.

Entertainment

- VAT on hospitality can only be recovered when it is provided, free of charge, for your staff. This includes directors and partners, provided that the event is open to all staff.
- Recovery of input tax incurred on entertainment which is freely given to non-staff is blocked.
- 'Business entertainment' refers to hospitality of any kind, including the provision of food and drink, accommodation, or tickets to events.

Electric Vehicles

Buying an EV

- There are no special VAT reliefs for electric vehicles.
- VAT can only be reclaimed if the car has 100% business use.

VAT incurred on the lease of car can be recovered at:
- 50% if available for private use
- 100% if exclusively for business use

Charging an EV:

At home:
- Sole proprietor or partner – VAT can be recovered
- Employees - Input tax cannot be recovered

At the business premises or public charging point:
- VAT can be recovered on public charging, but it must be apportioned to only reclaim the business use element.

- Detailed mileage records should be retained to determine how much of the charging costs is used for business or private purposes.

Education

What's changing

From 1 January the provision of education and boarding by a private school will be subject to VAT.

Services which are closely related to the provision of education will remain exempt. Including

- Catering,
- Transport and
- School trips.

'Unbundling'

It may be possible for the school to make a separate charge for certain services, such as school lunches, which would still qualify for VAT exemption.

Education

Capital Goods Scheme

- The VAT incurred on property cost >£250k is subject to adjustment over a 10 year period.

- Schools which have recently undertaken large capital projects will be able to claw back some previously blocked input tax.

Prepayments

- A tax point is created upon the earliest of payment, service provision or the issuance of a VAT Invoice.

- HMRC have announce special anti-forestalling rules that mean any fees paid on or after 29 July 2024, which relate to terms beginning after 1 January 2025, will be subject to VAT.

- Prepayments made prior to 29 July should be exempt if they represent a genuine prepayment. HMRC have announced that they will challenge ineffective prepayment arrangements.

Tax Governance

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Global Drivers increasing the need for Tax Governance

ESG

Tax is now a board level issue and needs to be aligned with the company's broader ESG agenda.

Tax Audits

A global increase in data-led tax audits as tax authorities seek to increase their tax take.

Reputational Risk

Reputational damage from being seen to be a bad corporate tax citizen.

Transparency

Regulatory requirements to increase disclosure of tax strategies and taxes paid.

HMRC Requirements

- Once a business exceeds £200m turnover it is falls into HMRC's Large Business regime and it is subject to additional tax governance requirements.
- This may be the first time that a business is having to navigate tax governance and likely to need guidance and support.

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Tax Control Framework

Increasingly businesses are expected to adopt a Tax Control Framework (TCF), which can help a business manage its tax risks and strengthen its tax governance. A TCF is a structured system of internal controls that ensures accuracy, completeness, and compliance of an organisation's tax-related activities.

The OECD have defined six essential building blocks of a Tax Control Framework:

Tax Strategy
This should be clearly documented and owned by senior management.

Comprehensive
The TCF needs to govern the full range of the enterprise's activities.

Responsibility
The role of the Tax department and its responsibility for the implementation of the TCF should be clearly recognised and properly resourced.

Governance
There needs to be a system of rules and reporting to identify potential non-compliance. The governance process should be documented and sufficiently resourced.

Testing
Compliance with the policies and processes in the TCF should be subject to regular testing.

Assurance
The TCF should be capable of providing assurance to stakeholders by establishing and monitoring an entity's risk appetite.


Break
We will resume shortly

Financial Reporting and Company Law Update

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Updates to FRS 102

- Published in March 2024
- Effective for periods beginning on or after 1 January 2027
- Early application is permitted

FRS 102 – The 5 Step model for revenue recognition

1

Identify the contract with the customer

2

Identify the separate performance obligations in the contract

3

Determine the transaction price

4

Allocate price to each performance obligation

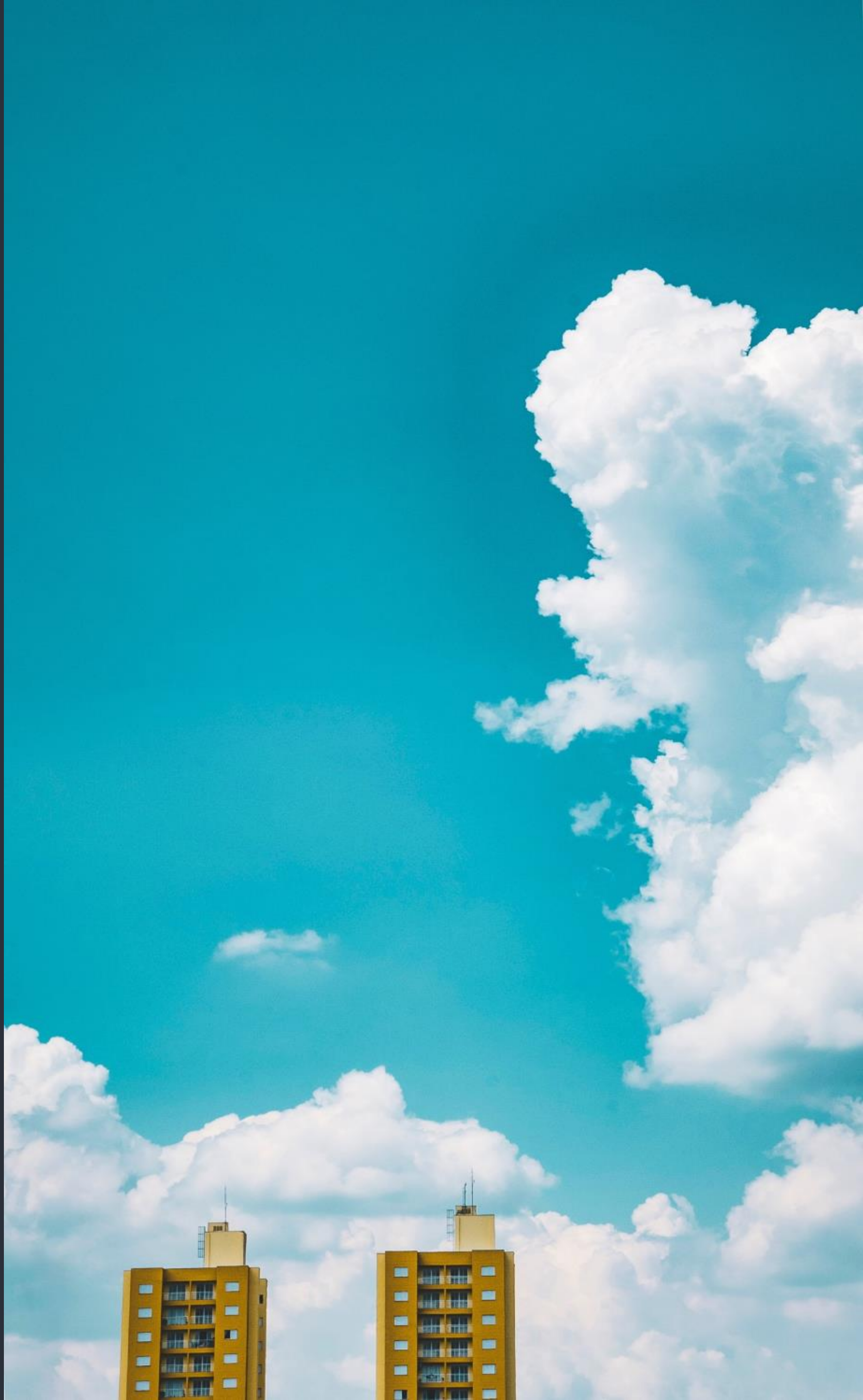
5

Recognise revenue when an entity satisfies a performance obligation

FRS 102 – A new approach to lease a/c

- IFRS 16 / Future FRS 102 Approach

	Lessor		Lessee
	Operating	Finance	All Leases
Asset	On B/S	None	On B/S
Depreciation	Yes	No	Yes
Receivable	No	Yes	N/A
Liability	N/A	N/A	Yes
Charge	No	No	Yes
Impairment	Yes	No	Yes



Other modifications

More clarity on the disclosures for small co.

Alignment of Section 2 with IASB's conceptual framework

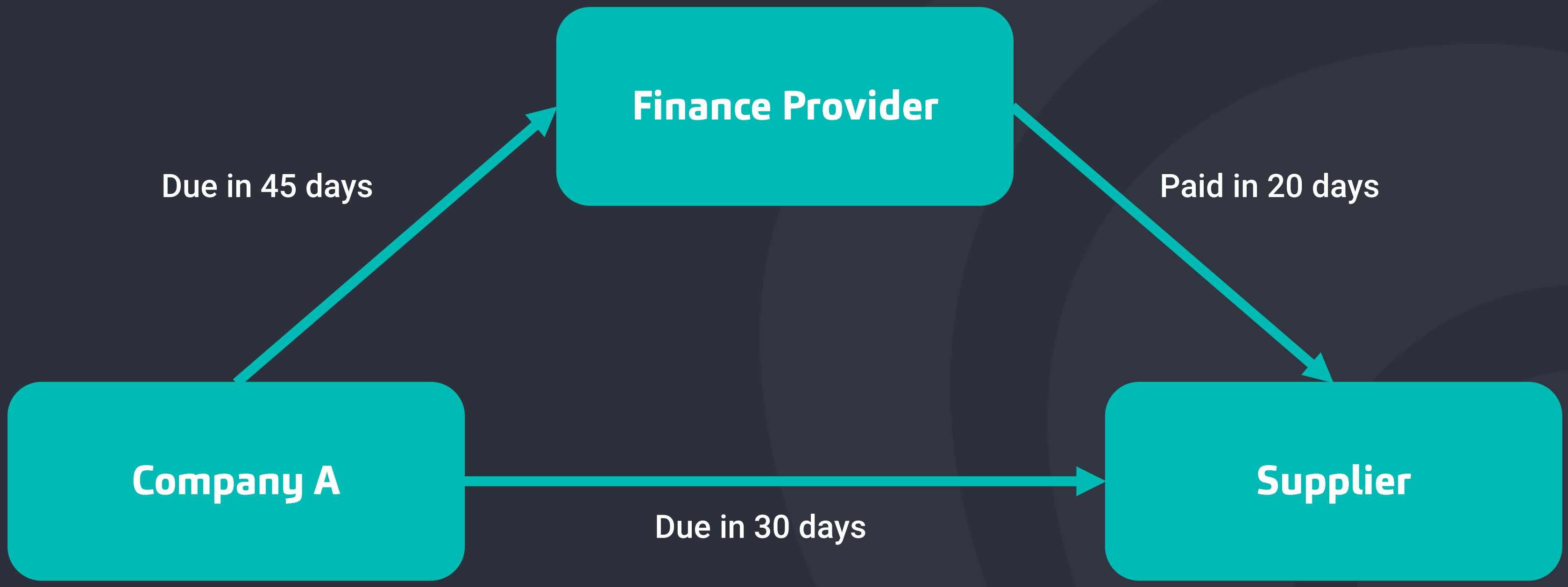
IFRS 13 requirements on Fair value new Section 2A

Setting stage for removal of IAS 39 Option

FRC

FRS 102

Supplier finance arrangements



Supplier finance arrangements

- The objective of these amendments is to improve the quality of disclosures available to the user on the nature of these sorts of arrangements

  - the key terms and conditions of the arrangements

  - as at the end of the reporting period:

    (i) the carrying amounts and associated line items presented in the entity's statement of financial position of the financial liabilities that are part of a supplier finance arrangement; and

    (ii) the range of payment due dates (eg 30–40 days after the invoice date) for both the financial liabilities subject to such arrangements and comparable trade payables that are not part of a supplier finance arrangement. If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or disclose additional ranges (eg stratified ranges).

  - the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed

Business combinations

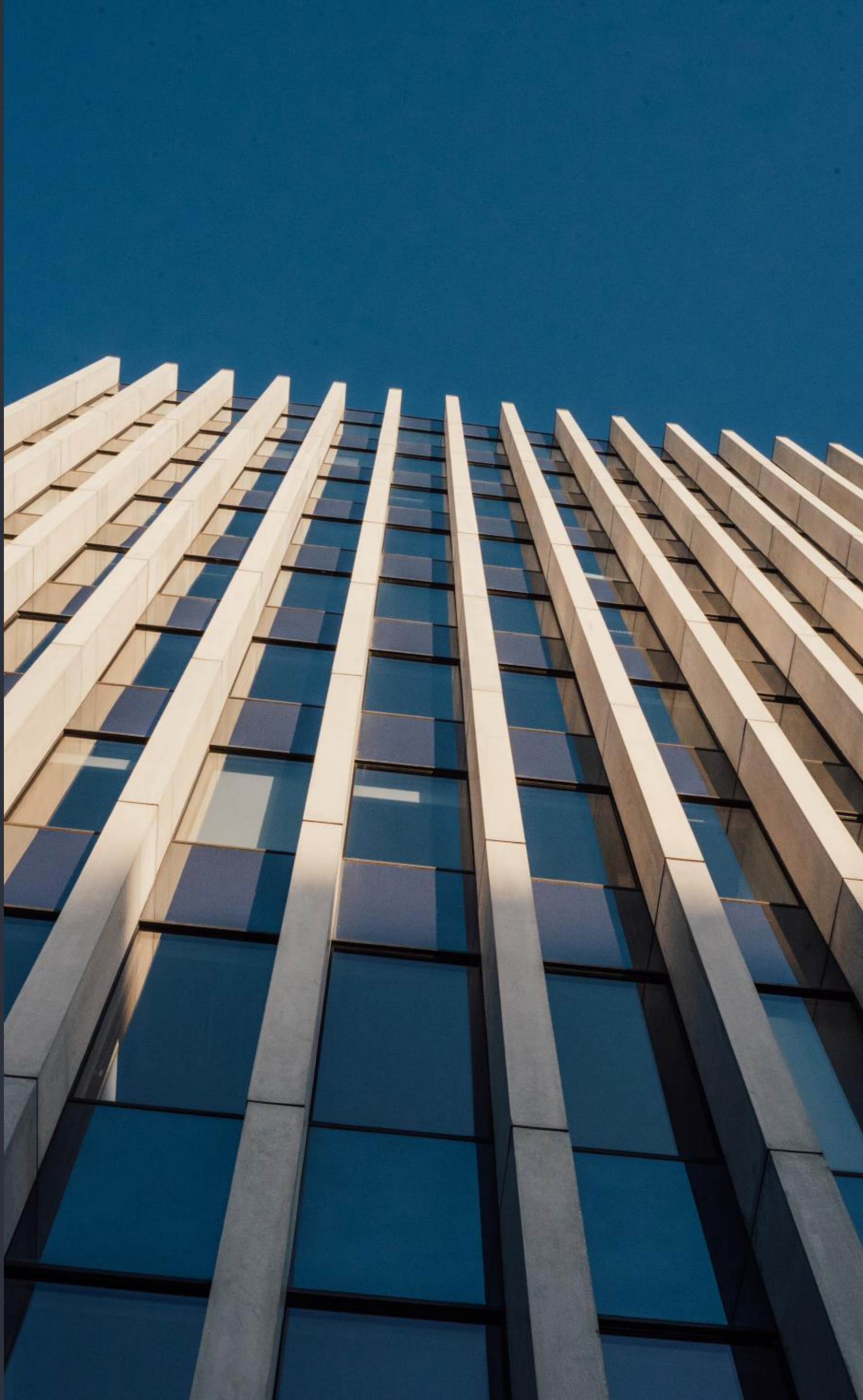
- Provides additional guidance from IFRS 3 on how to identify the acquirer in a business combination.

“The cost of a transaction that remunerates employees or former owners of the acquiree for future services is not part of the cost of a business combination.” FRS 102.19.11B

- Addresses the employee remuneration issue in IFRS 3 using better language that makes clear the factors that the entity should consider including an emphasis on the substance of the arrangement.
- Additional guidance on non-recognition of contingent assets at the acquisition date.
- Additional guidance on the recognition of contingent assets by the acquirer in a business combination.
- Clarifies the Interaction of section 21 and section 19. Acquirer to recognise a contingent liability acquired in a business combination even when its not probable that the acquirer will be required to transfer economic benefits to discharge the obligation.
- Clarification of how the 12-month provisional accounting for business combinations is expected to work in practice.

Business combinations

- These amendments actually brings in the requirements of IFRIC 23 into UKGAAP.
- Entity to consider whether it should assess an uncertain tax treatment on its own or together with other uncertainties in considering the likely outcome.
- Entity to assume that the tax authority will exercise its rights to examine records and access all related information as part of any enquiry.
- When it assesses that its probable that the tax treatment will be accepted the tax amounts are determined using the approach planned for its relevant tax filings.
- When it assesses that acceptance of tax treatment is not probably then the entity chooses one of the following methods to determine the exposure:
  - Single most likely amount from a range of possible outcomes.
  - Sum of the probability weighted amounts in a range of possible outcomes.



IFRS 18 - Presentation and disclosure in financial statements

- Issued April 2024
- Effective for periods beginning on or after 1 Jan 2027
- Replaces IAS 1 Presentation of financial statements

IFRS 18 - Presentation and disclosure in financial statements

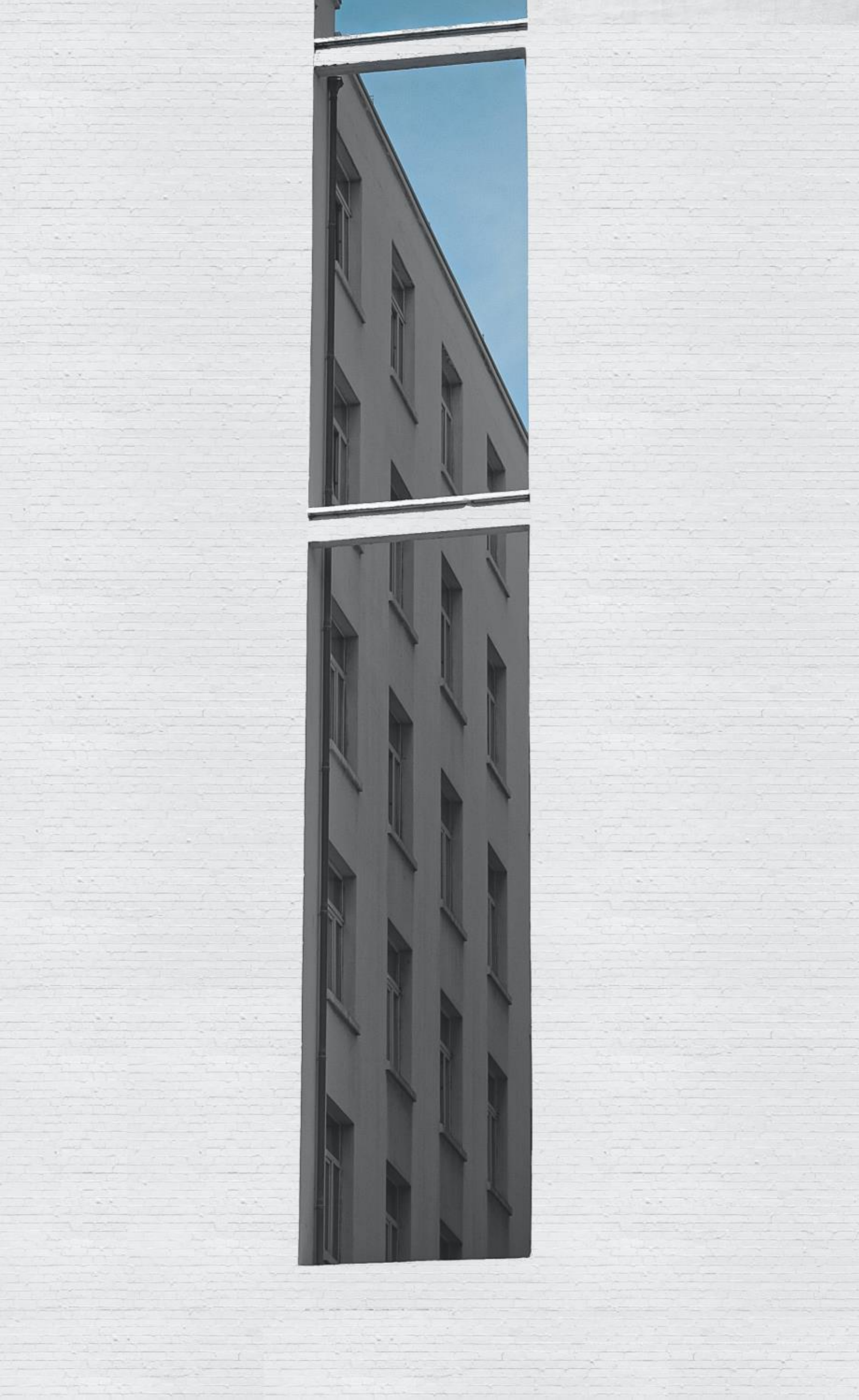
Aggregation and disaggregation

- Requirement to:
  - aggregate based on shared characteristics and.
  - disaggregated based on characteristics that are not shared.

- The process should enable primary financial statements and notes to fulfil their roles and must not obscure material information.

IFRS 18 - Presentation and disclosure in financial statements

Categorisation on P&L	
The operating category	Where an entity is required to classify all income and expenses that are not classified in the other categories
The investing category;	
The financing category;	
The income taxes category	
The discontinued operations category	



Disclosures in FY23 Financial Statements

An entity has to present totals and subtotals in the statement of profit or loss for operating profit or loss, profit or loss before financing and income taxes and profit or loss.

- Revenue
- Operating Expenses
- Share of profit or losses of associates and JVs
- Income tax expense / income
- Discontinued Operations
- Impairment losses (and reversals)
- Gains / Losses from derecognition of financial assets at amortised cost
- Gains Losses from remeasurement of financial assets
- Profit / Loss attributable to non-controlling interests

IFRS 18 - Presentation and disclosure in financial statements

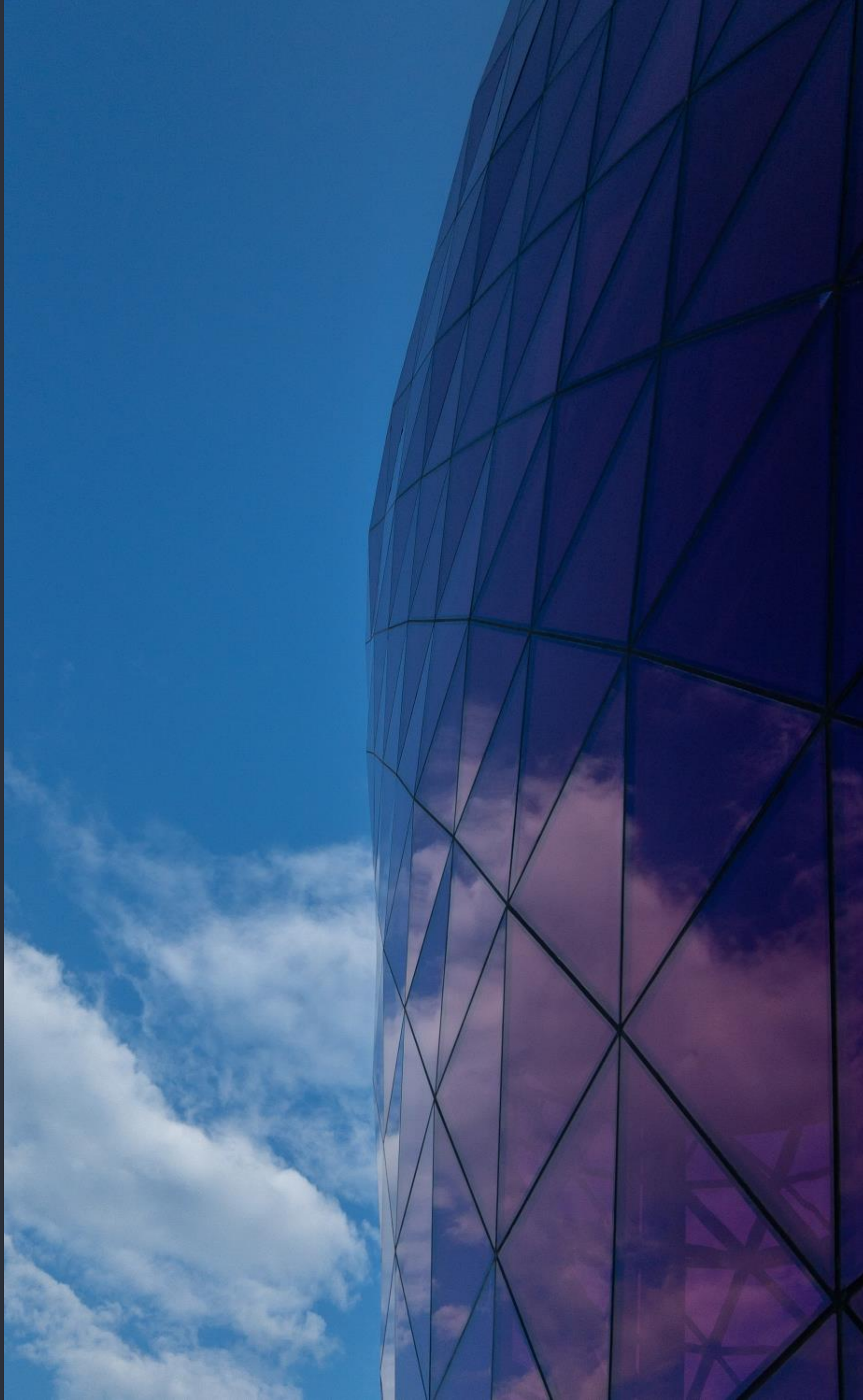
Management-defined performance measure

“A subtotal of income and expenses that:

(a) an entity uses in public communications outside financial statements;

(b) an entity uses to communicate to users of financial statements management’s view of an aspect of the financial performance of the entity as a whole; and

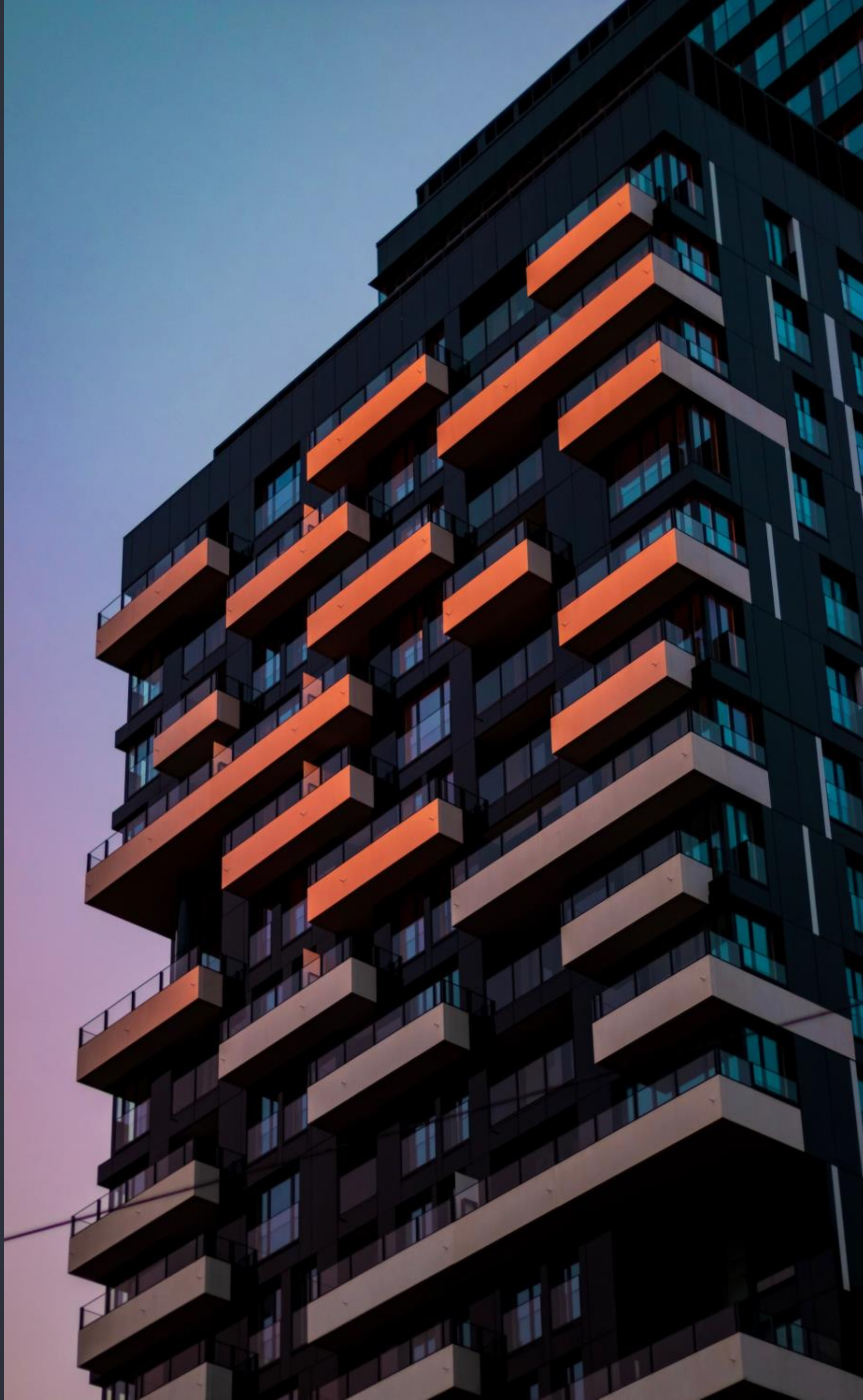
(c) is not listed in paragraph 118 of IFRS 18, or specifically required to be presented or disclosed by IFRS Accounting Standards.



IFRS 18 - Presentation and disclosure in financial statements

Management-defined performance measure

- Entities to disclose information about MPMs in a single note.
- The note will include a statement that the MPMs provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities.



IFRS 18 - Presentation and disclosure in financial statements

Management-defined performance measure

Disclosure to include:

- Description of the aspect of financial performance that it communicates,
- Details of why management believes the MPM provides useful information.
- Description of how the MPM is calculated;
- Reconciliation between the MPM and the most directly comparable subtotal required by IFRS Accounting Standards.
  - Income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation;
  - A description of how the entity determined the income tax effect;
- Explanations on changes made to the calculation of a MPM.

IFRS 19 - Subsidiaries without Public Accountability: Disclosures

- Objective of this standard is to bridge the GAAP between Full IFRS and IFRS for SMEs
- Relevant for entities that are subsidiaries but which do not themselves have any public accountability
- Reduces the detailed disclosures that would otherwise be required by the full IFRS standards
- Should significantly reduce the reporting complexity for subsidiary accounts
- No change to measurement requirements

IFRS 19 - Subsidiaries without Public Accountability: Disclosures

An entity qualifies where:

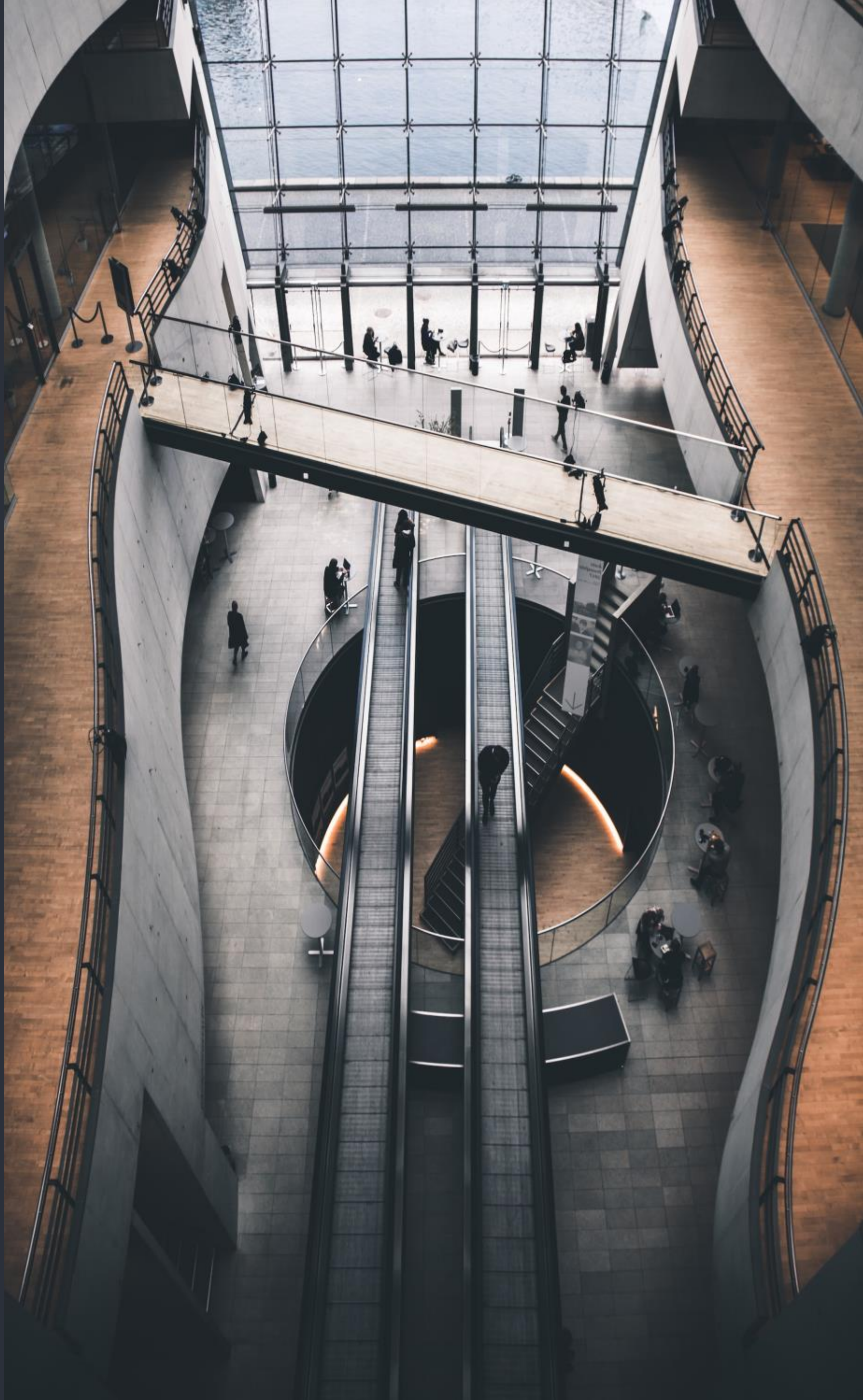
- it is a subsidiary;
- it does not have public accountability; and.
- it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

An entity has public accountability where:

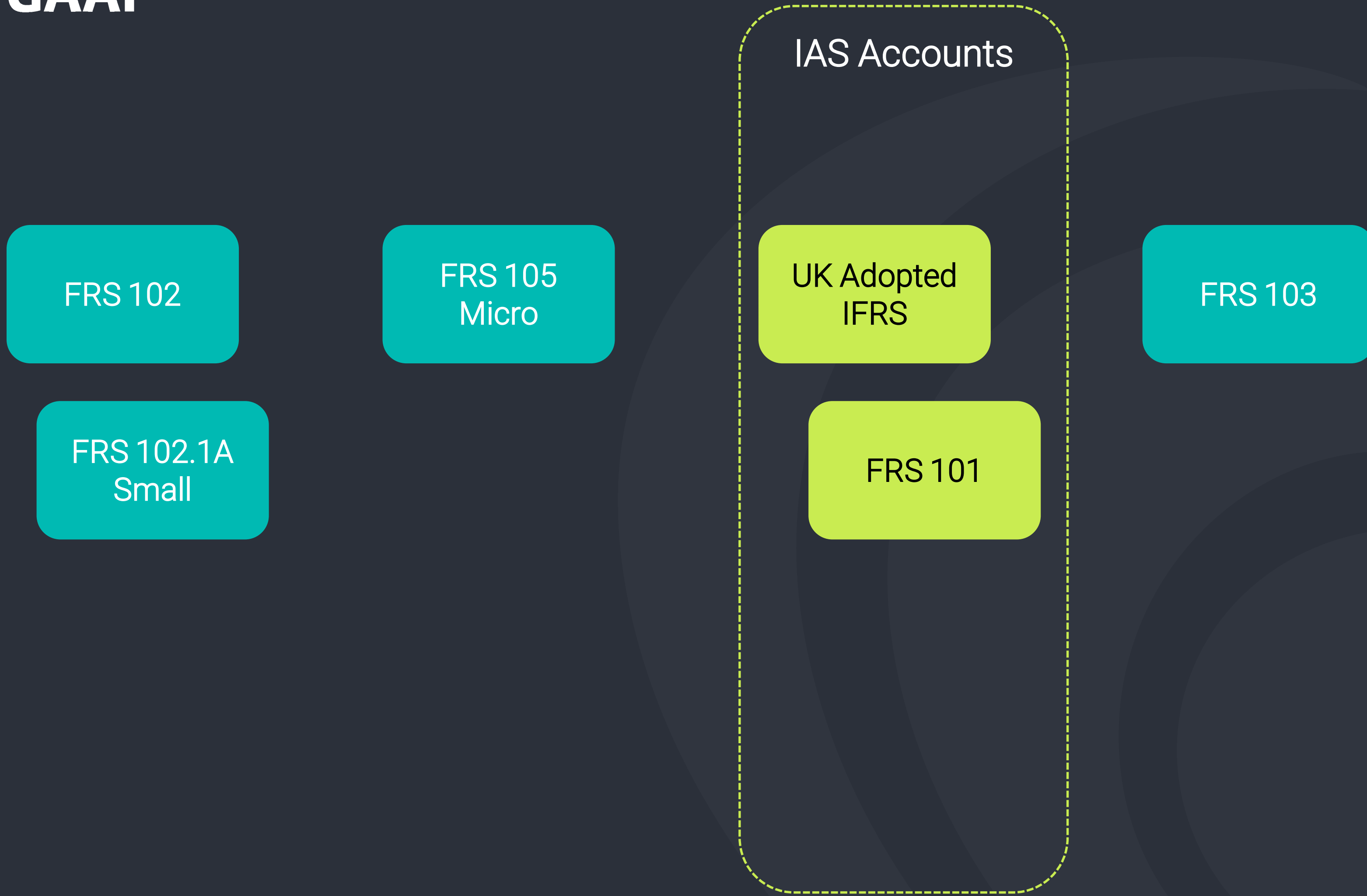
its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market

Or

it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (e.g. banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.)



The structure of UK GAAP



The future of UK GAAP

This will require changes to legislation and considerable political will on the part of the government of the day and any new regulator.

Handled correctly it could reduce the complexity of financial reporting and substantially improve convergence.

All entities will be required to apply IFRS 9. Insurance entities will be required to apply IFRS 17

FRS 105 Micro

UK Adopted IFRS

UK Adopted IFRS for SME's

Company Size thresholds - Old

Size	Turnover	B/S	Employees
Micro	£632k	£316k	10
Small	£10.2m	£5.1m	50
Medium	£36m	£18m	250

Company Size thresholds - New

Size	Turnover	B/S	Employees
Micro	£1m	£500k	10
Small	£15m	£7.5m	50
Medium	£54m	£27m	250

Where to next?

UK government set to omit audit reform from legislative plans.

Overhaul of accounting regulation and corporate governance is facing fresh delay.

Update on Audit reform

- Government will tackle dominance of ‘Big Four’ audit firms and create a new regulator to reduce the risk of sudden big company collapses, safeguard jobs and reinforce the UK’s reputation as a world-leading destination for investment

- Reform is already underway, with the Business Secretary taking action today to enable the regulator to ban failing auditors from reviewing large companies’ accounts

- Government commits to review corporate reporting burdens on businesses to maximise the benefits of Brexit and reduce burdens

“Bills will be brought forward to strengthen audit and corporate governance, alongside pension investment…”

[Draft Audit Reform and Corporate Governance Bill, Pension Schemes Bill].

Research & Development

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Research & Development
Tax Director

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Common Compliance Concerns

- HMRC have confirmed they intend on enquiring into over 20% of R&D claims made.
- Not submitting pre notification or additional information forms when submitting the R&D claim
- Claims not within the correct entity (e.g. for groups where one entity contracts another). Review of TP/intragroup agreements and considerations around company's trade and PAYE/NIC liabilities.
- The company's SIC code (and therefore trade) does not directly correlate with the R&D project(s) claimed for.
- Contractual relationships with third parties not matching the fact pattern of actual working relationship between parties. E.g. contracts with third parties/employer book of record/contractors with PSCs.
- No contemporaneous record of R&D activity and milestones. Loss of knowledge due to attrition of competent professionals
- Undertake due diligence on R&D agencies – including sectors they typically work with, types of fees they offer, whether they are regulated or associated with professional bodies or not

Additional Information Form Submissions

- Mandatory for claims submitted after 8 August 2023
- Dates not matching those in returns, especially for long and short periods
- CT 600 checkbox not ticked
- Level of detail in technical narratives – need to ensure sufficiently technical and clearly answer the questions HMRC have posed
- Classification of costs into the various categories
- Consideration of changes such as pre- and post- April 2023 spend being accurately apportioned and PAYE/NIC references for the merged regime

Quantitative compliance

- Where costs capitalised as intangibles – S1308 elections for year one write off
- Capital vs. revenue nature of assets and ensure tangible assets excluded
- Subcontracted and subsidised R&D – do the contracts match fact pattern of working relationship with third parties and clients?
- Allowable cost categories (consider whether cloud and data costs allowable in period) and changes in the merged regime (restrictions to overseas costs, PAYE details for EPWs, and subcontractor relationships)
- Evaluation of appropriate scheme – refresh SME threshold checks for each period, consider R&D Intensive eligibility etc.
- Ensure indirect activities are in keeping with guidelines (e.g. focus on staff time as opposed to cost of recruitment)

Quantitative compliance

- Ensure compliance with R&D definition – including link between advances sought, field of science/technology, uncertainties and systematic activities
- Focus on resolution of uncertainties in relation to the underlying field of science or technology as opposed to innovation in company's own sector
- Consider including quotes/testimony from competent professionals at company who worked on R&D projects/third parties who may have been consulted when seeking solutions
- Ensure that competent professionals are consulted for R&D apportionments, and that these align with nature of activities undertaken

Questions

Chris Danes
Tax Partner &
Chairperson

Richard Maitland
Employment Tax
Partner

Beverley Scott
Corporate Tax
Partner

Jonathan Dowding
International Tax
Director

Robin Prince
VAT & Indirect Tax
Partner

Carlison Morris
Financial Reporting
Partner

Kanika Mishra Pathak
Research & Development
Tax Director

Save the dates

Upcoming CPD courses

Accounting for ESG

Date: 26th September 2024
Time: 10am – 11am
CPD: 1 hour

Finance Directors Update Course

Date: Thursday 13th February 2025
Time: 8.30am – 12.30pm
CPD: 3 hours