PKF FRANCISCLARK

Chartered accountants & business advisers

SHAREDAMBITION

2020

CORPORATION TAX YEAR-END PLANNING

CORPORATION TAX YEAR-END PLANNING 2020

Corporation tax year-end planning is less complex than it once was. This is due mainly to the abolition of the different rates of corporation tax that previously applied to 'large' and 'small' company taxable profits. UK corporation tax has been a flat rate of 19% for most company profits since the financial year beginning 1 April 2017 and will remain at 19% for the year beginning 1 April 2020. However, when approaching the financial year end it is still important to consider the opportunities that remain via tax reliefs to optimise working capital and business performance prior to the year-end.

Here are our top tips for companies.

MAXIMISE CAPITAL ALLOWANCE CLAIMS

Capital allowances year-end planning is a well-trodden path and should be undertaken whilst bearing in mind commercial considerations. A review of proposed capital expenditure and disposals should be undertaken to ensure that capital allowance claims are maximised. This is particularly important when buying or selling a commercial property as allowances may be lost if steps are not taken to identify qualifying expenditure prior to the sale/purchase. It is also important to consider timings of capital expenditure to see if higher rates of allowances can be claimed by using first year allowances.

Companies and other businesses are entitled to claim an annual investment allowance (AIA), providing 100% tax relief on the first £1m of qualifying expenditure in a 12 month period. The allowance takes effect at this higher rate between 1 January 2019 and 31 December 2020, after which it is expected to revert to £200,000. Where a business has an accounting period that straddles the date of change, the allowances have to be apportioned on a time basis. Particular care needs to be taken for year-ends which straddle 31 December as your allowance may be restricted. The dates on which expenditure is incurred can also impact the allowances available. Unused AIA will be lost as there is no provision for the unutilised portion of the allowance to be carried forward. If you are concerned you may be impacted, please speak to your usual PKF Francis Clark adviser.

For expenditure in excess of the AIA, writing down allowances are available at 18% per annum on plant and machinery and 6% on integral features.

Qualifying expenditure on designated energy-saving or environmentally friendly items can provide an opportunity to maximise a claim with an additional entitlement to 100% relief via enhanced capital allowances (ECAs). ECAs on energy and water-efficient plant will be abolished from 31 March 2020, but allowances for brand new low emission (< 50g/km CO_2) cars, gas refuelling stations and zero-emission goods vehicles will remain in place until 31 March 2021 and those for electrical vehicle charge points until 31 March 2023. The 100% tax relief on these items is in addition to the 100% AIA limit, so can be particularly useful in a year with a high capital spend. It is possible for loss-making companies to claim a tax credit on expenditure on ‘green’ technologies, which may be attractive when cash flow is a limiting factor. Therefore on review of capital proposals, consideration should be given as to whether any of the options are included on the Government lists of approved plant or technology items and can be acquired before 31 March 2020. It should be noted that appropriate documentation to support the claim would be required.

STRUCTURE AND BUILDINGS ALLOWANCE

The SBA provides 2% tax relief for the cost of new or renovated commercial structures, where construction commenced on or after 29 October 2018. Relief is limited to the original cost of construction or renovation, relieved across a fixed 50-year period, regardless of ownership changes. No balancing charges or allowances will apply, so there will be no clawback on sale - the allowances will pass on to the next owner. Care will need to be taken to consider when contracts are entered into for construction or where there are residential elements to a property. The allowances can be claimed once the building comes into qualifying use. When the property is sold the SBA claimed will reduce the base cost of the asset, thereby increasing the eventual capital gain. The new relief brings tax relief for investment in property forward, instead of having to wait for the eventual sale. The allowance may increase to 3% in future.

PROVIDE ‘GREEN’ COMPANY CARS

There are tax incentives in place to encourage the use of energy efficient company cars until 31 March 2021. The rate of capital allowances that can be claimed on a car is dependent upon the CO_2 emissions. Under current rules, allowances on cars bought from 6 April 2015 can be claimed at 18% where CO_2 emissions are up to 110g/km, decreasing to 6% for cars with emissions above 110g/km. The business can also claim a full first year tax deduction on the cost of a new and unused car under the ECA scheme where emissions are 50g/km or less (or the car is electric). Benefit in kind percentages are also considerably lower for green vehicles

REVIEW TIMINGS OF CHARGEABLE ASSET DISPOSALS

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

CONSIDER PROVISIONS CAREFULLY

Where there is sufficient evidence to demonstrate the accuracy of the calculation, advance tax relief may be available in the year a provision is made. Otherwise, the tax deduction is deferred until payment is made. A general provision is not allowable for tax purposes. Some of the provisions usually considered are listed below:

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

CLEAR OVERDRAWN LOAN ACCOUNTS

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

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

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

CONSIDER RESEARCH & DEVELOPMENT AND OTHER CORPORATE TAX RELIEFS

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

Under the SME scheme a company can claim a tax deduction of 230% on qualifying expenditure. If this creates a tax loss, then it may be possible to surrender the loss in return for a payable tax credit. There is also a 100% writing down allowance available for the acquisition of fixed assets used for the purposes of carrying out R&D which should be considered where making a claim for R&D tax relief. Tax relief of up to 200% is available for relevant expenditure incurred by theatre, orchestra, video games, television, film and animation production companies. Tax relief of up to 150% is available on the qualifying costs of the remediation of contaminated land, the most common being the removal of asbestos.

REVIEW THE USE OF RESIDENTIAL PROPERTY

Where a company owns a UK residential property valued at £500,000 or more, it must consider whether it should pay the annual tax on enveloped dwellings (ATED). There are various reliefs or exemptions available against ATED charges and it is important that an ATED return is submitted, containing a claim for relief or exemption. Where a relief or exemption is being claimed by a company, the use of its residential property should be reviewed to ensure that there have been no changes that may result in a withdrawal of relief. The ATED chargeable period runs from 1 April 2020 to 31 March 2021. It is therefore important to consider the status of residential property before 1 April 2020 as the annual return must be submitted to HMRC by 30 April 2020.

CONSIDER THE CORPORATE INTEREST RESTRICTION RULES

The corporate interest restriction rules which came into effect on 1 April 2017 may affect a company or group where it has interest (and amounts considered by the legislation to be similar to interest) in excess of £2m on which relief is claimed for tax purposes. The rules apply to disallow interest expenses to the extent that the net interest expense exceeds the company's interest capacity. Where there is a concern that the company may be impacted by these rules, please speak to one of our tax advisers who can help by reviewing the position in advance of the year end and provide relevant recommendations as to how you could mitigate the tax impact of the restriction.

CONSIDER THE CORPORATE LOSS RULES

The tax treatment of corporate capital losses has been brought into line with the treatment of income losses from 1 April 2020. The proportion of annual capital gains that can be relieved by brought-forward capital losses will be restricted to 50%, subject to a £5m de minimis up to which full relief will be available. Anti-forestalling rules took effect on 29 October 2018.

The above guidance provides a brief overview of the regulations in force at the date of publication and no action should be taken without consulting the detailed legislation. Professional advice on any matters referred to must be sought in all circumstances. The information published is given for guidance purposes only and no responsibility for loss occasioned by any person acting or refraining from acting as a result of the material can be accepted by the authors or the firm.

BRISTOL	EXETER	PLYMOUTH	POOLE	SALISBURY	TAUNTON	TORQUAY	TRURO
0117 403 9800	01392 667000	01752 301010	01202 663600	01722 337661	01823 275925	01803 320100	01872 276477

Please visit our website for your local office expert **pkf-francisclark.co.uk**

If you would like to be added to, or deleted from our mailing list, please contact catherine.burke@pkf-francisclark.co.uk or sign up online.