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## TAX INSIGHT UK

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### UK R & D Tax Reliefs

### Corporate and business tax changes

December 2015

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### Tax for Innovative Companies

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#### **UK R & D Tax Reliefs**

UK Tax relief for corporate intangible assets is generous and lacks the complexity of many other EEA and US tax incentives. Important changes to corporate and business taxes were announced in the Spring and Autumn statements – making R & D a constant and especially valuable tax relief. We would like to end the year with a round-up of these changes, which may affect many innovative companies in 2016.

#### **Dividend Planning:**

Draft legislation was published last week narrowing the tax and NIC breaks for dividend payments.

In brief:

- From April 2016, notional 10% tax credit on dividends will be abolished.
- A £5,000 tax free dividend allowance will be introduced.
- Dividends above this level will be taxed at 7.5% (basic rate), 32.5% (higher rate), and 38.1% (additional rate)

The proposed changes target Companies paying small dividends for 'tax' reasons. But the measure will have a very harsh effect on those who work with spouses in family companies. A couple could be over £5,000 p.a. worse off:

#### ***Pension v Dividends:***

Dividends are ignored for R & D. The upside of this change for innovators is that salary, pension and bonuses attract RD tax reliefs and this is a key planning opportunity from April 2016. Please call a Partner below to discuss.

#### **Company distributions**

HMRC have been busy and made a further publication upon proposed changes to share / company sales and liquidations. In most circumstances these attract capital gains tax and entrepreneur's relief should attain a 10% tax 'exit'. However where avoidance is suspected, the legislation triggers income tax (at 40%) and national insurance levies. HMRC traditionally levied the 'Transactions in Securities' legislation only in extreme avoidance cases, but recently



the 'gap' between employee and business taxes has been the subject of HMRC scrutiny, culminating in the publication.

Targeted scenarios are:

A disposal of shares to a third party where a cash balance is left in the company in order to increase sales proceeds and so in effect turn cash into capital.

A purchase of own shares (for unquoted companies) where the seller retains sufficient interest in the company to block a special resolution.

A capital distribution made in a winding-up, for example, where it appears that a company has been used as a 'moneybox'.

#### **2016 Action points:**

##### ***Dividend tax planning:***

The above changes will make dividends less 'attractive'. However the 'Moneybox' legislation builds the danger of additional taxes where funds roll up undistributed to shareholders.

##### ***Selling, growing or closing your innovative Company***

Please be aware of the proposed 'transactions in securities' powers likely to be available to HMRC. Ensure the Company's balance sheet is

managed effectively with a view to its ultimate sale / disposal to avoid significant shareholder taxes.

##### ***Pension contributions***

These can attract RD tax reliefs and overcome the above issue.

Government legislation is pro retirement funding for small business owners. But many new and emerging technology companies there may not be sufficient funding for pension contributions in the first years of business.

Special accounting measures can overcome this issue. Talk to a Partner below for help.

##### ***R & D Reliefs:***

These reliefs continue to be encouraged and endorsed by Government.

Ensure that you or your advisor has a comprehensive knowledge of the legislation Identify and performs a detailed assessment of the eligible technical projects undertaken so that you are comfortable and confident in what you're claiming for.

##### **Happy 2016**

RD Tax Reliefs, correctly, are the focus of many innovators, encouraging investment in R & D. It is rewarding to see this

as the tax avoidance industry narrows yet further.

We are very pleased to close the year having helped many types of scientific, manufacturing, engineering and technology companies attain important results and plan for 2016.

We are also very proud to close the year with a 100% success rate for our funding claims.

Please enjoy the compliments of the Season.

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