BHP Chartered Accountants

Briefing note

November 2017

Manufacturing: Budget – November 2017

With Brexit on the horizon, Phillip Hammond delivered his Budget on 22nd November 2017, focussing on encouraging UK plc to invest in technology and innovate, and addressing the housing supply. There was little room for any major reform on personal or corporate taxes, however, certainty has been provided in certain areas.

Overview

Philip Hammond was keen to set out that the Government has listened to small businesses, addressing inequities in Business Rates being a key area of focus.

Technology also played a significant role in the Chancellor's Budget speech with changes to R&D tax credits and further tax breaks for investment through EIS in "innovative companies". This briefing note looks at those areas affecting the manufacturing sector.

Research & Development (R&D) Tax Credit

R&D Tax Credits allow corporate entities which are overcoming technological or scientific uncertainties to either enhance their qualifying expenditure or reclaim a tax credit from HMRC.

Large companies, or those companies with grant funded projects are currently able to reclaim tax credits at 11% of their identified expenditure (i.e. for every £100, £11 can be reclaimed from HMRC). Note however that the tax credit is a taxable source of income reducing the amount 'in-hand' to £8.91.

It was announced in the Autumn Budget that for expenditure incurred after 1 January 2018, the rate will increase to 12% leaving £9.72 'in-hand' for every £100 identified.

As a reminder, SME companies continue to increase their identified qualifying R&D expenditure by an extra 130% to create a further deduction in the tax computation.

Business Rates

The Chancellor announced that to create fairness in the system the planned switch in indexation from RPI to the main measure of inflation (currently CPI) will be brought forward to 1 April 2018.

Legislation will also be introduced retrospectively to address the so called "staircase tax". This will allow businesses to ask the Valuation Office to recalculate valuations so that bills are based on previous practice backdated to April 2010.

Non-domestic property ratepayers will also have their revaluations carried out more frequently. After the next revaluation, future revaluations will now be carried out every three years rather than every five with the next revaluation due in 2022.

Apprenticeship Levy

Although, no major changes have been announced to the mechanics of the Apprenticeship Levy, Philip Hammond commented that the Government will continue to work with employers regarding how the levy can be spent so that it works effectively and flexibly.

VAT Registration Threshold

Following the publication of the review by the Office of Tax Simplification into the future of VAT, rumours circulated in the popular press that the VAT registration threshold may be reduced to £20,000.

Thankfully these rumours have proved wide of the mark with the Chancellor deciding to freeze the current £85,000 threshold for the two years from 1 April 2018.

Knowledge Intensive Companies - Enterprise Investment Scheme (EIS) & Venture Capital Trusts (VCT)

The annual allowance for individuals investing in "knowledge-intensive" companies through the EIS scheme will be doubled. This will increase the annual limit to £2m provided that any investment above £1m is invested in knowledge intensive companies.

Furthermore, the annual investment which knowledge-intensive companies can receive through EIS and Venture Capital Trust (VCT) schemes will be doubled to £10m.

Greater flexibility will be provided with respect to the rules for determining whether a knowledge-intensive company meets the permitted maximum age requirement.

Capital Risk - Seed Enterprise Investment Scheme (SEIS), EIS and VCT

Measures will be introduced which will apply to all investments made on or after 6 April 2018.

Broadly, the measure introduces a new condition to exclude tax-motivated investments, where the tax relief provides most of the return for an investor with limited risk to the original investment.

The condition depends on taking a 'reasonable' view as to whether an investment has been structured to provide a low risk return for investors.

The condition has two parts: whether the company has objectives to grow and develop over the long-term (which broadly mirrors an existing test with the schemes); and whether there is a significant risk that there could be a loss of capital to the investor of an amount greater than the net return.

The condition requires all relevant factors about the investment to be considered in the round.

Entrepreneurs Relief (ER)

ER allows an individual owning at least 5% of the ordinary share capital in a trading company for 12 months to reduce the CGT on a disposal to 10%.

It was announced in the Budget that the Government will consult in Spring 2018 on how access to the relief might be given to entrepreneurs whose holding in their company is reduced below the normal 5% qualifying level as a result of raising funds for commercial purposes by means of issues of new shares.

This should be viewed as a positive move as it suggests that the Government intends to preserve Entrepreneurs Relief going forward.

National Living Wage (NLW)

The Chancellor has continued to raise the NLW which will increase by 4.4% from £7.50 to £7.83 with effect from 1 April 2018.

Verification of Employee Subsistence Claims

Currently, if employers wish to pay tax-free bench mark scale rates to employees for business travel proof is required to show the employee has incurred the cost of food and drink after the start of the journey.

From April 2019 employers will no longer be required to check receipts.

Work Related Training

The Government will consult in 2018 on extending the scope of tax relief available to employees and the self-employed for work related training costs.

Indexation Allowance

At present, companies (but not individuals) can claim indexation allowance when calculating chargeable gains on disposal of assets.

Indexation allowance is designed to give relief for inflationary increases in value.

Following announcement at the Autumn Budget, where assets are sold on or after 1 January 2018, indexation allowance will be frozen at 31 December 2017.

Brexit & Import VAT

Whilst the Chancellor did not specifically mention Brexit in his speech other than to confirm he would have funds to cope with whatever is ultimately required, in the fine detail was a recognition of the current procedures for deferring VAT payments on EU imports.

The Government has noted the existing cash flow benefit of the postponed accounting principle used when importing goods from the EU and confirmed that this will be taken into consideration when the new procedures and arrangements are ultimately designed following Brexit.

Van & Car Benefits In Kind

From 6 April 2018, the benefit in kind scale rate for company vans will increase to £3,350 (previously £3,230)

Furthermore, the fuel benefit in kind for vans will increase to £633 (previously £610).

Finally, the car fuel benefit multiplier for cars will increase to £23,400 (previously £22,600).

Personal Allowances and Rate Bands

Personal allowances will increase to £11,850 from 6 April 2018, with the intention for this to rise to £12,500 by 2020.

The basic rate band will increase to £34,500 from 6 April 2018, and therefore higher rate tax will become payable on income above £46,350. It is the current Government's intention that the basic rate band will increase to £37,500 by 2020.

The starting rate band of £5,000 in respect of savings interest, has remained unchanged, meaning that income falling within this band will suffer no tax.

Similarly, no changes have been announced with regards to the Dividend Nil Rate Band, which remains set to drop to £2,000 after April 2018 from the current band of £5,000.

Start the conversation today

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