Cash generative tax advice

At a time of economic unrest and widespread financial difficulties caused by the outbreak of COVID-19, cash generative tax reliefs can be a valuable asset to help offset lost revenue by introducing cash into your business.

Here, our tax team take a look at some of the tax reliefs and allowances which may help you during this time where cash is all important:

- Research and development tax credits
- Enhanced capital allowance credits
- Loss carry back claims
- Museums and Galleries Exhibition Tax relief
- Historical capital allowance claims on commercial property
- The patent box regime
- Land remediation relief

Research and Development tax credits

Research and Development (R&D) is a valuable tax relief that can generate significant cash repayments from HMRC for SME's and large corporates. R&D tax credits allow any Limited Company (regardless of size and profitability) to make a claim for enhanced expenditure (depending on the claimant size and profit or loss position) in respect expenses incurred on eligible R&D activities. A successful R&D claim can bring about a number of benefits to your business in these challenging times.

Whilst the term 'R&D' sparks images of employees wearing white coats conducting experiments in laboratories, this is not always the case, and the relief can be a very valuable asset for companies who may not actually believe that the activities they undertake on a daily or project by project basis, are defined as eligible R&D in its purest sense. Industry examples not commonly associated with R&D are Manufacturing, Automotive, Food production, and Architectural Practices.

In fact, any business operating in any sector can be eligible for R&D tax credits If it is innovating, developing or improving a product or service. The key is that your project must contain some technical uncertainty and seek to achieve an advance in science or technology. The definitions are drawn fairly widely, and our experts can discuss this with you.

A claim for R&D tax relief can be made at any time within two years of the end of the accounting period in which the expenditure was incurred, so even if you have already filed your tax return for the relevant year, it may still be possible to make a claim. This is a critical point as this can enable previous corporation tax payments to be repaid in full or in part or if a loss is generated as a result of the claim, this can be exchanged for a repayable credit of 14.5%.

HMRC statistics prove that R&D tax reliefs are under-claimed and our specialist tax team are perfectly placed to help identify whether your company is eligible.

Enhanced Capital Allowance tax credits

The Enhanced Capital Allowance (ECA) scheme was introduced to encourage companies to invest in greener and more efficient technologies. Businesses of any size can claim 100% first year allowances on investments made in eligible products and technologies.

ECA's are often overlooked and instead included within the general pool for capital allowance purposes. It is a relief worth investing time in researching especially as purchases after April 20th will not qualify. There is however still time to consider previous purchases.

The product must qualify as plant and machinery and must be new and unused, not second-hand. It must also be a listed product. The Energy Technology List provides a full list of currently listed products.

Loss-making companies can also surrender any losses attributable to ECA in return for a cash payment from HMRC.

Loss carry back claims

In the event of a trading loss, companies can seek relief by carrying the loss back to a previous profit-making period and reclaim the corporation tax from that period. This needs to be within the last 12-month accounting period, where the company was carrying on the same trade.

The claim for loss relief needs to be submitted within two years after the accounting period of loss.

Museums and Galleries Exhibition Tax relief

The Museums and Galleries Exhibition Tax Relief allows companies to claim a tax credit on spending incurred in the production of an exhibition. Companies do not need to pay corporate tax in order to claim the relief.

To be eligible, the museum or gallery must be charitable or run by a local authority. Exhibitions and touring exhibitions qualify, although touring exhibitions are subject to further requirements.

Exhibitions must satisfy certain criteria in order to qualify. Exhibitions about artistic, historic or scientific significance qualify, but certain elements are excluded, including those in which anything displayed is for sale, and those including any live elements, such as animals.

The guidance for qualifying exhibitions is complex; our experts can help determine whether you qualify and how much relief you may be eligible for.

The maximum tax credit that can be claimed per production is:

- 20% or qualifying expenditure, capped at £80,000 for a non-touring production
- 25% of qualifying expenditure, capped at £100,000 for a touring production

In the event that an exhibition is loss-making, the loss may be surrendered in return for a tax credit.

Creative industry tax reliefs also apply to the following sectors, where companies can claim tax credits: Film, Animation, High-end Television, Video Games, Children's Television, Theatre and Orchestra.

Historical capital allowance claims on commercial property

Commercial property capital allowances claims are another valuable form of tax relief which is often overlooked. The allowances are available to anyone who has incurred capital expenditure either buying, building or refurbishing commercial property or furnished holiday lets across the commercial sector. Capital allowances result in a deduction from profits and can therefore result in tax repayments and mitigation of future liabilities.

Allowances can be claimed on certain purchases or investments, known as 'plant and machinery' or 'fixtures'. This includes items such as lifts, lighting, power supplies, cold water systems and items, such as fitted kitchens and sanitaryware. These costs can be deducted from your taxable profits in order to reduce your tax bill.

The process of claiming capital allowances can be time consuming, and the legislation increasingly complex, meaning a lot of businesses unknowingly underclaim if they have not sought appropriate advice. Whilst it is relatively simple to claim capital allowances when purchasing plant and equipment, complexities can also arise when determining the level of capital allowances that may be available in property refurbishment, construction or purchase. It is therefore vital that sufficient time is dedicated to such cases, ensuring a company's eligible assets are accurately assessed against HMRC's requirements, as this can provide a valuable boost to a taxpayer in these times.

It is often thought that capital allowances need to be claimed when the cost is incurred. In fact, there is no time limit for making the claim. As long as you still own the property and fixtures in the tax year you submit the claim, it may be possible to claim tax relief for expenditure dating back to when the property was first purchased or it was refurbished.

The patent box regime

The UK Patent Box regime was introduced to incentivise companies to retain and commercialise existing patents, and to develop new innovative patented products. It enables companies to apply a lower rate of 10% corporation tax to profits gained from patented inventions.

There are a number of requirements a company must meet in order to qualify for the regime:

- Be liable to pay corporation tax
- Makes a profit from exploiting a patented invention (the patent having been granted by the UK Intellectual Property Office, IPO, or the European Patent Office, EPO)
- Owns or has a licence to use the patent
- Created the patented invention itself, or significantly contributed to its creation

The reduced corporation tax rate of 10% will apply to all income earned from exploiting the patented technology. This could be income earned through selling patented products, licensing patent rights, or patent infringement claims.

In order to benefit claims must be made within 2 years of the end of the accounting period within which the relevant profits were made.

Land remediation relief

Land remediation relief provides a 150% tax deduction for qualifying expenditure incurred in the de-contamination of land acquired from a third party. Retrospective claims for the relief can be made up to 3 years after acquisition of the land.

Land remediation relief can be applied to costs resulting from the remediation of contaminated land including:

- Removal of asbestos from buildings
- Breaking-out buried structures
- Treatment of harmful organisms and naturally occurring contaminants such as Japanese Knotweed/radon/arsenic

In order to qualify:

- Land must be in the UK
- Land must be acquired by the company for the purposes of trade
- All or part of the land was in a contaminated state on acquisition
- If any of the land is in a contaminated state due to changes made, or negligence by the company, the relief cannot be claimed.

A company that makes a loss can surrender losses attributable to land remediation relief in return for a cash payment from HMRC.

Our team of dedicated tax experts are on hand to help you plan a tailored and tax-efficient approach to tax affairs that ensures you and your business maximise the tax opportunities available. If you believe you may be entitled to unclaimed capital allowances, or have any other queries relating to tax reliefs, our experts can help.

If you would like to speak to a member of our specialist tax team today, please get in touch today.

Get in touch

Richard Stanley
Partner
0115 945 4335
richard.stanley@smithcooper.co.uk

Gary Devonshire
Director
01332 332021
gary.devonshire@smithcooper.co.uk

Natasha Scott
Director
0115 945 4327
natasha.scott@smithcooper.co.uk

Catherine Desmond
Partner
01335 343141
catherine.desmond@smithcooper.co.uk