

# Small Business Insight

November / 2020

HAWSONS CHARTERED ACCOUNTANTS



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## In this issue:

Research and Development Cap Announced  
Government Extends £1 Million Tax Break  
Chancellor announces Further Financial Help for Businesses, employees  
and the Self-Employed  
Government Increases Business Support Across England  
Questionable R&D Claims Causing Hidden Issues  
EC VAT, Post Transition Period Guidance  
VAT and Deposits - Updated HMRC Guidance

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# Introduction



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Welcome to our latest small business newsletter.

As we near 2021 and the Brexit transition deadline the Covid-19 pandemic is still impacting our economy as we look to emerge from the latest lockdown on December 2.

The global pandemic is still having a huge effect on businesses of all sizes, especially SMEs. It is more important than ever that business owners plan how they can survive and adapt for the future.

In this issue of the newsletter we look at business support, Brexit transition, VAT, and R&D Tax Relief.

We hope you enjoy the articles in this newsletter. If we can be of help at all, please do not hesitate to get in touch with us using the contact details on the final page of the newsletter.

Starting up a new business is a challenging process and there are many aspects a small business owner must consider. We have a proven track record in helping new and small businesses get off the ground and continue to grow. Our small business accountants can help in all aspects of setting up and running your business.

Hawsons has a dedicated team of small business accountants in Sheffield, Doncaster and Northampton. Our Business Services Department is dedicated to helping the smaller business, providing a range of tax and accountancy services to small and growing businesses. We generally help sole traders, partnerships and limited companies.

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# R&D Cap Announced

The government has announced a cap on the amount of payable tax credit that a company can claim for Research and Development (R&D). The cap will be £20,000 per period plus 300% of the PAYE and NIC payable for the period. This will take effect for periods starting on or after 1 April 2021.

## **Why is an R&D cap being introduced?**

The cap is being introduced to deter abuse of R&D tax relief. The government believes that the tax credit has become a target for fraud and abuse and this measure is a response to that.

## **Will this change affect my company?**

The cap will affect small or medium sized companies (SMEs) that carry out R&D and claim the payable R&D tax credit.

The payable tax credit provides valuable support to loss-making companies engaged in R&D. It allows those companies to claim a tax credit worth up to 14.5% of the R&D element of their surrendered losses.

The smallest claims will not be negatively affected due to the £20,000 minimum element of the cap.

If you are unsure whether you are affected by the cap, please contact one of our [R&D tax relief specialists](#).



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## **Is my company exempt from the R&D cap?**

A company is exempt from the cap if its employees are creating, preparing to create, or managing Intellectual Property and the company does not spend more than 15% of its qualifying R&D expenditure with connected persons.

The aim is to exempt companies with low PAYE and NIC, but which are nevertheless engaged in genuine, substantial R&D.

## **Has there previously been an R&D cap?**

Some people may recall that there used to be a cap on the amount of payable R&D credits, linked to the amount of PAYE and NIC payable by a small company. This cap was removed in 2012.

The Chancellor announced in 2018 that a cap would be reintroduced and a period of consultation followed. The cap will be implemented from April 2021.



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## Government extends £1 million tax break

HM Treasury has announced that the Annual Investment Allowance (AIA) will remain at £1 million until 1 January 2022.

The AIA allows businesses to claim same-year tax relief for capital investments in plant and machinery assets and was due to revert to £200,000 on 1 January 2021.

The one-year extension of the temporary £1 million threshold is intended to stimulate investment in UK manufacturing and boost business confidence.

Financial Secretary to the Treasury Jesse Norman said “It is vital that we support business through the difficult months ahead. Extending the Annual Investment Allowance’s £1 million cap will give businesses the confidence they need to invest into next year, helping them to grow whilst benefitting the wider economy too.”



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# Chancellor announces further financial help for businesses, employees, and the self-employed

## Furlough Scheme extended until March 2021

The Chancellor Rishi Sunak has recently announced that the furlough scheme will be extended until the end of March 2021. This comes just a few days after the government announced the scheme would be extended until 2 December 2020. This was due to the second national lockdown across England which started on 5 November and is scheduled to run until at least 2 December 2020.

The chancellor has said that he has extended the scheme further to offer businesses and employees protection through the winter months. The statement came after the Bank of England announced they are investing an additional £150bn into the UK economy.

## Will there be any differences in the furlough scheme?

During the last few months of the furlough scheme businesses were asked to start increasing their contribution to employee remuneration. In this extension, the government is going to pay 80% of employee wages as they did in late March 2020. However, employers are being asked to pay pension and national insurance contributions.

Employers will still be allowed to bring staff back part-time and furlough them for the remainder of their contracted hours to aid flexibility.

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## Do I qualify for the furlough scheme?

To qualify for the furlough scheme employees must have been on the employer's payroll on 30 October 2020. It is worth noting that employees do not have to have been on the furlough scheme before.

## What other support is available for businesses?

Businesses will also be able to claim the Local Restrictions Support Grant worth up to £3,000 per month if their business is forced to close. Plus, £1,500 for each unemployed 16-24-year-old given a high-quality six-month work placement. Businesses will also receive £2,000 for every under-25 apprentice taken on until the end of January.

## What about self-employed?

Self-employed individuals will receive increased support through the Self-Employment Income Support Scheme (SEISS). Self-employed individuals will now be eligible for a third grant worth up to 80% of average trading profits up to a maximum of £7,500. This will cover November to January

[To find out more please the HMRC website here](#)

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# Government Increases Business Support Across England

The Prime Minister has recently announced that the following schemes will all be extended to 31 January 2021:

[Coronavirus Business Interruption Loan Scheme \(CBILS\)](#)

[Coronavirus Large Business Interruption Loan Scheme \(CLBILS\)](#)

[The Bounce Back Loan Scheme \(BBLs\)](#)

[Future Fund](#)

Additionally, it has been confirmed that businesses will be able to top-up their bounce back loans if required.

## Self employed

For individuals that are self-employed the government has agreed to extend the Self-Employment Income Support Scheme with a third instalment whereby individuals will receive 80% of their average trading profits for November. Applications for the third instalment are expected to open towards the end of November.

If you have any questions about any of government announcements, please [contact us](#) or visit the [HMRC website here](#).



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# Questionable R&D Claims Causing Hidden Issues

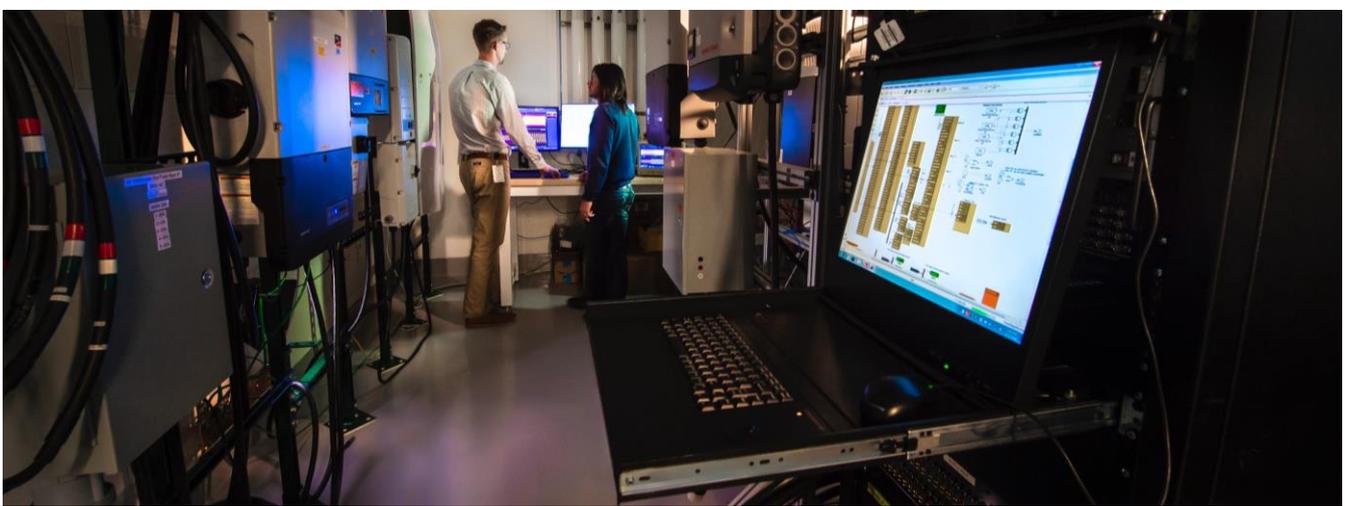
Research and development (R&D) tax relief has been around for over 20 years now. The government is satisfied that the tax relief is working and helping the economy. This is because this scheme encourages businesses to innovate new technologies and invest in research and development to make their businesses more efficient. However, there has been an increase in questionable R&D claims in recent years. These have resulted in HMRC looking to make changes to the legislation to prevent abuse. One of the proposals is to cap the SME R&D tax credit at three times the company's total PAYE and NIC's liability for that year. It is expected that this will come into force from 1 April 2021.

## Why do questionable R&D claims occur?

There has been a growth in the number of boutique firms offering an R&D tax claim service. Some of these firms will often offer assistance that is far from professional due to their behaviour and lack of expertise. This has resulted in an increase in questionable R&D claims.

## Why choose a qualified R&D tax specialist?

R&D tax relief is a very complex area and businesses should ensure that their claims are submitted by tax-qualified professionals with relevant experience in the area. If your claim is not prepared by a qualified professional there is a higher risk that the claim is prepared incorrectly. This can expose the company to penalties where a claim is overstated. On the other side, there is a possibility that certain qualifying expenditure is overlooked resulting in understated claims.



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# EC VAT, Post Transition Period Guidance

HMRC has published new guidance for VAT issues after the transition period ends.

## **IMPORTS**

### Postponed VAT accounting.

Most businesses will use postponed VAT accounting for **Imports** (this will include goods from the EC which are currently called acquisitions). Taxpayers do not need to apply for this scheme.

### **How to complete your VAT Return?**

An online monthly statement will be available to download and keep for your records. It will show the total import VAT postponed for the previous month which you should include on your VAT Return.

Due to postponed VAT accounting, there will be changes to the way you complete the boxes on your VAT Return.

#### **Box 1**

Include the VAT due in this period on imports accounted for through postponed VAT accounting.

#### **Box 4**

Include the VAT reclaimed in this period on imports accounted for through postponed VAT accounting.

#### **Box 7**

Include the total value of all imports of goods included in your online monthly statement, excluding any VAT.

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## If you're eligible to defer your customs declarations

You must account for import VAT on your VAT Return which includes the date that you imported the goods. To complete the boxes on your VAT Return, you'll need to estimate the import VAT due from your records of imported goods.

When you submit your deferred declaration, your next online monthly statement will show the amount of import VAT due on that declaration. You'll then be able to adjust your estimate and account for any difference in your next VAT Return.

## EXPORTS

For exports (which will include EC sales) your business will need to get an EORI number. This is simple to do from the [Gov.UK website](https://www.gov.uk). You will also need to register for the National Export System if you are moving goods without a customs intermediary.

Most exports will be zero-rated although UK companies must keep evidence of export to apply the zero rate. This will include documentary evidence of the transaction, invoices, and bills of lading amongst other things.

Customs processes are complicated, so many businesses use a customs intermediary to complete these processes for them.

If you move your own goods you will need to complete an export declaration using the National Export System (NES) which will give you a unique reference number. Then you will need to complete a transit declaration on the New Computerised Transit System (NCTS), which will give you another unique reference number.

## How to complete your VAT Return?

### Box 6

Include the total value of all exports of goods included on your online monthly statement.

Please note the above information is taken from HMRC documents, and may change if there is an agreement with the EU before the end of the transition period. Please contact your usual Hawsons representative should you have any queries.

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# VAT and Deposits – HMRC Updated Guidance

## VAT and Deposits

HMRC has recently issued new guidance on the subject of deposits, which will have an application to many businesses.

A “deposit” is generally used to describe any payment received in advance of the making of a taxable supply. For example, a deposit is often made in order to reserve a hotel room. Most deposit payments represent consideration since the amount paid will be offset against the full purchase price once the supply is made. Such payments fall within the scope of VAT and follow the liability of the supply – this is usually at 20%.

HMRC’s updated guidance states “Any amount paid on account for a service is consideration for the customer’s right to benefit from the performance of obligations arising from the contract to provide services, regardless of whether the customer exercises that right. The supply is fulfilled when the supplier makes the service available for the customer’s use and any amount retained cannot be regarded as non-taxable compensation. The payment creates a chargeable event and VAT is due when this occurs.”



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There is no right to adjust VAT accounted for on a chargeable event unless the consideration is reduced e.g. the supplier returns money to the customer. Where a deposit is returned, the consideration is reduced and any VAT accounted for may be adjusted on a subsequent VAT return. If the deposit is retained by the supplier in the event of the contract being cancelled it remains a consideration for a supply and is VATable.

HMRC had previously thought (incorrectly it appears) that as the actual supply had not taken place, and as VAT is a consumption tax, nothing had been consumed and so no VAT was due on the retained deposit. So, if a customer cancelled a hotel room reservation and lost the deposit then the hotel would generally not pay VAT over to HMRC on the retained deposit on the basis that no supply had taken place.

However subsequent ECJ judgments have declared that VAT policy in the UK is wrong on this issue, hence the update.

So, in the above example, the hotel should pay over VAT to HMRC on the retained deposit.

This could have a significant impact on some industries.

If you have any questions about VAT, [please contact us](#).



# Get in touch...

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VAT Health Check

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