

Tax Update

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Tax Update
C2S Finance Focus
20 January 2022



Three key changes and updates

Capital Allowances

R&D Tax Relief

Dividend vs salary

Capital Allowances

Key updates:

- Annual Investment Allowance (AIA) - £1 million limit extended by 15 months to 31 March 2023 – then back to £200,000
- Super deduction and Special Rate Allowance (companies only) available until 31 March 2023
- The end date is not a coincidence!

Super Deduction and SR Allowance

Key points:

- Limited companies only
- Available on “new and unused” plant and machinery purchases (includes vans but not cars)
- SD gives 130% tax relief – so buy a van for £10,000, company can deduct £13,000 from profits – saving £2,470
- SRA gives 50% tax relief on longer life assets e.g. building fixtures – AIA is better if available
- Care on disposal rules if owned for a short time!

R&D Tax Relief

Recent changes:

- Increased HMRC compliance staff – expect more enquiries!
- Inclusion of cloud computing and data costs as qualifying

Proposed changes from April 2023 (currently consulting):

- Restriction of outsourced costs to UK personnel only
- Requirement to pre-notify intention to claim

Recent case on subsidised (client-led) R&D – Quinn case

Salary vs dividend

- For many years, dividends more tax efficient than salary for small/medium company shareholders
- Governments narrowing the gap over a number of years
- So what is current position?
- How will the NIC rise by 1.25% in April 2022 affect this?
- How will the CT rate rise to 25% in April 2023 affect this?

Example – 2021/22

Gross bonus of £20,000

Tax Rate	Net Bonus	Cost to company	Cost to company (dividend)	Saving
Basic <£50,000	£13,600	£18,436	£14,703	£3,733
Higher <£150,000	£11,600	£18,436	£17,185	£1,251
Additional >£150,000	£10,600	£18,436	£17,124	£1,312

Example – 2022/23

Gross bonus of £20,000

Tax Rate	Net Bonus	Cost to company	Cost to company (dividend)	Saving
Basic <£50,000	£13,350	£18,638	£14,630	£4,008 (+£275)
Higher <£150,000	£11,350	£18,638	£17,132	£1,506 (+£255)
Additional >£150,000	£10,350	£18,638	£17,065	£1,573 (+£261)

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Example – 2023/24

Gross bonus of £20,000

Tax Rate	Net Bonus	Cost to company	Cost to company (dividend)	Saving
Basic <£50,000	£13,350	£17,257	£14,630	£2,627 (-£1,381)
Higher <£150,000	£11,350	£17,257	£17,132	£125 (-£1,381)
Additional >£150,000	£10,350	£17,257	£17,065	£192 (-£1,381)

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Salary vs dividend

Other points:

- Income between £100,000 and £125,000 (approx.) – loss of personal allowance
- Effect of R&D claims
- Use of alphabet shares to optimise dividends between shareholders



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Thank you for listening

Any questions?

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