PRESENTS

FUSION INTERNATIONAL TAX CLUB

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LETS TAKE TAX GLOBAL

by Mitchell Young, Co-Founder & Consultant

OBJECTIVE
Fusion International Tax Club is a platform for Tax Advisory individuals and firms to exchange thoughts and coordinate efforts on image branding, business development, best practices, knowledge management and resource exchange.

This will be beneficial to you as we collectively extend your client service capabilities to new marketplaces and provide clients with synchronised tax services so that they will receive similar levels of service with reliable quality from any member of Fusion International Tax Club.

FOCUS
We emphasize on understanding clients' businesses and challenges so that we offer tailored and contextualised solutions.

Through Fusion International Tax Club, we offer clients synchronised tax services for transcontinental activities that involves more than one jurisdiction. Also, it is important to us that clients, regardless of their size, receive our person-oriented attention.

We see ourselves as international tax experts with global industry specific expertise.

VISION
Towards expanding the reach of the Fusion International Tax Club, we are seeking firms to represent their country jurisdiction in Fusion International Tax Club.

In principle, each country will be represented by only three categories from that jurisdiction. Sole Practitioner/partnership, medium size firm & large firm.

This is to give our clients the choice of firms. Our current focus is to grow our presence and relationships globally.

ABOUT FUSION
Fusion is a modern boutique international consulting firm, specialising in tax, social media, IT, legal, accountancy and business advisory delivering creative solutions to complex problems.

We deliver value by harnessing our experience in practice and industry fused with our young, dynamic and entrepreneurial approach.

At Fusion we believe in Total Client Satisfaction. It is at the heart of everything we do.

"YOU NEED TO CHANGE YOUR MINDSET QUICKLY AND LOOK FOR OPPORTUNITIES, WHEREVER THEY MAY BE"

What is best for the economy and the free market system? Everyone working as one to freeze the majority of activities for a limited but intense period of time? Or each region making its own decisions independently, coming to a standstill by gradually increasing the scale in terms of time and space?

With no comparable precedents nor the opportunity to implement and compare two different scenarios, it is clear that we are dealing with uncharted territory and that it depends to a large extent on the time factor. That is to say, how long activities would be frozen for in the first hypothesis and how long the gradual standstill from the second hypothesis would last.

One highly explanatory and idiosyncratic element of economic crises lies in the uncertainty, fear and paralysis that they provoke. The economic crisis caused by COVID-19 also poses an added challenge of interpretation, as its tempo needs to be figured out from an epidemiological perspective. As such, economists and doctors need to be cross-referencing data, predictions and variables from their respective areas of expertise each with their own specific jargon. They therefore require some form of translation or interpretation so that they can communicate and understand each other, in order to establish a crisis management control panel that provides the following: the break-even point that will enable our economic system to resume its activity as soon as possible without causing the health system to collapse again.

Now more than two weeks into the crisis, Gutierrez Pujadas & Partners has already made itself available to its customers to explain to them, personally and in record time, the scope of the new urgent economic measures of the Royal Decree-Law 8/2020, approved by the Spanish Government to respond to the economic and social impact of COVID-19, as well as the labour measures contained in the same text.

Some of the economic and work-related measures adopted in the Royal Decree-Law 8/2020 are:

- To strengthen the protection of workers, families and vulnerable groups.
- To support continuity of production operations and maintenance of employment, adopting tax deferral measures, and offering bank loans to companies.
- Adopting measures for remote working, the right to adapt the work schedule and reductions of working hours. Also, exceptional measures in relation to the procedures to suspend contracts and reduce working hours due to force majeure. Extraordinary measures in the area of unemployment protection.
- Medidas extraordinarias en materia de protección por desempleo.
- To strengthen the fight against the virus.

According to the CEO and founder of this international company that specialises in tax planning and optimisation, "all companies will be affected very differently by this crisis and several of them will be able to take advantage of this new scenario to conquer new market segments, review obsolete methods and processes, implement teleworking or move forward with the conceptualisation and design of some strategic project that until now had been put to one side".

In fact, during the first two weeks of the COVID-19 crisis, Gutierrez Pujadas & Partners has noticed an increase in the number of people interested in estate planning and inheritance services. In such moments of uncertainty, where everyone has a lot of time to think, it is of course entirely understandable that some people choose to take advantage of this opportunity to get their personal, family or business estate in order. Similarly, with death being at the forefront of everyone's mind at a moment like this, some people feel driven to plan their wills and inheritances in relation to all the property and assets they've accumulated throughout their lives.

As for companies that have interests and a corporate presence in various different countries, which is the type of customer profile that Gutierrez Pujadas & Partners usually works with due to its global and international nature, one of the current challenges involves helping them to understand and apply for the assistance and measures being approved by each government in response to the coronavirus. Many of them will need to change course for the short term, if they haven't already done so, and begin organising themselves to survive an exceptional situation that requires an attitude of resilience and cooperation.

"You need to change your mindset quickly. Stop complaining about what you may have lost and look for opportunities, wherever they may be. Even at such a bizarre and difficult time, it's important to plan solid objectives so you maintain your work routine and don't lose sight of where you are going". Those are some of the attitudes that the company's CEO and founder, Xavier Gutiérrez Pujadas, has implemented in recent weeks as he continues to lead his organisation forward, whose members continue to provide the very best service to their customers. ■

ARE TAX TREATIES COMING TO AN END?

There is no doubt; that tax planning for international operating enterprises can nowadays be daunting due to the OECD/G20 Base Erosion and Profit Shifting (known as BEPS) project which implements fifteen actions to tackle tax evasion or avoidance and ensure a more transparent tax environment.

MULTILATERAL INSTRUMENTS

The development of multilateral instruments (MLI) envisaged in action 15 aims at closing loopholes in international tax treaties by unilateraly transposing results from the BEPS project into bilateral tax treaties worldwide. The MLI allows tax authorities to implement agreed minimum standards to counter treaty abuse and to improve dispute resolution mechanisms while providing flexibility to accommodate specific tax treaty policies. Currently, more than ninety countries have ratified the MLI and many more are actively working towards execution.

PRINCIPLE PURPOSE TEST

Action 6 prevents treaty abuse so as to address "treaty shopping" arrangements. The action provides for a minimum standard and for the introduction of anti-abuse rules; a specific one "limitations-on-benefits" (LOB), and a general one, "principle purpose test" (PPT) in tax treaties. Under the PPT, if one of the principal purposes of transactions or arrangements is to obtain treaty benefits and advantages, these benefits would be declined unless it is established that granting of these benefits would be in accordance with the object and purpose of the relevant provisions of the tax treaty.

PPT gives tax authorities an innovative tool to challenge various structures and assess whether a company or business is located in a specific jurisdiction to take advantage of treaty provisions that lower taxation.

BENEFICIAL OWNERSHIP

Beneficial ownership concept is also of fundamental importance in case of cross-border payments of passive income.

Multinational groups are required to ensure that the company resident in one jurisdiction (contracting state), which receives passive income from an underlying asset located in other jurisdictions (other contracting states), is the actual beneficial owner of this income. It's important to clarify that the term "beneficial owner" should not be interpreted in a narrow technical sense and does not necessarily mean the ultimate beneficial owner of shares. However, companies should have supporting evidence that they have the power, authority, and control over the asset situated in such contracting states.

QUALIFICATION FOR TAX TREATY BENEFITS

Multinational companies are required to assess the potential impact of the treaty changes resulting from the MLI on their business activities. In order to assess whether an arrangement or transaction potentially triggers the application of the PPT, a number of practical points must be considered. For instance:

- Whether the relevant jurisdiction has domestic anti-abuse legislation that would preclude access to the treaty;
- Whether the tax treaty between the jurisdictions in which the parties to the transaction or arrangement are residents already include anti-abuse provisions;
- Whether the two jurisdictions have ratified the MLI.

The following may be useful in identifying the principal purpose of an arrangement or transaction and supporting that the PPT should not be applied to deny treaty benefits:

- Identifying and quantifying the treaty benefit from the arrangement or transaction, compared to a situation that would not be purely tax driven;
- Identifying and quantifying the commercial reason for undertaking the transaction and the choice of location of the entity/entities;
- Evaluating the evidence to assess the weight of the business versus tax-related purposes and considering this in light of any other realistic alternatives identified; and
- Determining whether, even if obtaining a treaty benefit was a principal purpose for the arrangement or transaction, granting the treaty benefit in the relevant circumstances would be in accordance with the object and purpose of the relevant provision of the treaty (ie proof that there is substance or economic activity in the selected jurisdiction).

All multinational companies are now obliged to re-assess existing international structures, arrangements and transactions and understand how the MLI, PPT, and beneficial ownership concepts may affect them and their capacity to continue enjoying their right to tax benefits under their relevant tax treaties.

ROYAL PINE
& ASSOCIATES

AVOID THE PENALTIES – KNOW YOUR SOUTH AFRICAN TAX RESIDENCY STATUS

SABLE INTERNATIONAL

To understand your tax residency status, you first need to work out if you are a South African tax resident or non-South African tax resident. Each category comes with its own requirements. Here's what you need to know.

UNDERSTANDING YOUR TAX RESIDENCY

South African tax residents and non-South African tax residents are taxed differently. South African tax residents are required to pay tax on income earned in South Africa and overseas. This applies whether you reside in South Africa or in a foreign country.

Non-South African tax residents are only taxed on their South African-sourced income. For example, if a non-South African tax resident owns a property in South Africa that they rent out, they will need to pay tax in South Africa on the income they earn from that rental.

You will always submit the tax returns in the country you are not tax resident in first. This way, if you pay tax in the country you are a non-resident in, you can disclose your tax paid in the country that you are tax resident in and avoid a double taxation and instead pay the higher tax amount between the countries.

For example: If you earn rental income in South Africa but are a tax resident in the UK, you will submit your South African tax return first and pay this tax (should you owe any).

You will then disclose the paid South African tax on your UK tax return and HM Revenue & Customs will tax this amount and if the amount is higher than the tax paid in South Africa you will pay the extra tax. The reverse is also true when you are South African tax resident.

Who is a tax resident: The residency tests

You may be living in another country, but if you spend time in South Africa each year or have assets and family based in the country, you could still be treated as a South African tax resident. To ensure you remain compliant and don't get a surprise tax bill, you should understand the tax residency rules.

To determine your tax residency status, there are two sets of criteria that you'll need to check your circumstances against. The first is the ordinary residence test. If you don't meet the criteria of this test, then you'll move onto the physical presence test.

Step 1: The ordinary residence test

You can still be regarded as being resident in South Africa regardless of the number of years you've spent outside the country. This is because the South African Revenue Service (SARS) determines your residency by where your assets and family are based as well as the location of your permanent home, among other factors.

In some circumstances, dual residency is also a factor. If, for example, you've been working in Dubai for the past 10 years, you could find that you are a dual resident because you are a tax resident in both the UAE and in South Africa. In this situation, you would need to check if there's a double taxation agreement (DTA) in place and where that agreement assigns your residency to.

Step 2: The physical presence test

This is a calculation of the actual amount of time you physically spend in South Africa. You are considered a South African tax resident if you meet all of the criteria below:

- 91 days in South Africa in the current year of assessment, and
- 91 days or more in each of the preceding five years of assessment, and
- 915 days in total during those five preceding years of assessment

Double tax agreement

If you determine that you are a tax resident in both South African and the country you reside in, you'll need to check if there's a DTA in place between the two countries.

A DTA is also sometimes referred to as a double tax treaty. It's an agreement between two or more countries that prevents your income from getting taxed twice – by the country in which your income is earned and your country of residence. Tax treaties help determine which country should receive the tax on your income.

To correctly apply treaty relief on your foreign earned income, you will need to consider various factors such as if you have a tax residency certificate, where you have a permanent home and where your centre of vital interests are among other factors.

WHAT ABOUT THE "EXPAT TAX"?

From 1 March 2020, only the first R1.25 million earned in foreign income by South African tax residents will be exempt from tax in South Africa. You need to have spent more than 183 days outside South Africa in any 12-month period and, during the 183-day period, 60 days are continuously spent outside South Africa. Such absence must be work-related. For example, if you spend 120 days working abroad and 65 days abroad on holiday, this will not meet the exemption.

Any amount you earn above R1.25 million will be taxed in South Africa at the relevant tax resident's marginal tax rate. For example, if you earn R1.6 million, the first R1.25 million is excluded from tax leaving you with R350,000. If you earn any income in South Africa (such as rental income), this will be added to the R350,000 and the total will be taxed accordingly.

WHAT HAPPENS IF YOU DON'T COMPLY WITH SARS?

If you're supposed submit a South African tax return and you don't, or if SARS thinks you need to and you don't, then you'll be subject to an administrative (admin) penalty. Often, South African tax residents will leave out their foreign income earnings because it's not taxable in South Africa. SARS requires that South African tax residents declare all their reportable income irrespective of where it's earned.

South African taxpayers (this includes South African tax residents and South African non-tax residents) who do not submit a return will be charged an admin penalty based on their taxable income. Penalties can range

SA EXPAT CONFUSION OVER TAX STATUS AS AMENDMENTS LOOM

Taxpayers who will be most affected by the legislation are those in the Middle East or in countries where there is no double taxation agreement..

As South Africans working outside the country prepare themselves for the new amendments to the Income Tax Act, set to come into effect from March 2020, many don't know their tax status or what the changes will mean for them.

Dubbed the "Expat Tax", the amendments mean that South African tax residents working abroad will be exempt from paying tax only on the first R1-million they earn abroad. Thereafter, they will be required to pay tax on their foreign earnings. There is still a lot of confusion about who will be required to pay the tax and whether the tax can be avoided through financial emigration.

The matter is complex and expats need to check their tax status as the new amendment specifically applies to an exemption allowed to South African tax residents.

The Double Taxation Agreements (DTAs) are internationally agreed pieces of legislation and South Africa holds these with various countries to define the taxing rights they have over expat taxpayers. The DTAs ensure that a taxpayer is not unfairly taxed in both South Africa and the corresponding country involved in the agreement.

Where a taxpayer is registered as tax resident in both countries and there is a DTA in place, then the DTA will determine where and how a taxpayer must pay tax on income received.

The Expat Tax amendments can have serious implications. The law and SARS can consider your total remuneration and not just your salary, which means SA tax residents working in certain foreign countries and receiving additional benefits such as security, accommodation, transport could be taxed on the total value of the package.

Taxpayers who will be most affected by the legislation are those in the Middle East or in countries where there is no double taxation agreement. Some countries in the Middle East have double taxation agreements with South Africa, but the problem is that many of them don't have a tax revenue office, which means you cannot get a tax resident certificate to prove to SARS that you're a tax resident there.

Dubai is one of the countries where you can get a tax residency certificate, but it's expensive. If you have to pay about 2,000 dirhams per calendar year to get a tax residency certificate, you may want to consider financial emigration because of the cost over the next 10 years.

There are many South Africans living in the Middle East – mostly in Dubai, Saudi Arabia, Bahrain, and Qatar, who may be affected.

People who are working in Africa on contracts but who still have their homes, families and tax residency in South Africa will also be affected – They can't change their tax residency unless they move their family out of the country.

Most of Africa is covered by double taxation agreements, but if a couple is based in South Africa, and one spouse is predominantly working outside the country in Africa and the other is working in South Africa, they will still most likely both be regarded as SA tax residents.

Around the world, there are about 40 countries that have double taxation agreements with South Africa. Countries that don't have a double taxation agreement with South Africa include large portions of Asia, the Middle East and South America.

Whether you work in a country with no double taxation agreement or in a country where there is a double taxation agreement, you still need to know what your correct tax status with SARS is.

If your tax status is incorrect at SARS, you need to make the change before the end of February 2021. The law will come into effect from 1 March 2020, but you still have several months to backdate your information and submit your return before the end of the tax year. Otherwise, SARS will come after you. SARS has marked everyone as South African tax resident unless you can prove otherwise.

We assist people who are clearly tax resident elsewhere, making sure that everything is correctly reported to SARS and that the exit tax has been paid. This can be done without financially emigrating.

If you have dual passports, you have to prove that you're a tax resident somewhere else. It's about communicating with SARS. A common issue with people working outside the country is when they tell SARS their current address, they use their South African address. If you give SARS a South African address, they will think you're a South African tax resident.

If SARS picks up a problem and suspects tax evasion, they can levy a 200% penalty tax.

Most of the revenue offices are talking to each other. There are over 140 banks around the world reporting transactions to SARS, which knows all of those cash flows. SARS will punish tax evaders with admin penalties.

There are two structures for penalties – fixed percentages and per incident of problems. Fixed percentages range from 20% to 200%. Then there are administrative penalties for outstanding and late returns. These penalties are charged per incident, per month to a maximum of three years. These could range from R250 to R16,000. SARS will get their money from admin penalties, if not from taxes. Once you have a track record, they scrutinise you.

People living overseas, who didn't tell SARS they left the country and may still have an active tax number, are definitely at risk. Many people don't make sure their tax number is no longer active.

Some people living permanently overseas may still need a South African tax number. If you own property or if you're expecting an income stream in the future, such as an inheritance, if you still have business interests in South Africa generating income or if you have investment portfolios in South Africa and they are generating income, you are forced to have a tax number.

THE NETHERLANDS: KAAP HOORN ACCOUNTING, AUDIT & TAX

Kaap Hoorn ('Cape Horn') has grown since its start-up in 2004 to become a professional accounting, audit and tax services provider. Kaap Hoorn is a local Dutch accounting, audit and tax advisory company with a team of approximately 25 dedicated, experienced and internationally focused professionals.

Most of our colleagues have many years of experience at big 4/5 audit companies. Our strengths are our dedicated staff and partners, our high quality services at competitive prices and also our accessibility and short lines with our clients. Kaap Hoorn stands for its name. Clear and down to earth.

TAX SERVICES

We help and support our clients with a wide range of tax advisory and tax compliance services. The Dutch tax system is quite complicated, and with constantly changing tax regimes there are many cross border challenges to consider.

We assist international companies with the start-up of activities in the Netherlands, and the setting-up of a company or an establishment in the Netherlands. And also with the restructuring, optimization and further development of their activities in or through the Netherlands.

We assist our clients with all kind of tax returns and related tax compliance services.

Our tax services include international tax advisory, (re)structuring, cross border investments, profit repatriation, transfer pricing, mergers and acquisitions, due diligence services, real estate structuring and VAT / indirect taxes. And also with tax litigation.

We further serve a broad range of private clients with all kind of tax returns and with their tax and estate planning, personal tax questions, immigration and emigration, and international inheritance/gift tax structuring and questions.

For more information on tax services, please contact Mr. Coen Appelman, Partner Tax: coenappelman@kaaphoorn.net; +31 6 1256 9612 / +31 229 799 800

ACCOUNTING SERVICES

We help and support our clients doing business in The Netherlands with a wide range of accounting services. For example, when you are looking to trade in The Netherlands for the first time, but also when you already have a business in The Netherlands. Kaap Hoorn helps you by providing all day-to-day accounting services in order to make your business run smoothly. Our accounting services include:

- Bookkeeping
- Management accounts
- Budgeting and Forecasts
- Reporting on accounting systems and internal controls
- Payroll
- Financial reviews
- Tax returns

Kaap Hoorn continuously invests in ways to further automate the processes of bookkeeping and other administrative processes. Both to reduce the number of manual entries (preventing mistakes) and to make it more cost efficient. Kaap Hoorn offers on-line tools, and also has established links between bookkeeping software and bank accounts of many banks in The Netherlands.

Kaap Hoorn will continue to strive for digitization where possible to make the processes of bookkeeping and administration easier and more efficient.

AUDIT & ASSURANCE SERVICES

Kaap Hoorn Audit & Assurance serves a great variety of clients, both SME companies as well as large enterprises in various industries. We inter alia offer internationally coordinated audit services to head office auditors or on a multinational level. We meet all international standards, and dispose of an AFM – WTA license (which is necessary in order to audit financial statements of companies that are legally obliged to have an audit). We take care of a tailored approach to suit the requirements and complexity of your organization, based on our knowledge of and experience with the relevant international and national legislative and regulatory requirements. Our audit services include:

Statutory Audits

With a strong focus on IT, we try to integrate software in the process of auditing where possible. This prevents mistakes and gives a basis for an efficient and down to earth audit process. Besides complying with regulatory demands, our independent reviews provide our clients with insight on effective financial reporting and control mechanisms to enhance your business performance.

Specialist Audits

Our specialist audits are requested by clients looking for sector based insight on a wide range of industries, including various charities.

Are you interested? Please feel free to contact us, and/or request an offer for services.

For more information on Kaap Hoorn and its services, please contact Mr. Coen Appelman, Partner at Kaap Hoorn: coenappelman@kaaphoorn.net; +31 6 1256 9612 / +31 229 799 800

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RECENT DEVELOPMENTS ON THE NON-HABITUAL RESIDENTS TAX REGIME IN PORTUGAL

The Non-habitual Residents (NHR) tax regime has now reached its 10th year of application.

Created with the aim of attracting qualified professionals, high net worth individuals and foreign pensioners to Portugal, the regime was recently subject to some relevant amendments. Let's see if those changes may jeopardize the attractiveness of the regime.

The main changes were introduced with the State Budget for 2020, including the end of the full exemption applicable to foreign-sourced pension income. Actually, the new regime introduces a 10% flat rate taxation over the pension income from foreign source.

However, the above referred change is only applicable to new tax residents – registered in or after the 1st of April 2020, meaning that individuals already registered as NHR or individuals registered as tax resident until the 31st of March 2020 (who can apply to be registered as NHR concerning 2020) will continue to benefit from the foreign- sourced pension income exemption during the 10-year NHR period.

Therefore, the Law has been changed assuring the rights of the previously registered NHR, which is a good sign in respect of the stability of the regime for those who opted to move to Portugal or those who are still considering doing so.

Another recent change introduced in the regime was the amendment of the list of the so called "high value-added activities". This is particularly relevant for the taxation of Portuguese-sourced income from employment or self-employment obtained by NHR from such activities, with scientific, artistic or technical nature, which are subject to Personal Income Tax (PIT) at a flat rate of 20%.

The new list is applicable as of the 1st of January 2020 and some of the previously foreseen activities were eliminated, while others were included. The new list is now based on the Portuguese Classification of Professions, and covers professionals in several activities such as general managers, top managers, doctors and dentists, university professors, engineers and artists. In any case, it should be noted that, again, the previous list of activities is still applicable to the individuals registered as NHR until 2019.

Despite the recent adjustments to the regime, the NHR scheme is still very attractive. For instance, the foreign-sourced dividends, interest, capital gains and rental income can be exempt from Personal Income Tax (PIT) if the income can be liable to tax in the country of source, according to the applicable Double Tax Treaty (DTT) or, in case no DTT exists, according to the OECD Model Tax Convention, and if it is not deemed derived in Portugal (and it is not obtained in a black-listed jurisdiction).

In general, dividends, interest and rents are taxable at source under the DTT, meaning that such kind of income will be exempt from PIT in Portugal under the NHR regime.

As far as the taxation of capital gains is concerned, most of the DTT signed by Portugal grant exclusive taxing rights to the state of residence. This means that, in theory, the PIT exemption should not apply to the cases where capital gains are obtained as a result of the sale of securities – although this should be evaluated on a case-by-case basis.

With respect to foreign-sourced employment income, it must subject to effective taxation abroad in order to benefit from the PIT exemption in Portugal under the NHR regime, while foreign-sourced self-employment income derived from high value-added activities and income from intellectual or industrial property may benefit from the PIT exemption provided that such income is merely subject to possible taxation at the source.

In a nutshell, by becoming Portuguese NHR, individuals are allowed to accrue their wealth in a white listed friendly tax environment, to dispose of their assets benefiting from tax exemptions, to pass on their wealth or estate without inheritance or gift taxes (to spouses and direct descendants or ascendants) and/or to enjoy their retirement – now with a 10% tax leakage on their pensions.

Living and retiring in Portugal post the Coronavirus is still a top option, also from a taxation standpoint.

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THE LOWDOWN ON R&D TAX CREDITS

Is your company eligible for R&D tax credits? If your organisation is a small to medium enterprise (SME) which satisfies the government's qualifying conditions, you could be eligible for significant cash flow benefits.

Investments in R&D (research and development) can help business growth, and even enhance your own supply chain. So if you are looking at R&D to provide you with a competitive edge, you should consider taking advantage of the government's tax credits.

WHAT'S THE DEAL?

While R&D tax credits have been available for over a decade, we might say that it has never been easier to claim them, thanks to the programme's recent expansion. This has given British businesses more incentive to develop intellectual property and file applications for patents. Ultimately, UK companies have been able to mitigate the risks that come with making long term investments in product development.

You could be able to reclaim up to 33 per cent of your R&D costs, regardless of the success of your R&D project. If you are a large company, you could reclaim up to 10 per cent.

The money itself is received either as a negative corporation tax, or corporation tax refund. There are wide guidelines on what the funding can be used for. It could go towards new equipment, hiring a development team, or covering other costs.

- Qualified SMEs can increase their qualifying expenditure on R&D for tax purposes by 130 per cent. In real terms, that means for every £100 of qualifying spending on R&D, you can claim a £230 taxable income deduction.
- From 1st April, 2021, there is the possibility that this tax credit will be capped at three times the total NIC and PAYE costs of the SME claiming.
- Expenditure which is externally subsidised does not qualify for the relief. For capital costs (including R&D equipment purchases), there are 100 per cent capital allowances which can be awarded.

IMPORTANT TO NOTE

The scope of an operation can be integral to whether it qualifies under the government's criteria. Even a simple digital advancement could require significant R&D development if it is likely to benefit a large number - say millions - of users.

DATA AND CLOUD COMPUTING

If you are interested in conducting R&D for the purposes of cloud or data computing, you should note that the government is planning to consider whether expenditure in these areas will qualify for R&D tax credits.

R&D TAX CREDITS DURING THE COVID-19 VIRUS OUTBREAK

It is worth noting that HMRC (Her Majesty's Revenue and Customs) have issued an update on R&D tax credits in the wake of the COVID-19 virus outbreak. HMRC have said that they are making a priority of processing claims, in response to the concern that some businesses may have problems qualifying their cash flow.

According to the ICAS, the global professional body for Chartered Accountants, HMRC confirmed the following in a statement: "First, we appreciate there are concerns relating to the processing of R&D claims and in particular claims for payment and whether these can be accelerated.

At a time of pressure on HMRC operational resources, our first priority is to maintain our published aim of clearing 95% of SME tax credit claims within 28 days and we have implemented contingency plans to support this, including applying extra resource to the work. Currently, we are meeting this aim."

That's our wrap on the latest 'need to knows' when it comes to R&D tax credits. Does your company qualify? Now could be a good time to assess your R&D needs and prepare an application for funding.

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