Headlines

- Upcoming Legislation Impacting Recruitment Agencies and Umbrella Companies

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- New R&D Tax Relief Restrictions for Overseas Workers – What It Means for Your Busine

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Upcoming Legislation Impacting Recruitment Agencies and Umbrella Companies

In a significant move to combat tax avoidance, new legislation will require recruitment agencies to pay PAYE income tax and National Insurance contributions (NICs) on wages paid to workers through umbrella companies. This change, set to take effect from April 2026, transfers the responsibility for accurate tax payments from umbrella companies directly to recruitment agencies.

Key Highlights:

- Increased HMRC Powers: To curb tax avoidance and fraud within the umbrella company market, HMRC will gain new authority to enforce these regulations.

- Shift in Liability: Agencies engaging workers via umbrella companies will bear full responsibility for unpaid taxes, penalties, and interest, making them accountable for ensuring PAYE is correctly handled for each worker. In cases without an agency, the end-client business will assume these responsibilities.

- Implications for Recruitment Agencies: With risks of non-compliance, recruitment agencies are expected to enhance due diligence when onboarding umbrella companies to mitigate tax-related risks. Experts anticipate stricter onboarding and compliance measures to avoid significant tax liabilities.

- Impact on Umbrella Workers: This legislation aligns the tax treatment of umbrella-employed workers with traditional agency workers, aiming to protect them from unexpected tax bills stemming from non-compliant umbrella companies.

- Financial Impact and Future Guidance: The Treasury projects that the new measure could recoup up to £895 million in its first full year of implementation. In the coming months, an online tool and additional guidance will be made available to assist agencies, businesses, and workers in navigating these changes.

This proactive step by HMRC reflects the growing focus on transparency and accountability in the recruitment industry, ensuring that tax obligations are met directly at the agency level. Stay tuned for further details and draft legislation expected in Finance Bill 2025.

Changes in Company Car Tax and New Ownership Rules

Company Car Tax Rates Set to Increase from April 2028

Starting from April 2028, company car tax rates will increase, with a 2% rise annually, reaching a maximum rate of 39% by 2029-30. These changes aim to incentivize the switch to electric vehicles while adjusting tax rates for hybrid and high-emission vehicles. For example, zero-emission electric cars will see their benefit-in-kind (BIK) tax rate rise to 9% by 2029-30, while hybrid cars with CO_2 emissions between 1-50g/km will increase to 19% in the same period. This ensures continued support for electric vehicle adoption while aligning hybrid rates more closely with traditional vehicles.

Clampdown on Contrived Car Ownership Schemes

In a bid to prevent tax avoidance, new rules from April 2026 will close loopholes on certain employee car ownership schemes. These schemes, often structured to avoid company car tax through complex buy-back arrangements, will be banned, ensuring all company-provided vehicles are taxed fairly. This measure is expected to generate an additional £275m in revenue by 2026-27.

Further Support for Electric Vehicles

The government has announced several initiatives to promote electric vehicle (EV) adoption:

- EV Tax Incentives: Current first-year rates for electric car allowances will be extended, and a plug-in vehicle grant for new electric vans will continue, with £120m allocated for the upcoming tax year.

- EV Charge Points Expansion: £200m has been committed to accelerating EV charge point installation across England, helping local authorities increase on-street charge points to meet growing demand.

What This Means for Businesses and Employees

With these updates, the government aims to provide long-term clarity and encourage businesses to support sustainable transportation choices. By retaining favorable tax rates for electric vehicles and ensuring that all vehicle-related tax obligations are met, both companies and employees will experience a more streamlined approach to company car tax, promoting environmental responsibility and fair taxation.

These changes, including detailed guidance on the new rules, will be implemented progressively from April 2025 onward, with draft legislation expected soon.

New R&D Tax Relief Restrictions for Overseas Workers – What It Means for Your Business

Starting from April 1, 2024, the UK government will introduce significant changes to R&D tax relief claims, especially concerning projects involving overseas workers or contractors. This update will affect companies relying on R&D conducted outside the UK, with strict new conditions defining what qualifies for tax relief.

Understanding the New Rules – Scenario-Based Insights

Scenario 1: Essential Overseas Research – Qualifying for R&D Relief

Consider Company A, a UK-based business studying certain species found exclusively outside the UK as part of its scientific research. Due to environmental and regulatory restrictions in the species' natural habitat, it's impossible to replicate these studies in the UK.

Under the new rules, Company A can continue to claim R&D tax relief for its overseas costs. Since the research conditions are unique to the location (including geographic, environmental, and regulatory factors), and it would be unreasonable to replicate these in the UK, Company A meets the criteria under Section 1138A of the Corporation Tax Act 2009 (CTA 2009).

For businesses like Company A, ensuring thorough documentation that explains why the overseas environment is essential for R&D will be crucial to maintain compliance and secure relief.

Scenario 2: Overseas R&D for Cost Efficiency – Potential Loss of Relief

Company B, a company conducting lab work that could technically be done in the UK, opts to use overseas contractors to save on costs. Although the arrangement is cost-effective, it doesn't meet the specific conditions for overseas R&D relief.

From April 2024, such costs will no longer qualify, as the new rules explicitly exclude relief claims driven by reasons like lower labor costs or ease of accessing workers overseas. If *Company B* wants to retain R&D relief, it may need to re-evaluate the location of its R&D activities and consider shifting work to the UK, where possible, to align with tax relief eligibility.

Key Conditions for Qualifying Overseas R&D

For overseas R&D costs to be eligible, the following criteria must be met:

- The required conditions (geographic, environmental, social, or regulatory) aren't available in the UK.

- The location-specific conditions are necessary and present only where the R&D is conducted.

- Replicating these conditions within the UK would be wholly unreasonable.

The law specifically excludes conditions related to cost or workforce availability as grounds for relief, as outlined in Section 1138A(3) CTA 2009. This ensures that only genuinely location-dependent R&D is eligible.

Record-Keeping for Compliance

HMRC expects companies claiming overseas R&D relief to maintain comprehensive records under Schedule 18, Paragraph 2 of the Finance Act 1998. Clear documentation of why specific overseas conditions are essential for R&D will be vital for compliance.

Planning Ahead

With these changes just around the corner, companies relying on overseas R&D activities should review their projects and consider any necessary adjustments. For more guidance on how these rules might impact your eligibility for R&D tax relief, contact us for a personalized assessment.

Interesting Reads

- **Sage 50 Review: Why Should Businesses Use Sage 50 Accounting Software?**
  Sage 50c is an established accounting software that is widely regarded for its ability to provide businesses with comprehensive financial management tools.
- **The Ultimate Guide to Self Employment in the UK**
  Self-employment in the UK is an empowering way to take control of your career, giving you the creative freedom to work for yourself and make decisions that shape your financial future and enhance your earning potential.
- **What is a Trust? An Introduction to Trusts in the UK**
  Trusts are very useful for keeping assets safe and managing them. If you are thinking of establishing one, you could be wondering why they are so popular and how they will help your estate or your beneficiaries.
- **Cash Burn Rate: Understanding and Managing a Startup's Finances**
  Entrepreneurship is a rollercoaster of opportunities and challenges. Among the myriad issues in starting and running a startup, comprehending and taming your cash burn rate is very important for the sustainability of your business.
