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Welcome to our Holi 2021 edition of Indo-UK Patrika, an informative newsletter keeping you up to date on recent changes and topics of interest affecting those doing business in both the UK and India.

In this edition, we interview Keval Hutheesing, Executive Director of India-based technology company Cygnet Infotech, and discuss his experience of successfully growing a business in the UK. Our Head of Tax and Brexit Impact Specialist provide some important updates following the first UK Budget post-Brexit and how these changes may affect your UK business. We also get an immigration update from our friends at Shores & Legal on the new graduate route, which will allow applicants to work and live in the UK without sponsorship, commencing in July this year.

Despite the pandemic, the UK-India business corridor remains active and we continue to support businesses through these challenging times.

INDIA GROUP Q&A WITH CYGNET INFOTECH

By Moore Kingston Smith India Group

WATCH our India Group Vice President of Business Development Bharat Rampal interview Keval Hutheesing, Executive Director of India-based tech company Cygnet Infotech. Keval shares insight on the global expansion of Cygnet and their experience of successfully entering and growing in the UK market.

Cygnet Infotech
IT is about you

TAX UPDATE: KEY OUTCOMES OF THE UK BUDGET ON 23 MARCH 2021

By Tim Stovold, Head of Tax, Moore Kingston Smith

With record low corporation tax rates, it was always likely that the UK Chancellor would see this as an area for raising revenue. While the UK will still have the lowest corporate tax rate in the G7, it is more important to look at effective tax rates that take into account reliefs, allowances and other adjustments – in this respect there was also good news, with an innovative new 'super deduction' for capital expenditure. In addition to these headline announcements, various other announcements will be relevant to businesses throughout the UK.

We have highlighted the key areas affecting overseas businesses looking to do business in the UK below. You can read our full summary and commentary on the corporate and business tax updates from the UK Budget 2021 **HERE**.

Corporation tax (CT) rate

The Chancellor announced that the rate of CT will increase to 25% from April 2023 where profits are in excess of £250,000. For companies with profits below £50,000, the rate will remain at 19%. There will be a tapering of the rate for companies with profits falling between £50,000 and £250,000. Close Investment Holding Companies will not be eligible for the lower rate and so will always pay CT at 25%.

Super deduction – capital allowances increase

130% first-year capital allowances for qualifying plant and machinery expenditure will be available to companies for two years from 1 April 2021, giving rise to a "super deduction" from taxable profits.

Assets that previously would have been entitled to capital allowances at the lower rate of 6% (for example integral features of a building) will be entitled to a 50% deduction for the two-year period.

Much of the expenditure eligible for this "super deduction" would have been eligible for the existing Annual Investment Allowance (AIA) of 100%. For such expenditure, the super deduction equates to a £5,700 additional corporation tax saving for every £100,000 of expenditure. Where the expenditure would not have qualified for the AIA, the benefit will be much greater.

The new rates will only apply to the purchase of new (not second-hand) equipment. Where an asset on which the super deduction has been claimed is subsequently sold, 130% of the proceeds will be included in the calculation of taxable profits for the year.

Loss relief carry-back rules extended

For two years, companies and unincorporated businesses will be able to carry back trading losses to offset profits made in the preceding three years.

The amount of trading losses that can be carried back to the immediately preceding year will (as is currently the case) remain unlimited. After this, a maximum of £2,000,000 of unused losses will be capable of being carried back against profits of the previous two years. As this measure will be in place for two years, £4 million of losses may eventually be used in this way.

As far as companies are concerned, the £2 million limit will be available on a group-wide basis, and will be available for accounting periods ending between 1 April 2020 and 31 March 2022. For unincorporated businesses, this will apply to losses made in 2020/21 and 2021/22.

Research and development (R&D) relief

The government has announced that a review of the current R&D tax reliefs will be undertaken. They will consider several areas including the definitions, the reliefs' competitiveness, the scope of qualifying expenditure (such as cloud computing costs and purchase of datasets), and whether the schemes effectively target the right areas.

As previously announced, the government will introduce a PAYE cap on the payable tax credit in the SME R&D scheme from 1 April 2021. The cap will be subject to certain exemptions for companies managing IP and will be set at £20,000 plus three times the client's PAYE and NIC liability.

BREXIT UPDATE: AGREEMENT FINALLY REACHED – KEY POINTS SUMMARISED

By Paul Samrah, Brexit Impact Specialist, Moore Kingston Smith

The UK and the EU are now two distinct regulatory and legal markets, creating opportunities as well as barriers to trade in goods and services, mobility and exchanges. For the UK to continue its trading association with the EU into the future, a provisional agreement will govern the relationship until all parties have concluded the legislative processes.

A Trade and Cooperation Agreement (TCA) is now in place between the UK government and the European Commission, effective as of 1 January 2021. This replaces the transition agreement that expired on 31 December 2020, the UK having previously left the EU on 31 January 2020.

Many UK businesses are having to adapt and make changes to their operations as a result of leaving the single market and considering issues such as customs, people and recruitment, data protection and regulatory compliance – areas that most won't have had to think about before now.

It is a complex area, with the official TCA document running to some 1,200 pages. Here is our pocket digest:

The Brexit situation as of 1 January 2021

The TCA will be provisional until the legislative processes have been concluded by all parties. The UK and the EU have now separated into two distinct regulatory and legal markets. This has created barriers (as well as opportunities) to trade in goods and services, and to cross-border mobility and exchanges.

Businesses now have to adapt and make changes to their operations as a result of leaving the single market. Such issues as customs, people and recruitment, data protection and regulatory compliance all need to be considered.

Goods and services

The TCA goes beyond recent EU free trade agreements with other third countries, such as Canada and Japan, by providing for zero tariffs and zero quotas on all goods. This is especially important for sensitive goods such as agricultural and fishery products.

However, to benefit from these trade preferences, businesses must prove that their products fulfil all necessary 'Rules of Origin' requirements. This ensures that the trade preferences granted under the TCA benefit the EU and the UK, rather than third countries. To facilitate compliance, the agreement allows traders to self-certify the origin of goods and provides for full bilateral cumulation (permitting UK and EU parts to count towards local content rules).

Those completing customs declarations must have knowledge of the 'processing' of the product – that is, how and where it was manufactured and from what components. Greater awareness of the supply chain will be a big part of business success – minimising or eliminating costly tariffs which might otherwise be imposed.

People, recruitment and staffing from the EU

EU citizens and their families must arrive in the UK before 30 June 2021 in order to apply for pre-settled status – the pre-cursor to applying for settled status on completing five years' UK residency.

We have known for several months that it was coming, but finally a points-based system (PBS) for immigration was introduced on 1 January 2021. UK employers looking to recruit from the EU must now apply to be a licensed sponsor and the prospective employee must meet certain skills criteria.

UK short-term business visitors may travel to the EU for 90 days in any 180-day period. Work permits will not be imposed on business visitors for establishment purposes. Intra-corporate transferees can be accompanied by their partners and dependents when placed in an EU state.

Employers will only be liable to pay social security contributions in one EU state at a time. Generally, this will be in the country where work is undertaken, irrespective of whether the worker resides/or is based within the EU or the UK.

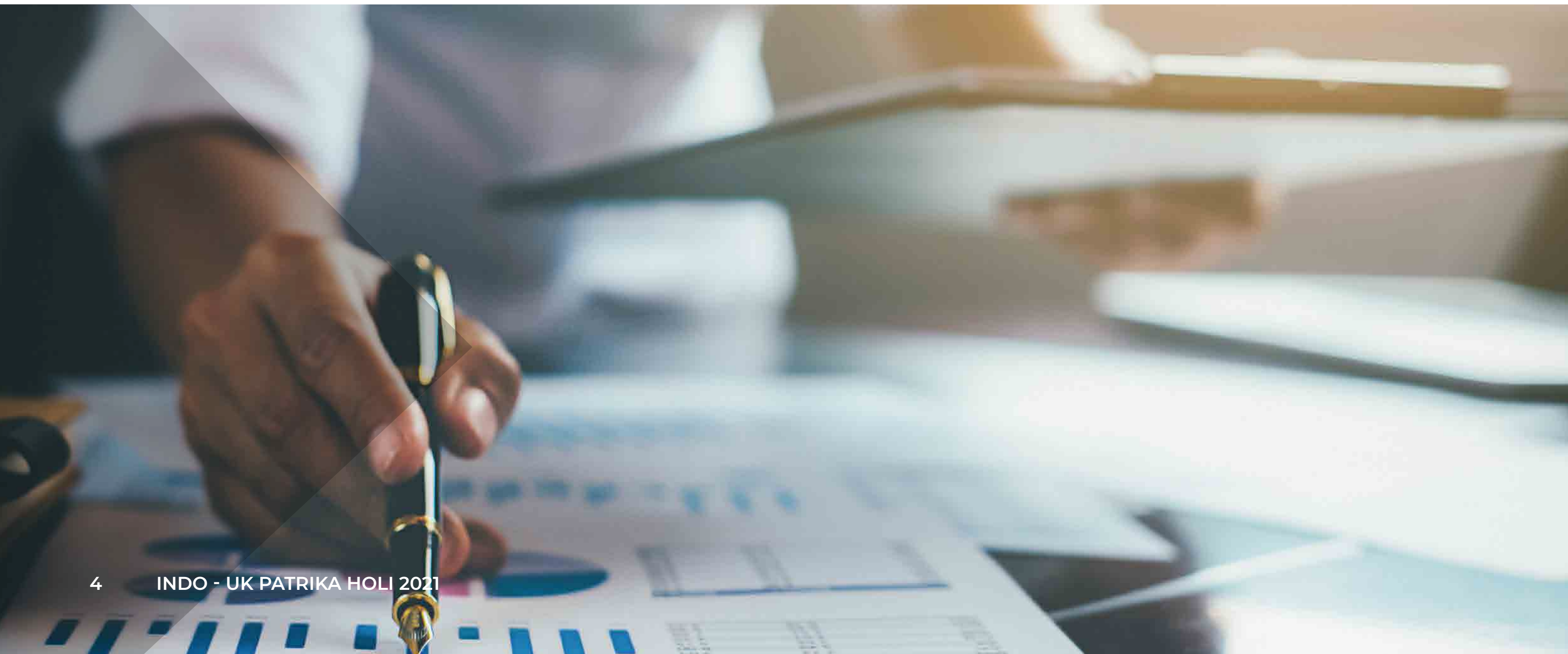
Where the UK or an EU member state is responsible for the healthcare of an individual, they will be entitled to reciprocal healthcare cover. This includes certain categories of cross-border workers and state pensioners who retire to the UK or to the EU27.

Data protection and regulatory compliance

The TCA includes a temporary solution to keep data flowing between the EU and the UK until a data adequacy decision is reached. The deadline is effectively 30 June 2021. Personal data passed to the UK during this interim period 'shall not be considered as a transfer to a third country'. Both sides have committed to upholding high levels of data protection standards and to ensure 'cross-border data flows to facilitate trade in the digital economy' without imposing limits on where data can be stored or processed.

The agreement commits both parties to upholding common high standards ensuring the protection of labour and social standards, environmental protection and tax transparency.

Moore Kingston Smith's Brexit impact team is available to guide you through it all. Businesses that remain agile will thrive. Visit our **BREXIT HUB** to read more.



IMMIGRATION UPDATE: GRADUATE ROUTE – WORK AND LIVE IN THE UK WITHOUT SPONSORSHIP

By Antonio Lam, Managing Director, Shores & Legal

The new Graduate Route, announced in 2019, will finally commence on 1 July 2021.

From 1 July 2021, graduates who have completed a degree qualification or higher may benefit under this route. Graduates will be granted a two-year or three-year visa (three-year visa for PhD graduates) to enable them to live and work in the UK without the need for sponsorship from a licensed employer.

Once they are on this route, they can undertake any work in the UK and not need to be sponsored, meet a minimum salary threshold or obtain permission to switch jobs.

To qualify for the Graduate Route, graduates must meet the following three requirements:

1. **Successful completion requirement -** having completed the course of study in the last grant of leave with a sponsor with a track record of compliance.
2. **Qualification requirement -** the qualification must be a UK bachelor's degree, UK postgraduate degree, a PhD course or a relevant qualification.
3. **Study in the UK -** for the course duration, the student must spend a specified amount of time in the UK studying. The only exception is distance learning between 24 January 2020 and 27 September 2021 in specified circumstances.

What are the potential benefits of this Graduate Route?

Under the Skilled Worker category, there are 'new entrant rates' that allow employers to meet a lower salary threshold to sponsor (generally younger) workers. This new entrant rate will apply to those switching from the Graduate Route.

To put this into perspective, a sponsor worker must meet the basic minimum salary of £25,600 or the going rate, whichever is higher. Under the new entrant rate, the salary threshold will be £25,600 or 70% of the role's going rate, whichever is higher.

This route also allows a three-year visa for PhD graduates.

Lastly, there is no maintenance requirement for this Route.

What are the downsides to this Route (especially when compared with its predecessor)?

With the old Tier 1 Post Study Route, the new entrant rate was relied upon for the first three years of sponsorship despite spending two years in the Tier 1 Post-Study Work category. Instead, under the new rules, although the new entrant rate may be relied upon for the first four years of sponsorship, those switching from the Graduate Route may only rely on this provision for the balance number of years remaining between four years and the number of years granted on the Graduate Route. Essentially, this leaves most employers employing Graduate Route switchers with the new entrant rate for two years (or one year if the student was a PhD Graduate).

Then there is the more bizarre rule that one didn't see in the old Tier 1 Post Study Work Route. In the Graduate Route, no new dependants are allowed. This means that, unless the individual switching into the Graduate Route already has dependants under their former student visa, any dependants from newly formed relationships or children born outside of the UK will not be allowed to join the graduate.

The verdict?

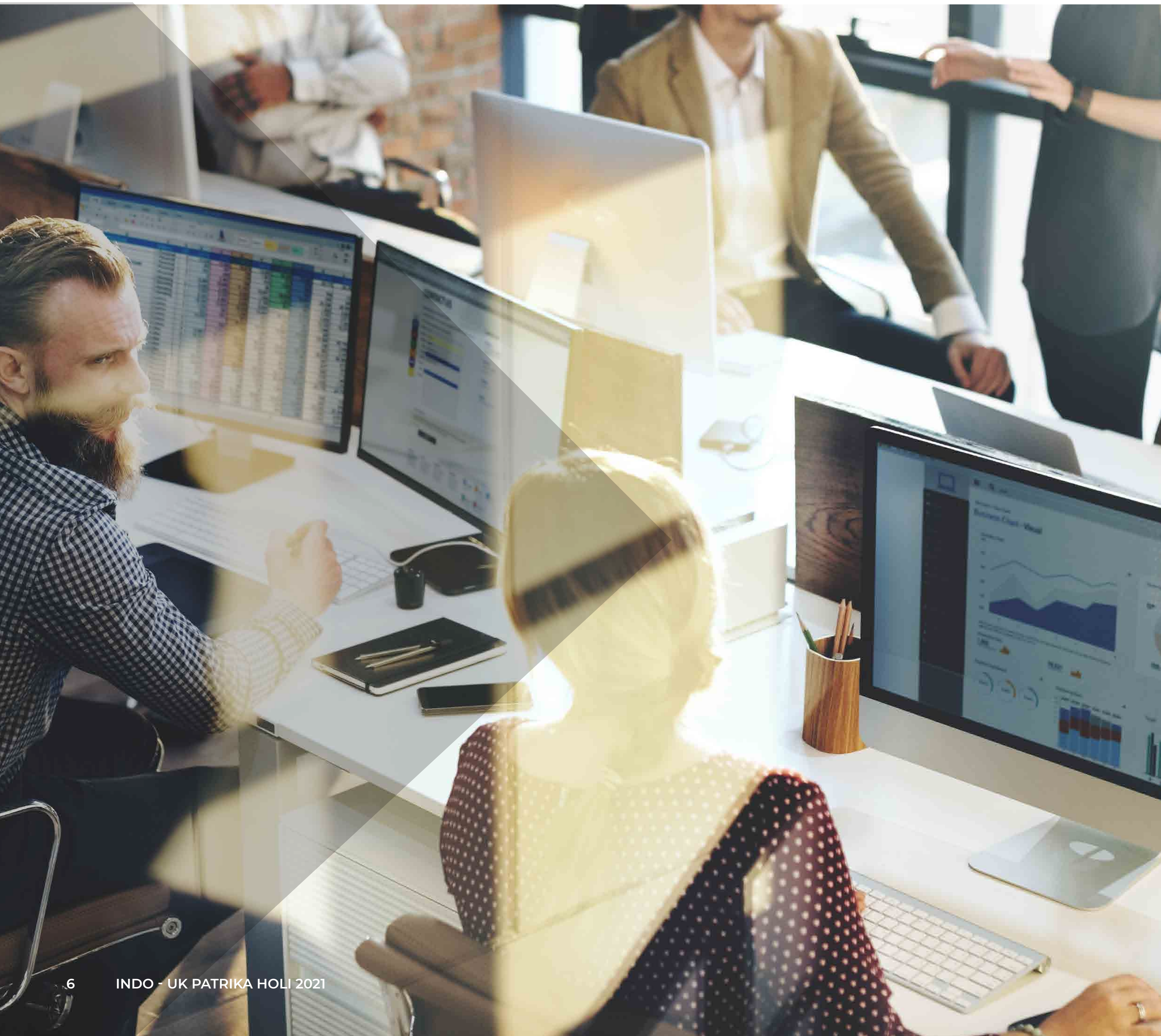
So, comparing these two routes, one may feel that the Tier 1 Post Study Work route is far superior to this new Graduate Route, and one may be correct. However, with Tier 1 Post Study Work having been cancelled for so long (since 2012), any introduction of a similar route is exciting.

The ultimate question is, how long will this route remain in circulation? The Tier 1 Post Study Work started in 2008 and lasted for roughly four years. One of the critical reasons for the cancellation was cited as the route being "too generous" and allowing people to stay in the UK whether they found work or not, and irrespective of the skill level of any job they found.

The world is very different now compared with 2012, especially with Coronavirus and Brexit. Will the same rhetoric resurface in four or five years?

For now, irrespective of whether the route is to stay or not, the graduate route is an excellent addition to the rules, and graduates should consider applying for this come 1 July 2021.

If you wish to discuss your UK immigration requirements with Shores & Legal, please contact **info@shoreslegal.com**.



INDIA GROUP

Our firm's close relationship with India started over two decades ago, when we began advising one of India's leading commercial enterprises doing business in the UK. Building on that success, our India Group today advises and assists many Indian businesses on their international operations, such as compliance services and business structures, taxation issues and corporate finance matters.

HAPPY HOLI

Moore Kingston Smith would like to wish all of our contacts, friends and clients a very happy Holi. Although celebrations will be different this year, we hope that the near future will bring colours of peace, joy and happiness to you and your family.

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