2020

SUMMER NEWS

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COVID-19: Help for businesses

The UK Government has created over a dozen schemes to help businesses survive the coronavirus crisis, and the regional authorities in Scotland, Wales and Northern Ireland have used their own powers to help specific sectors in their areas.

Check whether you can use one or more of the following schemes:

- Coronavirus Job Retention Scheme (CJRS) – To pay wages of furloughed employees
- Job Retention Bonus - £1,000 per employee where previously furloughed and employed until 31 January 2021
- Coronavirus Statutory Sick Pay (SSP) – Payable from first day of absence due to coronavirus symptoms or shielding.
- Refund of Coronavirus SSP – For employers with fewer than 250 employees
- Self-Employed Income Support Scheme (SEISS) – For self-employed individuals and partners
- VAT deferment – For VAT due between 20 March 2020 and 30 June 2020
- Income tax deferment – for tax due as 2019/20 payment on account on 31 July 2020
- Temporary cut in the VAT rate from 20% to 5% for hospitality, holiday accommodation and attractions - from 15 July 2020 to 12 January 2021
- ‘Eat Out to Help Out’ scheme - government-funded discounts to customers of restaurants on Monday-Wednesday during August
- One year holiday from business rates - For businesses in retail, leisure and hospitality, and in England only for child nurseries
- Grants of £25,000 or £10,000 – For businesses in retail, leisure and hospitality, or with premises that have rateable value of less than £51,000
- Discretionary grants of up to £25,000 – For businesses that don't pay business rates but have some property costs
- ‘Kickstart’ scheme - paying the wages of 16-24 year-olds for 6-month work placements where previously on universal credit
- Cash bonuses of up to £3,000 for each new apprentice taken on
- Bounce bank loans – For small businesses, 100% Government backed
- Coronavirus Business Interruption Loan Scheme (CBILS) – For medium sized businesses
- Future Fund convertible loans – For technology firms, from 20 May to 30 September 2020

The Government has also tweaked a number of tax and compliance rules to make life easier for individual taxpayers and businesses. Make sure you are aware of these tax reliefs, easements and deductions:

- Business rates revaluations postponed until 2021 – For all businesses that pay business rates
- Zero rate VAT on digital publications and Personal Protective Equipment (PPE) – From 1 May 2020, but temporary rate reduction for PPE until 31 October
- Working at home allowance increased to £6 per week – For employees when paid by employers from 6 April 2020
- Flat rate deduction for working at home costs – Claim by employees at £6 per week if employer doesn't pay working at home allowance
- No tax on reimbursement of office equipment purchases – For employees who are reimbursed the cost of equipment needed to work at home
- Lifetime ISA penalty reduced to 20% - For withdrawals for a non-permitted reason from 6 March 2020 to 5 April 2021
- Reduced furlough pay ignored for statutory payments – For SMP, SPP, SAP and SPBP
- Tax credit eligibility maintained – When on furlough or unpaid leave, the worked hours are treated as at normal level pre-furlough
- Extra three months to file accounts with Companies House – For companies that apply for an extension before filing deadline
- Extra time to pay tax bills – For any tax where the business is affected by coronavirus. •

Costs of working at home

If any of your employees have been working at home for a while, they may be feeling a bit isolated and forgotten.

To help lift their mood, you can pay them a tax-free allowance of £6 per week (or £26 per month), for periods for which you have agreed they should work at home. This rate applies from 6 April 2020; for earlier periods the tax-free rate was £4 per week (£18 per month).

Typing on a laptop at the kitchen table is not ideal, and it could create serious back or wrist strain. As an employer you should provide your employees with adequate equipment to work safely.

If your employee has purchased equipment to make homeworking possible or comfortable, such as a new chair or computer screen, you can reimburse those costs with no tax charges. This applies to the cost of office equipment which has no significant private use, where the employee is reimbursed between 16 March 2020 and 5 April 2021.

Where employers do not pay their homeworkers the working at home allowance of £6 per week, the employee can claim a tax deduction for the additional costs of working at home from HMRC. The additional costs would include power and heat used while actually working, but not any incidental costs which would be incurred in any event, such as rent.

As it is very difficult to calculate exactly how much additional power has been used because one person is working at home (especially where the whole family is also at home), HMRC has agreed that employees can claim a flat rate deduction of £6 per week (£26 per month) for periods they were required to work at home. The rate for expenses incurred before 6 April 2020 is £4 per week (£18 per month).

These employment-related expenses can be claimed on the tax return or on form P87, submitted either online or by post. The claim needs to reach HMRC within four years of the end of the tax year in which the expense was incurred. •

CGT on residential property

If you sell a residential property in the UK after 5 April 2020, and make a taxable profit, you have to report the sale to HMRC within 30 days of the completion date. This is generally the day on which the buyer takes possession of the property and you receive the payment.

The report must be done on a new type of online return (UK property return) which must be submitted in addition to your annual self-assessment tax return. We can help you with both your self-assessment return and the new online property return.

You also have to pay your best estimate of the Capital Gains Tax (CGT) due on the sale within 30 days of the completion date. This is tricky because the rate of CGT due (28% or 18%) will depend on the level of your other income for the entire tax year. If you underestimate the CGT due, you will be charged interest on the underpayment. Any overpayment of CGT can be set against your other tax liabilities for the year, or repaid after you submit your tax return for the year.

If you have made capital losses in earlier periods that are available to use, you can set off those losses when calculating the taxable gain.

If you lived in the property as your main residence for a period, the main residence relief for that period can reduce the taxable gain. Your annual CGT exemption of £12,300 can also be set against the gain if it has not been used elsewhere. •

Pay for furloughed employees

By using the Coronavirus Job Retention Scheme (CJRS), employers can reclaim the cost of paying wages to their furloughed employees, up to a maximum of £2,500 per employee per month, and capped at 80% of the employee's normal pay.

The scheme has been very successful and the Chancellor has announced that it will remain in place until 31 October 2020, but with significant changes from 1 July to make the scheme more flexible and (from 1 August) to get the employer to contribute to furloughing costs.

To be eligible from 1 July, employees who have not yet been furloughed must begin their first period of furlough by the 10th June, for the minimum three-week period to be completed by the 30th June. Those that have been claimed for prior to the 10th June and have returned to work can be included in a claim from the 1st July, as they have already been furloughed.

From 1 July, employees will be able to be furloughed for as little as an hour a week or month and work the rest of the time. Where there is a mix of work and non-work, the wages cap of £2,500 for the month will be prorated. For example, if employees are working for 30% of the time, 70% of the wages cap will apply to the furloughing claim.

From 1 August, the employer will still be able to claim 80% of normal salary under the scheme but will have to bear the employer's NIC and pension costs on furloughed staff's salaries. Financial support will then taper off in September and October, when only 70% and 60% respectively of furloughed staff's salaries will be claimable under the scheme. However, furloughed employees must still receive at least 80% of wages, so employers will have to make the top up to the grant cap at their own cost.

Where employees have taken part of their annual leave while on furlough, they should be paid full holiday pay for those leave days. The holiday pay rate for salaried employees is generally set out in their employment contract, and that rate may have been altered in line with 80% of normal pay for the furlough period.

To calculate holiday pay for employees who receive variable pay, you need to look back to their average earnings over the last 52 weeks in which they actually worked, so ignoring the period of furlough.

The National Minimum Wage (NMW) rates do not apply to an employee who is not working while furloughed. However, if an employee is required to undertake training while furloughed, that training time should be paid at least at the NMW rate applicable for the age of the employee. •

Company cars under furlough

You are taxed on the benefit of having your company car for as long as it is available for you to drive for private journeys.

But what happens when you are furloughed and expressly forbidden to do any work or use the car? In that case HMRC accept that the car is not available to you, even if it is still parked outside your home, if either:

1) The lease for the car has been terminated and the car keys have been returned to the employer or approved third party; or
2) The lease has not been terminated but car keys have been returned to the employer or approved third party.

In the second case, HMRC will only treat the car benefit as ceased 30 days after the keys were returned.

Where your company car is a pure electric model, or a hybrid that has an electric range of 130 miles or more which was first registered after 5 April 2020, there is no taxable benefit for using the car in 2020/21. •

Closing your company

Trading under current conditions is difficult for many businesses, so you may decide to close your company and transfer any assets into your own name. However, there are a few tax traps to watch out for.

If you carry on the same or a similar business within two years, HMRC could argue that closing your company now was a means to avoid tax. This may result in you being charged to Income Tax on the assets received in the liquidation. To show you weren't trying to avoid tax, collect and preserve evidence of the economic reasons why you are closing down.

The liquidator of your company will pay off the creditors first and distribute any surplus assets to the shareholders. The assets you receive from a formal liquidation are normally taxed as capital proceeds, with gains subject to Capital Gains Tax (CGT) at 10% or 20% after deduction of your annual exemption (£12,300 for 2020/21). Entrepreneurs' relief can reduce the CGT rate to 10%, but only on up to £1 million of gains made in your lifetime.

Where there is little value to distribute to the shareholders, or the company holds no assets, you can use a simpler and cheaper dissolution procedure for the company, rather than a formal liquidation. We can help you with that.

There are other administrative tasks to think about, such as closing down the PAYE scheme and cancelling the VAT number. If you do plan to carry on the trade in your own name, you may want to transfer the VAT number rather than cancel it.

You may also want to transfer the stock and assets to your name, in which case there are beneficial tax elections that can be made.

There are lots of aspects to think about when closing a company, so please discuss with us first before making that decision. ●

VAT rates drop to zero

Certain products, including food, books and children's clothes, carry a zero rate of VAT, but there are lots of exceptions in these broad categories.

Electronic books and digital versions of newspapers or magazines have always been subject to VAT at the standard rate (currently 20%). In the last Budget it was announced that VAT on digital publications would switch from 20% to zero from 1 December 2020, but that change has been brought forward to 1 May 2020.

All publishers, including societies that send out digital versions of membership magazines, need to review their pricing structure and make adjustments for sales made, or subscriptions started, on and after 1 May 2020.

Medicines and aids for disabled people are already zero-rated, but protective clothing for medical personnel is not.

From 1 May to 31 October 2020 inclusive, the sale of Personal Protective Equipment (PPE) designed to protect workers from the coronavirus will carry zero VAT. This is to help the NHS and care homes, which have to buy PPE for their employees but can't claim back that VAT.

Order enough PPE for your workers while the zero VAT rate applies. ●

Making best use of losses

Even the most successful business will struggle if it is unable to serve its customers, so there is no shame in admitting that your business has made a loss in recent months.

Your self-employed profit for the current accounting year is likely to be reduced. This will have knock-on effects that limit the level of pension contributions you can make in the year, and whether your Child Benefit is clawed back as a tax charge. Review your regular pension contributions as soon as possible.

If your business has been more adversely affected, you may make a loss for the entire year. In this case the loss can be set against your other income for the same year, or carried back to the previous tax year to generate a tax repayment. If your business is less than four years old, you can carry the loss back three years and set it against your income in that earliest year first.

If you decide to close your business entirely, you can claim terminal loss relief where a loss is made in the last 12 months of trading.

HMRC must accept that your business was conducted on a commercial basis before they agree to accept the set-off of your loss. Make sure you keep records of all the costs you incur and the reasons for any unusual expenses.

Don't forget that any grant you receive under the Self-Employed Income Support Scheme (SEISS) is taxable in 2020/21, so that will reduce your trading loss for that year. ●

Self-employed support scheme

Under the Self-Employed Income Support Scheme (SEISS) the Government will pay to the self-employed a taxable grant equivalent to 80% of three months' worth of profits, capped at £7,500, to compensate them for loss of profits due to the coronavirus.

To be eligible to claim the SEISS grant you must meet all of these conditions:

- your business started before 6 April 2019
- you submitted your tax return for 2018/19 by 23 April 2020
- at least half of your average annual income came from your self-employed business in the years 2016/17 to 2018/19, or in those years in which you were trading
- your self-employed profits for 2018/19 didn't exceed £50,000; or
- your average annual self-employed profits for 2016/17 to 2018/19 didn't exceed £50,000

You can check whether you are eligible for the SEISS grant by using the HMRC eligibility checker on gov.uk. You only need to put in your National Insurance number and self-assessment UTR number. This checker won't tell you how much grant you will get, but it does allow HMRC to email or text you with further instructions on how to apply.

If you are eligible for the SEISS grant you should have received a letter, email or text from HMRC telling you how to apply through an online portal. The electronic communications from HMRC do not include any links to click, so ignore emails supposedly from HMRC that do include links, as they will be scams.

If you haven't received a message from HMRC, it may be because they don't have your up-to-date email address or telephone number. If you are unable to claim the SEISS grant online, phone HMRC on: 0800 024 1222, who will process your claim for you.

As part of your SEISS claim you need to confirm that:

- you traded in 2019/20
- you intend to keep trading in 2020/21; and
- your business was adversely affected by the coronavirus

The "adversely affected" requirement can cover anything from a slight dip in sales to a complete pause in trading while you are unable to work. You don't have to provide any figures of lost profits to HMRC as they will calculate your grant from the reported figures on your tax returns.

A further 3-month grant will be able to be claimed in August, but only based on 70% of reported profits and capped at £6,570. ●

Reclaim Statutory Sick Pay

On 13 March the Statutory Sick Pay (SSP) regulations were amended such that employers have to pay SSP to employees from the first day of absence from work instead of the fourth day.

However, this only applies where the employee has coronavirus symptoms, or a member of their household had such symptoms. Where an employee has been told to "shield" themselves or others in their household from coronavirus, SSP is payable for periods of absence from 16 April 2020.

Where an employee has been told to self-isolate under the "track and trace" procedures they can also be paid SSP from the first day of isolation.

SSP for other conditions is still only payable from the fourth day the employee is unable to work.

Smaller employers can claim a refund of SSP paid due to coronavirus, using an online HMRC portal, which opened on 26 May.

To qualify for a refund of coronavirus-related SSP, your business must meet all of these conditions:

- had a PAYE scheme in place by 28 February 2020
- had fewer than 250 employees across all PAYE schemes on that date
- was not in financial difficulty or insolvent on 31 December 2019; and
- won't breach the state aid limits by making the claim (generally €800,000).

The maximum amount of SSP you can claim per employee is for 14 days of SSP, even if the employee was absent from work for longer.

Each claim for SSP refunds can include multiple employees and cover several pay periods, but be careful about the amounts you claim, as the rate of SSP changed on 6 April 2020 from £94.25 to £95.85 per week.

To complete a refund claim you will need all of the following:

- employer's PAYE scheme reference number
- details of UK bank account into which the refund will be paid
- total amount of coronavirus SSP paid for the claim period
- the number of employees covered by the claim
- the start date and end date of the claim period
- name and phone number of whom HMRC can contact in case of query.

You will be able to submit further refund claims for SSP in the future. However, all claims will have to be made by the later of 25 May 2021 and the first anniversary of the day the last employee finishes their Covid-19 related sick leave.

You must keep records of the SSP paid and claimed back from HMRC for three years after the date that you receive the payment for your claim. ●

Pension 'scheme pays' election

The amount of inputs to your pension scheme eligible for tax relief is restricted by your pensions annual allowance.

This is normally £40,000, but it may be only £4,000 if you have already taken taxable benefits from a money purchase pension scheme. It can also be tapered down to £10,000 (£4,000 for 2020/21) if your income exceeds £110,000 (£200,000 for 2020/21), excluding employer pension inputs.

If the total inputs to your pension scheme exceed your annual allowance, you must pay an annual allowance charge, to repay the excess tax relief given.

You can ask your pension scheme to pay this tax charge under the "scheme pays" rules, if the tax charge is £2,000 or more. You also need to notify your pension scheme to activate the scheme pays rules by 31 July 2020, where the tax charge was imposed for the tax year 2018/19.

Where the scheme does pay the tax charge, the amount (increased by inflation) will be recovered by the scheme:

- when benefits are paid at retirement (impacting both pension and lump sum, but not death or dependents' benefits), or
- if you transfer out of your pension scheme.

If the annual allowance tax charge arose because of a tapered annual allowance, or because of inputs over more than one scheme, the pension scheme doesn't have to pay the tax charge for you. If it doesn't agree to do so, you will have to pay the tax charge personally. ●

Claiming Child Benefit

Due to the coronavirus shutdown, you currently can't register a birth or get married, but you can register a death.

Even if you haven't been able to register the birth of your child, you can submit a claim for Child Benefit. Do this by completing form CH2, with a note to say you haven't been able to register the birth of your child because of coronavirus. Send the completed form to the Child Benefit Office.

If you are already claiming Child Benefit for other children, you can add a child to your claim by telephoning the Child Benefit office on: 0300 200 3100. Make sure you have your Child Benefit number or National Insurance number to hand.

It is important to submit your claim for Child Benefit as soon as possible, as the amount payable to you can only be backdated up to three months.

Where the highest earner in your household has income of over £60,000, the Child Benefit paid to you will be clawed back in a tax charge. To avoid this tax charge, you can opt out of receiving the Child Benefit payments, but the claim remains open should you wish to reverse that decision in the future.

While your Child Benefit claim is open, your child is aged under 12 and you are not working, you will receive National Insurance credits towards your state pension.

Making a Child Benefit claim also means your child will automatically receive a National Insurance number shortly before they turn 16.

If your family income has dropped recently, you can restart your Child Benefit payments by calling the Child Benefit Office, or apply online by logging in to your personal tax account through the Government Gateway. ●

Taking your pension benefits

Times are tough for many people as their income has suddenly been reduced or disappeared. If you are in this position, and aged 55 or over, you may be tempted to draw some funds from your pension scheme to tide you over.

Most defined contribution pension schemes allow you to take a tax-free lump sum of 25% of the value of the fund from age 55, but you should check what the rules of your scheme say. There are different rules for final salary (defined benefit) schemes.

Taking a lump sum will prompt the pension provider to ask you to decide what to do with the rest of the fund, such as:

- keep it invested in an income drawdown plan
- buy an annuity
- cash in the entire fund

Alternatively, you can take a series of lump sums from your pension fund, when each withdrawal is 25% tax-free.

In all cases, when you take funds from the pension scheme before your planned retirement age, it will reduce the amount that will be paid to you as a regular pension. Also, your future pension contributions may be restricted to a maximum of £4,000 per year, rather than £40,000.

Before taking any action regarding pension withdrawals, you should discuss your long-term plans with your financial adviser. ●