JUL\AUG 2020

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Money Matters

UP TO DATE DEVELOPMENTS IN TAX AND BUSINESS PLANNING

Employment support update

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The Chancellor's statement – a summer of spending

Almost four months after the Spring Budget and the start of the Covid-19 crisis, the Chancellor has had to return to parliament with a new round of spending.

The measures include:

- *A temporary stamp duty cut* The nil rate band for Stamp Duty Land Tax (SDLT) on residential property in England and Northern Ireland was increased from £125,000 to £500,000 with immediate effect until the end of March 2021. Scotland and Wales both followed suit, raising the nil rate bands on their land taxes to £250,000, but in Wales the increase does not apply to buyers of second homes, buy to let, etc.
- *Green Homes Grant* A £2 billion grant will provide at least £2 for every £1 that homeowners and landlords in England invest in making their homes more energy efficient, up to £5,000 per household.
- *Job Retention Bonus* UK employers will receive £1,000 for every previously furloughed employee who remains continuously employed from the end of the Coronavirus Job Retention Scheme in October through to 31 January 2021. Qualifying employees must earn over £520 per month on average.
- *Kickstart Scheme* This scheme aims to provide six-month work placements for those aged 16-24, who are on Universal Credit and considered to be at risk of long-term unemployment. Employers in Great Britain will receive a payment that will cover 100% of the relevant National Minimum Wage for 25 hours a week plus the associated employer NICs and automatic enrolment pension contributions.
- *Apprenticeship payments* Employers in England will be entitled to a new payment of £2,000 for each new apprentice aged under 25 they hire, and £1,500 for each new apprentice hired aged 25 and over.
- *A temporary VAT cut* A 5% rate of VAT will apply to supplies of food and non-alcoholic drinks from UK restaurants, pubs, etc and accommodation and admission to attractions. The rate will operate from 15 July 2020 through to 12 January 2021.

As has become clear with many of other Covid-19 initiatives, the devil is in the detail. In many instances, expert advice is recommended before taking any action.

> *The nil rate band for residential stamp duty has temporarily increased to £500,000 in England and Northern Ireland.*

Defining reasonable excuse under Covid-19

Businesses and individuals now have an extra three months to appeal any HMRC decision if they have been 'affected by coronavirus'.

The normal time limit for appeals is 30 days and the extension also applies to appeals against penalties.

The announcement does not define 'affected by coronavirus', but HMRC guidance on this for the Self-Employment Income Support Scheme indicates that this would include businesses that have scaled down or stopped trading as a result of staff being unable to work because of Covid-19, fewer customers or supply chain interruptions.

Taxpayers relying on the extended time limit must submit appeals as early as possible and explain how the delay is the result of Covid-19. Both these conditions are needed to establish a 'reasonable excuse' – the legal requirement for HMRC to accept a late appeal. You may be asked for evidence of how Covid-19 prevented the appeal being submitted within the 30-day limit.

HMRC's announcement does not specifically cover other missed deadlines, such as for submitting returns, paying taxes, notifying liability to tax or complying with an HMRC information notice. However, all these obligations are covered by the general rule that penalties are not charged if the taxpayer has a reasonable excuse for the failure – and that may include the effects of coronavirus.

Shortage of funds is ruled out as a reasonable excuse in legislation, but the reason for the shortage might be a valid excuse. Coronavirus and the resultant lockdown have caused huge and sudden financial disruption for many businesses – something they could not reasonably foresee and avoid.

Establishing a reasonable excuse for a late payment could be more difficult where it is open to a taxpayer to seek a 'time to pay' agreement with HMRC but they fail to do so. Let us know if we can help.

> *"Taxpayers relying on the extended time limit must submit appeals as early as possible and explain how the delay is the result of Covid-19.*

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Update on Covid-19 employment support

With lockdown gradually easing in most areas, the increasing focus is on safely returning to work. In the meantime, the various Covid-19 measures targeted at employers and employees continue to evolve.

The Coronavirus Job Retention Scheme (CJRS) scheme, scheduled to run until 30 June, will now close on 31 October 2020. From 1 July, employers have been able to bring furloughed employees back to work part-time, while still claiming under the scheme for the hours not worked. The following timetable is planned for the months after July:

August	Employers will have to pay employer NICs and pension contributions for the hours an employee is on furlough.
September	Employers will have to top up furloughed wages to 80%, as well as paying NICs and pension costs, with the government paying 70% instead of 80% of wages.
October	As for September, but with the government paying just 60% of wages.

- There are no financial changes for employees. They will continue to receive 80% of their wages, up to a cap of £2,500 per month.
- From 1 July, only previously furloughed employees are eligible for further grants under the scheme. However, the minimum three-week furlough period has been removed.
- Employees must be paid their normal wage for hours actually worked.
- Claims cannot straddle months because the rules change on a monthly basis.

Additional measures

Other recent measures include:

- **Extension of the Coronavirus Large Business Interruption Loan Scheme (CLBILS):** The maximum loan size has been increased from £50 million to £200 million, but there are restrictions on dividend and bonus payments if a business borrows more than £50 million.
- **Relaxed rules on home-office expenditure:** For 2020/21, there will be no tax or NIC liability where an employee buys home-office equipment and the employer reimburses the expenditure. The equipment must be purchased for the employee to work from home as a result of the pandemic.
- **Statutory Sick Pay (SSP) rebate scheme:** The online service has recently opened up for claims backdated to 13 March. Although SSP is not normally recoverable, the government is repaying SSP that is related to Covid-19 to businesses with fewer than 250 employees. The refunds are limited to two weeks per employee.

Returning to work

Many businesses will have already restarted, with others planning to do so fairly soon. A lot of advice is available online, but here are some planning points to consider:

- Employee engagement will be essential to make sure they fully understand the new workplace practices. Employees might need a period of adjustment if workers have been furloughed for some time.
- If your business has continued to operate well with employees working from home, you may be able to save costs in the longer term by moving to smaller premises.
- Retail businesses need to consider opening for longer, staggering staff shifts and introducing special time slots for older and vulnerable customers.
- Some shops may need to set up customer reservation processes, with no walk-ins, and only allow card payments.
- Staff should be reminded that wearing masks will affect those who lip-read and other hearing-impaired customers.

Working out 'the new normal' for your business and employees may take some time, so ensure your plans are considered and robust.

> *"Employees will continue to receive 80% of their wages, but from 1 July, only previously furloughed employees are eligible for further grants.*

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To the rescue: new reforms to insolvency law

New legislation on company insolvency and corporate governance is aimed at helping companies in difficulty deal with the Covid-19 pandemic by giving them more time to create a rescue plan.

The Corporate Insolvency and Governance Act, which gained Royal Assent on 25 June 2020, makes the biggest changes to insolvency legislation in 20 years. On a permanent basis it:

- Introduces a new moratorium of 20 business days, extendable to 40 days, to give companies breathing space from their creditors while they seek a rescue.
- Safeguards a company's supply chain by prohibiting the use of termination clauses that come into force when a company enters an insolvency procedure, a new moratorium period or a new restructuring process. Suppliers will not be able to rely on contractual terms to stop supplying or vary contract terms such as price, while a company is going through a rescue process.
- Introduces a new restructuring plan for companies in financial distress, to allow more companies to be rescued rather than go into liquidation. Companies will be able to propose a plan for restructuring their liabilities, which can bind a class of creditors even if they do not agree to the plan. There are safeguards for affected creditors.

The restructuring plan process is a new option for businesses needing to restructure their liabilities – adding to the existing Company Voluntary Arrangement and Scheme of Arrangement. It will require 75% creditor consent and court approval.

Temporary changes

The new law also contains some temporary changes:

- For any period of trading between 1 March and 30 September 2020, directors who try to keep their company afloat will not be held personally liable for wrongful trading should the company ultimately become insolvent.
- Until April 2021, certain Companies House filing deadlines are extended.
- Companies are given greater flexibility to hold their AGMs in alternative safe ways.

The permanent changes in particular have been widely welcomed by people working in restructuring and advising companies in difficulty.

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Is your business a going concern?

Many businesses have been so adversely affected by the Covid-19 pandemic that their futures may be in doubt.

Understanding a business's prospects is important for many reasons, with detailed forecasting a crucial element in applying for any loans or other finance. If a business is likely to fail, early recognition and acceptance of that fact will save the owners money and effort.

Analysing the viability of a business as a going concern is a key step in the process of drawing up the business accounts and the directors of each company take the responsibility for it. This is because the value of many items on the balance sheet are based on the assumption that the business will continue trading.

The assessment of whether a business is a going concern should cover at least the 12 months from the date the directors approve the accounts. A good starting point is to prepare a cash flow forecast for that period rather than just a budget, which on its own might not reflect the business's ability to meet its obligations at all times during the period. You should record any assumptions for cash flow planning so that your conclusions can be verified for the audit. We can advise whether your accounts should include any additional disclosures about going concern, so that shareholders and creditors can understand the impact of Covid-19 on the business.

This might also be a useful opportunity for a SWOT analysis to identify the various strengths, weaknesses, opportunities and threats your business faces and its ability to adapt to the changing circumstances.

News in Brief...

Taxation of life assurance bonds

In calculating the available personal allowance, only the top-sliced portion of a policy gain is now included from the Budget on 11 March, not the entire gain. However, the full gain is still counted when calculating any other relief or allowance.

Increase in minimum and living wage

Remember that when furloughed employees resume work, they will have to be paid at least the increased rates introduced from 1 April 2020. For those over 25, this means a 6.2% increase to £8.72 an hour.

In specie contributions into SIPPs

The Upper Tribunal has ruled that pension tax relief is not available on in specie (non-cash) contributions. As a result, HMRC may look to claim back millions of pounds in tax relief across the SIPP industry.

Lifetime ISA withdrawal charge

From 6 March 2020 to 5 April 2021, the charge is reduced from 25% to 20%. The charge applies unless funds are used for a first home, the investor has a terminal illness or reaches 60.

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Tax deferral for self-assessment

Postponing a tax payment could be an attractive option if you are having cash flow problems.

All taxpayers using self-assessment can defer their second self-assessment payment on account for the tax year 2019/20 as part of the government's Covid-19 support. You can take advantage of the option to defer the payment, normally due on 31 July 2020, without incurring any interest or penalties, provided you pay it by 31 January 2021.

Paying the deferred amount

If you choose to defer, and you normally make your payments on account by direct debit, you should ensure you have cancelled the direct debit as soon as possible so that HMRC doesn't automatically collect the amount due. You can then pay the deferred amount at any time between 31 July 2020 and 31 January 2021, either:

- in full using normal payment methods; or
- in instalments by setting up a payment plan with HMRC. However, you cannot use this option if you have any other overdue taxes.

Although you do not need to make the deferred payment until 31 January 2021, bear in mind the potential snowball effect of not paying it off by that date: 31 January 2021 is also the deadline for paying any 2019/20 balancing amount, plus the first payment on account for 2020/21.

If, as a sole trader, you make your accounts up to 31 March or 5 April, then these amounts will be based on profits for the year ended 31 March/5 April 2020, so they will mainly be based on earnings before the Covid-19 pandemic had an impact.

Your payments on account for 2020/21 can be reduced to an estimate of the tax and national insurance contributions (NICs) that will actually be due for this year. However, after including any Covid-19 grants and amounts received under the self-employment income support scheme, these amounts might be more than you expect.

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