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TAX MATTERS

Covid-19 loans

The Winter Economy Plan brings change to the small print on the government's temporary Covid-19 loan schemes.

The Bounce Back Loan scheme, the Coronavirus Business Interruption Loan Scheme (CBILS), the Coronavirus Large Business Interruption Loan Scheme and the Future Fund will all now remain open for applications for longer than originally planned. You can now apply for any of these up until 30 November 2020. The Bounce Back Loan scheme, for example, can be used to provide finance between £2,000 and £50,000. Information about the schemes can be found on the British Business Bank website here **https://bit.ly/2HCRGWy**.

The Winter Economy Plan also gives greater flexibility around repayment. For the Bounce Back Loan, there is a new 'Pay as You Grow' repayment system. This gives the option to repay over a longer period, now up to ten years, effectively reducing monthly repayments by nearly half. Interest-only periods of up to six months will also be offered. This option can be used up to three times. There will also be the possibility of pausing repayment entirely for up to six months. This can only be done once, and only when six payments have been made. CBILS lenders will also have the flexibility to extend the length of loans from a maximum of six years to ten years if this facilitates repayment.

Financial support for Covid-19: latest news

A cancelled Budget normally merits headline treatment. This year is different.

We said goodbye to autumn Budget 2020 with hardly a backwards glance. The Chancellor has since delivered not just an unheralded 'Winter Economy Plan' on 24 September 2020, but a string of updates to that Plan as the pandemic continues to develop.

The Coronavirus Job Retention Scheme (CJRS), popularly known as the furlough scheme, has now been extended until the end of March 2021. We provide more detail elsewhere in this Newsletter.

Further help for the self-employed comes via the Self-Employment Income Support Scheme (SEISS) Grant Extension. The Extension is available to the self-employed and members of partnerships, and comprises two taxable grants. The emphasis is slightly different from the first SEISS grants, however. Although you don't have to have claimed SEISS previously, you have to have been eligible to claim. You must declare that you intend to continue to trade, and are 'currently actively trading' but are impacted by reduced demand because of Covid-19. Alternatively, you must declare that you intend to continue trading, and were 'previously' trading, but are temporarily unable to do so because of Covid-19.

The Extension will be paid in two instalments. The first covers the three months from 1 November 2020 to 31 January 2021. It will be calculated based on 80% of three months' average trading profits, paid in one single instalment, and capped at £7,500. The second will cover the three months from 1 February 2021 to 30 April 2021. The level of this grant is yet to be announced. The online claims service will be available from 30 November 2020, earlier than originally anticipated.

Business grants: the government has announced additional funding to be channelled mainly to businesses in England in the hospitality, accommodation and leisure sector via local authorities. Funding to the devolved administrations in Scotland, Wales and Northern Ireland, which can be used for similar purposes, has also been provided. See, for example information on Covid-19 grants available to businesses in Scotland **https://bit.ly/38uOmbx.**

VAT in the tourism and hospitality sector: a temporary reduction in the rate of VAT for certain supplies of hospitality, hotel and holiday accommodation, along with admission to some attractions, took effect from 15 July 2020. This cut the VAT rate from the standard rate of 20% to 5%, and was due to expire on 12 January 2021. The Winter Economy Plan extends the 5% reduction to the end of March 2021.

We are on hand to discuss these, or any other areas of importance to you.

Inside this issue

Extension of Job Retention Scheme

On 5 November 2020, the Chancellor announced changes to government support measures as a consequence of a second national lockdown for England. The Coronavirus Job Retention Scheme (CJRS), or 'furlough' scheme, was extended still further, with a new end date of 31 March 2021.

The extended CJRS applies to all of the UK. The scheme follows the flexibility of the CJRS and so can be used for employees for any work pattern, including full-time furlough.

Employees will receive 80% of their usual salary for hours not worked, up to a maximum of £2,500 per month. Calculations broadly follow the same methodology as the CJRS. Employers can top up employee wages if they wish. Employees will be paid for worked hours by their employer on the terms in their employment contract. Employers can claim for the salary received by the employee for hours not worked. They will need to cover employer Class 1 National Insurance contributions and employer pension contributions.

There is no gap in support between the previously announced end date of CJRS and the extended CJRS.

The government will review the amount of support given in January to decide whether economic circumstances are improving enough for employers to make more contributions for hours not worked.

Eligibility

All employers with a UK bank account and a UK PAYE scheme can claim. Neither employer nor employee needs to have previously claimed, or have been claimed for under CJRS. They must, however, meet the other eligibility criteria.

An employer can claim for employees who were employed and on their PAYE payroll on 30 October 2020. The employer must have made a PAYE Real Time Information (RTI) submission to HMRC between 20 March 2020 and 30 October 2020, notifying a payment of earnings for that employee. In addition, employees who have recently been made redundant or stopped working for the employer, can be re-employed, and then claimed for. The employees must have been employed and on the payroll on 23 September 2020. The employer must have made an RTI submission to HMRC from 20 March 2020 to 23 September 2020, notifying a payment of earnings for those employees.

When can a claim be made?

The extended CJRS will operate as the previous scheme did, with businesses being able to claim either shortly before, during or after running payroll. Claims can be made from 8am on Wednesday 11 November 2020. Claims made for November must be submitted to HMRC by no later than 14 December 2020. Claims relating to each subsequent month should be submitted by day 14 of the following month.

HMRC guidance

HMRC guidance is still being developed. Below are some links to guidance which will be updated (and continue to be updated) in the next few days:

Which employees can be put on CJRS: **https://bit.ly/3enpXoU**: Reporting employees' wages: **https://bit.ly/32bbx6y**: Claim for wages: **https://bit.ly/3kZQmvu**: How much you can claim: **https://bit.ly/3mOKjdR**.

Job Support Scheme: postponed

A new Job Support Scheme was announced as part of the Winter Economy Plan, due to be introduced from 1 November 2020, and run until 30 April 2021. This has now been postponed, and we do not cover the detail here.

Job Retention Bonus: postponed

The Job Retention Bonus was announced by the Chancellor in July. The Bonus was to have provided a one-off payment of £1,000 to UK employers for every furloughed employee remaining continuously employed through to the end of January 2021, who earned at least £520 a month on average between 1 November 2020 and 31 January 2021.

The purpose of the Bonus was to encourage employers to keep people in work until the end of January. The government now considers that with the extension of the CJRS, the policy intent of the Bonus falls away. The government intends to redeploy a retention incentive at the appropriate time.

Compliance

CJRS calculations have proved particularly complex, and HMRC has guidance on what to do if amounts have been under claimed or over claimed **https://bit.ly/2PEOoCP**. It advises that it 'will not be actively looking for innocent errors', but it is clearly important to make sure claims have been correctly calculated and can be substantiated with appropriate documentation.

Employer tip

HMRC is undertaking compliance activity into Covid-19 support schemes. Revisit claims under the furlough scheme to double-check all is well.

Life raft of laws to keep companies buoyant

'The most significant reforms of UK insolvency law for a decade'?

The Corporate Insolvency and Governance Act 2020 puts in place a series of measures amending insolvency and company law. Some are temporary, some permanent. Many have been in the pipeline for some time, but the final timing of the legislation, mid-pandemic, should provide a considerable help to companies combating the storms of Covid-19. Insolvency provisions differ in the detail in Scotland and Northern Ireland, but broadly, the measures apply across the UK.

The Act is relevant not just to companies in difficulty. It also makes important reading for businesses dealing with such companies. If, for example, your business supplies a company that you think is struggling financially, you may want to consider the implications of your relationship now.

Key provisions:

- introduction of a moratorium. This gives 20 business days' breathing space, (with the possibility of extending this), to companies unable, or likely to become unable, to pay their debts. Putting creditor action on pause, it leaves directors at the helm to look at rescue and restructuring options. During this time, no legal action can be taken against the company without leave of the court. The process is overseen by a monitor who must be a licensed insolvency practitioner
- protecting supplies to the company by preventing suppliers enforcing termination clauses in their contracts. There is a temporary exemption for small company suppliers during the Covid-19 emergency. Generally, safeguards for suppliers are included, so that a business which would experience hardship if required to continue to supply the company can apply to terminate a contract
- bringing in a new restructuring plan which will be binding on particular classes of creditors in some circumstances
- bringing in various temporary Covid-19 easements, for example by allowing companies to hold closed AGMs, conduct business and communicate with members electronically.

Some of the measures are not available to financial services firms and contracts.

There are various temporary changes to ease the administrative burden on companies. Many filing deadlines are extended automatically, and the Companies House website usefully summarises the position **https://bit.ly/3ivwXRK**. Note though, that as some Covid-19 easements are introduced, others are now expiring. The usual process for companies applying for voluntary strike off resumed on 10 September 2020. And from 10 October 2020, the compulsory strike off procedure restarts for companies which are believed no longer to be carrying on business or in operation. The suspension of directors' liability for wrongful trading was also temporary, covering the period until 30 September 2020. Companies House general Covid-19 guidance is here **https://bit.ly/3ah3FTG**.

If you have concerns about the outlook for your company, or financial viability of your customers, we are happy to provide further advice.

Tax cash flow. Your next step

Income tax: there is now enhanced time to pay for tax liabilities due in January 2021, providing an additional period of up to 12 months, if required. This could move the payment deadline to January 2022, but would involve paying interest on the outstanding balance from 1 February 2021.

The offer is not just for those who put off to 31 January 2021 the second income tax self assessment payment on account for 2019/20, due by 31 July 2020. It can also be used to pay other amounts due by 31 January 2021: the balancing payment for the 2019/20 tax year and the first payment on account for 2020/21. You can access these terms by setting up a payment plan online, without the need to phone HMRC, if your self assessment tax debt is between £32 and £30,000 and you meet certain other conditions. The link to the online facility is here **https://bit.ly/38uOmbx**. For larger debts, or to arrange longer to pay, contact HMRC's helpline **https://bit.ly/3cu9qPa**. Arranging this in good time should avoid late payment penalties.

Alternatively, if you are able to, you can pay in full or in instalments on or before 31 January 2021, via the usual online service. Where this is settled in full by 31 January 2021, there is no interest to pay.

VAT: the VAT deferral period ended on 30 June 2020, and as far as ongoing liabilities are concerned, it's business as usual. It was originally announced that any VAT payments deferred between 20 March 2020 and 30 June 2020 should be paid in full on or before 31 March 2021. The Winter Economy Plan changed the rules, giving extra time to pay. The VAT deferral 'New Payment Scheme' allows payment in 11 equal interest-free instalments in the 12 months to 31 March 2022. You will opt-in to do this, and HMRC will provide a means of doing so early in 2021 **https://bit.ly/3jcLmml**. If you prefer, you can still pay in full, or make payments towards the deferred VAT, at any point before 31 March 2021. HMRC has advice on how to do this **https://bit.ly/3jn3sC2**.

Further help: HMRC's Time to Pay service is available to any business struggling to pay tax on time **https://bit.ly/3jmkArn**. You may also find information on the TaxAid website helpful, although the charity is only resourced to help those on yearly incomes of £20,000 or less **https://bit.ly/2G8oDcZ**. We are happy to discuss other possibilities with you. If, for example, taxable income for 2020/21 has fallen in comparison with 2019/20, it may be possible to reduce your 2020/21 payments on account, rather than use the monthly payment facility. Please do contact us for advice.

Brexit: imports and exports

From 1 January 2021, the UK will operate a full external border with the EU.

This entails major change for imports and exports to and from the EU. From 1 January 2021, declarations will be needed to import or export specific (limited) goods categorised as 'controlled': see **https://bit.ly/2FzK9XP** and **https://bit.ly/3c3xEzy**. But for non-controlled goods brought from the EU to GB, import controls apply in three stages: January, April and July 2021. Some changes will apply to all goods movements, and will involve customs declarations, customs duties and VAT on imports, and safety and security declarations. 'Additional requirements' come in, but affecting only certain specific goods movements, such as foodstuffs. Note that separate rules will govern goods moving into, out of and through Northern Ireland: this link may be useful here **https://bit.ly/2HvS09l**.

To help you plan, guidance on procedure generally can be found here **https://bit.ly/3cHYmOl** and **https://bit.ly/33tUT2Y**. Action points to consider now include:

Economic Operators Registration and Identification (EORI) numbers: from 1 January 2021, an EORI number with the prefix 'GB' is needed to move goods between the UK and the EU, unless you only move goods between Northern Ireland and Ireland **https://bit.ly/30wa6z1**.

Remember that from January 2021, it will be important to think about both the UK and EU sides of the equation: to comply with EU requirements, you will, for example, need an EU EORI number if your business makes customs declarations or gets a customs decision in the EU.

Using a customs intermediary: given the complexity of UK and EU customs declarations, you may want to engage a customs intermediary to deal on your behalf **https://bit.ly/34HHN3q**.

Postponed VAT accounting for goods imported from the EU: from 1 January 2021, import VAT applies to imports from the EU. Using 'postponed VAT accounting' from 1 January 2021 lets you account for import VAT on your VAT return, giving the potential to declare and recover import VAT on the same return **https://bit.ly/3jmd13V**.

Delaying customs declarations and payment of tariffs: when the UK's full suite of border controls are in place in July 2021, full customs declarations and payment of customs duties, as set out in the new UK Global Tariff (or as specified in any trade deal with the EU) must take place when goods are imported from the EU. But from 1 January 2021 to 30 June 2021, most traders with a good compliance record can defer declaration and payment for up to six months on imports of standard goods from the EU **https://bit.ly/3ltPWOy**.

This is only a summary outline of some of the issues involved. Gov.uk provides an online checker tool to use in your own circumstances **https://bit.ly/3keUQ1s**. Do talk to us where further advice is needed.

Business diversification. Implications for tax

Many businesses turned chameleon during Covid-19, changing core business to adapt. But whether you're a florist making face masks or a farm shop starting home deliveries, what about tax?

If a business starts a new trade, it's normally treated as a separate trade for tax purposes. HMRC gives the example of a restaurant making gowns and face masks - something completely unrelated to previous business activity. If this reflects your business experience this year, there are key issues to consider. Are you are now running two trades rather than one? Alternatively, has your original trade ceased permanently for tax purposes? In either eventuality, there may be knock-on consequences. For income tax, the beginning or cessation of trade impacts on how profits are taxed, and when any losses qualify for relief. Considerations for companies are subtly different (see below).

If, on the other hand, a business starts a new activity, broadly similar to its existing trade, this isn't likely to be treated as the start of a separate trade. Profits or losses will be merged with those of the original trade. Think of a clothing manufacturing business starting to make gowns and face masks, using existing staff and premises, for instance.

A temporary break in trading because of lockdown won't count as a permanent cessation of trade for tax purposes. This is provided that business activity after the break is the same as, or similar to, that carried on before.

Tip: think points for companies

HMRC is likely to think of a company as carrying on only one trade. Factors which may persuade it otherwise include the fact that one activity is so different in nature from the other that it can be seen as quite separate, and that activities are separately organised and managed up to board level. Availability of loss relief may be a concern to many at present. Since April 2017, there has been greater flexibility to relieve losses arising in different trades. Relief can however be restricted where trading has become 'negligible'. This is a technical area: please contact us to discuss specific circumstances.

Finally, don't forget VAT. Amongst other issues to watch, it's the person (natural or legal), rather than the business, that registers for VAT. So if you have diversified, you may need to review compliance. As always, we are happy to advise.