



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.

Surprise economic statement

Cancelling the autumn Budget, the government has outlined instead a 'Winter Economy Plan'.

On 24 September 2020, the Chancellor announced additional measures to help deal with the ongoing economic strain of Covid-19. The focus was on supporting viable jobs, with the introduction of a successor scheme to the Coronavirus Job Retention Scheme, which ends on 31 October 2020. This new Job Support Scheme is covered in our Covid-19 round up.

Further help for the self-employed will be provided via the Self-Employment Income Support Scheme (SEISS) grant extension. The government states that this represents 'broadly the same level of support for the self-employed as is being provided for employees through the Job Support Scheme.'

The extension comprises two taxable grants, and lasts from November 2020 to April 2021. It is available to the self-employed and members of partnerships. The emphasis is slightly different from the first SEISS grants, however. To qualify, you must be able to declare that you are currently actively trading and intend to continue doing so: and also that you are impacted by reduced demand because of Covid-19 in the qualifying period (between 1 November 2020 and the date of the claim). You must also fulfil the current eligibility criteria. You don't, however, have to have claimed SEISS before in order to qualify.

Grants will be paid in two lump sums, each covering a three-month period. The first covers the period from the start of November 2020 to the end of January 2021, and is based on 20% of average monthly trading profits. It will be paid

in one instalment and capped at £1,875. The second will cover the period from the start of February 2021 to the end of April 2021. Further details have yet to be announced, with the Plan stating that it 'may be adjusted to respond to changing circumstances.' Available information can be found here <https://bit.ly/333vqx2>.



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.

Covid-19 round up

Job Support Scheme

The Winter Economy Plan unveiled the Job Support Scheme (JSS), the successor to the current 'furlough' scheme (Coronavirus Job Retention Scheme), which ends on 31 October 2020. The new JSS opens on 1 November 2020 and runs to 30 April 2021.

The new scheme aims to protect 'viable' jobs in businesses with decreased demand because of Covid-19. Where an employee is on reduced hours because of lower demand, the JSS proposes a three-way split: the government and employer together cover a proportion of the wages for time not worked, and the employee suffers a wage reduction. This is intended to mean that employees keep their job. And it is a requirement of the scheme that employees cannot be made redundant or put on notice of redundancy while the employer claims JSS for them.

To qualify, employees must work reduced hours: initially this will mean at least 33% of their usual hours. They must also have been on your PAYE payroll on or before 23 September 2020. You can claim if you are a small or medium business with a UK bank account and UK PAYE scheme. You don't have to have used the furlough scheme before, either for employer or employee. Large businesses, however, will have to meet a financial test to assess the impact of Covid-19 on their turnover. There is also the expectation that they would not be making capital distributions, such as dividend payments, while accessing the scheme.

As employer, you pay for hours worked. For time not worked, you and the government each pay a third of the usual hourly wage for that employee. The government contribution is capped at £697.92 a month. Employees should thus get at least 77% of the normal wage for every hour they don't work (where the government contribution has not been capped). As employer, you also pay National Insurance and pension contributions. The new JSS will be paid in arrears, with claims made online from December 2020. Further information is here <https://bit.ly/3mYLIvV>.

Job Retention Bonus

The Job Retention Bonus provides support for employers keeping furloughed employees 'in meaningful employment' after the furlough scheme ends on 31 October 2020. If you are eligible, you can claim this alongside the JSS. Claims for the Bonus can be made after Real Time Information payroll returns for January 2021 are filed.

The Bonus is a one-off payment to you as an employer, on which you are taxable. Payment will be made from February 2021, comprising £1,000 for every employee whom you previously claimed for under the furlough scheme, so long as they remain continuously employed through to 31 January 2021. Eligible employees must earn at least £520 per month on average between 1 November 2020 and 31 January 2021 (a total of at least £1,560 across the three months). It can be paid if you're a company director or other office holder meeting the criteria.

The Bonus is not payable for employees serving a contractual or statutory notice period that started before 1 February 2021 for the employer making a claim. HMRC advises that if there is any suggestion that claims under the furlough scheme have been fraudulently claimed or inflated, the Bonus will be withheld until the enquiry is completed.

Employer tip

Further HMRC guidance is forthcoming, but employers planning to claim will find it useful to know that accurate record keeping for the furlough scheme, plus accurate, up to date payroll data are essential to receipt of the Bonus. Revisit claims now to double-check all is well.

Covid-19 grants: unders, overs and compliance

HMRC has published guidance on errors in claims for Covid-19 grants. Calculations for the furlough scheme have proved particularly complex, and there are details covering what to do if amounts have been under claimed or over claimed <https://bit.ly/2PEOoCP>.

If you have received too much under the furlough scheme, you must notify HMRC and make repayment. Notification should be the later of 90 days after receiving payment you weren't entitled to: 90 days after the day your circumstances changed, ending your entitlement to the grant: or 20 October 2020. Taking action before these deadlines means you should avoid the ensuing penalty regime. Overpayments can either be corrected in the next claim, or by contacting HMRC if you don't expect to make a further claim under the scheme.



HMRC is undertaking compliance activity and has powers to impose penalties in some circumstances, and to 'name and shame' defaulters. It advises that it 'will not be actively looking for innocent errors', but it is clearly important to make sure that any claims have been correctly calculated and can be substantiated with appropriate documentation.

All records relating to the furlough scheme, for instance, should be kept for six years. For the new Job Support Scheme, the new short-time working arrangements must be agreed with staff, as must any changes to the employment contract, and employees must be notified in writing. Such agreement must be made available to HMRC on request.

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: the Winter Economy Plan gives longer to pay for liabilities due in January 2021. This applies not just if you took up the option of putting off to 31 January 2021 the second income tax self assessment payment on account for 2019/20, due by 31 July 2020, but also to payment of other amounts due by 31 January 2021: the balancing payment for the 2019/20 tax year and first payment on account for 2020/21. The Plan allows an additional period to pay, of up to 12 months, to those who need it, moving the deadline to January 2022.

If you have self assessment tax debt up to £30,000, you can take advantage of this by setting up a payment plan online, without needing to phone HMRC, and you should get automatic, immediate approval. This page provides the link to the online facility <https://bit.ly/2S96Uok>. For larger debts, or

to arrange longer to pay, contact HMRC's helpline to set up a Time to Pay arrangement <https://bit.ly/3cu9qPa>. 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.

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/3CHYmOI> 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/3ltPW0y>.

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 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.