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Newsletter

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VAT digital links on hold

HMRC has announced a one-year delay to its enforcement of digital VAT rules through the making tax digital (MTD) for VAT return filing process.

The delay was in response to the problem of implementing digital links because of the increased number of people working remotely and businesses adapting to the Covid-19 crisis.

The revised timing

Businesses now have until their first VAT return period starting on or after 1 April 2021 to put digital links in place. For businesses completing VAT returns annually, the situation is a bit more complicated because you may or may not benefit from the extension. MTD itself does not apply until the first VAT accounting period starting on or after 1 October 2019, with the digital link requirement coming in a year later.

> *VAT payments due between 20 March and 30 June 2020 can be deferred. Deferral is automatic, although you can still pay on time if you wish.*

During the extended soft landing period, you can continue to copy information manually from, say, software or a spreadsheet containing your accounting records into another spreadsheet used to calculate your VAT return figures.

Impact of the Covid-19 crisis

HMRC has not relaxed the VAT return submission deadlines, but VAT payments that are due between 20 March and 30 June 2020 can be deferred. Deferral is automatic, although you can still pay on time if you wish; there is no need to inform HMRC.

- You must pay deferred VAT by 31 March 2021, to avoid interest and penalties. The actual date might be a month or two later for quarterly VAT returns.
- VAT refunds will continue to be made as usual.
- If you are using the annual accounting scheme, your payments on account and the annual payment can also be deferred.

If you pay VAT by direct debit you will need to cancel the direct debit immediately, otherwise HMRC will automatically make the withdrawal from your bank.

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TAX

Budget 2020 – not just crisis measures

The Budget on 11 March was rapidly overtaken by the progression of the Covid-19 crisis, with many of its economic forecasts set aside and further announcements made subsequently.

Speaking before 'lockdown', Chancellor Rishi Sunak focused on the economic response to the coronavirus outbreak. Tax measures took second place to crisis announcements, but some of the tax changes that were announced have important implications for businesses.

The most major was perhaps the cut from the £10 million lifetime limit for entrepreneurs' relief to £1 million with immediate effect. That corporation tax stayed at 19% was no surprise as Prime Minister Boris Johnson had previously announced that the planned cut to 17% would be put on hold to help fund 'national priorities'.

The Budget did however include two increases in business tax reliefs from April 2020:

- The structures and buildings allowance (SBA) annual rate has risen from 2% to 3%.

Ann in the UK/Shutterstock.com

- The research and development expenditure credit rate has gone up from 12% to 13%, and the introduction of a cap on the payable research and development tax credit for small companies has been delayed by a year until April 2021.

Also postponed until April 2021 are changes to the IR35 tax rules for off-payroll working in the private sector. The reforms pass responsibility for determining a contractor's status from the individual to the organisation employing their services, as already happens in the public sector. The delay is aimed at helping businesses affected by Covid-19.

Some of the reliefs from business rates announced in the Budget to also help deal with the financial fall-out from the pandemic were subsequently fleshed out. These include (with levels varying in the devolved governments):

- A 12-month business rates holiday for retail, hospitality, leisure and nursery businesses.
- Cash grants of up to £25,000 for businesses in the hospitality and leisure sectors for properties with a rateable value over £15,000 and under £51,000 (in England).
- A one-off grant of £10,000 to help businesses that already pay little or no business rates because of existing rate reliefs.

Specific details of the similar grants implemented by the Scottish, Welsh and Northern Ireland governments are on their websites.

TAX

National insurance diverges for employers and employees

In March's Budget, the Chancellor confirmed an over 10% increase in the class 1 national insurance contributions (NICs) threshold for employees, but the same doesn't apply to employers.

The government has raised the threshold at which employees must pay NICs to £9,500. The new threshold represents a saving of £104 a year for employees, compared with 2019/20.

However, the employer's NIC threshold only increased to £8,788 a year – the first time since 2016/17 that employers' and employees' thresholds have diverged.

As a result, an employer paying a salary of £9,500 will have an NICs liability of nearly £100, unless the employee is aged under 21 or an apprentice aged under 25 (in which case no employer NICs are payable on earnings up to £50,000). There are also no NICs for employees over state pension age.

Any employer NICs may be covered by the employment allowance, which has risen from £3,000 to £4,000 a year. Employers can claim the allowance against their employer's NICs bill if their liability was less than £100,000 in the previous tax year, although companies where the only employee is a director are not eligible.

Self-employed people have also seen an NICs reduction: they now pay 9% NICs on profits between £9,500 and £50,000.

With regards to directors' remuneration, some owner-managed companies opt to pay a salary up to the NICs threshold, and dividends above that, because NICs are not payable on dividends. Whichever method is used, companies must account for employer NICs on any pay above £8,788.

Employees' state pension and benefits entitlements are not negatively impacted by the threshold increase. Credits towards state pension are given where earnings exceed the lower earnings limit, which has increased only by inflation to £120 a week.

A further new NICs exemption was announced in the Budget. To encourage employment of armed forces veterans, from April 2021 employers will not have to pay NICs on a veteran's salary up to £50,000 in the first year of their employment.

INHERITANCE

Intestacy change

The level of statutory legacy under the intestacy rules in England has changed, highlighting the importance of making a will.

Where someone dies without making a will, they are said to have died intestate. In these circumstances, the amount that a spouse or civil partner receives absolutely where there are also surviving children rose on 6 February 2020 from £250,000 to £270,000 for deaths from that date. The surviving spouse or civil partner then receives half the remainder of the estate, and the other half is divided equally between the children.

Such a distribution will not suit most people. It could force a spouse or partner out of their home, or leave them short of funds. The family will also miss out on opportunities to minimise inheritance tax by arranging the estate in a tax-efficient manner.

The Covid-19 pandemic brings home just how essential it is to make a will and keep it up to date, because circumstances and legislation can change across the UK. And remember that the intestacy rules only cover couples who are actually married or in a civil partnership. So-called 'common law' partners may be left with nothing.

BUSINESS

Managing your business through Covid-19

Few businesses can have escaped the economic effects of Covid-19 and the 'lockdown' measures to control its spread.

The crisis has impacted businesses and individuals in different ways. The steps they need to take to manage their situations will vary, but there are some general principles.

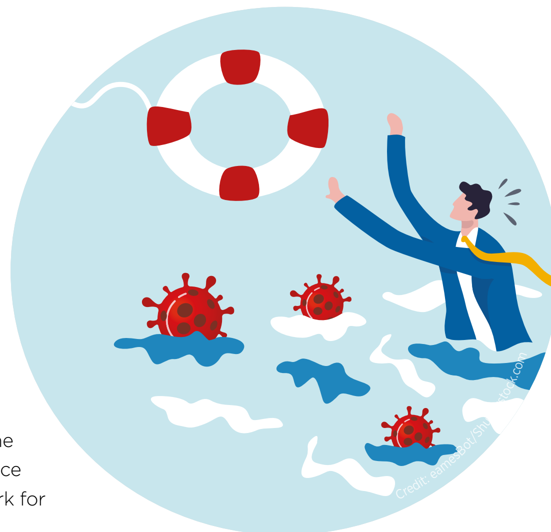
Use any government help available

The Coronavirus Job Retention Scheme (CJRS) has already outstripped expectations and could cover nearly a third of private sector workers. Under the scheme the state pays 80% of the earnings of furloughed staff up to £2,500 a month. The government has regularly updated its initial guidance on the scheme, which is available to most employers and has been extended to the end of June.

The Coronavirus Business Interruption Loan Scheme (CIBILS), under which the state underwrites part of the risk of bank loans, is also available. There has been some criticism that the scheme is too complex and slow, with banks nervous about lending, or unable to handle the volume of applications. An additional loan scheme for large businesses was announced at the beginning of April.

Deferments

You can defer VAT payments due up to 30 June 2020 until 31 March 2021; similarly, the self-assessment payment on account due on 31 July 2020 can be deferred to 31 January 2021. There is no specific relaxation for corporation tax payments, but companies may apply to HMRC for time to pay. Some self-employed individuals are able to obtain a taxable grant worth 80% of trading profits up to £2,500 a month, but not all meet the required conditions. And neither the CJRS nor the self-employed scheme will help to replace the dividend income of people who work for their own company.



Some companies have been able to apply to Companies House to extend their accounts filing deadline and there are temporary relaxations to insolvency law to help with company restructuring and to reduce personal liability risk for directors.

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Look to the future

When the crisis measures are lifted, you will want to be ready to rebuild your business and its finances. The new business environment is unlikely to be the same as before Covid-19 and it may be a long time before consumer spending picks up.

Any period of forced inactivity can be used to reflect on any aspect of your business – what it does and how it is run and managed. Do you have the right products and services or could they be improved, or altered, to respond to new markets and needs? Do you and your staff have the right skills? If not, now may be a good time for training – many courses are available online. In a world that is rapidly getting used to doing more online, do you have the right hardware, software and skills to make use of new opportunities? What other investment would help your business?

Many people have now been working from home for some time. If your business has made use of remote working, you should assess the benefits and drawbacks. You may find that continuing remote working for some staff could be beneficial.

Look after your staff: they may be your best asset. Network with others in a similar situation, and share solutions. But don't over-plan – the future holds many uncertainties.

INVESTMENT

Saving for children – JISA limit doubles as CTFs mature

With Child Trust Funds (CTFs) starting to mature in September, it's worth thinking about how young adults can deal with their cash, especially since the savings limits for Junior ISAs (JISAs) and CTFs have substantially increased for this tax year.

Maturing CTFs

The sensible option might be simply to transfer the accumulated savings across to an adult ISA, which can be done without depleting the £20,000 ISA investment limit. Even with the recent stock market fall, the accumulated amount in a stocks and shares CTF could be quite substantial.

Another option is a lifetime ISA which could help with buying a first home. Of more immediate concern might be using the funds to help with university costs, especially living expenses.

Until the account holder gets in touch with the CTF provider, the account will retain its tax-free status. A lost or forgotten CTF can be traced using HMRC's CTF tracing service.

Savings limit rise

For 2020/21, the savings limit for Junior ISAs and CTFs has more than doubled from £4,368 to £9,000, allowing families to set aside significant amounts for children, grandchildren and other young friends and relations.

If you are planning to invest the full £9,000 in a stocks and shares ISA, make sure the investments are as diversified as possible.

PENSIONS

Pension relief for higher rate earners

Higher rate taxpayers hit by additional charges for breaching the pension annual allowance should generally welcome the Chancellor's announcement of a more generous taper regime for 2020/21.

The problem

Last year it was widely reported that the prospect of large tax bills was discouraging many consultants from taking on additional work for the NHS. Senior doctors and others were seeing their annual allowance reduced due to pension tapering rules for those on high incomes. Once pension contributions exceed the available allowance, any excess is subject to a tax charge.

The solution

For 2020/21, the income limits used to calculate the tapered annual allowance have been increased.

- The adjusted income figure, which determines the amount by which the annual allowance is tapered, has been increased from £150,000 to £240,000.
- The threshold income limit has increased from £110,000 to £200,000. There is no tapering if this is not exceeded.
- However, the minimum tapered annual allowance has been reduced from £10,000 to £4,000.

Who wins and who loses?

If your adjusted income exceeds £300,000, you may be worse off because of the changes. For example, if you earn £400,000, you can now contribute only 1% of your income into a pension, compared with 2.5% previously.

The majority of doctors, judges and other relatively high earners should no longer

be affected by the tapering rules. If you were previously capped at contributions of £10,000, you might now be in a position to start rebuilding your pension fund. You should always take expert advice before deciding to make any changes to your pension arrangements.

TAX

HMRC compliance checks

HMRC has increased the levels of its compliance checks into self-assessment returns, opening more than 300,000 tax return investigations for 2016/17 and netting over £1bn in extra tax in 2017/18. How can you stay out of HMRC's searchlight?

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Good practice

If you were late in filing your tax return for 2018/19, now is a good time to get your records into shape for next time.

Filing records methodically will mean much less chance of omitting something from your return or making a mistake. There are no rules on how you must keep records, but it is a good idea to keep records digitally, either by scanning (recommended) or taking photos.

Risk factors

Leaving something out when filling in your tax return, or making a mistake, gives HMRC a reason to investigate. But HMRC will only charge a penalty if you have not taken reasonable care.

If your income has gone down or your expenditure has increased HMRC may choose to get involved. Explaining these differences on your tax return could avoid a compliance check being started. Just being regularly late submitting your tax returns will also bring you to HMRC's attention.

HMRC's methods of data collection are more invasive than in some other countries. For example, HMRC can scan social media accounts to see if a person is clearly living beyond their reported means.

Penalties

Even a straightforward compliance check can sometimes take several months to complete. Apart from being very stressful and taking up a lot of time, there is also the possibility of incurring penalties.

A careless mistake could incur a maximum penalty of 30% of the amount of tax in question, a deliberate inaccuracy 70% (minimum 20%) and a deliberate and concealed miscalculation could lead to a penalty as high as 100% (minimum 30%). Penalties can be reduced to the minimum values: an unprompted disclosure of a mistake will see the penalty for a careless error reduced to nil.

Let us know if you need help with your affairs.

TAX

New company car benefit tax

Changes in the benefit in kind (BIK) tax rules mean that for the next three years, low and zero-emission cars will be considerably more attractive for company car drivers.

There are now two BIK car tax scales depending on the date of first registration of the car. Most car benefit percentages have been reduced by 2% for cars registered from 6 April 2020. They will then increase by 1% in 2021/22 and another 1% in 2022/23, when they will be the same as for older cars.

The electric range of hybrid electric cars is now taken into account. For these cars – which have CO_2 emissions of 1-50 g/km – the rates are 2% (0% for registrations after – 5 April 2020) if they can be driven for 130 miles on electric power alone, although it would seem that currently none achieve that. The rate rises to 14% (12%) if the electric range is under 30 miles. The percentage is 0% for a pure electric car whenever it was registered, rising to 1% and 2% over the next two years – making it worth considering going electric.