NEWS UPDATE - 11 MARCH 2021

Contents

There were still some surprises in the Spring 2021 Budget

A quiet turning of the tax screw... Just before the Budget arrived on 3 March, it seemed as if the Chancellor would have nothing to say that was not already public knowledge. However, while some of the torrent of leaks were confirmed, none of the pre-Budget pundits correctly predicted the Chancellor's strategy. Instead of cutting borrowing, Mr Sunak increased it sharply in 2021/22 over the estimates produced just four months earlier in his Spending Review.

The Chancellor's approach was:

- To stimulate investment in the next two years with extremely generous allowances. In effect, for every £1,000 a company invests in new plant and machinery, the government will reduce their corporate tax bill by £247.
- To pay for this largesse and start to repair public finances:
    - From April 2023, when the enhanced investment allowances end, the rate of corporation tax for companies with profits of at least £250,000 will jump by 6%, from 19% to 25%.
    - Many personal tax thresholds, bands and allowances will be frozen until the end of 2025/26.

The big freeze of everything from the pensions lifetime allowance to the inheritance tax nil rate band counts as a stealth tax. Look at the raw numbers and there is no increase in tax – everything stays the same. In practice, the effect of inflation will take its toll. As incomes and wealth rise, thresholds are crossed and tax bands filled more quickly. More people become taxpayers and all taxpayers pay more tax.

A good (or possibly bad) example is the inheritance tax nil rate band, which was set at its current £325,000 level (now running through to 2026) way back in April 2009. Had the band been linked to the CPI inflation index, it would be about £90,000 higher in 2021/22. That difference equates to an extra £36,000 in inheritance tax at the standard 40% rate.

In other words, you may think you were spared higher tax bills by the Chancellor, but that is not necessarily the case. Tax planning is still important and will become more so as the freeze drags on to 2026.

Further extension to Covid-19 relief measures

The latest, and hopefully last, lockdown is not due to be completely lifted until at least 21 June, so it was no surprise to see Covid-19 relief measures extended in the Budget on 3 March. The furlough scheme will now run until 30 September and there will be two more self-employed grants, plus various other measures.

Furlough (CJRS)

Furloughed employees can continue to receive 80% of their wages for hours not worked, up to a cap of £2,500 per month, until 30 September. By continuing for a few months after restrictions end, the scheme will help businesses slowly recover from the disruption they have faced.

The current level of support will continue until 30 June. In July, the scheme will then only cover 70% of wages for the hours not worked, up to a cap of £2,187.50. This will reduce to 60% for August and September, with a cap of £1,875. Employers will need to pay national insurance contributions and pension contributions throughout.

Self-employed grants (SEISS)

There are to be two more grants; a fourth grant in late April, and a fifth grant in late July. However, extra conditions will apply for the fifth grant.

- The fourth grant will again be worth 80% of three months' average profits (now including results reported for 2019/20 but capped at £7,500.
- The fifth grant will be similar if a business' turnover has dropped by 30% or more. However, if less, the grant will only be worth 30% of average profits (capped at £2,850).

Other measures

A range of additional loans and grants were also extended to provide ongoing relief ahead of the gradual easing of lockdown measures:

- VAT: The temporary reduced rate of 5% for businesses in the tourism and hospitality sectors has been extended until 30 September 2021, with a rate of 12.5% then applying until 31 March 2022.
- Recovery loan scheme: The government will guarantee 80% of loans between £25,000 and £10 million.
- Restart grant: Hospitality and leisure businesses in England will receive a grant of up to £18,000 per premise; up to £6,000 for non-essential retail businesses.
- Business rates relief: The 100% relief for eligible retail, hospitality and leisure properties in England will continue to 30 June 2021, followed by 66% relief until 31 March 2022.

Details of the levels of CJRS support can be found at the link below or get in touch with us for further guidance.

https://www.gov.uk/government/publications/changes-to-the-coronavirus-job-retention-scheme/changes-to-the-coronavirus-job-retention-scheme

Businesses prepare for long term tax hike

The 3 March Budget provided an immediate sweetener for businesses in the form of a temporary extension to carry back of trading losses, plus, for companies only, a temporary super-deduction for investment in plant and machinery. However, in two years' time, the main rate of corporation tax will rise to 25%.

Trading losses

The period over which businesses can carry back trading losses has been extended from one year to three years:

- For the self-employed, a maximum £2 million of trading losses made in either 2020/21 or 2021/22 can be set against trading profits of the three previous tax years.
- For companies, carry back against total profits is extended to 36 months for loss making accounting periods ending between 1 April 2020 and 31 March 2022. The £2 million cap applies to claims beyond the normal 12-month carry back.

Super-deduction

From 1 April 2021 to 31 March 2023, companies investing in qualifying plant and machinery will benefit from a 130% super-deduction. This means that for every £10,000 spent, there will be a £13,000 deduction against profits, saving corporation tax of £2,470. Currently, the tax saving would be just £1,900 within the annual investment allowance. The super-deduction is for those assets that would normally qualify for the 18% writing down allowance. However, only expenditure on new plant and machinery qualifies; motor cars are also excluded.

There is also a 50% first-year allowance for expenditure falling into the special rate pool, but this is less generous than the 100% annual investment allowance.

Corporation tax

From 1 April 2023, there will be two rates:

- A small profits rate of 19% where profits are below a £50,000 lower limit, and
- A main rate of 25% where profits exceed a £250,000 upper limit.

Where profits are between the lower and upper limits, a marginal taper will apply so that the rate of tax is gradually increased from 19% to 25%. However, this means the rate on this band of profits will be an even more punitive 26.5%.

Some examples of how the temporary loss relief extension will apply for both the self-employed and for companies can be found here.

https://www.gov.uk/government/publications/extended-loss-carry-back-for-businesses/extended-loss-carry-back-for-businesses

New payment scheme announced for deferred VAT

Businesses that deferred VAT payments due between 20 March and 30 June 2020, and cannot afford to pay by 31 March 2021, have the option of joining a new scheme allowing them to pay the deferred VAT over a longer period. The VAT deferral new payment scheme opened on 23 February and will close on 21 June 2021.

The scheme lets a business pay any outstanding deferred VAT in equal instalments without incurring interest or penalties. The number of instalments can be between two and 11, depending on when a business joins the scheme.

Instalment options

To benefit from the maximum 11 instalments, a business needs to join the scheme by 19 March 2021. For later joining dates:

JOIN BY	MAXIMUM INSTALMENTS
21 April	10
19 May	9
21 June	8

Of course, fewer instalments than the maximum can be selected. The first instalment is payable at the time of joining, with a direct debit set up required for subsequent payments. All instalments must be paid by 31 March 2022.

How to join

A business has to opt in to the new scheme. This is done using the business' Government Gateway account, and one will need to be created if not already set up. Before joining, a business must:

- Be up to date with its VAT returns;
- Correct errors on VAT returns as soon as possible;
- Make sure they know how much VAT was originally deferred, and how much is still outstanding;
- Decide on the number of instalments to pay; and
- Be able to make the first instalment.

Because of the direct debit requirement, the new scheme cannot be set up by an agent. If a business is unable to use the online service or pay by direct debit, then they should contact the COVID-19 helpline on 0800 024 1222. The starting point to join the VAT deferral payment scheme can be found from the link below.

https://www.gov.uk/guidance/deferral-of-vat-payments-due-to-coronavirus-covid-19

Off-payroll status communication

From 6 April 2021, any medium or large-sized organisation engaging a worker operating through an intermediary will be responsible for determining the worker's employment status. This status must then be communicated to the worker and to any party contracted with for the supply of the worker, such as an agency.

Although the client (the medium or large-sized organisation) is responsible for determining employment status, it is the fee-payer who will have to operate PAYE if the determination means the worker falls within the off-payroll working (IR35) rules. The fee-payer, as the name implies, is the organisation paying the intermediary, and will often be different to the client. The intermediary will typically be a personal service company, but could also be a partnership, LLP, a managed service company or even an individual.

Status determination statement

Regardless of the outcome of the status determination, the client must provide a status determination statement (SDS) confirming the conclusion and the reasons behind it.

If there is a labour supply chain involved, the SDS must be passed down each stage of the chain until it reaches the fee-payer. This is extremely important, because if an agency receives the SDS but then doesn't pass it on down the supply chain, the agency will be treated as the fee-payer, with responsibility for deducting taxes and paying them over to HMRC. The same for the client, who will be treated as the fee-payer until the SDS is carried out and communicated.

There are other situations where the client can end up being treated as the fee-payer:

Failure to take reasonable care when making a determination; and

Failure to respond within 45 days to a disagreement regarding a determination.

Status will have to be re-checked if the working practices of the engagement change or a new contract is negotiated with a worker.

HMRC's guidance to off-payroll working for clients changes in April 2021. Details, along with several useful links, can be found here.

https://www.gov.uk/guidance/april-2020-changes-to-off-payroll-working-for-clients

Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk