BUDGET 2020
Not just crisis measures

NICS DIVERGE
Employees benefit from 10% increase in national insurance threshold

SELF-ASSESSMENT SCRUTINY
Returns come under HMRC spotlight

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Financial UPDATE

MAY 2020

Managing your business through Covid-19

Making the most of support available during the crisis

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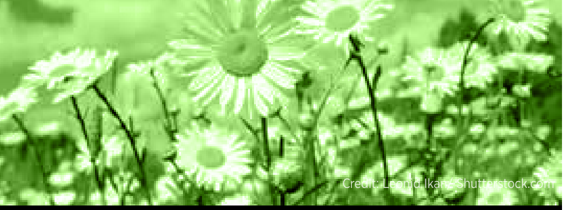

In this issue...

Restrictions on daily life are now the new normal. Children are getting used to schooling at home and those working in food, transport and utilities have been recognised, alongside health workers, as our much lauded keyworkers. But of course, many businesses are struggling to do what they can to stay viable during this enforced economic shut down. While as a nation we have now added furlough to our lexicon, we also look in this issue at the other measures the government has put in place to support businesses and employees. Other changes introduced in the Budget are covered and we highlight HMRC's increased vigilance in investigating self-assessment tax returns. This time of lockdown could be a good opportunity to make sure your records are in order.

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TAX

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. So, if you complete quarterly returns, this will be the return for the period ending either 30 June, 31 July or 31 August 2021.

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.

For example, for a VAT period running to 31 March 2020, MTD applies for the year ended 31 March 2021, with digital links not required until the VAT return is completed for the year ended 31 March 2022 – so no change.

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, although you may well have a reasonable excuse for late filing. However, 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, with cuts to business rates, a temporary coronavirus business interruption loan scheme and extensions in eligibility for benefits for employees and self-employed people who cannot work.

REPRIEVE ON RELIEFS

Tax measures took second place to crisis announcements, but some of the tax changes that were announced have important implications for businesses.

The £10 million lifetime limit for entrepreneurs' relief was cut to £1 million with immediate effect, quashing speculation that it would be abolished altogether. Entrepreneurs' relief reduces the rate of capital gains tax (CGT) to 10% for qualifying disposals of businesses, shares in a personal company and employees' enterprise management incentive shares.

The lifetime cap for investors' relief currently remains £10 million. Similar to entrepreneurs' relief, it is designed for investors in unlisted shares in trading companies who are not actively involved in the business.

That corporation tax stayed at 19% was no surprise. Prime Minister Boris Johnson had pledged before the December 2019 general election that if his party were to be elected, the planned cut to 17% would be put on hold to help fund 'national priorities' including the NHS.

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

- The annual rate of the structures and buildings allowance (SBA) has risen from 2% to 3%. SBA gives tax relief for certain construction, renovation or conversion costs for non-residential buildings and structures where all the work was contracted after 28 October 2018.
- The research and development expenditure credit rate has gone up from 12% to 13%. The government is also considering adding data and cloud computing to the types of expenditure that qualify. 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.

CRISIS MEASURES

Also postponed until April 2021 are changes to the tax rules for off-payroll working in the private sector. The reforms pass responsibility for determining a contractor's status from the individual contractor to the organisation employing their services. At present, only public sector organisations have to do this. The extension to medium and large companies in the private sector is controversial, with claims that the rules are too complicated and that the tool HMRC provides for checking employment status for tax is flawed. The delay, announced after the Budget, 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 have been 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.

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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 situation will vary, but there are some general principles.

USE GOVERNMENT HELP AVAILABLE

Availability of cash reserves is an obvious major issue for businesses, but a number of government initiatives are available to fill some of the gaps in income.

The demand for 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, with employer's national insurance contributions (NICs) and mandatory workplace pension contributions also covered. The government has regularly updated its initial guidance on the scheme, which is available to most employers and has now been extended to the end of June. Although furloughed employees can undertake training, they should not be performing any work for your business.

The Coronavirus Business Interruption Loan Scheme (CBILS), under which the state underwrites part of the risk of bank loans, is also available. It has been slow off the ground, but as of 23 April had granted over 16,600 loans worth £2.8 bn according to UK Finance.

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An additional loan scheme for large businesses was announced at the beginning of April.

Other support measures include cash grants of up to £25,000 for businesses with a rateable value up to £51,000, a statutory sick pay relief package and a business rates holiday.

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 payments will not be made until early June. And neither

> *Support measures include cash grants of up to £25,000 for businesses with a rateable value up to £51,000, a statutory sick pay relief package and a business rates holiday.*

the CJRS nor the self-employed scheme will help to replace the dividend income of people who work for their own company and pay themselves mainly by dividends.

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.

LOOK TO THE FUTURE

When the crisis measures are lifted, you will want to be ready to rebuild your business and its finances, which you will no doubt have been planning in the time since ‘lockdown’ began. 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, although there may be a lot of pent-up demand. For example, the scenario published by the Office for Budget Responsibility assumes 17.9% growth in 2021.

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?

A NEW WAY OF WORKING

Many people have now experienced working from home for some time since the beginning of the lockdown. 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.

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 2020/21.

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.

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PENSION

Pension relief for higher earners

The Chancellor has tweaked the pensions taper regime for pension contributions from higher earners for 2020/21. We explain how it works and what it could mean for you

THE PROBLEM

The issue came to a head last year when it was widely reported that the prospect of large tax bills was discouraging many consultants from taking on additional work for the NHS.

Where someone receives additional income, it can mean their employer makes additional pension contributions. But many senior doctors and others have been seeing their annual allowance reduced because of the way the pension tapering rules work for those on high incomes. Once pension contributions exceed their available allowance, any excess is subject to a tax charge – usually at the 45% additional rate.

It is often possible to have the tax charge paid out of the pension scheme to avoid funding the additional tax personally, but this will decrease the value of the pension.

THE SOLUTION

For 2020/21, the income limits used to calculate the tapered annual allowance have been increased, although the minimum tapered annual allowance has also been reduced. Most affected employees should find themselves in a better position.

- The adjusted income figure, which determines the amount by which the annual allowance is tapered, has been increased from £150,000 to £240,000. Adjusted income is basically taxable income plus employer pension contributions.
- The threshold income figure has been increased from £110,000 to £200,000. Threshold income is basically taxable income less employee pension contributions. There is no tapering if threshold income is not exceeded.
- The minimum tapered annual allowance has been reduced from £10,000 to £4,000.

The annual allowance for 2020/21 is reduced by £1 for every £2 by which a person's adjusted income exceeds £240,000, down to a minimum tapered annual allowance of £4,000. This means that a person with adjusted income of £312,000 or more will only be entitled to the minimum allowance of £4,000 (compared with £10,000 allowance in previous years and a maximum allowance of £40,000).

Establishing the amount of contributions for a defined benefit scheme is more complicated than it is for a money purchase scheme. Essentially, the notional capital value of the pension at the end of the year is compared with its value at the start of the year.

WHO WINS AND WHO LOSES?

At first glance, you might think everyone wins, but that is not the case once adjusted income exceeds £300,000.

Someone earning, say, £400,000 can now have contributions of just 1% of their income made into a pension, compared with 2.5% previously.

However, if someone was previously capped at contributions of £10,000, they might now be in a position to start rebuilding their pension fund with annual contributions up to £40,000.

Always take expert advice before deciding to make any changes to your pension arrangements.

EXAMPLE

ADJUSTED INCOME	ANNUAL ALLOWANCE 2019/20	ANNUAL ALLOWANCE 2020/21
£150,000	£40,000	£40,000
£210,000	£10,000	£40,000
£300,000	£10,000	£10,000
£304,000	£10,000	£8,000
£312,000 or more	£10,000	£4,000

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EMPLOYMENT

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 (up from £8,632, and a step towards meeting the government's target of eventually reaching a threshold of £12,500). 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 however 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. However, companies where the only employee is a director are not eligible for this benefit. The increase in the employment allowance means that more businesses with a very small number of employees will not pay any NICs.

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' entitlement to the state pension and other state benefits are not negatively impacted by the increased NICs threshold. Credits towards state pension are given where earnings exceed the lower earnings limit, which has increased only by inflation from £118 a week in 2019/20 to £120 a week (or £6,240 a year).

> *Any employer NICs may be covered by the employment allowance, which has risen from £3,000 to £4,000 a year.*

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.


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INHERITANCE

Intestacy rules 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 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.

TAX

HMRC compliance checks

HMRC has increased the levels of its compliance checks for 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?

GOOD PRACTICE

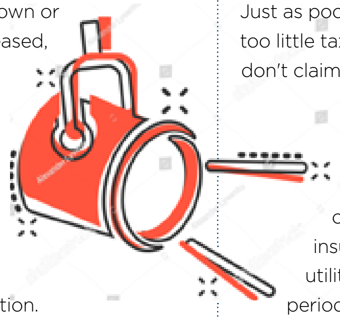
If you were late in filing your tax return for 2018/19, now is a good time to get your records into shape for next time. Filing records methodically will mean much less chance of omitting something or making a mistake.

HMRC expects every individual or business to keep records that allow them to provide a complete and accurate return. There are no specific rules on how to keep records, but it is a good idea to keep records digitally, either by scanning (recommended) or taking photos. The files can then be stored on your phone, tablet or laptop, but make sure to back them up.

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 someone 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 depending on the amount of help the taxpayer gives to HMRC. Unprompted disclosure of a mistake will see the penalty for a careless error reduced to nil.

- Tell HMRC about the error.
- Help HMRC work out any extra tax due.
- Give HMRC access to check the figures.

THE OTHER SIDE OF THE COIN

Just as poor record keeping can lead to paying too little tax, you can also pay too much if you don't claim the expenses you are entitled to.

Even if you are simply letting property, keep records of your expenditure such as repairs, travel costs to maintain the property, insurance, mortgage interest, any utility bills and council tax paid for unlet periods and leasehold property service charges.

Remember, you might be able to claim a fixed £1,000 deduction if this is more than your actual expenses.

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