SUMMER STATEMENT
The Chancellor spends more on Covid-19 recovery

GOING CONCERN?
Ensure your business meets the criteria

REASONABLE EXCUSE
Understanding HMRC's policy

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Financial UPDATE

JUL\AUG 2020

Employment support measures update

Evolving options as the Covid lockdown eases

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In this issue...

It may feel as if we have all been standing still for the last few months, but profound changes have taken place for many businesses and employees across the country as the economic effect of the Covid-19 lockdown takes its toll. Amid the continuing uncertainty, the Chancellor delivered a Summer Statement in July outlining further government measures to promote, support and create jobs. In this edition of our newsletter we also look at the ongoing measures to shore up employment as initial plans evolve. We explain HMRC's rules on presenting reasonable excuse for late tax payments, explore ensuring your business is a going concern and look at new insolvency law rules aimed at extending a helping hand to businesses in crisis.

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TAX

Self-assessment tax deferral

Postponing a tax payment could be an attractive option if you are currently experiencing cash flow problems.

All taxpayers using self-assessment can take advantage of a special option to defer their second self-assessment payment on account for the tax year 2019/20 as part of the government's support during the Covid-19 pandemic.

You do not need to be self-employed to defer the payment that is normally due on 31 July 2020. Anyone using self-assessment can take advantage of this option. You will not incur any interest or penalties on the deferred payment, provided you pay it by 31 January 2021. There is no need to tell HMRC that you are deferring the payment on account and choosing to defer will not hinder your eligibility for any other Covid-19 support provided by HMRC.

If you choose to defer and you normally make your payments on account by direct debit, you should ensure you have cancelled the direct debit as soon as possible so that HMRC doesn't automatically collect the amount due. You can then pay the deferred amount at any time between 31 July 2020 and 31 January 2021, either:

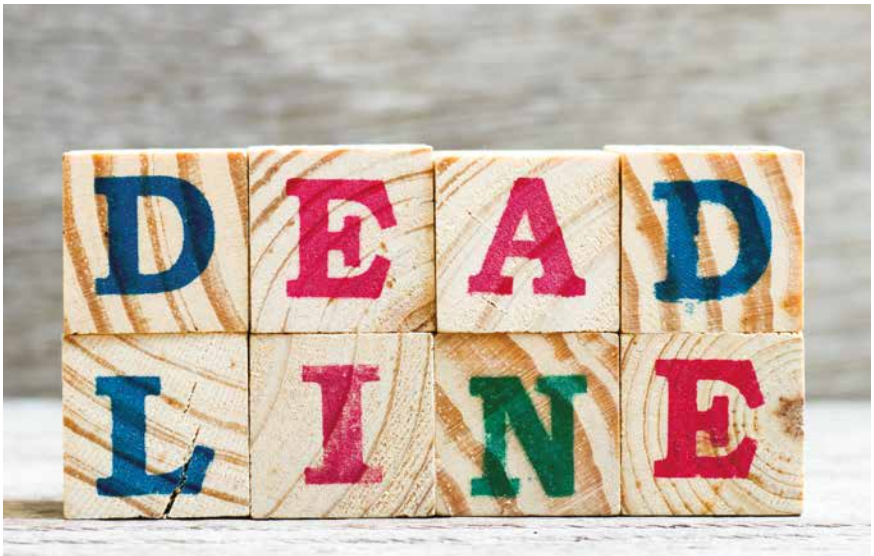
- in full using normal payment methods; or
- in instalments by setting up a payment plan with HMRC. However, you cannot use this option if you have any other overdue taxes.

SNOWBALL EFFECT

Although you do not need to make the deferred payment until 31 January 2021, you should bear in mind the risk of a snowball effect if it is not paid off by that date. 31 January 2021 is also the deadline for paying any balancing amount for 2019/20, plus the first payment on account for 2020/21. If, as a sole trader, you make your accounts up to 31 March or 5 April, then these amounts will be based on profits for the year ended 31 March/5 April 2020, so they will mainly be based on earnings before the Covid-19 pandemic had an impact.

Your payments on account for 2020/21 can be reduced to an estimate of the tax and national insurance contributions (NICs) that will actually be due for this year. However, these amounts might be more than you expect, after including any Covid-19 grants and amounts received under the self-employment income support scheme.

As things currently stand, HMRC will apply the usual interest, penalties and debt collection procedures for payments missed from 31 January 2021 onwards. Please contact us if you would like help planning your tax payments.



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ECONOMY

The Chancellor's statement – a summer of spending

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Almost four months after the Spring Budget and the start of the Covid-19 crisis, the Chancellor has had to return to parliament with a new round of spending.

Whereas in March, Rishi Sunak's £12 billion of Covid-19 measures were a "temporary, timely and targeted" part of his overall Budget, his Summer Statement was focused solely on a new £30 billion set of responses to the pandemic. These wide-ranging measures include:

- **A temporary stamp duty cut** The nil rate band for Stamp Duty Land Tax (SDLT) on residential property in England and Northern Ireland was increased from £125,000 to £500,000 with immediate effect until the end of March 2021. This will provide up to £15,000 worth of savings for homebuyers. The 3% surcharge will still apply to second homes and additional properties.

  The rates of Land and Buildings Transaction Tax (LBTT) in Scotland and Land Transaction Tax (LTT) in Wales are set by the devolved administrations in those countries. Both have followed suit, raising the nil rate bands on their land taxes to £250,000, but in Wales the increase does not apply to buyers of second homes, buy to let, etc.

- **Green Homes Grant** A £2 billion Green Homes Grant is to be launched in England which will provide at least £2 for every £1 that homeowners and landlords invest in making their homes more energy efficient, up to £5,000 per household. For those on the lowest incomes, the scheme will fully fund energy efficiency measures of up to £10,000 per household.

- **Job Retention Bonus** UK employers will receive a bonus of £1,000 for every previously furloughed employee who remains continuously employed from the end of the Coronavirus Job Retention Scheme in October through to 31 January 2021. Qualifying employees must earn more than £520 per month on average during that period.

- **Kickstart Scheme** This scheme, which only covers Great Britain, aims to provide six-month work placements for those aged 16-24 who are on Universal Credit and considered to be at risk of long-term unemployment. Employers will receive a payment that will cover 100% of the relevant National Minimum Wage for 25 hours a week plus the associated employer NICs and employer minimum automatic enrolment pension contributions (a maximum of about £6,500).

- **Traineeship payments** Employers in England who provide work experience for 16-24-year-old trainees will receive a payment of £1,000 per trainee.

- **Apprenticeship payments** Employers in England will be entitled to a new payment of £2,000 for each new apprentice aged under 25 they hire, and £1,500 for each new apprentice hired aged 25 and over.

- **A temporary VAT cut** A 5% rate of VAT will apply to supplies of food and non-alcoholic drinks from UK restaurants, pubs, etc and accommodation and admission to attractions. The rate will operate from 15 July 2020 through to 12 January 2021.

- **Eat Out to Help Out** This new short term incentive is designed to encourage people to return to eating out. Every diner will be entitled to a 50% discount of up to £10 per head on their meal, at any participating restaurant, café, pub or other eligible food service establishment. The discount will be valid Monday to Wednesday during the month of August across the UK, and participating establishments will be fully reimbursed by the government for the 50% discount.

As has become clear with many of other Covid-19 initiatives, the devil is in the detail. In many instances, in particular those relating to employment schemes and salaries, expert advice is recommended before taking any action.

EMPLOYMENT

Easing up: employment measures update

With lockdown gradually easing in most areas, the increasing focus is on safely returning to work. In the meantime, the various Covid-19 measures targeted at employers and employees continue to evolve.

CORONAVIRUS JOB RETENTION SCHEME (CJRS)

The CJRS scheme, scheduled to run until 31 May, then 30 June, has now been extended to 31 October 2020. From 1 July, employers have been able to bring furloughed employees back to work on a part-time basis, while still claiming under the scheme for the hours not worked.

There are no financial changes for furloughed employees. They will continue to receive a total of 80% of their wages, up to a cap of £2,500 per month.

- From 1 July, only previously furloughed employees are eligible for further grants under the scheme. However, the minimum three-week furlough period has been removed.
- Employees must be paid their normal wage for hours actually worked if they are returning part-time.
- Claims cannot straddle months because the rules change on a monthly basis.

Self-employed people will receive a second and final grant in August under the income support scheme. To qualify, a self-employed business must be adversely affected by the pandemic on or after 14 July 2020. The three-month grant will be worth 70% of average trading profits, capped at £6,570.

ADDITIONAL MEASURES

Other recent measures include:

- **Extension of the Coronavirus Large Business Interruption Loan Scheme (CLBILS)** The maximum loan size has been increased from £50 million to £200 million, but there are restrictions on dividend and bonus payments if a business borrows more than £50 million.
- **Relaxed rules on home-office expenditure** For 2020/21, there will be no tax or NIC liability where an employee buys home-office equipment and the employer reimburses the expenditure. The equipment must be purchased for the employee to work from home as a result of the pandemic.

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- **Statutory Sick Pay (SSP) rebate scheme** The online service has recently opened up for claims backdated to 13 March. Although SSP is not normally recoverable, the government is repaying SSP that is related to Covid-19 to businesses with fewer than 250 employees. The refunds are limited to two weeks per employee.

RETURNING TO WORK

Many businesses will have already restarted, with others planning to do so soon. A lot of advice is available online, but here are some points to consider in your planning:

- Employee engagement will be essential to make sure workers fully understand the new workplace practices. Employees might need a period of adjustment if they have been furloughed for some time, especially if they are anxious about potential infection or if their roles have changed.

> *From 1 July, employers have been able to bring furloughed employees back to work on a part-time basis*

- If your business has continued to operate well with employees working from home, you may be able to save costs in the longer term by moving to smaller premises with staff coming into the workplace less frequently.
- Retail businesses need to consider opening for longer hours, staggering staff shifts and introducing special time slots for older and vulnerable customers.
- Some shops may need to set up customer reservation processes with no walk-ins and only allow card payments.
- Staff should be reminded that wearing masks will affect those who lip-read and other hearing-impaired customers.

Working out 'the new normal' for your business and employees may take some time, so ensure your plans are considered and robust.

The following timetable is scheduled for the months after July:

CJRS WIND DOWN TIMETABLE

August

Employers will have to pay employer NICs and pension contributions for the hours an employee is on furlough.

September

Employers will have to top up furloughed wages to 80% as well as covering NICs and pension costs, with the government paying just 70% instead of 80% of wages.

October

As for September, but with the government paying just 60% of wages.

VAT reverse charge for construction industry delayed

The impact of coronavirus on the construction sector has prompted the government to delay the introduction of the VAT domestic reverse charge until 1 March 2021.

The measure, which is intended to reduce VAT fraud, means that UK customers who receive supplies of construction services must account for the VAT on these supplies on their VAT returns, rather than the supplier doing so. It prevents suppliers from charging VAT that they then do not pay to HMRC.

This is the second delay to the charge. It was originally due to start on 1 October 2019 but it was deferred for 12 months because of concerns about lack of preparation and the impact on businesses.

The reverse charge will affect specified building and construction services supplied at the VAT standard and reduced rates that are reported under the Construction Industry Scheme (CIS). It will not apply to zero-rated services.

In a change to the legislation, HMRC has said that businesses will only be excluded from the reverse charge as end users or intermediary suppliers if they have informed their subcontractors of this in writing. This will bring certainty for subcontractors about the correct treatment for their supplies.

HMRC says it will work closely with the construction sector to provide guidance and support to make sure all businesses will be ready for the new implementation date.

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BUSINESS

Is your business a going concern?

Many businesses have been so adversely affected by the Covid-19 pandemic that their futures may be in doubt.

Thoroughly understanding a business's prospects is important for many reasons, with detailed forecasting a crucial element in applying for any loans or other finance. If a business is likely to fail, early recognition and acceptance of that fact will save the owners money and effort.

Analysing the viability of a business as a going concern is a key step in the process of drawing up the business accounts and the directors of each company take the responsibility for it. This is because the value of many assets on the balance sheet are based on the assumption that the business will continue trading.

For example, the cost of equipment is written off over its predicted useful life in the business, but this written down value in the accounts may be higher than its actual second-hand value. This is fine when a business is a going concern, but would give a false picture if it isn't and that would mean that the accounts would not provide the required 'true and fair view' of the company.

ASSESSING GOING CONCERN

The assessment of whether a business is a going concern should cover at least the 12 months from the date the directors approve the accounts. A good starting point is to prepare a cash flow forecast for that period rather than just a budget, which on its own might not reflect the business's ability to meet its obligations at all times during the period.

The Institutes of Chartered Accountants of England and Wales and of Scotland have published some free guidance about assessing a business's status as a going concern in the current economic climate. This guidance lists the main factors you should consider if you are a director of a small or medium-sized company.

> *A good starting point is to prepare a cash flow forecast for that period rather than just a budget...*

- Revenue may be lower because you have fewer customers or you have had to cut your prices.
- Customers may take longer to pay.
- There may have been changes in your payments to suppliers and utility providers. Some costs might fall if your turnover is lower, but other costs may rise because of supply chain difficulties.
- Staff costs may rise again especially after the furlough scheme ends.
- Rent and rates costs are likely to revert to normal – you might have enjoyed a rates holiday for a limited period.
- Taxes need to be provided for – some payments may have been deferred but they will have to be paid later.
- Loan interest will be payable on any increased borrowings and bank loans may become repayable immediately if you breach covenants.
- Inability to fulfil contracts potentially resulting in penalties.
- Running out of cash could be a danger – it makes sense to plot likely cash flows to check whether you will need extra finance.

You should record any assumptions for cash flow planning so that your conclusions can be verified for the audit. We can advise whether your accounts should include any additional disclosures about going concern, so that shareholders and creditors can understand the impact of Covid-19 on the business.

This might also be a useful opportunity for a SWOT analysis to identify the various strengths, weaknesses, opportunities and threats your business faces and its ability to adapt to the changing circumstances.

TAX

Defining reasonable excuse under Covid-19

Businesses and individuals now have an extra three months to appeal any HMRC decision if they have been 'affected by coronavirus'.

The normal time limit for appeals is 30 days. The extension does not formally apply to appeals to the First-tier Tax Tribunal, but HMRC has said it will not object to late appeals made within the extended appeal period; so in practice such appeals will be considered. The extension also applies to appeals against penalties.

The announcement does not define 'affected by coronavirus', but HMRC guidance for the Self-Employment Income Support Scheme indicates that this would include businesses that have scaled down or stopped trading as a result of staff being unable to work because of Covid-19, fewer customers or supply chain interruptions.

Taxpayers relying on the extended time limit must submit appeals as early as possible and explain how the delay is the result of Covid-19. Both these conditions are needed to establish a 'reasonable excuse' – the legal requirement for HMRC to accept a late appeal. You may be asked for evidence of how Covid-19 prevented the appeal being submitted within the 30-day limit.

HMRC's guidance does not cover other missed deadlines, such as for submitting returns, paying taxes, notifying liability to tax or complying with an HMRC information notice.

However, all these obligations are covered by the general rule that penalties are not charged if the taxpayer has a reasonable excuse for the failure – and that may include the effects of coronavirus. Serious illness could have prevented a taxpayer from attending to financial affairs, and that would amount to a reasonable excuse, provided the taxpayer dealt with their obligations as soon as possible after recovering.

Shortage of funds is ruled out as a reasonable excuse in the legislation, but the reason for the shortage – illness for instance – might be a valid excuse. Coronavirus and the resulting

> *Taxpayers relying on the extended time limit must submit appeals as early as possible and explain how the delay is the result of Covid-19*

lockdown have caused huge and sudden financial disruption for many businesses – something they could not reasonably foresee and avoid.

Establishing a reasonable excuse for a late payment could be more difficult where it is open to a taxpayer to seek a 'time to pay' agreement with HMRC but they fail to do so. A request for time to pay must be agreed before the payment is due and the taxpayer must then make the payments in accordance with the agreement's terms.

Let us know if we can help.

News in Brief...

Taxing life assurance bonds

Only the top-sliced portion of a life assurance policy gain is now included in calculating the available personal allowance, not the entire gain. However, the full gain is still counted when calculating any other relief or allowance.

Increase in minimum and living wage

Remember that when furloughed employees resume work, they will have to be paid at least the increased minimum and living wage rates introduced from 1 April 2020. For those over 25, this could mean a 6.2% increase to £8.72 an hour.

In specie contributions into SIPPs

The Upper Tribunal has ruled that pension tax relief is not available on in specie (non-cash) contributions. As a result, HMRC may look to claim back millions of pounds in tax relief across the self-invested personal pension (SIPP) industry.

Lifetime ISA withdrawal charge

From 6 March 2020 to 5 April 2021, the Lifetime ISA withdrawal charge is reduced from 25% to 20%. The charge applies unless the funds are used for a first home, or the investor has a terminal illness or reaches 60.

BUSINESS

Insolvency law reforms

New legislation on company insolvency and corporate governance should help companies in difficulty deal with the Covid-19 pandemic by giving them more time to create a rescue plan.

The Corporate Insolvency and Governance Act, which received Royal Assent on 25 June 2020, makes the biggest changes to insolvency legislation in 20 years. On a permanent basis it:

- Introduces a new moratorium of 20 business days, extendable to 40 days, to give companies breathing space from their creditors while they seek a rescue.
- Safeguards a company's supply chain by prohibiting the use of termination clauses that come into force when a company enters an insolvency procedure, a new moratorium period or a new restructuring process. Suppliers will not be able to rely on contractual terms to stop supplying, or vary contract terms such as price, while a company is going through a rescue process.
- Introduces a new restructuring plan for companies in financial distress, to allow more companies to be rescued rather than go into liquidation. Companies will be able to propose a plan for restructuring their liabilities, which can bind a class of creditors even if they do not agree to the plan. There are safeguards for affected creditors.

A moratorium is a means by which certain creditor enforcement actions are restricted for a period. Companies will have to file a statement at court from an insolvency practitioner that it is likely that a moratorium will result in the rescue of the company as a going concern.

The restructuring plan process is a new option for businesses needing to restructure their liabilities – adding to the existing Company Voluntary Arrangement and Scheme of Arrangement. It will require 75% creditor consent and court approval.

SHORT TERM MEASURES

The new law also contains some temporary changes: For any period of trading between 1 March and 30 September 2020, directors who try to keep their company afloat will not be held personally liable for wrongful trading if the company ultimately becomes insolvent.

- Creditors are prohibited from filing statutory demands and winding-up petitions for Covid-19 related debts in the period from 1 March 2020 until 30 September 2020.
- Until April 2021, Companies House filing deadlines are extended for accounts, confirmation statements and registration of charges. Companies are given greater flexibility to hold their AGMs in alternative safe ways.

The permanent changes in particular have been widely welcomed by people working in restructuring and advising companies in difficulty.

DTE Offices

Manchester
6th Floor
Royal Exchange Building
St Ann's Square
Manchester M2 7FE

Tel: 0161 819 1910

Bury
The Exchange
5 Bank Street
Bury Lancs
BL9 0DN

Tel: 0161 767 1200
Fax: 0161 767 1201

dte business advisers

https://twitter.com/DTEAdvisers
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