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Financial UPDATE

APR/MAY 2021

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In this issue...

A few weeks into the current phase of lockdown easing and things are starting to look more cheerful. Even in chilly temperatures people have been braving pub gardens and outside seating in restaurants. This buoyant atmosphere is mirrored in the support measures for businesses covered by the March Budget, which extended the existing furlough and grant schemes and introduced new grants and reliefs. The Budget also announced a new super-deduction on capital allowances for companies. A Supreme Court ruling also brings good news for those with business interruption insurance that had previously failed to pay when the pandemic forced closures. Families, however, may not feel so supported as the higher rate tax threshold now diverges from the level where the High Income Child Benefit Tax Charge kicks in. Meanwhile, the expected extension of the off-payroll rules to the private sector has begun, with potential pitfalls already identified.

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EMPLOYMENT

Zooming in on wellness

Fewer than half UK businesses have a wellbeing strategy, despite the impact of restrictions and lockdowns on staff over the past year.

What is more, seven out of ten businesses have no designated health and wellness budget, and nearly a quarter said they have no plans to introduce a strategy in the foreseeable future. Very few of those businesses with a wellbeing strategy in place have measured its return on investment, indicating that wellbeing activity in the workplace can often lack strategic focus.

IMPACT OF DISRUPTION

The disruption to normal working practices has made support for the wellbeing of employees more important than ever. Many people have had to work from home for the first time, often with poor set ups, including working from their kitchen table, sofa or even bed. The reported drop in levels of exercise when homeworking can lead to longer-term musculoskeletal issues. Overall, one in eight employees has to cut short their career because of poor health.

Returning to the workplace will be the next phase of the route out of lockdown. Yet only around 40% of employers have made the necessary health and wellbeing adjustments to help employees return and to deal with any mental health issues. Although most employers are aware their workforce's mental health will have suffered because of the Covid-19 pandemic, few have developed any policies to deal with this. What to do about unvaccinated staff and those unwilling or unable to return to their place of work are just two of the issues that need urgent answers.

LONG TERM WELLBEING

The Covid-19 pandemic has created particular wellbeing problems and employers should have regular communications with their employees and provide the right type of support. Proven links between physical and mental health mean positive actions can be as simple as encouraging employees to take proper lunch breaks away from their desks and to stand and move around every 40 minutes or so.

Smaller owner-managed businesses can provide support with an employee assistance programme, allowing employees to contact an independent adviser on a confidential basis to discuss any issue troubling them. Online wellbeing platforms are another possibility.

It is important, however, that employers do not just focus most of their efforts on dealing with problems arising from the pandemic. More generally, a robust wellbeing strategy should also provide for the financial, career and social needs of employees.

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TAX

Untangling VAT challenges

VAT has been in the spotlight as businesses continue to struggle with the post-Brexit VAT regime. The Covid-related deferral for VAT payments is one bright spot, but there's also the delayed introduction of the new domestic reverse charge for most supplies on building and construction to get to grips with.

BREXIT VAT

Importers should find VAT easier, in theory. With postponed accounting, there is generally no need to pay upfront for import VAT, although there have been teething issues:

- Some enrolments for postponed accounting are failing because the address or postcode doesn't match HMRC's records. This should match the details on the VAT certificate.
- If a freight agent is being used, the agent may not necessarily apply postponed accounting unless they have been instructed to do so.
- The monthly import VAT statements are only available online for six months, and so they need to be downloaded and stored.

Exporting is a completely different matter, especially for small businesses. Although exports are normally zero-rated for UK VAT, post-Brexit exporters are having to contend with different VAT rules across 27 separate countries.

With the prospect of needing to register for VAT in multiple jurisdictions, it is no surprise that many businesses are investigating setting up an EU base to get round the worst of the problems. By using EU warehousing arrangements, regular large consignments can be shipped, avoiding cross-border delays and costs on every single small consignment. An EU manufacturing base avoids cross-border problems altogether.

VAT DEFERRAL

Those businesses that deferred the VAT payments that were due between 20 March and 30 June 2020 can now pay any amount of VAT still outstanding in equal monthly instalments by joining the VAT deferral new payment scheme. Applications must be made by 21 June 2021.

There is no interest or penalties, with the maximum number of instalments dependent on when a business joins the scheme:

Join by	Maximum instalments
21 April	10
19 May	9
21 June	8

Of course, businesses can choose to pay fewer instalments than the maximum. The first instalment is payable at the time of joining, and a direct debit has to be set up for the subsequent payments. A business that wants to join must be up to date with its VAT returns.

DOMESTIC REVERSE CHARGE

After two postponements, the domestic reverse charge now applies to most supplies of building and construction services. In a simplified structure involving a developer, main contractor and sub-contractors, the reverse charge works as follows:

- **The developer**, as the end user in the chain, is not affected by the new rules. So as before, the developer has to pay VAT on the amounts invoiced by the main contractor.
- **The main contractor** retains the VAT that would previously have been paid on invoices raised by sub-contractors, and instead accounts for this as output VAT. There is usually a corresponding input VAT deduction – hence the 'reverse charge'. The main contractor is now responsible for accounting for the full amount of VAT in the chain.
- **Sub-contractors** no longer charge or account for output VAT. Their invoices must state that the reverse charge applies.

PENALTY POINTS

In a year's time the current VAT default surcharge system is to be replaced by a new points-based penalty regime. If you need guidance with your VAT submission, let us know.

TAX

Budget support for business

Large tax rises over the next few years, as well as extensions of the shorter-term support for people and businesses, were key themes of the March Budget. Encouraging business growth was another aim.

SUPPORT FOR PEOPLE

The Office for Budget Responsibility (OBR) expects the economy to recover quickly once Covid-19 restrictions are lifted – hence the government's readiness to continue those schemes that protect people and businesses.

The Coronavirus Job Retention Scheme (CJRS) – or furlough scheme – has been extended in full until 30 June 2021, providing employees with 80% of their salary for hours not worked, up to a monthly cap of £2,500. Government support will then fall to 70% in July and 60% in August and September, after which the scheme will end.

The Self-Employed Income Support Scheme (SEISS) will also continue until 30 September. A fourth grant, claimable from late April, will be worth 80% of three months' average profits capped at £7,500. A welcome feature is that it will be open to individuals who first became self-employed in the 2019/20 tax year, provided they submitted their tax returns by 2 March 2021. A fifth grant, claimable from late July, will cover May to September. It will also be worth 80% of three months' average profits where turnover has fallen by 30% or more. Where the fall in turnover is less, the grant will be limited to 30% of profits, capped at £2,850.

BUSINESS SUPPORT

The 100% relief for business rates will also continue until 30 June for eligible retail, hospitality and leisure properties in England, followed by a reduced relief up to 31 March 2022.

An additional business rates relief fund of £1.5 billion was announced on 25 March and will support other business sectors in England. The basis for its distribution will be the official data on the impact of the pandemic on different sectors. Businesses had been trying to use the material change in circumstances provisions to achieve business rates reductions, but the government has restricted these

> *An additional business rates relief fund of £1.5 billion ... will support other business sectors in England, depending on pandemic impact data.*

claims to prevent the valuation system being overwhelmed. Similar provisions have been announced by the respective governments in Scotland, Wales and Northern Ireland.

The Budget also extended, to 30 September, the temporary reduced VAT rate of 5% for hospitality, holiday accommodation and attractions. A new reduced rate of 12.5% will apply to these supplies from 1 October 2021 to 31 March 2022.

The ban on commercial evictions has been extended to 30 June, giving business tenants security as they reopen. The government has called for evidence on commercial rents to help monitor the progress of negotiations between landlords and tenants with rent debts, with a view to potentially taking further steps to help landlords and business tenants after June.

SCHEMES FOR ENCOURAGING GROWTH

A new recovery loan scheme is aimed at helping businesses grow and invest as the restrictions ease. Under the scheme, the government guarantees 80% of the finance to the lender. Loans and overdrafts between £25,001 and £10 million per business are available through a network of accredited lenders. Businesses trading in the UK are eligible if they can show that they are viable or would be viable if it were not for the pandemic, that they have been impacted by the pandemic and that they are not in collective insolvency proceedings. The scheme will remain open until 31 December 2021.

Two further schemes will provide management training and discounts for software for SMEs. UK businesses from any sector may be eligible if they have been operating for more than one year and have five to 249 employees.

- **Help to Grow: Management** will be delivered through business schools and will equip SMEs with the tools to grow their businesses and improve management skills.
- **Help to Grow: Digital** will combine a voucher covering up to half the costs of approved software, up to £5,000, and free impartial advice delivered online.

If we can help with any of these support schemes, please let us know.

BUSINESS

Covid insurance Supreme Court decision

Many small businesses forced to close during the Covid-19 pandemic were unable to claim under their business interruption policies, but they are now expected to receive payouts following a Supreme Court ruling in their favour.

The test case was brought by the Financial Conduct Authority, and they are working with insurers to ensure claims are paid out as quickly as possible. An estimated 370,000 policyholders may benefit, with many having struggled to stay afloat.

POLICY WORDING

Not all policies will pay out. The Supreme Court considered 21 policy types, and seven of these were found not to provide any cover. This would be the case if a policy only covered physical damage to premises, which is the norm for business interruption cover. The issues involved are quite complex, but a claim will now potentially be possible where the policy wording refers to:

- An outbreak of a disease within the vicinity; or
- Denial of access to premises following public authority action taken due to an emergency.

Cover only extends to those aspects of a business for which premises cannot be used. So if a business has walk-in customers, internet sales and telephone sales, the claim would only cover the loss of walk-in business, even if other sales were depressed because of the restrictions.

Insurers will contact those businesses with an ongoing claim or complaint against a business interruption policy, but otherwise contact your insurer or broker.

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TAX

Boost to capital allowances

One of Chancellor Rishi Sunak's Budget surprises was a new super-deduction for investment in plant and machinery.

Companies can claim 130% capital allowances on qualifying plant and machinery investments for expenditure from 1 April 2021 until the end of March 2023. This means that for every £1,000 a company invests, its tax is reduced by £247, equating to relief at nearly 25%. Without the super-deduction, this investment would have reduced the company's tax by only £190.

The 130% rate is only available for investment in assets that qualify for main rate capital allowances.

A new 50% first-year allowance (FYA) is available for companies that purchase qualifying special rate assets such as integral features of buildings or long-life assets – those with an expected useful economic life of at least 25 years. These assets otherwise qualify only for a writing down allowance of 6% rather than the main writing allowance rate of 18%.

For both allowances, the assets bought must be new and unused. Plant and machinery used for leasing, cars and a few other assets do not qualify. The allowances are only available for companies, not self-employed individuals or other unincorporated businesses.

PLANNING CAPITAL EXPENDITURE

The super-deduction looks generous but for many companies it will not be worthwhile bringing forward investment plans just to qualify. This is because the main rate of corporation tax will rise to 25% from 1 April 2023 for companies with profits of £250,000 and over, and in effect to 26.5% on profits between £50,000 and £250,000. So, for every £1,000 that a company spends on plant and machinery its tax will be reduced by at least £250 if it pays tax at the main or marginal rate and qualifies for the 100% annual investment allowance (AIA).

The super-deduction has no upper limit on qualifying expenditure – unlike the AIA where the limit is currently £1 million. Before January 2019 the AIA was capped at £200,000, to which it will revert if it is not extended further in the autumn. This potential reduction in the AIA is another factor to consider in timing plant and machinery purchases. The AIA is available to unincorporated businesses as well as companies, and the assets bought do not have to be new.

Where the new allowances or the AIA generate a tax loss, the business may be able to carry it back against profits over the previous three years, after the Budget temporarily extended relief for trading losses. The extension applies to up to £2 million of unused trading losses of unincorporated businesses made in each of the tax years 2020/21 and 2021/22. For companies, it applies to losses made in accounting periods ending between 1 April 2020 and 31 March 2021, and those ending in the following 12 months.

Finally, companies within designated tax sites in one of the new English Freeport areas will qualify for a 100% enhanced capital allowance on investments in plant and machinery. This will only be available once areas have been designated, and until 30 September 2026. The Freeports are East Midlands Airport, Felixstowe and Harwich, Humber Region, Liverpool City Region, Plymouth, Solent, Thames and Teesside.

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EMPLOYMENT

Off-payroll private sector changes kick off

Changes for off-payroll workers in the private sector came in on 6 April after a year's postponement because of the pandemic. HMRC issued compliance guidance ahead of the changes, but a recent Tribunal case shows up some flaws with the system.

The changes affect engagements with medium or large-sized client organisations in the private and voluntary sectors. They shift responsibility for applying the off-payroll working rules from the individual's personal service company to the client organisation or business to which the individual is supplying services.

The changes mostly affect businesses that meet two or more of these conditions:

- annual turnover of more than £10.2 million;
- a balance sheet total of more than £5.1 million;
- more than 50 employees.

A simplified test applies to most unincorporated entities – they must apply the rules if they have an annual turnover of more than £10.2 million. Businesses within the new rules must decide the employment status of every worker who operates through their own intermediary, even if they are provided through an agency. They must communicate their determination by means of a Status Determination Statement, which must be passed to the worker and to the organisation that the business contracts with. The statement must give reasons for the determination.

> *Businesses within the new rules must decide the employment status of every worker, even if they are provided through an agency.*

The statement must be passed down the labour supply chain. When it reaches the fee payer, usually the company immediately above the worker's intermediary, that company will normally have to deduct income tax and employee national insurance contributions (NICs) from the payment to the intermediary and account for employer's NICs.

HMRC has said that affected businesses will not have to pay penalties for inaccuracies in the first 12 months relating to the off-payroll working rules, regardless of when the inaccuracies are identified, unless there is evidence of deliberate non-compliance.

POTENTIAL FLAWS

Nevertheless, the new rules are likely to give rise to difficulties, as highlighted in a recent case that reached the Upper Tribunal concerning the employment status of the BBC radio presenter Kaye Adams. Although the agreement between Adams and the BBC contained features consistent with employment, the Tribunal, looking at the overall picture of Adams's career, found that she was in business on her own account and therefore outside the off-payroll working rules.

However, the client in such cases would not have all the information needed to evaluate a freelancer's status and may well wrongly judge a contractor to be within the off-payroll working rules.

NEWS ROUND UP

ACAS calls for paid leave for Covid vaccinations

Organisations can maintain a good working relationship with their workforce if they follow the ACAS suggestion and agree a vaccine policy that offers paid time off to attend vaccination appointments or if staff are away sick with vaccine side effects.

Help to Save accounts take off

The government-backed savings scheme, providing a 50p bonus for every £1 saved, is proving popular, with more than 264,000 accounts opened. Bonuses can total £1,200 over four years. However, only those claiming universal credit or tax credits can qualify.

Property tax holiday extensions diverge across UK

The SDLT and Welsh LTT holidays of £500,000 and £250,000 are to continue for three more months until 30 June, but not Scottish LBTT. LTT then returns to normal, but a further SDLT holiday of £250,000 will run until 30 September 2021.

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TAX

Child benefit tax trap

The high income child benefit charge (HICBC) was introduced in 2013 with the intention of preventing high earners from obtaining child benefit to help pay for their children. However, for 2021/22 some basic rate taxpayers will be caught for the first time as the higher rate and HICBC thresholds diverge.

The higher rate threshold was £42,475 when the HICBC was introduced, but for 2021/22 it has risen to £50,270. The HICBC starts to claw back child benefit when either partner has income above £50,000, with the benefit fully withdrawn once either partner's income reaches £60,000. The £50,270 threshold is frozen until 2025/26, so there is not likely to be any reprieve for basic rate taxpayers in the foreseeable future.

For 2021/22, a couple will receive child benefit of £3,284 in respect of their four children. If the higher income is £50,250, the HICBC of £82 effectively cuts child benefit to £3,202.

OTHER ISSUES

Even before basic rate taxpayers were drawn into the HICBC net, the charge came in for considerable criticism:

- There is no charge if a couple both earn, say, £45,000, but child benefit is completely lost if one of them has income of £60,000 and the other is not working – even though their household income is £30,000 less.
- The HICBC results in a high effective marginal tax rate, and having more children increases this rate.
- Many taxpayers need to complete self-assessment tax returns just because they have to report the HICBC.
- Cohabitees and estranged couples, who can be caught by the HICBC, may not even be aware that the charge applies to them.

PLANNING

There may be some limited scope for tax planning at the levels of income where the HICBC comes into play. In some cases, the charge can be reduced or even eliminated by transferring income between partners.

Pension contributions also reduce the income figure used in the HICBC calculation. They may be worth considering even where spending might be tight: the cost of a £1,000 contribution is only £272 for a higher rate taxpayer with four children.

Some parents choose not to claim child benefit to avoid the HICBC, but this can cause problems with future pension entitlement. Such couples should therefore claim child benefit and then opt not to receive payments, which is simply a matter of ticking a box when claiming. Also, many parents will have seen their earnings fall as a result of the pandemic and may choose to restart their child benefit.

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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