Client Bulletin

October 2021

COVID-19 SUPPORT PAYMENTS

Reporting Covid-19 support payments

During the Covid-19 pandemic, financial support was provided to individuals and to businesses in a variety of forms. Where the support is taxable, it must be reported to HMRC.

Self-Employment Income Support Scheme

The Self-Employment Income Support Scheme (SEISS) provided grant payments to self-employed individuals whose business profits were adversely affected by the Covid-19 pandemic. Individuals who received one or more grants under the scheme need to include them on their self-assessment tax return for the relevant year.

Grants received under the SEISS are taxable in the tax year in which they were received, regardless of the date to which the individual prepares their accounts. Consequently, when completing your 2020/21 tax return, you will need to include any grants received in the period from 6 April 2020 to 5 April 2021. This will cover grants 1, 2 and 3. Grants 4 and 5 will go on the 2021/22 return.

Income from SEISS grants should be entered in the dedicated Self Employment Income Support Scheme Grant box on the Self-Assessment tax return. All other taxable Covid-19 payments (such as local authority grants) should be recorded in the 'any other business income' box.

We can help ensure that you report SEISS payments correctly.

Coronavirus Job Retention Scheme

The Coronavirus Job Retention Scheme (CJRS) provided grants to employers to pay employees who were furloughed or flexibly furloughed. The grants had to be paid over to the employee in full, and employers had to top up the grant where the amount payable to the employee was more than the grant received by the employer. Amounts paid to employees under the scheme were treated like other payments of wages and salary, and were liable to Class 1 (employee and employer's) National Insurance and PAYE tax.

The grants received by the employer must be taken into account in computing their profits for income tax or corporation tax. However, the employer can also deduct, as normal, payments made to employees and any associated employer's National Insurance costs.

If the employer repays any grants received under the CJRS, the amount taken into account in computing profits is reduced by any grant repayments.

We can advise you on how to calculate your taxable profits correctly where you have received CJRS grant payments.

Other taxable support payments

The following support payments are taxable and, where received, must be reported to HMRC on the self-assessment tax return or included in the computation of business profits:

- test and trace self-isolation payments;
- payments made under the Eat Out to Help Out scheme;

- SSP rebates paid under the SSP rebate scheme; and
- Coronavirus business support grants.

Check with us whether support payments and grants that you received during the pandemic are taxable.

Covid-19 loans

During the pandemic, various loan schemes were launched to help those struggling as a result. The schemes include the Bounce Back Loan Scheme and the Coronavirus Business Interruption Loan Scheme. Loans received under these schemes are not Covid-19 support payments and are not taxable. Consequently they do not need to be reported to HMRC.

CAPITAL ALLOWANCES

End of AIA transitional limit

The Annual Investment Allowance (AIA) provides a deduction of 100% of the expenditure in the period in which it was incurred, up to the level of the available AIA limit. The AIA limit was increased from its permanent level of £200,000 to £1 million for a temporary period of three years, from 1 January 2019 to 31 December 2021. The limit reverts to £200,000 from 1 January 2022.

If you are planning capital expenditure in excess of £200,000, if funds permit, you may wish to incur the expenditure before 31 December 2021 to take advantage of the higher AIA limit.

It should be noted that transitional provisions apply where the accounting period spans 31 December 2021 – the AIA limit for the period reflects the proportion falling before 1 January 2022 for which the limit is £1,000,000 and the proportion falling after this date, for which the limit is £200,000. However, there is a trap in that an additional cap applies to limit the amount for which the AIA can be claimed in respect of expenditure incurred on or after 1 January 2022. This means that relief may not be available in full for post-31 December 2021 expenditure, even if the expenditure is less than the total AIA limit for the accounting period.

We can help you plan your capital expenditure and advise on any allowances available.

Super-deduction and new first-year allowance

Companies are able to benefit from two additional first-year allowances for qualifying expenditure incurred in the period from 1 April 2021 to 31 March 2023.

The first is a super-deduction available for most expenditure that would otherwise benefit from main rate writing down allowances at the rate of 18%, although cars are excluded. Where the expenditure qualifies for the super-deduction, the first-year allowance is given at the rate of 130% of the qualifying expenditure. A balancing charge may apply on the disposal of the asset.

Where available, the super-deduction is advantageous and will provide a better rate of relief than that given by the AIA.

The second temporary allowance is a 50% first-year allowance for qualifying expenditure that would otherwise qualify for a writing down allowance at the special rate of 6%. The first-year allowance is given at the rate of 50% of the qualifying expenditure. It is not available for expenditure on cars. As with the super-deduction, a balancing charge may apply on the disposal of the asset.

We can advise whether capital expenditure will qualify for either of these time-limited allowances.

LOSSES

Extended carry-back period for losses

Individuals and companies can both benefit from an extended carry-back period for certain losses, which may be useful in generating a tax repayment. The extension only applies to losses incurred in a limited window.

For income tax purposes, the extended carry-back is available for a 2020/21 loss or a 2021/22 loss. The loss for a tax year is the loss for an accounting period ending in that tax year. The extended carry-back rules mean that in addition to the usual rules for realising the loss against income of the same or the previous tax year, to the extent that any of the loss remains available, it can be carried back against profits of the same trade for two further years, setting the loss against the later of those years first.

For corporation tax purposes, a loss for an accounting period that ends between 1 April 2020 and 31 March 2022 benefits from the extended carry back. This enables the loss for the period to be carried back against profits of the same trade for the previous three years, rather than the previous year. The loss is set against the profits of a later year before those of an earlier year.

Contact us for advice on how to optimise relief for losses.

MAKING TAX DIGITAL

Extension of MTD for VAT

VAT-registered traders whose VATable turnover is over the VAT registration threshold of £85,000 must comply with the requirements of Making Tax Digital (MTD) for VAT. This means that they must keep digital records and file their VAT returns using MTD-compatible software.

Currently, VAT-registered businesses whose turnover is below the VAT registration threshold do not have to comply with MTD for VAT, but can do so if they wish. However, this will change from April 2022 as MTD for VAT is being extended to all VAT-registered businesses.

VAT-registered businesses whose turnover is below the VAT registration threshold and who have not joined MTD for VAT voluntarily, will need to join MTD for VAT from the start of their first VAT accounting period beginning on or after 1 April 2022.

We can help you sign up and ensure that you meet your obligations under MTD for VAT.

MTD for income tax delayed

Self-employed businesses and landlords with annual business or property income of more than £10,000 were due to be brought within MTD for income tax from April 2023. To give businesses more time to recover from the pandemic and to prepare for MTD for income tax, this will now not come into effect until April 2024.

Under MTD for income tax, landlords and self-employed businesses within its scope will need to keep digital records. They will also be required to send quarterly summaries of income and expenditure to HMRC using MTD-compatible software and will receive an estimated tax calculation after each submission. The quarterly submissions will be followed by a final end of year submission to take account of necessary adjustments, and a final declaration. This will replace the annual self-assessment tax return.

We can help you understand whether MTD for income tax will apply to you, and help you prepare if it does.

Basis period reform

In preparation for the introduction of MTD for income tax, HMRC have consulted on proposals to reform the basis period rules. This entails replacing the current year basis, under which businesses are assessed for a tax year on the profits for the accounting period ending in that tax year, with a tax year basis, whereby profits for the tax year are assessed in that year.

It was originally proposed that the tax year basis would apply from 2023/24, with 2022/23 being a transitional year. However, the start date has now been delayed, and the reforms will apply no earlier than 2024/25, with transitional rules applying no earlier than 2023/24.

We can help you navigate the reforms.

HEALTH AND SOCIAL CARE FUNDING

Health and Social Care Levy

A new tax, the Health and Social Care Levy, is being introduced in April 2023. Money raised from the levy will be ring-fenced to meet health and social care costs.

The levy will be payable by employers, employees and the self-employed. It will be linked to National Insurance and will be payable at the rate of 1.25% of earnings on which a qualifying National Insurance contribution is payable. A qualifying National Insurance contribution is a primary or secondary Class 1 National Insurance contribution, a Class 1A National Insurance contribution, a Class 1B National Insurance contribution and a Class 4 contribution.

However, unlike National Insurance contributions, the Health and Social Care Levy will be payable by individuals who have reached state pension age.

We can explain how the Health and Social Care Levy will affect you.

Temporary National Insurance increases

Prior to the introduction of the Health and Social Care Levy, the rates of primary and secondary Class 1, Class 1A, Class 1B and Class 4 National Insurance contributions will be increased by 1.25% for 2022/23 only. The rates will revert to their 2021/22 levels from April 2023 once the Health and Social Care Levy is introduced.

We can explain what the increases in the National Insurance rates will mean for you.

Taxation of dividends

Taking dividends from a personal or family company, often is addition to a small salary, is a tax-efficient way to extract profits. However, as little or no National Insurance is payable where this route is taken, individuals taking profits in this way will largely fall outside the Health and Social Care Levy. To ensure that they contribute to social care costs, the rates at which dividends are taxed are to be increased by 1.25% from April 2022.

This will mean that for 2022/23 onwards, once the dividend allowance (currently £2,000) and any personal allowance not used elsewhere have been utilised, dividends will be taxed at 8.75% (currently 7.5%) where they fall within the basic rate band, at 33.75% (currently 32.5%) where they fall within the higher rate band, and at 39.35% (currently 38.1%) where they fall in the additional rate band.

The new dividend rates will also apply to dividends received from investments in shares.

We can explain the impact of the changes, and how to plan ahead.