Client Bulletin

June 2021

ON-GOING CORONAVIRUS SUPPORT

Coronavirus Job Retention Scheme

The Coronavirus Job Retention Scheme (CJRS) continues to provide support for employers and employees until 30 September 2021. However, the grants that employers are able to claim under the scheme are gradually reduced in the final months. By contrast, fully and flexibly furloughed employees will continue to receive 80% of their usual pay for their unworked hours up to the level of the cap, set at £2,500 per month or equivalent. Where the employer is unable to claim the full amount of the grant payable to the employee, they must make up the shortfall.

For May and June 2021, the employer can claim 80% of the employee's usual pay for their unworked hours up to a cap of £2,500 per month or equivalent; for July 2021, the employer can claim 70% of the employee's usual pay for their unworked hours up to a cap of £2,187,50 or equivalent, and for August and September 2021, the employer can claim 60% of the employee's usual pay for their unworked hours up to a cap of £1,875 or equivalent.

Claim must be made on a calendar month basis by the 14th of the following month (or the next working day if this falls on a weekend). Claims must be made via the online portal.

We can help you work out your claim.

Fifth grant under the SEISS

Self-employed taxpayers who have suffered a reduction in turnover as a result of the impact of the Covid-19 pandemic will be able to claim the fifth and final grant under the Self-Employment Income Support Scheme (SEISS). The grant is designed to cover the five-month period from May 2021 to September 2021.

The amount of the fifth grant will depend on the extent to which turnover has fallen. Where turnover has fallen by at least 30% the grant will be worth 80% of three month's average trading profits capped at £7,500. However, where turnover has fallen by less than 30%, the grant will be worth 30% of three months average trading profits, capped at £2,850.

To be eligible to claim, as well as meeting the turnover test, you must have traded in 2019/20 and 2020/21 and intend to continue to trade, your profits from self-employment must not be more than £50,000 and must account for at least 50% of your income and you must have filed your 2019/20 tax return by midnight on 2 March 2021.

It is expected that the claim portal will open in late July 2021.

While we can advise you on your claim, we are unable to make it on your behalf.

Recovery Loan Scheme

Businesses that need further financing to help them recover from the Covid-19 pandemic can consider taking advantage of the Recovery Loan Scheme. Under the scheme, businesses of any size are able to benefit from a loan or an overdraft of between £25,001 and £10 million, or from asset financing of between £1,000 and £10 million. The amount offered to any individual business is at the discretion of the lender.

Although borrowers remain liable for the full amount borrowed under the scheme, lenders have a Government guarantee for 80% of the finance provided.

The scheme is due to run until 31 December 2021.

Contact us to discuss your financing needs.

TAX-EFFICIENT PROFIT EXTRACTION

Optimal salary for 2021/22

Owners of family and personal companies will want to extract profits from them as necessary to meet personal bills. There are various ways of doing this including taking a salary or paying a bonus, declaring dividends, making pension contributions and taking profits in the form of benefits in kind.

When seeking to extract profits in a tax efficient manner, a popular strategy is to pay a small salary and to extract further profits in the form of dividends. However, while the salary should be at least equal to the lower earnings limit (set at £6,240 for 2021/22), the optimal salary will depend on circumstance.

Where the employment allowance is not available (as is the case for a personal company where the sole employee is also a director), the optimal salary is one equal to the primary threshold, set at £9,568 for 2021/22. However, if the employment allowance is available (as may be the case for a family company with two or more employees), the optimal salary is one equal to the personal allowance, set at £12,570 for 2021/22. In each case, it is assumed that the personal allowance is available to shelter the salary paid.

Once the level of the optimal salary has been reached, it is more tax effective to extract further profits as dividends. Although dividends are paid out of post-tax profits and have suffered corporation tax at 19%, they benefit from lower income tax rates and are not liable to National Insurance contributions. Remember, all taxpayers, regardless of the rate at which they pay tax, benefit from a dividend allowance of £2,000 for 2021/22. No tax is payable on dividends covered by the allowance.

We can help you ascertain the optimal profit extraction strategy for your business. Why not get in touch?

EXTENDED CARRY-BACK FOR LOSSES

Carry-back losses to generate a tax repayment

Both companies and unincorporated businesses can benefit from an extension to the period for which losses can be carried back. The extension only applies to losses incurred in a limited window. Taking advantage of these rules may generate a useful tax repayment.

For income tax purposes, the extended carry-back is available for a 2020/21 loss or a 2021/22 loss.

A loss for a tax year can be set against the income of that year and/or the previous tax year. In certain circumstances, it is possible to extend the loss to capital gains. However, this is only possible where the accounts are prepared on the accruals basis. If the cash basis is used, it is not possible to extend the claim to capital gains or to claim sideways relief – the loss can only be set against profits of the same trade.

Where a loss for 2020/21 (which is normally a loss for an accounting period ending in the 2020/21 tax year), cannot be used fully in this way, any unused portion of the loss can be set against profits of the same trade for 2018/19 and, to the extent any of the loss remains available, those of 2017/18.

Similar rules apply for a 2021/22 loss which is not fully utilised against income of 2021/22 and/or 2020/21, and can be set against profits of the same trade for 2019/20 and, if not fully utilised, against profits of 2018/19.

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.

There are various ways in which losses can be utilised and it will depend on your circumstances as to whether the extended carry-back is the best route for you.

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

CORPORATION TAX RATE TO RISE

Plan ahead for increase in corporation tax

Companies with taxable profits in excess of £50,000 will pay a higher rate of corporation tax from 1 April 2023.

From that date, the main rate of corporation tax is to rise to 25%. The main rate will apply to companies with taxable profits of more than £50,000. However, the effective rate is reduced by the availability of marginal relief where profits are between £50,000 and £250,000.

The effect of this is that companies with taxable profits of £50,000 will from 1 April 2023 continue to pay corporation tax at the rate of 19%. Where profits are between £50,000 and £250,000, the effective rate will be between 19% and 25%; the effective rate increases as profits increase. Companies with taxable profits of more than £250,000 will from 1 April 2023 pay corporation tax at a new main rate of 25%. The limits are reduced proportionately where the company has associated companies, or where the accounting period is less than 12 months.

The rate of corporation tax will remain at 19% for the year starting on 1 April 2022.

We can help you understand what the increase in the rate will mean for your business, and help you plan ahead.

CAPITAL ALLOWANCES

Annual Investment Allowance temporary limit

The temporary Annual Investment Allowance (AIA) limit of £1 million will continue to apply until 31 December 2021 – one year later than originally planned. It will revert to its permanent level of £200,000 from 1 January 2022.

When planning capital expenditure projects, businesses are advised to be mindful of the changes to the AIA limit.

It should also be noted that transitional rules apply where the accounting period spans 31 December 2021. The transitional rules not only determine the amount of the AIA limit for the period; they also place a cap on the amount of expenditure that can qualify for the AIA where this is incurred on or after 1 January 2022 and before the end of the accounting period. This rule can operate harshly, denying the AIA for expenditure where it is within the limit for the accounting period as a whole.

Consequently, the timing of the expenditure can be critical.

We can help you plan your capital expenditure to benefit from the temporary increase in the AIA rules.

Super-deduction

Companies are able to benefit from a super-deduction for capital expenditure. The super-deduction takes the form of a first-year capital allowance. It is 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 if the asset is disposed of.

The super-deduction is only available for expenditure which is incurred between 1 April 2021 and 31 March 2023.

Contact us to see whether you can benefit from the super-deduction.

New first-year allowance

Companies are able to benefit from a new 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.

As with the super-deduction, the new first-year allowance is only available for qualifying expenditure which is incurred between 1 April 2021 and 31 March 2023. Expenditure on cars does not qualify for the first-year allowance.

A balancing charge may arise if the asset is sold.

We can advise whether planned expenditure on special rate assets will qualify for the new first-year allowance.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.