Bird Simpson

Client Briefing

Tel: 01382 227841 • www.birdsimpson.co.uk • admin@birdsimpson.co.uk

APR/MAY 2021

Further Budget support for business

Grants, reliefs and new schemes

Credit: Olga Strelnikova/Shutterstock.com

Inside...

Credit: Tattoboo/Shutterstock.com

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.

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. Remember that if a freight agent is being used, the agent may not necessarily apply postponed accounting unless they have been instructed to do so.

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.

VAT deferral new payment scheme

Those businesses that deferred the VAT payments due between 20 March and 30 June 2020 can now pay any amount still outstanding in equal monthly instalments by joining the scheme. Applications must be made by 21 June 2021. The maximum number of instalments depends on the joining date: 10 if you joined before 21 April, nine before 19 May or eight before 21 June.

Domestic reverse charge

The domestic reverse charge now applies to most supplies of building and construction services. In a simplified structure, the reverse charge works as follows:

- **The developer**, as the end user in the chain, is not affected by the new rules. 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'.
- **Sub-contractors** no longer charge or account for output VAT. Their invoices must state that the reverse charge applies.

If you need any VAT guidance, please get in touch.

> *"Post-Brexit exporters are having to contend with different VAT rules across 27 separate countries. An EU base could get round the worst of the problems.*

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. 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.

The super-deduction looks generous but for many companies it will not be worthwhile bringing forward investment plans just to qualify for them. 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. The deduction will then give rise to tax relief of 25%.

Weigh up the benefits

The super-deduction has no upper limit on qualifying expenditure – unlike the annual investment allowance (AIA) where the limit is currently £1 million – a temporary increase that has been extended to 31 December 2021. The cap may then revert to £200,000. 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.

Credit: Monkey Business Images/Shutterstock.com

"A new 50% first-year allowance is available when purchasing special rate assets with an expected useful economic life of at least 25 years.

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.

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.

Staggered payments for self-employed

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.

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

Credit: Olga Strelnikova/Shutterstock.com 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.

Targeted support for SMEs

Two further schemes will provide management training and discounts for software for SMEs:

- **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.

Please let us know if we can help.

News in brief...

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.

Credit: yvonnestewarthenderson / Shutterstock.com

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:

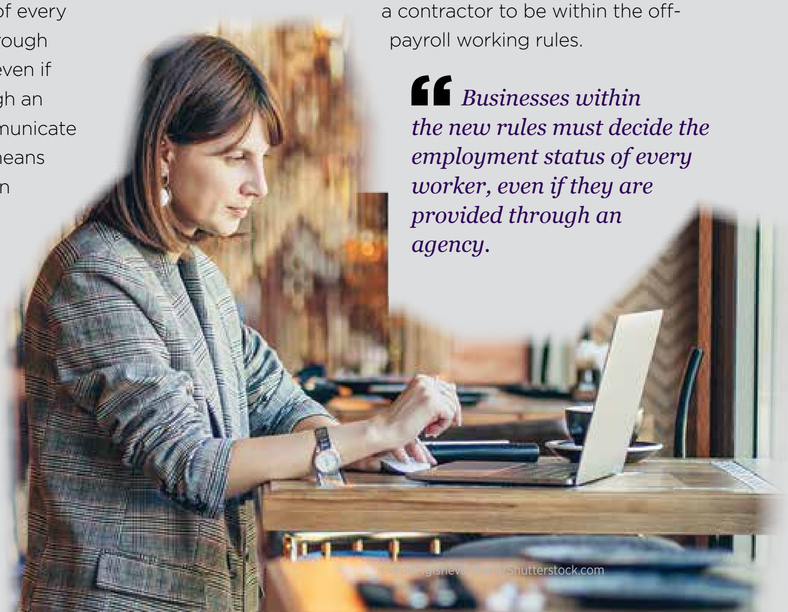
- annual turnover of more than £10.2 million;
- a balance sheet total of more than £5.1 million;
- more than 50 employees.

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 down the labour supply chain. The fee payer, usually the company immediately above the worker's intermediary, must then normally deduct income tax and employee national insurance contributions (NICs) from the payment to the intermediary and account for employer's NICs.

Potential flaws

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.

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



Credit: Igisheva Maria/Shutterstock.com

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 in excess of £50,000, with the benefit fully withdrawn once income reaches £60,000.

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 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. The cost of a £1,000 contribution is only £272 for a higher rate taxpayer with four children.

Zooming in on wellness

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

What's 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.

Impact of disruption

The recent 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 the kitchen table, sofa or even bed. The reported drop in levels of exercise can contribute to the poor health issues that lead to one in eight employees cutting short their working lives.

Returning to the workplace will be the next phase of the route out of lockdown. Yet only around 40% of employers have made health and wellbeing adjustments to help employees return and deal with any mental health issues.

Long term wellbeing

The Covid-19 pandemic has created particular wellbeing problems and employers should have regular communication with their employees and provide the right type of support. 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.

Bird Simpson & Co
144 Nethergate
Dundee
DD1 4EB

Tel 01382 227841
Fax 01382 202622
Email admin@birdsimpson.co.uk
Web www.birdsimpson.co.uk

Partners
Murray A C Dalgety BAcc CA
Neil S Young MA CA
Alison Wilson MA CA

Associates
Neil J Fleming CA
Ross Graham BAcc CA

BUSINESS CARE