

Tax Briefing

Autumn 2020

Is it a car or a van?

Whether your business buys a car or a van can make a big difference to the tax relief given on the cost of the vehicle and to the tax payable by the driver who uses it for private journeys.

In both cases the tax position is more favourable for a van: in legal terms - 'a vehicle of a construction primarily suited for the conveyance of goods or burden'.

Some combi-vans, which have a row of seats behind the driver, are equally suited to carrying people (on the extra seats) and goods. In such cases the Court of Appeal has recently decided that the vehicle must be treated as a car for employee benefits purposes.

Where your business already owns a combi-van you should review the P11D returns submitted for the driver of that vehicle for the tax years 2018-19 onwards. We can help you with that.

As the definition of a car for capital allowance claims is almost identical as for employment taxes, you also need to

review your capital allowance claims for any combi-vans.

Fortunately the definition of a van for VAT purposes is rather different and generally depends on whether the vehicle can carry a payload of at least one tonne. You can reclaim the VAT charged on acquiring a van but not on the purchase of cars, with the exception of taxis.

If you are thinking of buying a new van for the business check the tax position with us first, as just because it looks like a van does not mean it is not a car!



Tax reduction when buying homes

Buying or selling a home is always stressful but the process has been made a little easier for buyers as the starting point at which stamp duty becomes payable has been temporarily raised.

Purchasers in England and Northern Ireland pay stamp duty land tax (SDLT) which currently only applies to purchases over £500,000. This could save you £15,000 on a residential property costing £500,000. The tax reduction also applies when buying a second home, on which an additional 3% SDLT is paid on the entire purchase consideration.

The purchase must complete on or before 31 March 2021 to qualify for this tax reduction, after which the threshold is expected to revert to £125,000.

Buyers in Scotland pay land and buildings transaction tax (LBTT) and the Scottish Government has raised the LBTT threshold from £145,000 to £250,000 until 31 March 2021. You could save £2,100 on a property costing over £250,000 in Scotland and this saving also applies when buying a second home in Scotland or purchasing through a company.



The Welsh Government applies land transaction tax (LTT) to purchases of land and buildings and the threshold for LTT has also been increased to £250,000 until 31 March 2021.

However if you are planning to buy a second home in Wales the tax saving will not apply; you will have to pay the normal rates plus a 3% supplement on the entire purchase price.

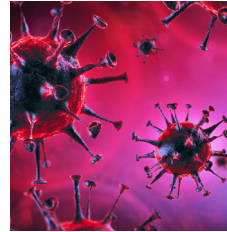
Corporate losses

If your company has made a loss in the current year you will want to report that loss to HMRC as soon as possible so that it can be set against earlier profits and generate a refund of corporation tax paid for that earlier year.

To qualify for this relief the current year loss must arise from the same trade or activities as the earlier profitable activities.

If your business has made a slight change to the goods or services it provides, such as selling takeaway meals instead of restaurant service, HMRC will consider this to be a continuation of the same trade. Where your business switched to something completely different, such as from running a restaurant to buying and selling protective equipment, HMRC will consider this is to be a new trade and the current losses cannot be carried back to set against the old trade.

Generally you can only submit a loss claim once the



current accounting period has ended and the profit or loss for that period has been realised. However HMRC will accept draft accounts for the completed current period as evidence that a loss is available to carry back to the previous period.

HMRC may also be prepared to make a tax repayment from the earlier period before the current period's tax return and loss claim are complete. This will only happen in exceptional circumstances where the claim can be supported by management accounts and other public statements.

Second SEISS grant

Applications for the second self-employed income support scheme (SEISS) grant opened on 17 August.

If you are self-employed and your business has been adversely affected by the COVID-19 pandemic since 14 July 2020 you can apply for the grant as long as you meet the following criteria:

- your self-employed profits make up at least half of your average annual income;
- you started your business before 6 April 2019;
- you submitted your 2018-19 tax return before 23 April 2020; and
- your annual self-employed profits for 2016-17 to 2018-19 were no more than £50,000.

The grant will be paid at the rate of 70% of your average annual profits for 2016-17 to 2018-19, capped at £6,570 for a three-month period.

If you missed applying for the first SEISS grant between 13 May and 13 July 2020 you can still apply for the second grant. Unfortunately we cannot do this on your behalf; you need to go to the gov.uk website and search for 'claim SEISS'. You will need your:

- national insurance number;
- self assessment UTR number;
- government gateway ID and password (this can be applied for at stage 1 of the grant application); and
- bank account number and sort code for the account you would like the grant paid into.

This will be the final SEISS grant and applications will close on 19 October 2020.

Redundancy pay

Making staff redundant is hard for any small business as employees can become as close as family.

Any employees you let go are entitled to a written statement setting out the amount of their redundancy payment and how it was calculated so it is important to get this right.

Start by looking at the employees' employment contracts as these may set out a formula for calculating redundancy pay and how much you have agreed to pay in lieu of notice and



for holiday accrued. You also need to know the employees' dates of birth and exactly when they started working for your business.

As a minimum, you are required to pay statutory redundancy to employees with at least two years' service, including time spent on furlough.

The calculation is based on an employee's average weekly pay, capped at £538. This is normally calculated from the pay received in the 12 weeks ending on the day before you issue the redundancy notice. However you are required to use the employee's normal pay before it was reduced by 80% for furlough purposes.

The redundancy pay is calculated as:

- one and a half weeks' pay for each full year of employment after the employee's 41st birthday; plus
- one week's pay for each full year of employment after the employee's 22nd birthday; plus
- half a week's pay for each full year of employment up to the employee's 22nd birthday.

Service beyond 20 years is ignored so the maximum amount of statutory redundancy payable to a long-serving employee is £16,140.

All statutory redundancy pay is free of tax and NIC but holiday pay and contractual notice periods are taxed like normal pay.

Job retention bonus

To encourage employers to keep as many employees on the payroll as possible into 2021 the Government has promised to pay a job retention bonus to employers of £1,000 per employee.

We do not know the full details of this scheme yet but to qualify for the bonus the employee must:

- have been on furlough and included in a coronavirus job retention scheme (CJRS) claim by the employer;
- have been continuously employed by the employer from the last furlough period until at least 31 January 2021;
- receive a salary of at least £1,560 for the period 1 November 2020 to 31 January 2021; and
- not, on 31 January 2021, be serving a contractual or

statutory notice period to cease their employment.

The employer's RTI records must be up to date to cover all periods up to and including 31 January 2021.

All employees potentially qualify for the bonus, including directors and agency workers, if they meet the criteria above. However more conditions may be announced, particularly to prevent fraud.

The bonus will be taxable income for the employer and will not have to be passed on to the employee.

VAT rate cut for hospitality sector

The hospitality and attractions sectors are enjoying a special 5% VAT rate which applies from 15 July 2020 to 12 January 2021.

The purpose of the rate reduction from 20% is to help businesses to recover from the lack of trade during lockdown and does not have to be passed on to customers.

Businesses must account for the correct rate of VAT on sales made in that six-month period and not all sales qualify for 5% VAT. For example alcoholic drinks remain chargeable to VAT at 20%. Hot takeaway food qualifies for 5% VAT but cold food such as sandwiches does not. All food and non-alcoholic drinks provided for consumption on the premises qualify for 5% VAT.

Hotel and holiday accommodation is subject to 5% VAT if the invoice is issued between 15 July and 12 January 2021 or the service is actually delivered in that period. Advance bookings for 2021



can be subject to 5% VAT if the invoice is issued before 13 January 2021.

Problems can arise with tourist attractions, cultural events and other facilities where the admission charge will be subject to 5% VAT but 20% VAT must be applied to other charges such as hiring of equipment. Some attractions charge one indivisible fee for admission together with another item such as a printed guide, in which case the whole price qualifies for the 5% VAT rate.

Sporting events are excluded from the reduced rate but live performances of cultural events may be exempt from VAT.

If you use the VAT flat rate scheme for small businesses check the new flat rate in place for the low VAT period. This will apply if your business falls into any of these sectors:

- catering services, including restaurants and takeaways;
- hotel or accommodation; or
- pubs.



Report your sale in 30 days

A new online system for paying and declaring CGT within 30 days of completion for sales of residential property was introduced from 6 April 2020.

CGT online applies to all sales of UK homes where exchange and completion occurred after 5 April 2020. Sellers who are not tax-resident in the UK must report all UK property sales within 30 days.

There are two broad exceptions to this 30-day rule:

- the deal is loss-making; or
- the gain is covered by your annual exemption (£12,300 for 2020-21).

Otherwise if the CGT is not reported and paid within 30 days of completion you will receive automatic late-filing penalties from £100 up to £1,300 as the delay lengthens.

HMRC did not apply a penalty for sales completed before

1 July 2020 which were reported by 31 July 2020. However transactions completed on or after 1 July 2020 must be reported within 30 days through your online: 'CGT on UK property account'.

We can do this report for you but you need to set up the account using your government gateway ID and passwords. You will then have to authorise us to report transactions through the account.

Your conveyancing solicitor is very unlikely to deal with the CGT reporting so please tell us as soon as you agree to sell a property to give us time to calculate the gain before the 30-day deadline.

Making tax digital (MTD)

The UK tax system is due an overhaul to streamline and digitalise the administration processes.

The transition has already begun: since April 2019 businesses with annual turnover of over £85,000 must submit VAT returns using MTD-compatible software and keep VAT records in a digital format. From April 2022 these MTD requirements will be extended to all VAT-registered businesses.

From April 2023 landlords, sole traders and partnerships will also have to keep tax records digitally and submit quarterly reports of income and expenses using MTD-compatible software.

This may sound daunting but spreadsheets do qualify as digital records. The key is to link your spreadsheet to

software that can submit the quarterly returns directly to HMRC's computer. There are cheap and easy software solutions available but in some cases conversion from paper ledger books and handwritten invoices will take a while.

There will be very few exceptions from the requirement to digitalise business records. Micro businesses with less than £10,000 of income will be exempt, as will those for whom disability makes using a computer very difficult. All other businesses and landlords will have to comply.

We have just under three years to prepare so let us work together to prepare for MTD.