

# Tax Briefing

Winter 2020

## Third SEISS grant

The online claims portal for the third self-employed income support scheme (SEISS.3) grant opened on 30 November. If you qualify for the grant you should receive a lump sum payment covering the three months from 1 November 2020. You have until 29 January 2021 to submit your claim.

The grant is calculated as 80% of your average trading profits as reported on your tax returns for the years 2016-17 to 2018-19, capped at £2,500 per month. It is treated as taxable income of your business and must be reported on your 2020-21 tax return.

On the application you will be asked to confirm that your business is currently trading; or has been trading and is temporarily closed due to Covid-19 and that you intend to continue trading when the restrictions are lifted. You will also need to declare that your business has been impacted by reduced demand between 1 November 2020 and 31 January 2021, which will cause a significant reduction in

trading profits for the accounting year 2020-21.

This means that to qualify for the SEISS.3 grant your sales income should be markedly reduced, leading to a drop in profits. This reduction could be due to a range of factors including fewer customers or contracts or problems with supplies. A reduction in sales due to sickness of the business owners or workers could also qualify.



## Furlough extended

The coronavirus job retention scheme (CJRS) has been extended from 1 November 2020 to 31 March 2021. For the first three months, employers can reclaim 80% of their employees' 'reference pay' for the time they are not working, although they must pay all of the employer's national insurance contributions (NIC) and any employer's pension contributions due on the wages paid.

The extended furlough scheme allows flexible furloughing so employees may be asked to work part time or certain weeks on and off, but employers should only use the scheme where the business has been affected by Covid-19 to such an extent that it is not possible to pay the employees. This would apply, for example, where the business premises are required to close or partially close under the lockdown rules.

To keep things simple, the Government has allowed employers to calculate furloughed pay in the same way as they did up to August 2020; as 80% of 'reference pay'. Where the furloughed employee was on the payroll on 19 March 2020 the 'reference pay' is their pay in the last period ending before that date. If the employee has joined the payroll since 19 March, their 'reference pay' is their pay in the last pay period ending on or before 30 October 2020.

This approach does throw up anomalies as the 'reference pay' for long-serving employees ignores any pay increases made since March 2020.

Employees paid the national minimum wage may find that they receive different amounts of furlough pay depending on whether they were taken on by the employer before or after 19 March 2020.

Claims under CJRS must be submitted within 14 days of the end of the calendar month to which the claim relates, so by 14 December 2020 for claims relating to pay for November.

**FURLOUGH SCHEME**  
**UPDATE**

## Report and pay CGT in 30 days

Capital gains tax (CGT) is normally payable by 31 January following the tax year in which you sold the asset. This can give you up to an extra 22 months to hold on to the full proceeds.

Sadly, the tax rules changed from 6 April 2020 and you must now pay any CGT due on the sale or gift of UK residential property within 30 days of the completion date. You must also report the gain in a new online UK property account within 30 days. We can help you with the CGT reporting but 30 days from completion of the sale does not leave much time to gather all the information about the history of the property to calculate the tax due.

Late-filing penalties will apply if the 30-day deadline is missed. These penalties were suspended for sales completed before 1 July 2020. However, penalties now apply from £100 for the shortest delay to over £1,000 for a six-month delay.



The 30-day reporting deadline does not apply for sales of other assets such as shares and commercial property. All sales on which CGT is due, or a loss is made, must be reported on your annual tax return.

If you are planning to sell a property, please discuss the tax position with us ASAP and preferably before it is offered for sale.

## Christmas cheer for employees

It has been a grim year, so if your employees have worked all the way through the pandemic they deserve a big 'thank you' which you may choose to mark with a gift or a virtual party.

A surprise gift can be provided to each employee tax-free as long as it is neither cash nor a cash voucher and the cost does not exceed £50 per person. These trivial gifts must not be provided in return for the employee's normal service and they must not be a contractual entitlement.

For employees who are not the company's directors or their family members there is no limit to the number of trivial gifts that the employer can give during the year. However a gift-card that is topped up at intervals with £50 each time would fail this test as the total value given in the year would be counted as one gift. Trivial gifts to directors and their family members are subject to an annual cap of £300.

Online or virtual parties can qualify as an annual staff event, just like a physical party. This means that employers can splash out up to the tax-free annual limit of £150 per person. But be careful of that limit as if it is breached the whole amount is taxable and subject to NIC.

You could send a food hamper to every employee for them to enjoy while attending the online party and provide a form of entertainment such as a live comedian, music or a quiz, as long as it is all delivered in a socially distanced way.



## VAT on international services

The rate of VAT on services supplied to non-business customers in other EU countries normally depends on where the supplier is located or, for services related to land, where the land is located.



A UK-based business supplying services to individuals in other EU countries will currently charge UK VAT. However from 1 January 2021 the UK will not be treated as a member of the EU, so services supplied from a UK business to individuals in EU countries will not be subject to UK VAT. Many professional and legal services, including advertising and data processing, will be treated as outside the scope of VAT so no VAT will be applied.

Services supplied between businesses across international borders have been treated as outside the scope of VAT for many years but the customer usually has to prove they are a business by supplying their VAT number.

Your EU suppliers may wish to charge VAT to your business from 2021 as they may not accept your UK-issued VAT number as valid. That is incorrect. Your UK VAT number will remain acceptable proof of your business status from 1 January 2021 and beyond.



## Deferring tax due in 2021

**Many people will face some very big tax bills in January 2021 as the balance of income tax due for 2019-20 on profits earned before the pandemic is due for payment.**

The income tax payable by 31 July 2020 was automatically deferred to 31 January 2021, which makes the January 2021 bill even bigger. Any capital gains tax for 2019-20 is also payable by the same date.



If you will struggle to pay your tax due in January you can apply for 'time to pay' to spread the balance over 12 monthly instalments. You can apply online in advance or within 60 days of the tax becoming due. Your request for 'time to pay' should be

granted automatically if you do not have other debts and the amount you owe is no more than £30,000. If you need a longer payment schedule or your debt is larger than £30,000, you can arrange a bespoke agreement with HMRC through the self assessment payment helpline: 0300 200 3822.

The VAT payable in the period from 20 March to 30 June 2020 was also automatically deferred to 31 March 2021. You can settle this debt in part or in full before 31 March 2021 but if the VAT due is still outstanding by that date you will be able to opt into a new payment scheme to pay off the debt over 11 instalments.

You will be charged interest on the outstanding tax from the date it was deferred until it is paid in full.

## Refunds of VAT on overseas expenses

**Before the Covid-19 pandemic, many of us would travel to Europe to meet customers or attend trade shows.**

VAT on business expenses incurred in another EU country up to 31 December 2020 can be reclaimed through HMRC's online VAT service. Such claims need to be submitted to HMRC by 11pm on 31 March 2021. Previous refund claims can also be viewed and amended until this date.



However HMRC's VAT service (which currently links into the EU VAT service) cannot be used to reclaim overseas VAT incurred after 31 December 2020 as the UK will no longer be treated as an EU country. UK-based businesses will have to reclaim VAT paid in EU countries by submitting claims directly to the tax authority of the relevant country. These claims normally need to be submitted on paper and in the country's own language. Each EU country has its own refund claim deadline.

You will have to decide whether the time spent dealing with the paperwork and learning the language is worthwhile to claim say €100 of VAT.

## VAT on low value imports

There will be several VAT changes for businesses that import or export goods from 1 January 2021 as the rules that permit free movement of goods and people between the UK and the EU cease to apply from 11pm on 31 December 2020.

If your business purchases low value goods from abroad which cost less than £135 per parcel you need to factor in the cost of UK VAT from 2021. Currently many low value goods enter the UK with no VAT or duty paid as they are not declared by overseas sellers.

From 1 January 2021 all goods entering Great Britain must be subject to VAT (different rules will apply for Northern Ireland). You should talk to your suppliers and find out which of these routes they will take:

- sell without VAT added, as a business to business transaction - you will need to provide your VAT number but must account for the VAT due as a reverse charge in your own VAT records;
- register for VAT in the UK and charge UK VAT on all UK sales from 2021; or
- sell through an online marketplace which is registered for VAT in the UK and will charge you VAT on the sale and issue a sales invoice.



## Nudging to correct the tax return

HMRC uses data from many sources such as banks, land registries, and Companies House to cross-check information reported on self assessment tax returns. If HMRC's computer finds a mismatch between the third party data and your 2018-19 tax return you may receive a letter asking you to review your return.



That letter will not detail exactly what is missing from the return as it is a standard text automatically generated by the computer and sent to a large group of taxpayers. This approach saves HMRC time and puts the onus on you to investigate the issue and take any action required.

The HMRC letter does not constitute a formal opening of a tax investigation but it does require action as HMRC may follow up if the tax return is not amended. We can help you check your return and reply to HMRC.

The issues HMRC is currently writing to taxpayers about include:

- discrepancies with employer reported pay and benefits;
- disposal of residential property which was not the taxpayer's main home;
- disposal of property described as 'other assets';
- investment income from financial institutions;
- deferred consideration on sale of private company shares;
- income of directors who control their own companies;
- tax relief claimed under double taxation agreements; and
- foreign tax relief claimed against employment income.

If you receive one of these slightly alarming letters, please contact us.

