

## **A message to our clients regarding Coronavirus (covid-19)**

**We are confident that the plans we have put in place will enable us to maintain our high level of service for clients**

**The following pages provide as much information as we could possibly gather at this stage.**

**We hope that you will find the contents helpful in understanding the schemes available from the government.**

**We will endeavour to keep our updates coming on a weekly basis and elaborate more on the topics as and when the information is made available to us.**

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**Source- HMRC and Other Related Articles**

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# CORONAVIRUS NEWS UPDATE- 2

## VAT returns still due; \*MTD phase 2 delayed...\*

Importantly, VAT returns must still go in on time by the 7th of the relevant month.

**Breaking news, 30 March** - HMRC has now postponed phase two of Making Tax Digital for VAT. This means the rules on maintaining digital links from original transaction to tax return will not be enforced until 1 April 2021. Businesses now have until their first VAT return period starting on or after 1 April 2021 to put digital links in place.

The latter means no manual adjustments to data, consolidating in spreadsheets, or using 'cut and paste'. The regular VAT penalty regime for missing any MTD obligations also comes into play on 1 April 2020 when the one-year soft-landing phase of MTD ends.

## What happens after June?

Given the deepening economic gravity of the COVID-19 situation, it is entirely possible that there will be an extension in July to this VAT deferment. So direct debit payers should pause before reinstating their payments. **And we should all keep tuned.**

## Coronavirus job retention scheme (CJRS):

More guidance has been published on the [coronavirus job retention scheme](#) (CJRS), although there are still some grey areas.

## Who can claim?

All employers can benefit from the scheme, even owner-managed businesses.

The government wants the support to be as inclusive as possible. There is no conditionality related to having sufficient funds which for example have been applied to the business interruption loans.

Owner-managed businesses can make a claim from the CJRS, effectively they will be furloughing themselves and **the understanding is that they do no income generating work for their business** but can continue to run the business from a statutory perspective, for example preparing their accounts and returns.

The following employers would therefore qualify:

- Businesses
- Charities and not-for-profit organisations
- Parents employing nannies
- Public sector organisations, although the government expects that most of them will still have the majority of employees working in frontline services.

## Which employees?

To reclaim a CJRS grant from HMRC, the employer has to designate employees as furloughed (essentially a period of paid leave when they cannot work) other terms and conditions of employment continue unless these have been varied too.

Whilst furloughed staff can't do any work for the employer that furloughed them, they can undertake training, work for other employers, work on a self-employed basis or as a volunteer.

The guidance refers to employees (and occasionally workers) and I take this to mean that the following individuals are covered:

- Employees (including zero hours and fixed term) with a start date of 28 February or earlier, even if they were added to a March payroll retrospectively because they missed the February payroll cut-off date
- Apprentices
- Temps on PAYE at a recruitment agency

The following individuals will not be covered:

- Deemed employees – those subject to the off-payroll rules in the public sector. These individuals would have to claim based on the non-taxable salary extracted from their PSC. This is not entirely clear in the guidance but as they are not employees of the public sector engager they appear to fall outside the CJRS from the engagers perspective.
- Workers engaged under a contract for services, ie sole traders being paid gross via an invoice. These individuals will have to claim under the self-employed support scheme.

A business may need to furlough all employees if it has effectively closed down, as in hospitality or non-food retail. However, it can choose to furlough a group of employees, whilst key workers continue to work, or to rotate groups between furloughing and working.

The scheme was introduced on 1 March so changes to March payrolls can be made retrospectively to change employees' status to 'furloughed' and reinstate those who had already been made redundant due to COVID-19. However, the PAYE scheme must have been in existence on 28 February 2020.

## How to furlough

The CJRS doesn't override employment law. The employer must mutually agree with an employee, ideally in writing as it's a contract change, that the employer is designating them as furloughed (there is no work for them due to COVID-19) and what the employer is planning to pay them whilst furloughed.

Some businesses may choose to continue to pay full salary even though they can only reclaim 80% up to the cap. Other employers may only be able to pay 80% of regular salary or even less than that, until the CJRS grant arrives.

An employee can be furloughed for a minimum of three weeks at a time and for a maximum of three months from 1 March, although the government might extend the scheme. The individual could remain furloughed even if the CJRS is not extended, but then the employer would not have any grant funding to cover their wages.

## How much?

The grant from the scheme will be the lower of £2,500 per month per employee or 80% of gross regular wages plus employer NIC on the grant figure plus 3% employer pension contributions on the grant figure using the qualifying earnings threshold (see example). The apprenticeship levy can't be reclaimed.

When calculating claim values for directors of owner-managed companies, only consider the salary that has been subject to PAYE, not any dividends paid to those directors.

## Running the payroll

It is important to distinguish between the CJRS grant funding and normal payroll operations which continue, other than that employees won't necessarily be receiving their former contractual wages.

To decide how much to pay, employers will need to calculate how much the CJRS grant will cover. The £2,500 cap refers to *regular wages* as at 28 February, excluding bonuses, fees and commission (it's not clear if cash allowances and overtime should also be excluded).

For an individual with variable pay ie 28 February was not an indicative week or month, their average earnings over 2019/20 or the period of employment during that year can be used.

The figure that is agreed with the employee to be paid in the period of furlough will be treated as normal earnings, subject to all statutory and voluntary deductions, reported under RTI with the remittances paid over to HMRC by the normal deadline.

What is paid through the payroll will not necessarily equal what can be reclaimed from HMRC.

### Example

Arthur has normal monthly gross pay of £3,500 and the employer agrees to continue to pay this. Arthur is also a member of a pension scheme for which his employer pays 9% contributions on all basic pay, which amounts to £315 per month.

The employers' class 1 NIC due on Arthur's gross pay is £383.78.

Arthur's employer can reclaim from the CJRS: £2,500 plus £245.78 NIC plus £59.64 pension contributions (£2,500 - £512 qualifying earnings threshold x 3%).

This example uses the 2019/20 NIC thresholds, which will change on 6 April 2020.

## The claim

A standalone portal will be introduced, probably around 21 April, to allow furlough grants to be reclaimed. The professional accountancy bodies have requested that tax agents be given access to this portal as well as employers.

As a bulk amount will be claimed for a group of employees you need to consider how this will be reconciled once it is paid into the company's bank account (it needs to be a UK account). It appears it will be a simplistic request just to identify the business, grant value, the number of employees, and the period of furlough.

HMRC will reserve the right to investigate claims and cross-reference them to RTI data.

## Coronavirus self-employed scheme (SEISS):

**The self-employed income support scheme (SEISS) was announced on 26 March, and now we have more details of how this scheme will work in practice.**

HMRC will pay a taxable grant to self-employed individuals and partners equivalent to 80% of their average trading profits for three months, capped at £2,500 per month.

### Who gets what?

The government has therefore chosen to base the amount of grant for each taxpayer on the average of their trading profits as reported in their last three tax returns for the years: **2015/16 to 2018/19**. If the taxpayer started trading within this three year period the monthly average of profits will be calculated from the periods in which they were trading.

The taxpayer (or their tax agent) does not need to provide any figures at this stage. HMRC will arrive at the taxpayer's average earnings by totalling up the reported profit for the three tax years (or shorter period as applicable) and divide by three to arrive at a typical average year. One quarter of that average annual profit will then form the basis of the SEISS grant awarded – at the 80% rate.

The number of months covered by a SEISS grant may be extended beyond three months if the coronavirus shutdown continues beyond the end of June.

### Who doesn't qualify?

The SEISS grant will not be payable to anyone who meets any of these conditions:

- has average annual profits of £50,000 or more – those taxpayers will get nothing
- has not submitted a tax return for 2018/19
- receive less than half of their annual taxable income from self-employed profits
- has already ceased trading permanently.

**If the taxpayer has not submitted their 2018/19 tax return, they have until 23 April 2020** to submit it in order to qualify for the grant. Penalties for late filing and late payment of tax will apply as normal.

**Those who started trading on or after 6 April 2019 are not eligible for the SEISS grant. This seems harsh, but HMRC has to draw the line somewhere.**

The purpose of the SEISS grant is to help traders through the coronavirus crisis. To qualify for the grant the business must have traded in 2019/20 and would still be trading if it hadn't been for the interruption to business due to the coronavirus. If the trader has taken the decision to cease trading completely, no grant is payable.

**Property letting businesses are not regarded as a trade, so landlords will not qualify for the SEISS grant even if more than half of their taxable income is from rental income.**

Similarly, the letting of furnished holiday accommodation is not strictly a trade, although it is treated as a trade for certain pensions and CGT purposes. HMRC are unlikely to consider income from furnished holiday lets as qualifying for the SEISS grant, although these landlords will be among the hardest hit of all "self-employed".

### **How will the grant be delivered?**

HMRC will contact those taxpayers who are eligible for this grant and will invite them to apply for the payment online. It is not clear if this contact will be made by letter, but it certainly won't be by email or text message.

HMRC warns taxpayers not to be taken in by scammers who email, text, or call, offering money from HMRC then ask for the business bank details to be confirmed. Warn clients not to click on a link in an email, or reply to a text, purporting to be from HMRC.

The taxpayer may need to confirm to HMRC that they were trading in 2019/20 and expect to continue to trade in 2020/21. Some indication of the business turnover for 2019/20 may have to be provided at that point.

### **When will the money arrive?**

The SEISS grant for three months will be payable in one lump sum into the taxpayer's bank account, but the money will not be available until early June.

**The grant will be treated as taxable income**, and will have to be reported on tax returns for 2020/21. Taxpayers in receipt of working tax credits or universal credit will have to treat the SEISS grant as part of their self-employed income for 2020/21.