

COVID-19 – Tax and Financial Reliefs

02 April 2020

The disruption to business as a result of measures put in place to limit the spread of COVID-19 is unprecedented. The UK Government has announced a number of measures designed to cushion the financial impact to businesses, and although no details have been announced, what we know about these measures is summarised in this update.

STATUTORY SICK PAY (SSP) RELIEF FOR SMES

The government will refund eligible COVID-19 related SSP costs to small and medium-sized businesses. This covers employees who are required to isolate/quarantine but are unable to work from home. Employers must keep records of those who are sick, or isolating, but employees do not have to provide a sick note. Isolation notes are being issued by NHS 111 online and these will suffice.

Eligible businesses are those who have 250 or fewer employees as at 28 February 2020. Once necessary legislation has passed, these measures can be applied retrospectively from 13 March 2020 and will cover up to two weeks of SSP per employee.

CORONAVIRUS JOB RETENTION SCHEME (CJRS)

Where employees are furloughed instead of being made redundant, HMRC will refund the employer 80% of the workers wage costs, up to a cap of £2,500 per employee per month, plus the associated employer NICs and minimum auto-enrolment employer pension contributions. The government is creating a new online portal for employers to notify HMRC of furloughed employees and HMRC are working urgently to set up a system for reimbursement. Employees' wages will still fall under usual PAYE and employee NIC rules.

The scheme is intended to be applied retrospectively from 1 March 2020 to run for a minimum of three months.

The 80% grant is to be based on the wage costs of the prior pay period, for example if a worker is placed on furlough at 1 March, their February salary will guide the 80% grant receivable from the government. However if employees' wages vary throughout the year, the claim can be based on the higher of the same month's earnings from the previous year or the monthly average of their earnings for the tax year 2019/20.

The scheme applies to any employee paid under PAYE and who was employed on 28 February 2020.

Where an employer pays National Living Wage (NLW) or National Minimum Wage (NMW), the CJRS claim is still based on 80% of the employees' salary. This may take an employee's pay below NLW/NMW based on their usual working hours (assuming the employer is only paying 80% of wages), however because furloughed workers will not be working, there is no breach of the NMW rules.

LEGAL CONSIDERATIONS

The Government guidance states *"changing the status of employees remains subject to existing employment law and, depending on the employment contract, may be subject to negotiation"*.

Whilst employers can choose to fund the difference in monthly pay to their employees they are not required to do so. Reducing an employees monthly wage whilst on furlough amounts to a temporary change in contract and must be consented to in writing by the employee, otherwise the employer risks making unlawful deductions from wages.

Employees paid their usual full salary will not necessarily have to give their consent to being furloughed, however this is unlikely to happen in practice, given the nature of being furloughed.

Employers should use a process of fair selection in deciding which employees are furloughed to avoid claims being made against them.

For further details on the CJRS relief, please see our separate update.

SELF EMPLOYMENT INCOME SUPPORT SCHEME

This scheme will allow you to claim a taxable grant worth 80% of your trading profits up to a maximum of £2,500 per month for April, May and June. This may be extended if needed.

This is available for people who:

- have submitted their self assessment tax return for the tax year 2018-19 (if not already filed then this must be submitted by 23 April 2020)
- traded in the tax year 2019-20

- are trading when they apply, or would be except for COVID-19
- intend to continue to trade in the tax year 2020-21
- have lost trading/partnership trading profits due to COVID-19

More specifically, a trader will be eligible if at least one of the following conditions is true:

- Trading profits/partnership trading profits in 2018-19 were less than £50,000 and these profits constituted more than half of their total taxable income; or
- Average trading profits in 2016-17, 2017-18, and 2018-19 were less than £50,000 and these profits constitute more than half of their average taxable income in the same period

If the individual began trading after 2016, then HMRC will only use those years for which the trade was included on their tax returns.

Individuals who began trading since 6 April 2019 will not be eligible for this grant.

AMOUNT OF GRANT

The grant will be 80% of the individual's average monthly profits, up to a maximum of £2,500 per month.

HMRC will calculate the mean average of the yearly trading profits on the three tax returns from 2016/17 to 2018/19 (excluding any in which the person did not trade). It is assumed that this yearly figure will be divided by 12 to find the monthly amount.

THE PROCESS

At the time of writing (31 March) individuals cannot apply to join this scheme. HMRC will be contacting eligible people and instructing them on how to apply. The government suggests that first contact will be made by the beginning of June and they do not advise that anyone contact them independently.

HMRC are expected to use letters only in contacting individuals about this and they would not normally use email, text, phonecalls or any other mode of communication. This system is likely to be abused by scams. People should be very careful when giving out any details, and this grant scheme will only be administered through websites on the gov.uk domain.

The grant will be paid directly into the individual's bank account, in one instalment. This may be repeated if the scheme were to be extended, dependent on how long the effects of Covid-19 persist.

The grant will be taxable on the person and will need to be included on the self assessment tax return. Unless this is enacted before April 5 2020, it should only affect the 2020/21 tax return which will not be due for filing until January 2022.

RELIEFS ON BUSINESS RATES

SMALL BUSINESS GRANT SCHEME FUNDING - BUSINESSES PAYING LITTLE OR NO BUSINESS RATES

To support businesses that pay little or no business rates due to Small Business Rate Relief (SBRR), Rural Rate Relief (RRR), or tapered relief, the government will provide funding for local authorities in England. This measure will provide a one-off grant of £10,000 to around 700,000 businesses currently eligible for SBRR or RRR as of 11 March, to help meet their ongoing business costs.

SUPPORT SPECIFICALLY FOR RETAIL, HOSPITALITY AND LEISURE BUSINESSES

BUSINESS RATES HOLIDAY

To support small businesses affected by COVID-19, the government is raising the Business Rates Retail Discount to 100% for the 2020 to 2021 tax year. This business rates holiday will apply to all businesses in England in the retail, hospitality and leisure sectors, irrespective of their rateable values.

Businesses that received the retail discount in the 2019 to 2020 tax year will be rebilled by their local authority as soon as possible.

CASH GRANTS FOR SMALL BUSINESSES

Through the Retail and Hospitality Grant Scheme, businesses in England in the retail, hospitality and leisure sectors will also be provided an additional cash grant of up to £25,000 per property.

Businesses in these sectors with property that has:

- a rateable value of £15,000 and under, may be eligible for a grant of £10,000; or
- a rateable value of between £15,001 and £51,000, may be eligible for a grant of £25,000.

Occupied properties used by businesses in the retail, hospitality and leisure sectors will benefit from these reliefs if they meet the above eligibility criteria and if they are wholly or predominantly being used:

- as shops, restaurants, cafes, drinking establishments, cinemas or live music venues;
- for assembly or leisure; or
- as hotels, guest and boarding premises or self-catering accommodation.

VAT DEFERRAL

All VAT payments falling due between 20 March 2020 and 30 June 2020 will be deferred during the coronavirus pandemic. This includes foreign businesses which are registered for UK VAT. The scheme is automatic with no applications required.

The scheme does not apply to VAT payments under the Mini-One-Stop-Shop scheme.

The VAT not paid during the period is then due to be paid to HMRC by the end of the 2020/21 financial year, which ends on 31 March 2021.

No interest or penalties will be charged on any amount deferred as a result of this scheme.

VAT payers on Direct Debits, must cancel their direct debit via their Gateway login account or contact their bank. The mandate must be cancelled in sufficient time so that HMRC do not attempt to automatically collect, following submission of the VAT return. HMRC does not have the power to stop a mandate, nor can agents cancel direct debit mandates on behalf of taxpayers.

VAT refunds and reclaims will continue to be paid by the government as normal.

VAT returns must still be filed on time, including following the new 2020 MTD rules.

PAYMENT ON ACCOUNT DEFERRAL

Payments on account of income tax that would normally fall due in July 2020 may be deferred to January 2021. This will be automatic, no payments or applications are required at this time. At the point of filing 2019/20 returns, no interest or penalties will be charged for payments that have been made after the normal July deadline.

The government has confirmed that all people are eligible for this, and not just those that are self-employed.

LENDING SUPPORT

CORONAVIRUS BUSINESS INTERRUPTION
LOAN SCHEME OFFERING LOANS OF UP TO
£5 MILLION FOR SMES THROUGH THE
BRITISH BUSINESS BANK

This scheme will support SMEs, providing them with access to loans, overdrafts, invoice finance and asset finance up to £5m for up to six years. The government will also cover the first 12 months of interest.

Broadly businesses are eligible if they are UK based and have a turnover of less than £45m.

The government will provide lenders with a guarantee of 80% on each loan made under the Business Interruption Loan Scheme, subject to certain pre-lender caps. There are currently 40 accredited lenders under the scheme. Businesses need to contact their bank to establish eligibility.

TERM FUND SCHEME (TFSME)

A new four-year TFSME is to run for a year and is designed to encourage banks and building societies to offer lending close to the new level of the bank rate and with additional incentives to lend to Small and Medium-Sized Enterprises (SMEs).

COVID-19 CORPORATE FINANCE FACILITY

A new lending facility, the COVID-19 corporate finance facility will help bridge disruption to cash flow and support liquidity among larger firms, helping them bridge coronavirus disruption to their cash flows.

Under this facility the Bank of England will buy short term debt from larger companies, and support corporate finance markets to ease supply of credit to all firms.

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