Adviser

May 2021

In this issue:

Doing Business After Brexit - Taking a Look at the New Rules

The end of the Brexit transition period ushered in a range of new trade rules and regulations applicable to businesses that trade with the EU. Firms need to follow new rules on exports, imports and tariffs. Here we outline the changes.

Dealing With VAT

Before Brexit, VAT on trade with the EU entailed minimal paperwork. There was also access to a range of VAT simplifications. This has changed. Broadly, rules on the supply of services have changed less than the rules on the supply of goods. One key change relates to business to consumer (B2C) supplies of digital services, such as apps and downloads, where registration for the UK VAT mini one stop shop (MOSS) is no longer available. Registration for the MOSS non-union scheme in an EU member state is needed instead.

Goods Sold to the EU

Business to business (B2B) supplies of goods, previously treated as dispatches for VAT purposes, are now reclassified: sales from the UK become exports. Exports can be zero rated, provided goods are physically exported within three months of the time of supply, with export evidence obtained within the same period. Before Brexit, the distance selling rules applied to B2C supplies of goods (also now treated as exports). But the EU distance selling regime/thresholds are no longer open to UK suppliers. Instead, you may need to register for VAT in EU countries where your customers are located. In some countries, VAT registration may also require the appointment of a local agent to deal with matters for you.

Goods Bought From the EU

Previously treated as acquisitions for VAT purposes, these are reclassified as imports, and from 1 January 2021, two new VAT schemes apply to imports, not just to imports from the EU but from anywhere in the world:

- the Low Value Imports scheme makes the relevant online marketplace or overseas vendor responsible for charging the VAT in the UK. Applies to postal imports below £135 in value;
- Postponed VAT Accounting (PVA).

Dealing With Customs Procedures

Trade with the EU now means following the correct customs procedures. It's a complex area involving being ready to make customs declarations, knowing how to classify goods correctly and understanding relevant safety and security requirements. The government recommends using a professional customs intermediary.

Imports: New Timetable, Ongoing Change

The new rules for import controls (full import customs declarations, border checks and controls) don't all take effect at once. The government's Border Operating Model set out stricter controls in three stages: 1 January 2021, 1 April 2021 and 1 July 2021. This has changed to give traders more time to prepare with import pre-notifications for products of animal origin introduced from 1 October 2021 and from 1 January 2022 customs declarations for all goods at point of import.

Making a Declaration

Customs declarations are made either to the Customs Handling of Import and Export Freight (CHIEF) or to HMRC's new declaration platform, the Customs Declaration Service (CDS). Special software is needed. To complete a customs declaration, you need:

- a GB Economic Operators Registration and Identification (EORI) number;
- the commodity code of the goods;
- the value of the goods;
- the origin of goods;
- access to HMRC systems, either directly or via an intermediary with such access;
- for anyone using CHIEF and not using an intermediary, a CHIEF badge.

We Can Help You

Brexit has brought significant change to trade with Europe and Northern Ireland, and we have only been able to highlight key issues here.

Please contact us for in depth advice tailored to your circumstances.

Budget Big Freeze

Personal taxes, capital taxes, pensions. No dramatic announcements.

But Chancellors can create considerable change through low key tactics, and the Budget freeze for various rates and allowances until 5 April 2026 will impact many people.

Personal Tax

Initially, the UK wide personal allowance increases, rising to £12,570 from 6 April 2021. The basic rate band also increases, to £37,700. This means the higher rate threshold – the point at which you start paying higher, rather than basic rate tax in England, Wales and Northern Ireland, increases to £50,270 (if you have a full personal allowance).

But after this date, the personal allowance and higher rate threshold won't change until 5 April 2026. As incomes go up, this brings more people within the tax net, and pushes some basic and higher rate taxpayers into the higher and additional rate bands. 1.3 million people, in fact, according to government figures, should come into income tax by 2025/26 and one million into higher rates of tax. From the 2026/27 tax year, starting 6 April 2026, the personal allowance and basic rate limit are indexed with the Consumer Price Index by default.

Scottish taxpayers: for Scottish taxpayers, income tax rates and bands for non-savings and non-dividend income are different from the rest of the UK. The freeze to the personal allowance impacts Scotland, although the freeze to the UK higher rate threshold only affects those with savings and dividend income.

Big Change Postponed?

There's been much discussion of a major tax overhaul, with inheritance tax (IHT), capital gains tax and pensions contenders for a makeover. It didn't happen on Budget day, nor the UK's first 'Tax Day', publication day for a raft of tax consultations.

What Tax Day did produce was a commitment to reduce red tape for IHT, so that from 1 January 2022, over 90% of non-taxpaying estates shouldn't complete IHT forms for deaths when probate or confirmation is required.

But sooner or later, change is likely, as the government looks beyond the Covid-19 crisis. Perhaps it has been reined back until 2026, when the big freeze ends. We shall have to wait and see. ***In the meanwhile, please don't hesitate to contact us for advice in any of these areas.***

Reminders for your diary

May 2021

31 Deadline for forms P60 for 2020/21 to be issued to employees.

June 2021

1 New Advisory Fuel Rates (AFR) for company car users apply from today.

19 PAYE, student loan and CIS deductions are due for the month to 5 June 2021.

30 End of CT61 quarterly period.

July 2021

5 Deadline for reaching a PAYE Settlement Agreement for 2020/21.

6 Deadline for forms P11D and P11D(b) for 2020/21 to be submitted to HMRC and copies to be issued to employees concerned.

Deadline for employers to report share incentives for 2020/21.

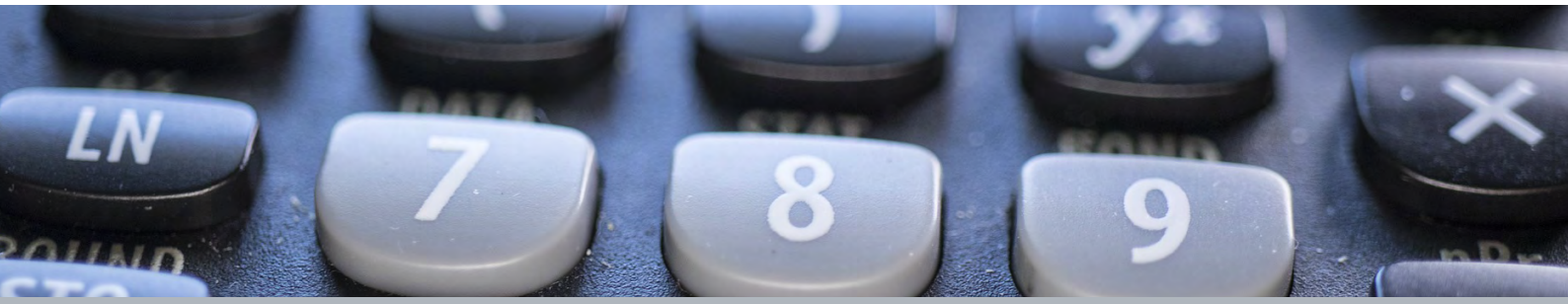
14 Due date for income tax for the CT61 period to 30 June 2021.

19 Class 1A NICs due for 2020/21.

PAYE, student loan and CIS deductions due for the month to 5 July 2021.

PAYE quarterly payments are due for small employers for the pay periods 6 April 2021 to 5 July 2021.

31 Second payment on account 2020/21 due.



Tax Tip

Forms P11D and Reviewing Your Benefits-in-Kind Policy

Forms P11D, which report benefits-in-kind for employees for the year to 5 April 2021, are due for submission to HMRC by 6 July 2021. Employer only Class 1A National Insurance Contributions (NICs) of 13.8% are also payable on the benefits by 19 July 2021.

Benefits-in-kind are generally valued at the cost to the employer of providing the benefit. However, special rules apply to the valuation of some benefits such as cars where the taxable amount will generally be based on a range of up to 37% of the manufacturer's list price (including accessories) of the car. The taxable benefit depends upon the carbon dioxide emissions of the car. There is also a separate benefit-in-kind for the provision of fuel for private motoring.

Now would be a good time to start gathering together the information to complete the forms P11D and to review your benefits-in-kind policy.

We can help you complete the forms P11D and review your benefits-in-kind policy. Please get in touch for more information.

Covid-19 Support Schemes Latest

Ongoing change to the Coronavirus Job Retention Scheme ('furlough' scheme) and Self-Employment Income Support Scheme (SEISS) creates the potential for inadvertent errors.

We outline recent changes below.

There are two further SEISS grants, SEISS four and five. They are intended as a final, more restricted phase of support. For SEISS four, businesses must declare a reasonable belief that there will be a significant reduction in trading profits due to reduced business activity, capacity, or demand because of Covid-19. The impact on the business must relate to the period 1 February 2021 to 30 April 2021, and the reduction in profits must be reflected in the figures reported on the relevant tax return in due course. Evidence must be kept to support claims. SEISS five introduces an additional turnover test; the amount of grant will hinge on how much turnover has fallen between April 2020 and April 2021.

To be eligible for SEISS four or five, the 2019/20 tax return must have been submitted before midnight on 2 March 2021. HMRC will base calculations on 2019/20 tax return data, and more recent years than for earlier SEISS grants. This could produce unexpected results. It opens the door to some new claimants, such as those starting self-employment in the 2019/20 tax year, provided they meet other eligibility conditions. On the other hand, someone eligible for earlier SEISS grants may receive more or less than before.

The furlough scheme runs to 30 September 2021. There is no change until 1 July 2021, when government contributions drop. Employers then make 10% contributions in July, and 20% in August and September. For periods starting on or after 1 May 2021, claims can be made for employees employed on 2 March 2021, if a PAYE RTI submission has been made to HMRC between 20 March 2020 and 2 March 2021, notifying payment of earnings for that employee. It's not necessary to have claimed under the scheme for an employee before 2 March 2021 to claim on/after 1 May 2021.

Covid-19 support schemes are very much in the public eye. HMRC stresses that it is not looking for innocent errors. But with details of employer furlough claims now published, new SEISS recovery powers, and a new Taxpayer Protection Taskforce set up to tackle fraud, it is important that any claim is well evidenced and can stand HMRC scrutiny.

We would, of course, be glad to help you review compliance.

Super Deductions: Budget Changes for Business

'Bold and unprecedented'. That was the Chancellor's description of the new 130% super deduction for expenditure on new qualifying plant and machinery announced in the Budget. The headlines were that for every pound invested, tax is cut by up to 25p.

But what are the terms and conditions, how does it sit alongside the usual rules on capital allowances – and is it the giveaway it's been made out to be?

First of all, it's not available to every business. It's targeted at companies, not unincorporated businesses. These will have to continue to look to the Annual Investment Allowance (AIA), with its temporarily extended higher £1 million limit for major capital spending up to 31 December 2021.

It's temporary, lasting for two years. And it works by giving first year tax relief in the form of capital allowances for expenditure between 1 April 2021 and 31 March 2023. For assets that would normally qualify for 18% main rate writing down allowances, the super deduction gives first year relief of 130%. Assets normally qualifying for 6% special rate writing down allowances (such as integral features in buildings, like lifts and long life assets) can qualify for a first year allowance of 50%. But this 50% allowance is likely to be relevant only to companies that have used their AIA. Unlike the AIA, there is no cap on eligible expenditure. The rate of the deduction will be apportioned for a business making eligible expenditure in an accounting period straddling 1 April 2023.

There are exclusions. Plant or machinery must be new, not used or second hand. Expenditure incurred on contracts entered into before the Budget on 3 March 2021 does not qualify. The general exclusions that are in existing legislation relating to first year allowances apply. For example, expenditure on cars and assets for leasing are excluded – the latter point meaning that commercial landlords may benefit less than the initial publicity of the proposals might have led them to expect.

Rules on what happens when the assets are disposed of make the picture more complex. With disposal proceeds treated as a taxable balancing charge, these potentially claw back some of the previous benefits. It will be important to keep records of assets on which the super deduction is claimed so they can be correctly treated on sale.

Will it benefit your business? Not in every case. As it sits alongside other tax measures, it's a finely balanced equation. It is designed to incentivise investment now, with the corporation tax rate at 19%.

But with the planned increase in corporation tax from 1 April 2023, when the super deduction ends, the outlook for your business may change. The main rate of corporation tax is set to increase to 25% on profits over £250,000. Only companies with profits up to £50,000 will retain the 19% rate, with profits between £50,000 and £250,000 taxed on a sliding scale. Whether the super deduction significantly benefits your company will depend on the forecast level of capital expenditure, the type of asset, financing method, and your expected corporation tax rate.

With the AIA due to revert to £200,000 from 1 January 2022 and higher corporation tax rates in prospect, careful timing of major capital expenditure is more critical than ever. The new provisions on loss carry back could also affect decision making.

All in all, it's a complex area, and the right decision for your business will be unique to your business.

We would be delighted to advise further.

Business Round Up

Government Publishes Range of Consultations to Help Modernise UK Tax System

The government has published a range of tax documents and consultations designed to help modernise the UK tax system.

More than 30 policy updates, consultations and documents have been published in an effort to give tax professionals more time to scrutinise them. These documents, which would traditionally have been published at the Budget, include a business rates review interim report and a call for evidence on the tax administration framework.

A consultation on the potential changes to Air Passenger Duty (APD) has been published, seeking views on supporting the UK's commitment to net zero emissions by 2050 by increasing the number of international distance bands.

Additionally, documents on cutting inheritance tax (IHT) red tape for more than 200,000 estates have also been published. Many of the announcements form a key part of the government's wider ten year plan to build a trusted, modern tax system.

'These measures will help us to upgrade and digitise the UK tax system, tackle tax avoidance and fraud, among other things,' said Jesse Norman, Financial Secretary to the Treasury.

'By grouping them together, we want to give Members of Parliament, tax professionals and other stakeholders a better opportunity to scrutinise them.'

Thousands Missing Out On Tax Free Childcare Bonus

Thousands of families across the UK are missing out on the chance to save money on the costs of childcare, HMRC has revealed. Tax Free Childcare (TFC) permits parents and carers who have children aged up to 11 (17 for children with disabilities) to pay their childcare provider via the scheme and receive a 20% government top up on any money deposited.

Under TFC the tax relief available is 20% of the costs of childcare up to total childcare costs of £10,000 per child per year. The scheme is therefore worth a maximum of £2,000 per child (£4,000 for a disabled child). To qualify for TFC all parents in the household must generally meet a minimum income level, based on working 16 hours a week (on average £142 a week), each earn less than £100,000 a year and not already be receiving support through Tax Credits or Universal Credit.

'Help is available towards the cost of childcare,' said Myrtle Lloyd, Director General for Customer Services at HMRC. 'Families using TFC to pay their childcare provider are already benefiting from the 20% government top up on deposits, and you could too.'

Uber and You

The Uber case on worker status, recently decided in the Supreme Court, has important practical lessons for businesses.

The judgment held that Uber taxi drivers were not self-employed contractors: they were 'workers'. This is a specific status in employment law, giving the right to minimum wage, holiday pay and other legal protection. Uber's extensive control over the drivers was a key determining factor in the verdict.

Significantly, the judgment also emphasised the importance of starting not with the written agreement (if any) between parties when establishing employment status, but with the purpose of the relevant employment legislation. This exists 'to give protection to vulnerable individuals who have little or no say over their pay and working conditions because they are in a subordinate and dependent position'. This means employers, 'frequently in a stronger bargaining position', cannot simply contract out of such protection.

The Uber case relates to the gig economy, but it has wider practical implications. It's a verdict that should inform thinking generally around the use of non-standard working arrangements, both for those who automatically identify themselves as employers and those who don't. The employment cost of having to reclassify members of the workforce can be high, and it may be prudent to check now that anyone in a non-employee role has been appropriately classified and that contracts indicate accurately the reality of the working relationships involved.

We should be delighted to advise further.

Horsfield & Smith
Chartered Accountants
Tower House | 269 Walmersley Road | Bury | Lancashire | BL9 6NX
www.horsfield-smith.co.uk | 0161 761 5231 | theteam@horsfield-smith.co.uk