Business Newsletter
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Changing status

New rules concerning the tax and employment status of off-payroll workers will be introduced on 6 April 2021. The change applies to those off-payroll workers who provide personal services to clients in the private sector through an 'intermediary'. Under the rules, commonly known as IR35, the responsibility for determining that status will pass to medium and large private sector organisations.

The most common type of intermediary is a worker's own 'personal service' company (PSC) and PSCs, but please note that an intermediary can also be an individual, partnership or unincorporated association.

Determining employment status

How employment status is determined revolves around whether the off-payroll worker would be an employee if any intervening entities, like the PSC, did not exist so they were engaged directly by the client. However, the factors to weigh up are frequently complex. HMRC's online status checker tool (CEST) can be used to make a determination but has come in for criticism in the past.

CEST has been refreshed to support the new regime: **https://bit.ly/2ECbM1M**. Despite this, many commentators remain sceptical about its efficacy in determining status in all cases.

HMRC has pledged to stand by the results produced if CEST is 'used in accordance with its guidance and the information entered is accurate and remains accurate'.

The Status Determination Statement (SDS)

The SDS is a new part of the status determination procedure. If an organisation decides an engagement amounts to employment, it should provide the off-payroll worker with an SDS. This sets out its employment status decision, giving the reasons underpinning it.

Reasonable care

Organisations must take 'reasonable care' when making the status determination. In practice, this means intermediaries have the right to expect staff making the decision to be trained to know what to consider, seeking professional support if needed. They should examine each contract individually, rather than making a 'blanket' determination, treating all contractors the same.

HMRC advises that using CEST accurately is one example of taking reasonable care.

Off-payroll workers are entitled to disagree with an SDS, and organisations must have a process in place to deal with this.

However, if an off-payroll worker now falls within the rules for the first time, HMRC has undertaken not to use this information to review their status for previous tax years. This is subject to there being no reason to suspect fraud or criminal behaviour.

Tax matters

Where a medium or large client decides a contract is within scope of the rules, it will then:

- calculate a 'deemed direct payment', based on the fees charged by the PSC
- deduct PAYE and employee national insurance contributions (NICs) from fees, reporting and paying these to HMRC
- pay employer NICs based on the deemed payment.

This effectively means the end of the tax advantage of receiving income via a PSC, with its traditional profit extraction strategy of low salary plus dividend payments. If a contract falls within the rules then the intermediary will essentially be treated as an employee of the party paying the PSC for tax purposes.

Next steps

Steps intermediaries can take include checking the size of the clients they work for to see if the changes will apply and using CEST now to examine any contract running beyond 6 April 2021. It may also be possible to renegotiate fees where an engagement now falls within the rules.

In some cases it will be worth considering whether operating via a PSC is still optimal for the long term. Please do contact us to discuss the impact of the new legislation on your business.

Should business rates be overhauled?

Many members of the business community have been asking for a re-evaluation of business rates for some time now. The current system has been deemed unfair by many businesses and the need for reform has now been magnified by the economic disruption caused by the coronavirus (COVID-19) pandemic. We look at business rates and consider some of the options for a fairer, better solution to support businesses.

Critics acknowledge that business rates are, and should remain, an important source of revenue, for both central and local authorities. However, the government has recognised the need for reform by launching a fundamental review and a subsequent call for evidence.

Unfairness and uncertainty

Many of the problems businesses currently face with rates are caused by a lack of information about the calculation of rateable values, which only serve to highlight the perceived unfairness of the system. This in turn is exacerbated by the lack of certainty around how much business needs to pay.

In addition, although the government is committed to complete revaluations every three years, more timely data would maintain a more accurate valuation.

Critics say these problems mean that a fundamental rethink of property and business tax is needed in order to find a long-term solution.

According to the Institute of Chartered Accountants in England and Wales (ICAEW), better use of technology and more transparency could help to address some of the unfairness within the business rates system.

The cost to business

Business rates aim to provide revenue for local government and are a combination of business tax and property tax. According to the ICAEW, business rates generated £30 billion for the government during the 2018/19 financial year. However, the business rates holiday introduced to support organisations through the COVID-19 pandemic is estimated to result in foregone revenues of £10 billion.

Critics of business rates say the current system means they fail to reflect either property values or business activity accurately.

The call for change

The growing consensus that the current business rates system is out of date and unsustainable has only been magnified by the strain businesses have been under during the COVID-19 pandemic, further fuelling the calls for change.

The ICAEW says there must be a clearer link with current market values. It says better use of technology could provide a clearer link between market rents and business rates. It also says that the roll-out of digital tax systems should make it possible to enable more timely maintenance of valuations.

Furthermore, the ICAEW suggests that the government investigates whether the Valuation Office Agency could share more details about assessments, including how a valuation was calculated.

In addition, the Confederation of British Industry (CBI) has set out a package of measures, which it says would save business £21.8 billion over the next five years.

It says the government should delay the next valuation date until 1st October 2021, shortening the valuation period to 18 months. This would ensure bills reflect the current economic situation and the property market in a post-COVID world.

Business rates affect businesses of all sizes. As your accountants, we can help you plan your cashflow as efficiently as possible. Please contact us for further advice.

Claiming capital allowances

Businesses and owners of commercial property planning major capital purchases, take note.

The temporary increase to the Annual Investment Allowance (AIA) limit is set to continue for another year.

The AIA limit rose to £1 million two years ago, and was due to revert to £200,000 from 1 January 2021. But to stimulate investment, the £1 million limit now remains until 31 December 2021. The AIA gives 100% same-year tax relief for most qualifying capital expenditure on plant and machinery, up to a fixed limit. Relief for cars is given by other means.

To maximise tax relief on capital expenditure, the small print is critical: and timing of purchases and sales of capital assets particularly important. When the rates of AIA change, the amount of AIA available depends on your accounting period, as well as the amount and timing of the expenditure. Looking towards the end of the year, when the £1 million limit expires, special care will be needed. The message is that any substantial capital expenditure would be better made before 1 January 2022, and bespoke calculations will be needed for businesses with accounting periods spanning this date. We are always on hand to compute the capital allowances available to your business and make sure the most advantageous claims are made.

Deferred VAT payments: what now?

What are the options if you took up the government's offer to defer VAT payments between 20 March 2020 and 30 June 2020, and still need to pay?

The first option is to settle the liability, in full, on or before 31 March 2021, and HMRC has reminded taxpayers financially able to pay that they should do so. The second option is to use the VAT deferral new payment scheme, announced in the government's Winter Economy Plan. This can provide you with up to an additional year to pay. The third option, where more time than this is likely to be needed to pay, is to contact HMRC: this link provides guidance here **http://bit.ly/3fQrovQ.**

New payment scheme

The VAT deferral new payment scheme means that instead of settling the full amount by the end of March 2021, you can pay by equal monthly instalments, and no interest will apply. All instalments must be paid by the end of March 2022, and the scheme gives you the discretion to choose how many monthly instalments you make, with a minimum of two and maximum of 11. Using the scheme does not prejudice your applying for a time to pay arrangement for other HMRC debts or outstanding tax. To use the scheme, you opt in, online, and it falls to the taxpayer to do this. HMRC systems do not allow us, as your agents, to opt in on your behalf.

Tip

Watch the deadline. You must opt in before the end of March 2021.

Certain terms and conditions apply: see **http://bit.ly/3q2akb1**. You must, obviously, still have deferred VAT to pay: you must also be up to date with your VAT returns, and able to pay the deferred VAT by direct debit. Your first instalment must be paid before the end of March 2021.

In order to get ready for the opt-in, HMRC requires you to have created a Government Gateway account, if you don't already have one, and to have submitted any outstanding VAT returns from the last four years. In addition, any errors on your VAT returns must be corrected as soon as possible. Corrections received after 31 December 2020 may not show in the deferred VAT balance.

HMRC advises that you must make sure you know how much VAT is owed, taking into account both the amount originally deferred and any sums you may already have paid. It also requests that if you intend to make any payment towards the deferred VAT before the scheme begins, you do so as soon as possible in order for it to show the correct deferred VAT balance.

At this particularly testing time for business, it's important to take stock of levels of committed expenditure, coupled with realistic appraisal of overall liquidity and ability to repay. We are on hand to discuss the best way forward for your business. Please don't hesitate to contact us for advice.

Corporation tax to go digital

Making Tax Digital. It's at the heart of the government's vision of a modern, transformed tax administration. With a consultation now running, Making Tax Digital (MTD) for corporation tax is on its way.

MTD: at a glance

For the government, MTD for corporation tax (CT) is about cutting down errors causing a £2.1 billion corporation tax gap. The system turns on three basic principles:

- keeping certain records digitally, using MTD compatible software
- online filing of quarterly income and expenditure updates with HMRC by means of this software
- a finalisation process after the end of the accounting period.

The MTD for CT regime is likely to be tailored at both ends of the spectrum, with the largest companies (those with profits over £20 million, paying CT through the Quarterly Instalment Payments regime) and the smallest, micro-entities having their own niche requirements.

The changes

At this stage, the detail is provisional, but the overarching framework is fairly clear.

Digital record keeping: the consultation states that 'digital records kept within the entity's software may also form the prime record for their accounts. To comply with MTD, accounting and tax adjustments relating to the period will need to occur either in that software or alternatively in linked software'.

Tip: what might need to change?

Some companies may need to move to new MTD compatible accounting systems. For others, as with MTD for VAT, it may be possible to use existing software, including spreadsheets, and to connect to HMRC systems via bridging software. It's likely that a range of software solutions will also be acceptable for MTD for CT.

Which records? for both income and expenditure, the date, amount and category of each transaction will need to be recorded digitally, as a minimum. The categories for income for smaller businesses

are expected 'to have some parity with' categories for MTD for income tax. They are likely to include dividend payments, loans and other benefits provided to directors, participators and others, including director loan balances.

Quarterly updates: quarters will be aligned with the accounting period. The deadline for updates will be one month from the end of the quarter.

Various tax and accounting adjustments turn the raw data into GAAP compliant accounts, and indicate the company's final tax position. At present, these are usually carried out at the end of the accounting period. The current proposal for MTD for CT is that it will be possible to adjust quarterly figures to indicate such adjustments, but it will not be mandatory.

End of year: MTD doesn't spell the end of the annual CT return, CT600 process. Instead, the return will be submitted via MTD compatible software. The current position, whereby claims to the usual allowances and reliefs are submitted at this point, is likely to remain.

Other points to note are that the government is also considering the possibility of using MTD for CT as the occasion to align filing dates for tax and company law purposes, by bringing forward the company tax return filing date. Also that HMRC expects that iXBRL tagging to become integrated into MTD software, facilitating greater accuracy. Tagging transactional level data is not required by the proposals on the table at present.

When?

The government is now consulting on how MTD will best work for CT. In the medium term, there may be change to the small print, but it's unlikely that there is any going back now, given the government commitment to MTD, and its planned roll-out to other taxes.

- the consultation runs until 5 March 2021. You can put your views on MTD for CT by replying to the questions in the consultation before then. Small and medium-sized businesses can opt to use a shorter version, accessed via the 'Respond online' button **http://bit.ly/3qfAbfV**
- you will be able to test the system for MTD for CT with a voluntary pilot from HMRC, expected from April 2024
- MTD for CT won't be mandatory before April 2026.

How this will affect you

HMRC anticipates that the business population with turnover below the £85,000 compulsory VAT registration threshold will find the transition to MTD for CT most challenging. If your business needs to adapt its processes, invest in new software or update systems to enter MTD, it's as well to be aware of this now. Note, too, that your company may have different reporting requirements for MTD for CT and MTD for VAT. Software that complies for one may not meet all the obligations of the other.

We are happy to advise further here. Please don't hesitate to discuss any areas of concern with us.

And charities?

MTD for CT is about 'entities within the charge to corporation tax'. This potentially gives it wide impact, with implications for charities, community amateur sports clubs and other not-for-profit organisations. When the question was first raised some years ago, the government suggested that the non-trading activities of charities would be outside MTD, and charitable trading subsidiaries inside. There is now a shift in thinking, and the current proposal is that all charities that are within the scope of CT and are required to file a company tax return should enter MTD for CT. As government intentions become clearer, we will of course update you further.

Business Round-up

Considering Brexit changes

The UK officially left the EU on 31 January 2020, and the subsequent transitional period ended on 1 January 2021. Firms doing business with the EU now must make vital changes in order to continue to trade.

In regard to VAT, the UK left the EU VAT Territory on 31 December 2020. Great Britain (England, Wales and Scotland) is no longer subject to EU VAT legislation. Northern Ireland, however, remains subject to such legislation in relation to transactions involving goods, but not for services.

Goods purchased from EU member states are now treated as imports. VAT on acquisitions is no longer declared in Box 2 of the VAT return. Postponed Accounting, a new system, applies to imports from around the world (excluding certain imports – for example, low-value consignments). Using Postponed Accounting, import VAT can be deferred and declared to HMRC in Box 1 of the VAT return for the period of importation. Box 4 on the return should be used to reclaim VAT. This is subject to the usual rules for reclaiming input tax. Further information can be found here: **https://bit.ly/3oHqyX5.**

Goods sold to business customers in EU member states are treated as exports. Provided certain conditions are met, exports are zero-rated.

The UK now operates a full, external border with the EU. New border controls on imports from the EU to Great Britain are being introduced gradually. Customs declarations for goods which are not controlled are delayed until 30 June 2021.

New rates of Customs Duty for imports apply where the UK has not agreed a trade deal with a particular jurisdiction. These are set out in the UK Global Tariff. In principle, trade in goods between the UK and the EU are tariff-free. To check the tariffs that apply to different categories of imported goods, please see **https://bit.ly/3oJ4Aml.**

Tax Tip

Making use of NIC-saving strategies

When extracting profits from your business, the tax-efficient use of benefits can save income tax and may also reduce your national insurance contribution (NIC) liability.

Some strategies which could help to save NICs include:

- increasing employer contributions into company pension schemes (within the prescribed limits)
- utilising share incentive plans
- paying dividends instead of bonuses to owner-directors; and
- paying a bonus in place of an increased salary to reduce employee NICs.

We can provide advice on all aspects of tax planning – please get in touch with us for more information.

Reminders for your diary

February 2021

2 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 January 2021.

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

March 2021

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

3 5% late payment penalty on any 2019/20 outstanding tax which was due on 31 January 2021 and still remains unpaid.

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

31 End of corporation tax financial year.

End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 March 2020.

Last minute planning for tax year 2020/21 – please contact us for advice.

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April 2021

1 Digital links required in Making Tax Digital for VAT returns.

5 Last day of 2020/21 tax year.

Deadline for 2020/21 ISA investments and pension contributions.

Last day to make disposals using the 2020/21 CGT exemption.

14 Due date for income tax for the CT61 period to 31 March 2021.

19 Automatic interest is charged where PAYE tax, Student loan deductions, Class 1 NI or CIS deductions for 2020/21 are not paid by today. Penalties may also apply if any payments have been made late throughout the tax year.

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

PAYE, Student loan and CIS deductions are due for the month to 5 April 2021.

Deadline for employers' final PAYE return to be submitted online for 2020/21.

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