AUTUMN UPDATE - 9 October 2020

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The Chancellor's Winter Economy Plan

The latest pandemic support measures are much less generous than before.

Even though the Chancellor cancelled this year's Autumn Budget, he still made an early autumn appearance before the House of Commons to announce his 'Winter Economy Plan'. He announced new employment support and amendments to existing schemes.

Job Support Scheme (JSS)

The JSS is the next stage of the furlough scheme (strictly the Coronavirus Job Retention Scheme (CJRS)), which comes to an end on 31 October. The JSS, which will run until 30 April 2021, is aimed primarily at small and medium-sized employers and will only apply to employees who work at least one third of their normal hours. For the hours that are not worked, the government and the employer will each pay one third of lost pay. The net results in terms of employee income and employer cost are shown in the table.

HOURS WORKED AS % NORMAL HOURS	EMPLOYEE INCOME EARNED - % FULL PAY	EMPLOYER NON-WORKING CONTRIBUTION - % FULL PAY	GOVERNMENT NON-WORKING CONTRIBUTION* - % FULL PAY	TOTAL EMPLOYEE INCOME - % FULL PAY	TOTAL EMPLOYER OUTLAY - % FULL PAY
25.00	25.00	0.00	0.00	25.00	25.00
33.33	33.33	22.22	22.22	77.77	55.55
50.00	50.00	16.67	16.67	83.34	66.67
75.00	75.00	8.33	8.33	91.66	83.33
100.00	100.00	-	-	100.00	100.00

** Capped at £697.92 per month.*

Payments under the JSS will not affect an employer's entitlement to the £1,000 Job Retention Bonus.

Self-Employed Income Support Scheme (SEISS)

The existing scheme has been restructured and extended to April 2021. Only those already eligible will be entitled to claim. The first grant, covering the three months to 31 January 2021, will cover 20% of average monthly trading profits and is capped at £1,875.

The terms of the grant for the next three months will be set 'in due course'.

Both the JSS and revised SEISS are considerably less generous than the existing CJRS and SEISS, which have so far (to 20 September) cost the Treasury over £52 billion. This cut to support is understandable from the government's financial viewpoint, but it is also a reminder of the importance that your personal financial planning makes provision for an adequate cash reserve.

Bounce Back Loan Scheme extended

The application date for the Bounce Back Loan Scheme (BBLS) has now been extended to 30 November, and the loan repayment process made more flexible.

To date, the BBLS has provided more than a million loans between £2,000 and £50,000 to businesses affected by the Covid-19 crisis.

Businesses can borrow up to 25% of their annual turnover, subject to a maximum loan of £50,000. Loans are 100% guaranteed by the government and are interest-free for the first 12 months, with no personal guarantees required. After 12 months, the annual interest rate is set at a very attractive 2.5%.

Flexible repayments

The original terms of the BBLS required repayment over six years. The new terms provide for more flexibility:

- The repayment period can be over ten years, although full repayment can be made at any time without penalty.
- It will be possible to make interest-only repayments for periods of up to six months. This option can be used three times.
- A business can suspend repayments altogether for up to six months. This option can only be used once.

What can a loan be used for?

The BBLS was introduced quickly and relied on self-certification rather than extensive credit checks. There is little restriction on what a loan can be used for, so long as it benefits the business.

Even if you are unsure whether additional business finance is required, there is no downside to having the funds sitting unused for a year and then repaying in full. Alternatively, an interest-free bounce back loan could be used to repay existing finance, which is likely to be much more costly.

Additionally, the loan can be used to support your personal income, considering it drawn from self-employment, or remuneration / dividends from a company.

Not surprisingly, the BBLS is expected to result in widespread fraud, with the government unlikely to receive value for money.

You can find out more about the BBLS application process here: www.british-business-bank.co.uk

Chancellor extends VAT cut until March

The temporary reduced standard VAT rate of 5% for the tourism and hospitality sector was due to end on 12 January, but has now been extended to 31 March 2021.

With Covid-19 restrictions continuing for the foreseeable future, this winter is likely to be quite challenging for many tourism and hospitality businesses, so the extension will be welcomed across the sector.

The current reduced rate applies to food and non-alcoholic drinks from restaurants, pubs, bars and cafes. Holiday accommodation and admission fees to tourist attractions are also included.

Businesses can choose to pass on the VAT reduction to customers and benefit from increased footfall or pocket the savings.

Flat rate scheme

Flat rate percentages have been correspondingly reduced and these will also continue through to 31 March 2021. For example, the rate for restaurants and takeaways has been cut from 12.5% to 4.5%. Given the reduced rates do not apply to alcohol sales, any decision on joining or leaving the flat rate scheme is currently quite complex. Professional advice is essential.

Some anomalies

- A gin and tonic consists mainly of tonic, but the 20% standard rate still applies (the tonic being an incidental extra). On the other hand, VAT is apportioned for an offer combining food (5% rate) and a pint (20% rate).
- Hot takeaway food benefits from the reduced rate, but not confectionery, crisps, and the like. However, they qualify if eaten on the supplier's premises.
- Off-premises catering is not included within the reduced rate as it is not on the supplier's premises.

The use of the flat rate scheme eliminates these anomalies, as just the one rate is used across a business sector.

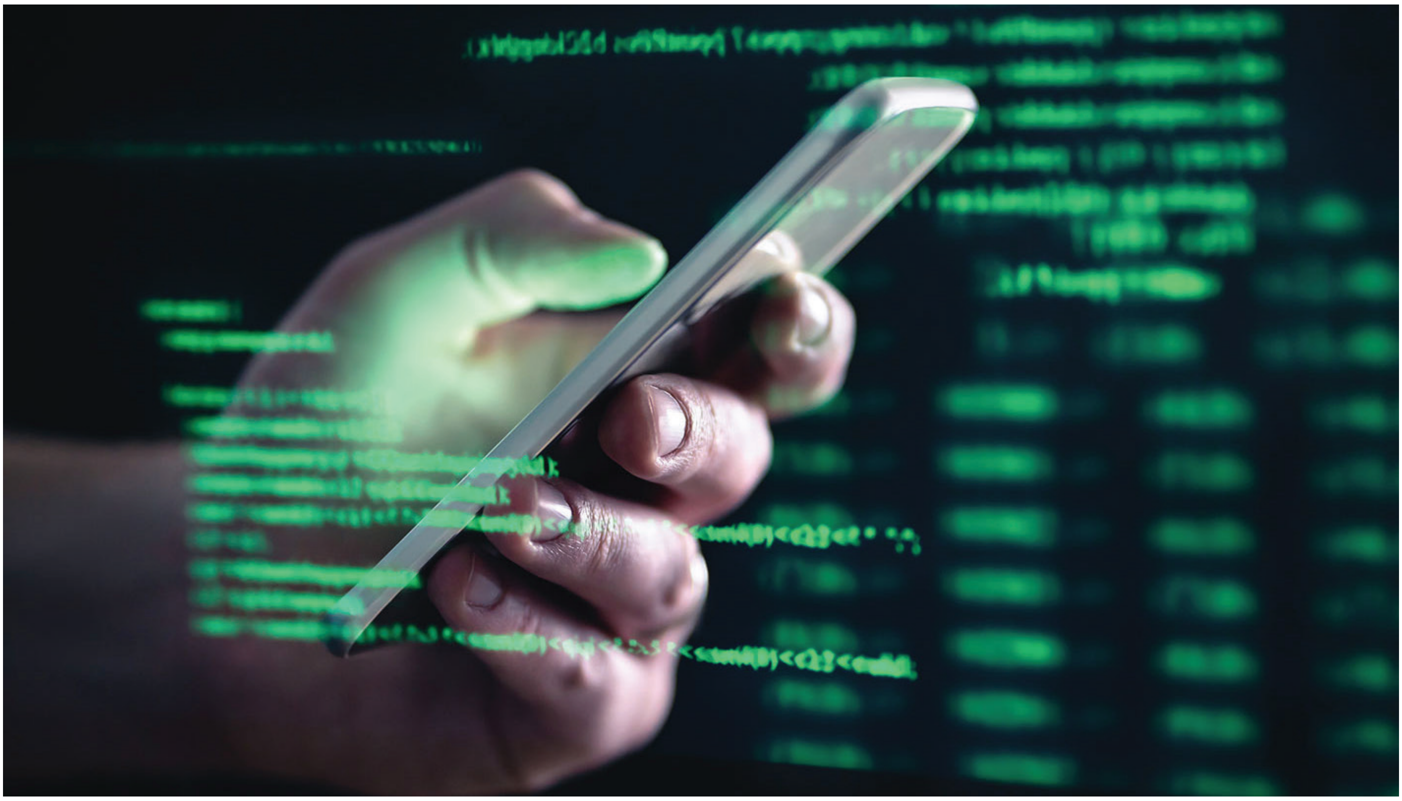
VAT deferral

The government has also introduced an interest-free payment window for any VAT payments deferred from 20 March to 30 June 2020. Instead of paying the full amount by March 2021, businesses will now be able to make 11 equal instalments over the 2021/22 financial year.

Full details of HMRC guidance can be found here: https://www.gov.uk/guidance/vat-reduced-rate-for-hospitality-holiday-accommodation-and-attractions

Scammers never sleep – rise in tax scams reported

Given the amount of Covid-19 financial assistance available, it comes as no surprise that there is an increase in HMRC-related scams this year.



What is worrying is that scammers have become more sophisticated; it is no longer a matter of simply ignoring emails offering tax refunds. Recent scams have targeted the self-employed receiving income support grants, and, with two further payments to come, the scams are expected to continue.

So what are the scammers after?

The holy grail for a scammer is to obtain sufficient personal information to access and empty a bank account. For instance, a Covid-19 goodwill payment may be conditional on providing bank details so the funds can purportedly be paid direct into the account.

As banks strengthen security, the focus of scams will shift to identity theft, especially where passport details are involved. Other scams may call for the payment of upfront fees to help claim a tax refund.

Moving away from emails

As scam email detection improves, many scammers have switched to text messaging. Telephone numbers are spoofed to show HMRC as the sender, with links to very convincing HMRC-lookalike websites.

Automated voicemails, voice calls and messages sent via social media are other means of making initial contact.

Prevention

A bit of common sense will protect you from most scams, although the best ones can be quite convincing. Remember that HMRC will:

- Always include your 10-digit tax reference on any correspondence;
- Never use email, texts or social media to contact you regarding a tax refund; and
- Never ask for bank account details or personal information.

If still in doubt, contact us or check the legitimacy of a proffered tax refund by logging on to your personal tax account.

HMRC have published examples of phishing emails and bogus contact here: www.gov.uk/government/publications/phishing-and-bogus-emails-hm-revenue-and-customs-examples

Another Autumn Budget deferred

After heavy hinting from the Treasury for some weeks, the expected Autumn Budget has been pushed into spring 2021, with tax rises on the cards.

Since the March Budget and through to August, the expectation was that the Chancellor, Rishi Sunak, would introduce his second Budget this autumn. Such timing would have restored the cycle of a Spring Statement followed by an Autumn Budget after it broke down last year in the lead up of the general election.

With intense speculation around tax rises to pay for the raft of Covid-19 support measures, the first serious clue to a possible Autumn Budget delay emerged on 8 September, when the Office of Tax Simplification (OTS) slipped out a statement about its review of capital gains tax (CGT), which had been commissioned by the Chancellor in July. The statement announced the response deadline on the technical part of the OTS consultation would be deferred by four weeks, to 9 November. This was a surprising move as the OTS CGT report was expected to feed into the Autumn Budget.

Soon after, the Chancellor himself issued a brief written statement saying he had asked the Office for Budget Responsibility (OBR) to prepare an economic and fiscal forecast 'to be published in mid-to-late November'. The vagueness surrounding the timing was evident, as the OBR report is produced alongside the Budget and incorporates costings for Budget measures.

What had started to look inevitable was confirmed on 24 September when the Treasury cancelled the Autumn Budget. The Chancellor will still have a set piece event towards the end of the year; not only is there the OBR report to present, but Mr Sunak must also publish a Spending Review. The latter was also a victim of the general election and ought to have been produced a year ago to cover the three years from April 2020. Instead, the then Chancellor published a one-year Spending Round. Given the pandemic uncertainties, it is likely that Mr Sunak will take a similar short-term view, rather than introduce a multi-year plan.

The postponement of the Autumn Budget does not mean the spectre of tax increases has also evaporated. The level of government borrowing (£174 billion in the first five months of 2020/21) makes tax rises virtually inevitable. However, the Chancellor has afforded you more time to plan and take action in areas such as CGT and pension contributions.

Should you wish to discuss the contents of this update in further detail please contact BGM at: communications@bgm.co.uk