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CHARTERED ACCOUNTANTS

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Be prepared for the new tax year

Taking some time to start planning for 2021/22 now can be worthwhile.

While there is often a focus on planning for the end of the tax year, much less attention is paid to the start of the tax year. The lack of an obvious deadline is probably one reason – deadlines tend to concentrate the mind. Nevertheless, some planning at the beginning of the year can be a rewarding exercise.

- *Estimate your total income for 2021/22* – If you have a rough estimate of what your income will be, it will give you an idea of what to watch out for and what each extra £1 of gross income will be worth. For example, if your estimate is around £50,000, that means you are on the borders of higher rate tax (or well into the 41% band if you are resident in Scotland). £50,000 is also the threshold at which the child benefit tax charge comes into play.

- *Check whether you will cover your allowances* – The allowances to which you are entitled often depend upon your income, although the £2,000 dividend allowance applies universally. Couples have the opportunity to cover two sets of allowances, possibly by transferring investments between each other or changing from single ownership to joint ownership.

- *Check your PAYE code* – If you have received a 2021/22 PAYE coding, check that it is correct. The wrong code could mean you pay too much tax during the year.

- *Top up your ISA* – If it makes tax sense for you to invest in an ISA because of the potential income and capital gains tax savings, then the time to do so is as soon as possible, not just as the tax year end approaches.

- *Consider making pension contributions* – The sooner your contribution is invested, the longer it benefits from a tax-favoured environment and the less likely it is to be 'lost' in other expenditure.

For more 2021/22 tax planning, get in touch now, well ahead of next year's deadlines.

Brexit transition causes confusion with VAT

Many businesses are struggling with the VAT regime in place since Brexit, especially when it comes to exporting goods to the EU. We address some of the common misunderstandings.

Exporting goods

Provided you have proof of postage or shipment, goods exported from the UK to the EU are zero-rated. However, as businesses are finding out, problems arise because the VAT implications of importing into the EU must also be factored in.

Most businesses will need to accept responsibility for the EU VAT and therefore export on delivered duty paid terms. This adds significant cost unless you register for VAT in each country exported to so that VAT can be recovered. However, the introduction of the EU's one stop shop from 1 July 2021 will mean just one EU member state VAT registration will be required for consignments of less than 150 Euros.

Many businesses are setting up an EU base to get round the worst of the problems, which the government has appeared to encourage. The Netherlands, with English spoken by most, is a popular choice, and Dutch logistics and warehousing companies are seeing high demand for their services.

Imported goods

The introduction of postponed import VAT accounting means that, in most cases, import VAT does not need to be paid upfront. Instead import VAT is accounted for as a reverse charge on the VAT return. You or your agent simply need to indicate on the customs declaration that postponed accounting will be used.

Services

VAT on business to business services remains essentially the same, with the place of supply generally where the recipient belongs. There is no longer any need to submit EC sales lists for goods exported or services supplied to the EU.

HMRC guidance on VAT on exports can be found here:
https://www.gov.uk/guidance/vat-exports-dispatches-and-supplying-goods-abroad

VAT reverse charge to apply from March

The VAT domestic reverse charge will finally apply to most supplies of building and construction services from 1 March 2021. The rules, whose implementation have been postponed twice, cover standard and reduced rate VAT supplies between VAT-registered sub-contractors and contractors where reporting is required under the construction industry scheme (CIS).

The definition of construction services is based on the CIS definition, with various professional services excluded. However, unlike the CIS, the reverse charge applies to the total supply if any element in the supply is within the definition, subject to a 5% disregard.

Sub-contractors

The reverse charge applies if the following conditions are all met:

- The supply is within the scope of the CIS.
- The supply is standard or reduced rated (zero-rated supplies are excluded).
- The customer is VAT registered.
- The customer is CIS registered.
- The customer is not the end user (the final customer who does not make an onward supply – typically, the property developer).

Sub-contractors will no longer charge or account for output VAT, and invoices must state that the reverse charge applies.

Cashflow is likely to be affected for sub-contractors who will no longer benefit from retaining VAT before paying it over to HMRC. Moving to monthly VAT returns could be the best option for managing repayments.

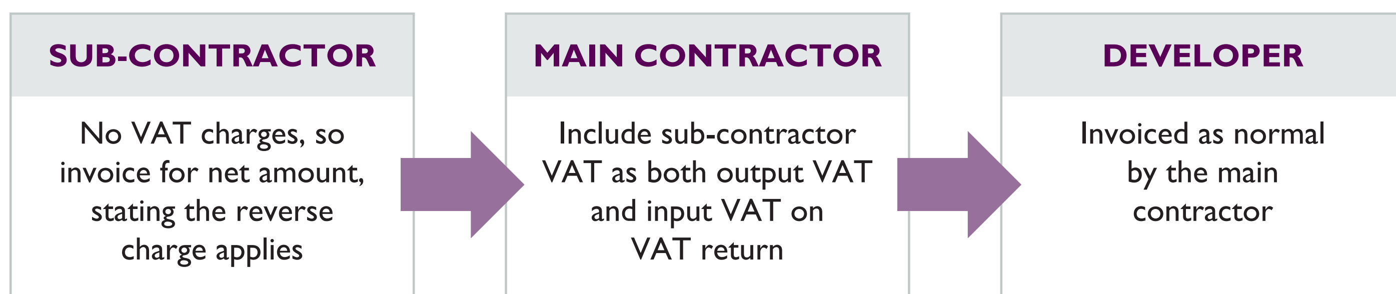
Main contractor

The main contractor accounts for the VAT on the services of sub-contractors as output VAT, but can also usually claim a corresponding input VAT deduction.

The end user will then be invoiced as normal. The main contractor will therefore now be responsible for accounting for the full amount of VAT in the chain.

The VAT reverse charge means adjustments for subcontractors and contractors. Detailed technical guidance from HMRC, including supplier and buyer flowcharts, can be found here:

https://www.gov.uk/guidance/vat-reverse-charge-technical-guide#end-users-and-intermediary-supplier-businesses



Four financial lessons learnt from the Covid-19 pandemic

As the pandemic enters its second year, what have we learned?

The World Health Organisation declared Covid-19 a pandemic on 11 March 2020, coincidentally the day that Chancellor Rishi Sunak presented his first Budget. At the time, the Chancellor announced a £12bn stimulus to counter the impact of the pandemic. By November, the Office of Budget Responsibility was estimating the cost had reached £280bn.

The last year has been a traumatic one in which much has changed, perhaps never to revert to the old 'normal'. It has also provided some useful financial lessons:

- *Make sure you have an up-to-date will* – Early on in Lockdown 1.0 the importance of having an up-to-date will (or, in some cases, any will) was highlighted to many people just as it be came difficult to arrange one.

- *Relying on a state safety net is dangerous* – The pandemic saw the number of Universal Credit (UC) claimants more than double to 5.8 million in the year to November 2020. The lowly level of benefits – even after a £1,000 temporary uplift – was a shock for many of those new claimants, including people who fell between the gaps in the job support schemes.

- *Keep an adequate cash reserve* – In a world of near zero interest rates, you may be reluctant to leave cash on deposit, earning next to nothing. However, cash gives you valuable flexibility and time to react to changed circumstances.

- *Don't panic* – Whether you're an active investor or simply make pension contributions, watching the performance of world markets has been stressful over the last year. The UK's FTSE 100 hit its low for 2020 on 23 March, the day that the Prime Minister launched Lockdown 1.0. It was a dark time, but any investor who panicked and sold up at that point, when the FTSE 100 was below 5,000, would have chosen the worst time to pull out. By the end of 2020, the index was 29.4% above its March nadir. That performance was also a reminder of another lesson: trying to predict market timing is almost impossible.

If any of these maxims resonate with you then you may be better prepared for next time.

Update on Covid-19 support measures

More support is available to help businesses in this latest lockdown, expected to last until at least 8 March. Keep up to date with, and claim, any support that your business is entitled to so you can plan cash flow and take remedial action as necessary.

Council grants

The Closed Businesses Lockdown Payment of up to £9,000 supports businesses required to close due to the latest national lockdown. It should be paid automatically if you have previously received a grant, but visit your local council's website to check. Your business must:

- be based in England;
- pay business rates;
- be required to close because of the national lockdown (closure for any other reason doesn't count); and
- be unable to provide the usual in-person customer service (even if a takeaway service is provided).

Fourth SEISS grant postponed

The fourth SEISS grant, promised by the Chancellor in October 2020, will not be paid until after the Budget on 3 March, with no details announced until then. Claims for the third grant opened on 30 November 2020, so the fourth grant will be later than expected. The delay of the payment into March has met with dismay, with some left with no income at all in February. However, it is likely that profits reported for 2019/20 will be taken into account, and this will help anyone who commenced trading after 5 April 2019.

Kickstart Scheme

The Kickstart Scheme, designed to create jobs for 16- to 24-year-olds, commenced last September. The scheme covers the minimum wage for six months, along with the associated employer NICs and pension contributions. The scheme has now been simplified with the removal of the 30-vacancy requirement where an employer applies directly.

Annually paid directors

Many small company directors have not been able to benefit from the furlough scheme if they pay themselves annually. Directors may qualify under the latest version of the scheme, and HMRC has recently published examples outlining how claims should be calculated.

Government support for businesses keeps evolving. Visit business support to find out what support is available:
https://www.gov.uk/coronavirus/business-support

The Scottish Budget has no tax surprises

The draft Scottish Budget has been presented in the Scottish Parliament ahead of March's Westminster Budget. Income tax rates are unchanged and most tax bands rise in line with inflation. The temporary increase to the starting point for land and buildings transaction tax will end as planned. However, without a working majority, the Scottish Nationalist Party (SNP) will need opposition support to pass its budget.

Job retention schemes have protected the Scottish labour market, so employment is expected to fall by only 1.5% during 2021, with unemployment peaking at 7.6%. Average earnings should grow by 2.6%. The GDP forecast is 2% growth for 2021, but no recovery to pre-Covid-19 levels until 2024.

Income tax

Tax rates for 2021/22 are:

TAX INCOME	BAND	RATES
0 to £2,097	Starter	19%
£2,098 to £12,726	Basic	20%
£12,727 to £31,092	Intermediate	21%
£31,093 to £150,000	Higher	41%
Over £150,000	Top	46%

Low earners will pay less tax than the rest of the UK, although those with income above £27,392 will pay more. However, all Scottish taxpayers will pay slightly less tax compared to the current year.

Land and buildings transaction tax

From 1 April 2021, the nil rate threshold reverts to £145,000, with a £175,000 threshold for first-time buyers. There are no other changes; the additional residential property rate remains at 4%.

Non-domestic rates

The basic poundage rate will be cut to 49p so that liabilities for 2021/22 are no higher than before the pandemic.

Various Covid-19 reliefs will continue, although the 1.6% universal relief will end as planned on 31 March 2021. However, 100% relief for the retail, hospitality, leisure and aviation sectors will be extended for at least three more months into 2021/22; to be funded by receipts from businesses repaying relief for 2020/21. Any equivalent extension made by the UK government will be matched. A range of other reliefs are to be introduced in response to current economic conditions.

The Scottish Budget is subject to legislation and could still be amended following the Westminster Budget. Full details, along with supporting documents, are on the Scottish parliament's website:

https://www.gov.scot/budget/

Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk

Disclaimer: This information provides an overview of the issues considered and is for general information only. It is not intended to provide advice and should not be relied upon in any specific transaction.