NEWS UPDATE - 9 JULY 2021

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Bounce back repayments begin

The bounce back loan scheme (BBLS) has kept many businesses afloat over the past year, but, with the first repayments now starting to become due, many of the 1.5 million businesses that borrowed money could fall into difficulty.

Default position

The BBLS was launched in May 2020, with no interest charged or repayments required for the first twelve months. Bounce back loans are repayable over five years, so 1/60th of the capital is repaid each month, plus the interest accrued for that month, at a fixed annual interest rate of 2.5%. Repayments will therefore reduce over the term of loan as capital is repaid. The first repayment on a £20,000 loan, for example, will be £375.00 (£333.33 capital plus £41.67 interest).

Although loans are guaranteed by the government, banks will be under pressure to recover cash without triggering guarantees. However, since lenders were not permitted to require personal guarantees, even unincorporated businesses are not at risk of having their home or car seized.

Managing repayment

There are various measures that you can take if repaying a BBL is going to cause difficulty:

- The term of the loan can be extended to ten years so that capital repayments are reduced.
- You can move to interest-only repayments for a period of up to six months (this option can be used three times).
- You can pause repayments altogether for a period of up to six months (this option can only be used once).
- Consider topping up your finances under the recovery loan scheme launched in April, although your existing BBL will be taken into account and you must be able to afford the additional debt.

Your BBL lender will inform you of the first three measures, known as pay as you grow. They will all result in more interest being paid overall.

A question of control

The off-payroll working (IR35) tests are still relevant despite the blanket approach often in place regarding contractors' employment status. They must always be applied if you are contracting for a small organisation.

Two recent decisions in the Upper Tribunal closely examined the question of control.

In both cases, the Upper Tribunal upheld First-Tier Tribunal decisions, with one going the way of HMRC, and the other for the contractor. The court was prepared to look beyond the contract in question and consider the contractor's wider business structure.

A win for HMRC

Robert Lee's company was contracted to work for the Nationwide Building Society from 2007 until 2014. Even though Lee's contract contained a substitution clause, the Upper Tribunal did not consider there to be a genuine right of substitution because the Nationwide valued Lee for his specialist expertise and familiarity with the work.

One way to strengthen contractor status is to make sure your substitution clause can be actioned. In the words of one commentator, "give your right of substitution clause teeth".

The degree of control by the Nationwide was held to be significant, with Lee having to work when and where he was told. In addition, he was required to obtain approval for project plans and his performance was monitored.

The contractor comes out on top

Kaye Adams, via her company, presented a radio show for the BBC during the tax years 2015/16 and 2016/17.

Although there were factors indicating employee status, the Upper Tribunal found that the BBC did not have the level of control that would exist in an employment relationship. Despite some 50% to 70% of Adams' income coming from the BBC contracts, the Upper Tribunal looked at the bigger picture of her career in the surrounding years when Adams generally acted as an independent freelance journalist.

Up to date HMRC guidance for contractors can be found on the website below:

https://www.gov.uk/government/publications/off-payroll-working-rules-communication-resources/know-the-facts-for-contractors-off-payroll-working-rules-ir35

Leasehold shake-up on the horizon

Ground rents for residential properties on long leases in England and Wales will soon be abolished, with further reform to follow. This first step in the government's plan to reform leasehold law affects new leases. However, many homeowners will benefit immediately f ollowing a commitment made by two big players in the leasehold sector.

Government reforms

The Leasehold Reform (Ground Rent) Bill currently passing through parliament will remove ground rents for residential leasehold properties with leases of more than 21 years.

The next step, if the Government follows through with its intentions, will be to give leaseholders the right to extend a lease to a maximum term of 990 years, with no ground rent payable. This term is more than 10 times the current standard 90-year extension. An online calculator will be introduced to make it simpler for leaseholders to find out how much it will cost them to extend.

Persimmon and Aviva

The Competition and Markets Authority (CMA) has been investigating the leasehold sector, with doubling ground rent clauses of particular concern. Also, many homes that should ordinarily be sold as freehold have been mis-sold as leasehold. Crucial changes have recently been agreed by housebuilder Persimmon and insurance company Aviva (which buys leaseholds from housebuilders), including:

- Aviva will remove leasehold clauses that double ground rent every 10 to 15 years, with leaseholders refunded for past increases.
- Persimmon will grant leaseholders the chance to acquire the freehold of their property at a concessionary price (capped at £2,000), and refund homeowners who have already bought their freehold at a higher price.

As yet there is no date for the implementation of the new leasehold rules. The CMA is continuing its investigations into several other housebuilders and investors in freeholds. The Leasehold Reform (Ground Rent) Bill doesn't help existing leaseholders, but the hope is that that the recent move by Persimmon and Aviva will send a clear signal without the need for costly court cases.

What is an adequate retirement income?

A leading pension think tank has examined this question – but the findings aren't straightforward.

Over the years, there has been much focus on the tax treatment of pensions and ways to encourage greater saving for retirement. Arguably, there has been less attention paid to the question of how much income you will need once work ceases.

The Pension Policy Institute (PPI) recently published a paper examining what an adequate retirement income means today in dollar terms. The paper notes that the last serious effort to address the issue was undertaken by the Pensions Commission nearly two decades ago, leading eventually to the introduction of automatic enrolment. The PPI makes the following points:

- Individuals, employers, the state and society generally all have differing views on what constitutes adequacy. For example, the state view is set by the Guarantee Credit element of Pension Credit (£177.10 a week for a single person and £270.30 for a couple).

- Changes to the pensions landscape since 2000 have altered the retirement picture both positively and negatively. For example, the new state pension is higher than its basic state pension predecessor, but state pension age has increased (to 66 for men and women) and will continue to increase.

- The demands made on assets originally saved to provide a retirement income have increased, for example:

    - For some people, there is a widening gap between leaving work and receiving their state pension, a situation exacerbated by pandemic-prompted early retirements.

    - More often now debts, including mortgages, will be carried over into retirement.

    - The shrinking of home ownership will see more retirees having to pay rent; and

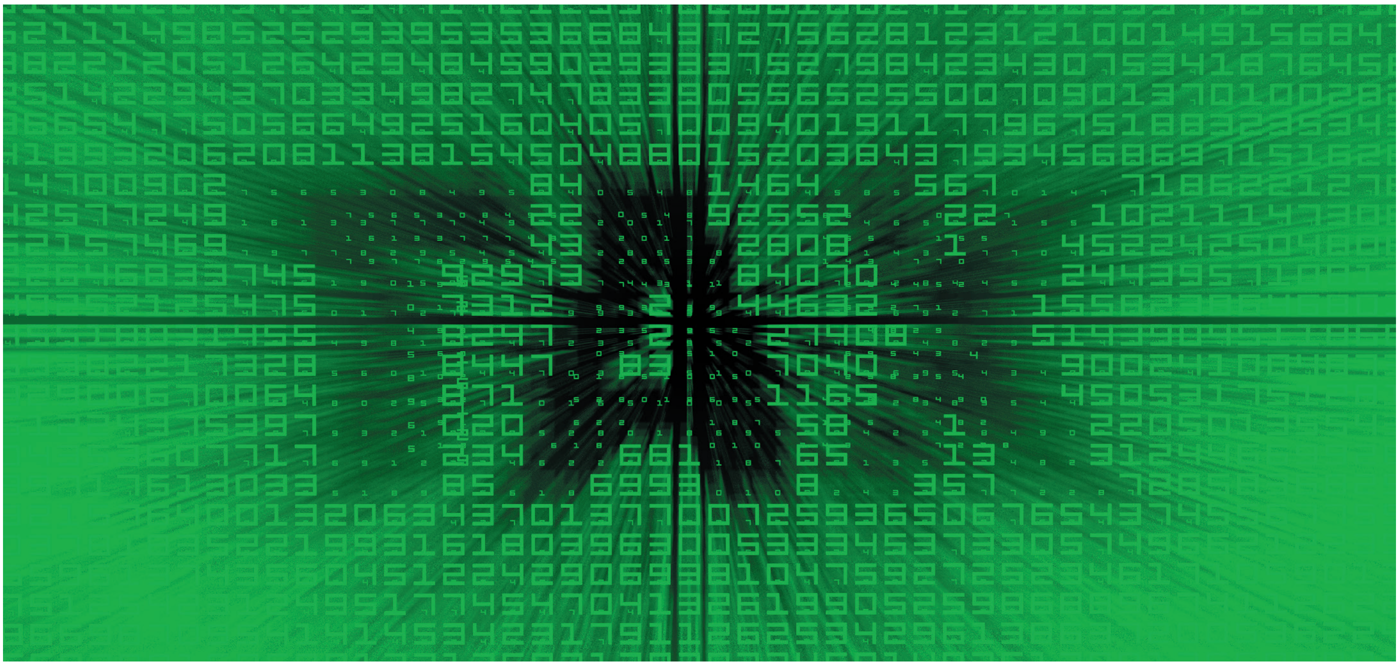
    - There may be a need to support other family members - the Bank of Mum and Dad may not be able to close at retirement.

- The traditional emphasis on retirement income ignores the need to deal with 'personal financial shocks', which are better addressed by considering retirement capital.

The PPI says that many people make their retirement planning decisions 'without support'. It goes on to warn that "As a result, many people struggle to make pensions and savings decisions which offer them the best chance of both achieving their aspirations for retirement and protecting themselves against future risk." Don't let that be you – talk to us about assessing what an adequate retirement income means for you and how it can be achieved.

Making Tax Digital income tax pilot

The pilot scheme for Making Tax Digital (MTD) for income tax is now open for self-employed workers and landlords. The scheme becomes mandatory for accounting periods commencing on or after 6 April 2023, so those who join now will get ahead of the game.



The first phase of MTD for income tax will be mandatory if your taxable turnover from self-employment or income from property is above £10,000. If you want to be one of the early adopters in the pilot scheme, there are various conditions that you will need to meet.

Who can join?

You can only join if you are a sole trader with income from just one business, a landlord renting out UK property, or both. If you need to report income from other sources, such as employment, pensions, or capital gains, then you cannot currently join. The other conditions should not be a problem for most:

- UK resident;
- registered for self assessment, and
- up to date with tax returns and payments.

Your accountant can sign you up if you make a request.

Digital records

To join the pilot, you will need to use software that is compatible with MTD for income tax. Be warned that only five fully compatible products covering both self-employment and property are currently listed by HMRC, although this includes two with free versions.

You'll need to keep digital records of all your business income and expenses, starting from the beginning of the accounting period you sign up for, and send updates to HMRC. At the end of the period, you will submit a final declaration instead of a self-assessment tax return.

If you're already using software to keep records, you should almost certainly wait for your provider to update their product to be compatible with MTD for income tax rather than switching providers just to join the pilot scheme. HMRC's list of software compatible with MTD for income tax can be found from the link below:

https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax

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