TAX BRIEFING

MARCH 2021

Fuller Spurling
Mill House | 58 Guildford Street | Chertsey | Surrey | KT16 9BE
01932 564 098 & 01252 877477
mail@fuller-spurling.co.uk | www.fuller-spurling.co.uk

IDEAL SALARY FOR 2021-22

As the owner and director of your own company you decide how much salary to take each year.

We can help confirm what the optimal salary is for you in 2021-22

Paying yourself a small salary can be a good way to maintain your national insurance record to build up state benefit entitlements.

In the tax year 2021-22 if you take a salary of between £6,420 and £9,568 (£797 per month) you will pay no NIC but you will get an NIC credit towards your state pension.

Where your company employs at least one other person in the year it may qualify for the employment allowance of £4,000 which covers the cost of employer's Class 1 NIC up to that cap. We can help you check if your company can claim the employment allowance for 2021-22.

The ideal salary of a director will depend on a number of factors. We can help confirm what the optimal salary is for you in 2021-22. Directors who are also shareholders of their company often extract further cash as dividends using the £2,000 dividend allowance and the lower dividend tax rates of 7.5% and 32.5% to minimise their tax bills.

Everyone's financial circumstances are different so please discuss your position with us before deciding on the level of salary and dividends to take for the year.

FOURTH SEISS GRANT

Self-employed individuals will be able to apply for the fourth SEISS grant from late April if they submitted their tax return for 2019-20 by midnight on 2 March 2021 (it was due by 31 January 2021).

HMRC has asked for additional evidence from two categories of taxpayer. This will need to be provided very quickly otherwise HMRC will block the SEISS application.

New traders must respond to a letter and phone call from HMRC and upload a copy of their ID plus three months of bank statements from 2019-20 to a Dropbox link provided by HMRC. If you started your business after 5 April 2019 you will fall into this category.

Ensure that HMRC has your current telephone number by calling 0800 0241222. Do not delay once you have received the Dropbox link as it will expire after two days.

Where the 2019-20 tax return included a box checked to say that the self-employed business had ceased or changed (eg from a partnership to a sole trader) the taxpayer will have received an email from HMRC asking for more details. If you fall into this category you need to email the SEISS compliance team at HMRC on seisscomplianceteam@hmrc.gov.uk.

To prove that your business is active, or is only temporarily suspended due to Covid-19 and that you intend to carry on trading beyond the SEISS grant application date in late April, HMRC will require evidence of your trading activity or preparations to continue trading such as:

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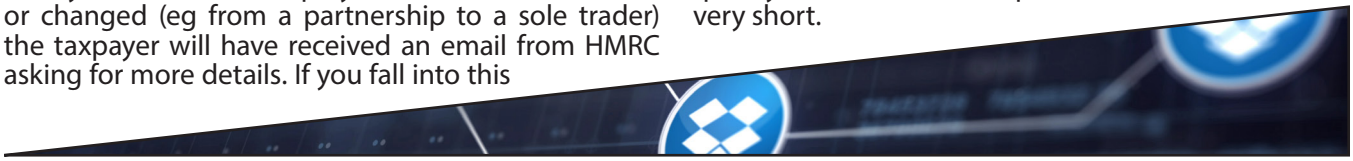
- advertising booked by the business;
- business receipts or sales invoices;
- contracts to provide goods or services; or
- payments made through a business bank account.

Other forms of evidence may be accepted but act quickly as the window to provide this evidence is very short.



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FREE COVID-19 TESTS FOR EMPLOYEES

All employers can now register to receive free rapid lateral flow Covid-19 tests for employees.

There is no tax charge on the benefit to the employee of having a free Covid-19 test

These are to be used for employees who do not have Covid-19 symptoms and who cannot work from home, eg retail staff.

The aim of this program is to identify workers who are infected with Covid-19 but display no symptoms. These people can still infect others without realising. If an employee has Covid-19 symptoms they should isolate at home and order a PCR test to be undertaken at a secure test site or at home.

The free lateral flow tests are designed to be used in the workplace and should not be taken to the employee's home. The basic test kits are provided free by the government but if the employer wants a private provider to organise and run the workplace testing they must pay for that service.

There is no tax charge on the benefit to the employee of having a free Covid-19 test.

The lateral flow test kits are only available to businesses registered in England as Wales, Scotland and Northern Ireland have made other arrangements for businesses.

PREPARE FOR OFF-PAYROLL WORKING

The IR35 rules have been around for over 20 years but those rules have been redrawn and renamed 'off-payroll working'.

In the public sector the engager (the end client) determines whether off-payroll working applies to a contract operated by a personal service company (PSC).

This will also be the case for contracts with large and medium-sized private sector engagers from 6 April 2021. The engager will have to determine whether contracts operated through PSCs fall under the off-payroll rules or not. The private sector off-payroll rules only apply to work performed after 5 April 2021, not to all contractor invoices paid after that date.

If the engager determines that the rules do bite, the contractor's invoices must be paid under PAYE with tax and NIC deducted and the engager must pay the employer's NIC. The entity that pays the PSC (usually the employment agency) is responsible for deducting and paying PAYE and NIC due on the contractor's fee.

Contractors who only offer their services to 'small' private businesses will see no change in their working relationship with their clients. The engager should tell its contractors whether it is classified as a small entity or not.

HMRC has said it will not impose penalties in the first 12 months where the engager has taken reasonable care to apply the rules correctly. However it will raise penalties where the engager or other entity in the chain has deliberately not applied the off-payroll working rules.

Individual contractors have little powers or rights under off-payroll working rules other than to ask for a review of the status determination made by the engager.

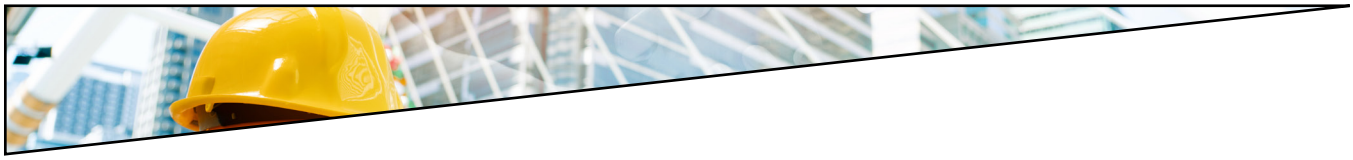
SDLT SURCHARGE FOR NON-RESIDENTS

Stamp duty land tax (SDLT) applies to purchases of most land and buildings in England and Northern Ireland. Wales and Scotland impose different land taxes.

For purchases of residential property completed from 1 April 2021, a 2% surcharge will apply where any of the joint purchasers are not UK-resident. This covers individuals, partnerships, companies and trusts that are defined as not UK resident at the time of the purchase. The surcharge applies on top of the 3% surcharge on the purchase of second homes.

A complication is that the definition of UK residence for SDLT is different from the statutory residence test which defines non-residence for other taxes. This means that it is possible for an individual who is UK tax resident to be non-resident for SDLT purposes. Individuals who are returning to the UK could be caught by this new surcharge.

Please ask us for guidance before committing to a property purchase.



VAT FOR SUB-CONTRACTORS IN CONSTRUCTION

A fundamental change to VAT charged within the construction industry came into effect on 1 March 2021.

We can check whether your accounting software is set up correctly to cope with this VAT change

As a sub-contractor you should no longer charge VAT on your invoices to other businesses in the construction industry if all of the following conditions apply:

- the work done would be subject to 20% or 5% VAT (not zero-rated);
- the work falls within the scope of the construction industry scheme (CIS); and
- your customer is registered for both the CIS and VAT.

Instead of you charging VAT your building company customer should account for the VAT as both a purchase and a sale in their accounting system, known as a 'reverse charge' entry. This VAT treatment should apply to the whole invoice value including the charge you make for materials used.

To inform your customer that they need to do the VAT reverse charge treatment your invoice should carry a note along the lines of: 'reverse charge [customer] to pay the VAT to HMRC.' This note should also state either the rate or the amount of VAT due on the work.
You need to confirm whether your customer is correctly VAT registered before issuing that invoice to them. Do this using HMRC's online VAT number checking service: www.gov.uk/check-uk-vat-number.

There are two situations where you should charge VAT as normal:

- your customer is an 'end user' such that the work is not being charged on to someone else, for example work done in your customer's own building; or
- your customer is an 'intermediary' business connected with the end user by being in the same corporate group or by having an interest in the same land, such as a landlord and tenant would.

Your customer should tell you if they are the end user for the work done or if they are an intermediary.

If you are still using the VAT flat rate scheme for small businesses we need to review whether this is still appropriate for you. We can also check whether your accounting software is set up correctly to cope with this VAT change.

VAT DEBT PAID IN INSTALMENTS

A year ago, at the start of the Covid-19 pandemic, the Government automatically deferred all VAT due to be paid to HMRC between 20 March to 30 June 2020.

The direct debit to collect that VAT was not activated by HMRC and no interest or late payment surcharges have been charged on that debt until now.

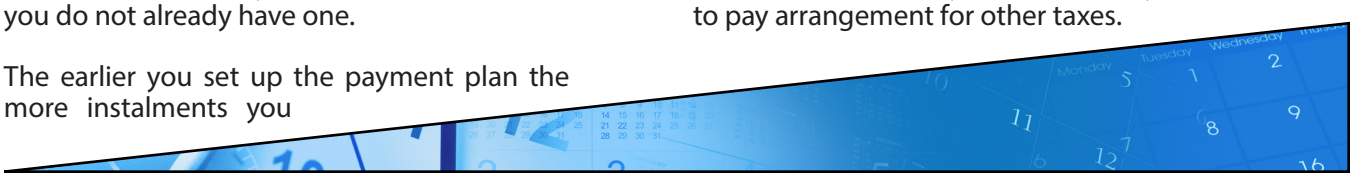
To avoid interest starting to accrue at 2.6% on the VAT due you must either pay the deferred amount due in full by 31 March 2021 or agree to pay HMRC by monthly instalments so that it is all paid off by 31 January 2022.

The easiest way to arrange a payment plan is through the HMRC online portal which is open until 21 June 2021. You need to access this using your Government Gateway ID and have submitted all your outstanding VAT returns for the last four years. You can set up a Government Gateway account as part of the process if you do not already have one.

The earlier you set up the payment plan the more instalments you will have available to spread the debt. For example, if you arrange the payment plan before 21 April 2021 you can spread the debt over 10 months.

You must be ready to pay the first instalment immediately and set up a direct debit to pay the remainder of the debt by monthly payments. If you do not have the authority on your own to set up a direct debit you must call HMRC on 0800 024 1222. We cannot arrange a VAT payment plan on your behalf as we cannot agree to make payments from your business bank account.

HMRC will allow you to arrange a payment plan for the deferred VAT even if you have already entered a time to pay arrangement for other taxes.



FRAUD IN TAX REPAYMENTS

It is a sad fact that some fraudsters have obtained SEISS grants by using innocent taxpayers' Government Gateway IDs and passwords.

We need to respond to HMRC quickly to ensure that your tax records are not compromised

Once the ID has been proven to work, the fraudsters attempt to double their money by submitting false tax returns to claim tax refunds.

HMRC is aware of this scam and is writing to taxpayers who have claimed a tax refund that looks out of place based on their tax history. There are two versions of this letter which are used in different circumstances.

Where a taxpayer's unique tax refence number (UTR) has been used the taxpayer is asked to call HMRC and confirm certain details.

In more serious cases the taxpayer is asked to complete an R38 tax refund form and return it with evidence of their ID and other personal information that the fraudster may not know, such as current employment or pension details. If a tax agent completed the tax refund claim the taxpayer is asked to tell HMRC what the fee for this work was.

If you receive one of these letters from HMRC please discuss it with us with some urgency. We need to respond to HMRC quickly to ensure that your tax records are not compromised and that you are not blocked from receiving a genuine tax repayment.

POSTPONED IMPORT VAT ACCOUNTING

Life outside of the EU is considerably more complicated for businesses in Great Britain who import goods, as import VAT applies to the value of most goods that come in.

There are different rules for businesses in Northern Ireland.

There are three options for dealing with this import VAT and the UK buyer needs to communicate clearly to their freight agent which of these will apply:

Freight agent pays the import VAT in order to release the goods from UK Customs. Freight agent recharges these costs to the UK buyer plus an admin fee.

UK buyer has their own VAT deferment account and freight agent uses the buyer's deferment account to release the goods without payment of VAT. HMRC takes payment for the VAT by direct debit around 45 days later.

UK buyer uses postponed import VAT accounting (PIVA) and instructs freight agent that PIVA is to be applied when goods enter the UK. The goods are released with freight agent or buyer paying HMRC and buyer accounts for import VAT as a reverse charge entry on their VAT return.

In all of the above, import duty may also be due on the goods in addition to VAT.

The UK buyer does not have to ask HMRC to use PIVA but it does need to register with HMRC to access the monthly PIVA statements from an online account which it will need to complete its VAT return.

You can access the registration system through this page: www.gov.uk/guidance/get-your-postponed-import-vat-statement and clicking the 'Start Now' button. The business' Government Gateway ID and password will be needed at the next screen. You also need to have your EORI number to hand which is needed for any business imports.

The PIVA statements for the previous calendar month are available to view from the sixth working day of the following month. These statements should be downloaded regularly as they are only held online for six months.

We can help you get your VAT returns right using PIVA but you need to download the statements showing your import VAT.