

SPOTLIGHT ON BUDGET 2021

Welcome...

The Chancellor's highly anticipated 2021 Budget delivered as promised, with a plan for tackling the next (and hopefully) final phase of the coronavirus pandemic, including extended support measures for businesses and the protection of jobs.

Sunak's rabbit out of the hat for this Budget was a new 130% 'Super Deduction' for company expenditure on plant and machinery. This was heralded as the biggest tax cut ever, with the aim of encouraging companies to invest once again.

As well as summarising the key announcements from the Budget, in this issue we look at some common VAT queries post Brexit and give a reminder of the new(ish) rules for sales of residential property.

We also take a look at some important points to consider when engaging an adviser to assist with R&D tax relief claims and have a round up of other recent and upcoming tax changes.



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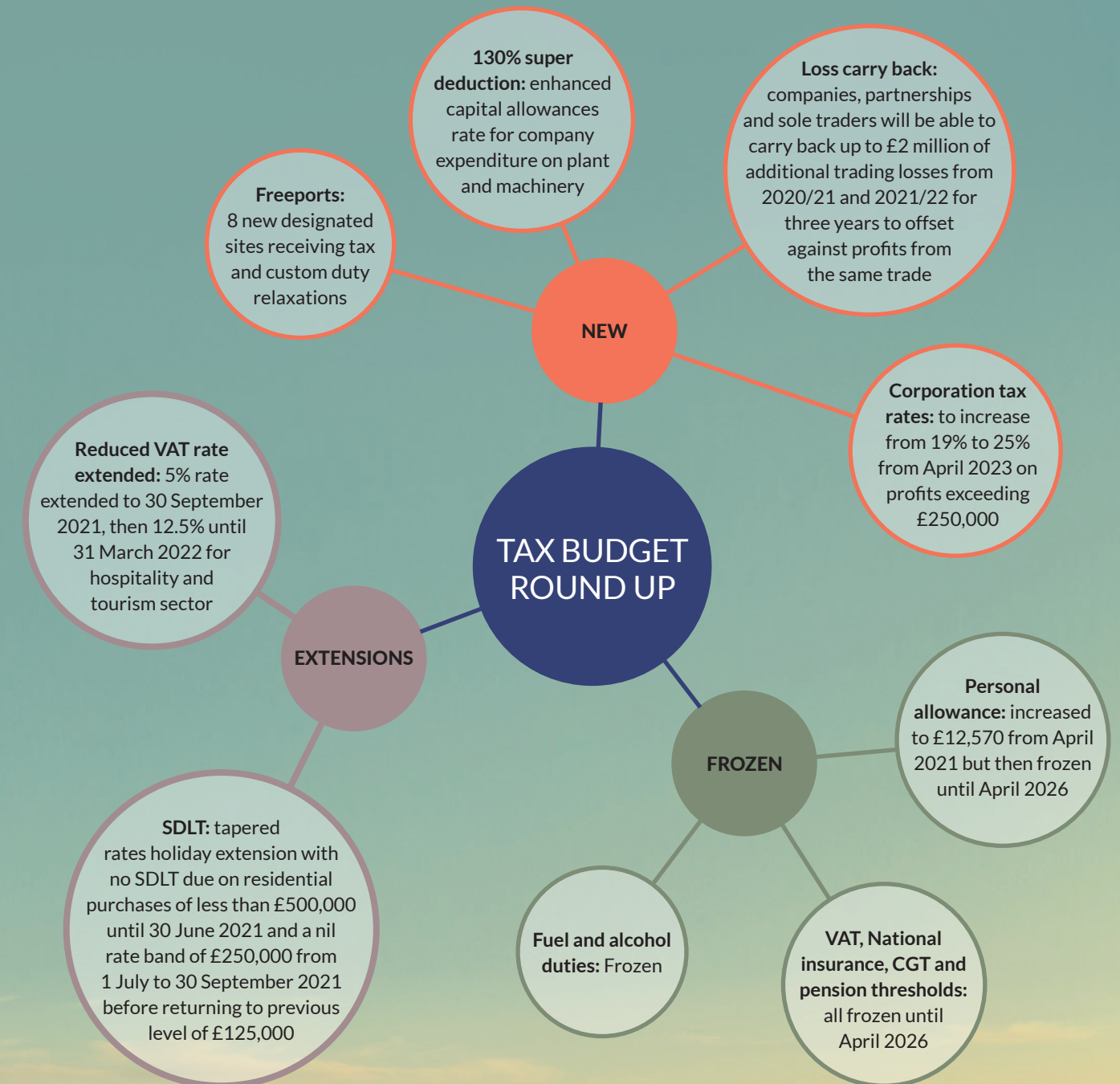
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Budget 2021

COVID-19 MEASURES

MEASURE	WHAT HAS CHANGED	COMMENTARY
 Coronavirus job retention scheme (CJRS)	The furlough scheme has been extended to 30 September 2020	<ul style="list-style-type: none"> → Employees will continue to receive 80% of their current salary (capped at £2,500) for unworked hours. → Employers will be required to contribute 10% towards this in July, increasing to 20% in August and September. → For claims from 1 May onwards it will be possible to claim for employees who were included on a RTI submission prior to 2 March 2021
 Self-employment income support scheme (SEISS)	A new 'fifth' grant and extension to the eligibility criteria	<ul style="list-style-type: none"> → The fourth and (newly announced) fifth grant will now be available to taxpayers who filed their 2019/20 tax return by 2 March. → Up to £7,500 (based on 80% of three months' average trading profits) will be available for each grant. → The fifth grant will be reduced to 30% and capped at £2,850 where turnover has fallen by less than 30% in the 2020/21 tax year.
 Business rates	Extension to business rates relief for the hospitality and tourism sector	<ul style="list-style-type: none"> → Eligible businesses occupying retail, hospitality and leisure properties, along with nurseries, will receive 100% business rates relief from 1 April 2021 – 30 June 2021 → A two-thirds discount will then apply for the period from 1 July 2021 to 31 March 2022. → Relief is capped at £2m per business, where required to close on 5 January 2021 and £105,000 per business where not required to close.
 Statutory sick pay (SSP) reclaim	Continuation of SSP scheme to reclaim up to two weeks of eligible statutory sick pay costs, per employee	<ul style="list-style-type: none"> → Available to employers with less than 250 employees → Includes time taken off due to COVID-19, for self-isolation or shielding.
 Apprenticeship hiring incentive	Extension of the incentive scheme and increased bonus	<ul style="list-style-type: none"> → Cash bonus incentive scheme for hiring apprentices extended by six months to 30 September 2021 → A bonus of £3,000 per hire will be given (previously £2,000 for 16 – 24 year olds and £1,500 for 25 years+)



Are you selling a residential property?

A new reporting requirement for disposals of UK residential property has been in place since 6 April 2020. With more activity in the market in recent months due to the SDLT cut, we are finding that more and more people are unaware of the new rules and accelerated reporting.

Here is a quick recap of the rules and reporting requirement:

WHAT NEEDS TO BE REPORTED?

Disposals of UK residential property where a capital gain has been realised (i.e. a profit on the disposal, on which capital gains tax is due).

DOES THIS INCLUDE MY OWN HOME?

Where the property has been your main residence throughout your period of ownership, no tax liability will arise and, therefore, this will not need to be reported.

If there have been periods when you have not lived there, let out your home or used part of it in a business, however, reporting may be required.

WHEN DO I NEED TO REPORT BY?

Disposals need to be reported within 30 days of completion.

Due to this short time frame it will be important to ensure that all information is readily available to be able to calculate the capital gain, such as costs of acquisition, enhancement expenditure incurred, periods of ownership whilst living in the property etc. If you are looking to engage a professional adviser to help file the return, giving as much notice as possible will help to ensure you are able to file in time.

HOW DO I REPORT?

In order to report you will need to create a 'capital gains tax on UK property account' online. Before you set up the property account, you will first need to set up a 'government gateway' account, if you do not have one already.

Once the property account has been created, you will be able to either file the return yourself or ask your agent or professional adviser to assist you with doing so. If you would like assistance from an agent, you will need to provide them with the 15-digit account number which will be generated once the property account has been set up, along with details of the disposed property.

WHEN DO I NEED TO PAY THE TAX?

Once the tax liability has been calculated and reported, this will also need to be paid within 30 days of the disposal. It will be treated as a payment on account of tax and should also take into account available capital losses up to the date of completion. An estimate of income for the year may be required to ascertain the correct tax rate to apply.

Where there is more than one disposal in the year, it is possible to take into account previous disposals in determining whether there is further tax due or, if tax has been overpaid, whether a refund can be obtained.

DO I STILL NEED TO REPORT ON A SELF-ASSESSMENT RETURN?

Where it is a one-off disposal and you have no other income to report on a self-assessment return, you will no longer be required to register for self-assessment to report the gain.

Where you are already within self-assessment you will still need to report the gain and the tax paid during the year will be offset against this.



R&D TAX RELIEF: ARE YOU GETTING THE RIGHT ADVICE?

R&D tax credits are a very specialist area of tax advice, so it is important that you choose your adviser carefully. The Chartered Institute of Taxation has recently released some useful guidance for companies to think about when going through that process, which we have summarised below.

WHAT TO LOOK FOR IN AN R&D TAX ADVISER

Consider the following points:

- What is their reputation like, and do you know of any other business that would recommend using their services?
- Some firms' state that they are 'HMRC approved' or use a 'HMRC approved methodology', which is inaccurate as HMRC does not approve R&D advisers or methodologies. Therefore, it is important to check if the firm's marketing looks 'too good to be true' and that they are not over promising what can be claimed.
- Do they have professional indemnity insurance?
- Are they a member of a professional body which adheres to the Professional Conduct in Relation to Taxation guidelines (PCRT)?
- Make sure the adviser has agreed to supplying a copy of the R&D claim report before submission, and that they have fully explained all queries you might have regarding the claim, whilst making you aware of any potential areas of judgment or risk. Also be sure to check that the adviser has sufficiently provided required support or guidance to your accounts or in-house team.
- The accuracy of tax filings remains the responsibility of the company, so it is important to confirm in writing that you have fully understood the information provided and agree to the claim.
- If HMRC enquires into the R&D tax credit claim, what level of after care service does the tax adviser provide?

MAKING CONTACT

- Take the time to find the right adviser and create a shortlist of firms to meet with, whilst enquiring in advance to see if the first meeting is free of charge.

CHARGES

- Establish the basis of fees and when they will be payable, whilst understanding the arrangements on the fees, should the claim later be turned down by HMRC.
- Some advisers might expect you to 'lock into' their services for a number of years, so it is important to know where you stand when it comes to reviewing and reappointing. You should also be aware of the conditions for terminating the contract before it formally ends.
- The latest R&D consultation, published as part of the 2021 Budget, also confirmed that the Government will be reviewing the role and responsibilities of agents and advisers (including their fee structures).

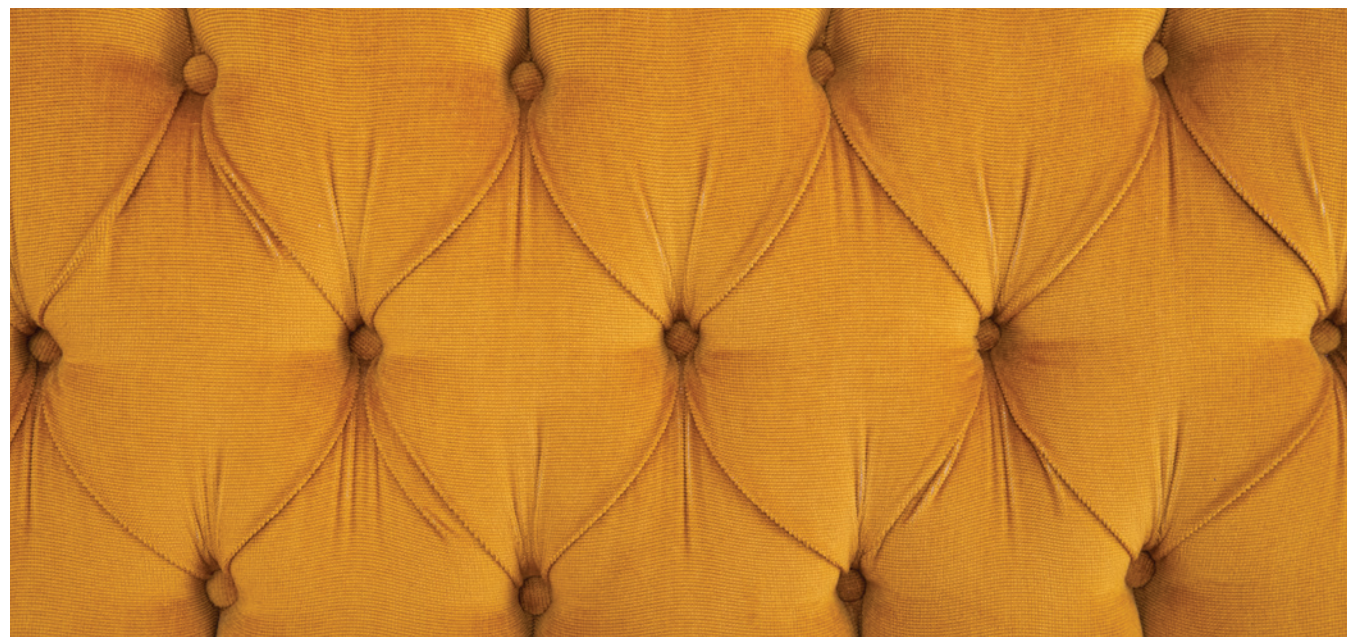
WHAT TO DO AFTER APPOINTING THE ADVISER

- Receive and review the adviser's terms of the engagement and what they will and will not do, making sure your in-house accounting team or general accountant is supplied with sufficient detail and information to assist with the claim and work alongside the adviser.

At Hazlewoods, our R&D tax specialists are professionally qualified and are all members of a professional tax body. This is an important point to consider, as qualified advisers will have up to date, professional knowledge, which they continue to strengthen through continual professional development, via their professional body.

Our Hazlewoods R&D tax specialists also have a wealth of experience in preparing R&D tax claims and make the process quick and painless. With the benefit of our knowledge and experience, most claims that we prepare are processed efficiently by HMRC and repayments are usually made within a matter of weeks.

In the year to 30 April 2020, the Hazlewoods Innovation and Technology team identified qualifying R&D expenditure of £47 million for our clients, generating R&D tax savings of over £7.5 million.



Tax snippets

OFF-PAYROLL WORKING

Despite calls for a further delay, new rules on off-payroll working (IR35) will apply from 6 April 2021. The new rules will impact both contractors and businesses who engage or supply contractors.

Essentially, the new rules will shift the responsibility from determining employment status from the contractor to the end user, where that end user is a medium or large sized company. This change brings new compliance requirements for businesses who engage contractors via a personal service company.

Watch out for our webinar, which will be released shortly, on the new rules and how they could impact your business.

VAT DEFERRAL

If your business deferred its VAT payment due between 20 March and 30 June last year, it is now possible to opt into the new VAT deferral scheme to delay this payment further.

The deferred liability was due to be settled by 31 March 2021, however, payments can now be spread over a maximum of 11 monthly instalments, interest free. To be eligible to apply for the deferral, any outstanding VAT returns from the previous last four years must have been submitted.

Businesses can opt in online, up until 21 June 2021. Further information on the deferral scheme can be found here <https://bit.ly/3pz5XDO>.

FINANCE COST RESTRICTIONS FOR RESIDENTIAL PROPERTY

The phasing in of restrictions on tax relief for finance costs on buy-to-let residential properties commenced in April 2017. The current tax year (2020/21) is the first year that 100% of finance costs will be restricted to the basic rate of tax.

Property profits will now be calculated and taxed based on gross income before deducting any finance costs. A tax reducer is then calculated to give relief for the finance costs at the basic rate of tax and deducted from the liability.

The new calculation methodology could lead to:

- basic rate taxpayers being tipped into the higher rate tax bracket;
- thresholds being breached triggering the high income child benefit tax charge or the abatement of the personal allowance; and/or
- landlords being subject to tax even where their property business has made an economic loss.

To help mitigate the effects of these new rules, some planning opportunities may be available such as spousal transfers, partnerships and incorporation of the property business. Please speak to a member of the tax team if you would like further information on this.

VAT REVERSE CHARGE IN THE CONSTRUCTION INDUSTRY

New rules were introduced with effect from 1 March 2021, in relation to the VAT treatment of building and construction services.

The rules apply to standard and reduced rated supplies of such services, where there is a further onward supply of those services. The responsibility for paying the output VAT due will now fall with the contractor rather than the sub-contractor. The contractor will still be able to reclaim this amount as input VAT.

The scope of the supplies affected is, broadly, similar to those required to be reported under the Construction Industry Scheme but excludes supplies of employees/workers.

MAKING TAX DIGITAL

Making Tax Digital (MTD) has been in operation for VAT since April 2019 for VAT registered businesses with a taxable turnover above the VAT threshold (currently £85,000). Other VAT registered businesses below the threshold (e.g. those voluntarily registered) will also be required to follow MTD rules for returns starting on or after April 2022.

A timeline for other taxes to come within MTD has now also been set as follows:

- **MTD for income tax** – from April 2023, unincorporated businesses and landlords with total gross income above £10,000 will be required to submit quarterly reports summarising income and expenditure to HMRC using MTD compatible software.
- **MTD for corporation tax** – consultation on this closed on 5 March 2021, with the expectation that this will not be introduced until 2026 at the earliest.

Although this all seems like a lifetime away, for individual taxpayers, some action could be taken now.

If you have not set up a government gateway account already, now could be a good opportunity to do so. As well as in readiness for MTD, where you will be required to have a personal tax account, other services can be accessed now via the account. This includes updating certain details, accessing tax return history and payments, as well as being able to make tax payments.

Post-Brexit – Common VAT queries

From 1 January 2021, the UK exited the EU VAT regime. This means a range of VAT compliance simplifications are no longer available. We take a look at some of the more common issues our clients have been facing post-Brexit.

GOODS IMPORTED TO THE UK

Goods brought into the UK from the EU are now “imports” rather than “acquisitions”. VAT registered businesses are now able to use postponed VAT accounting to account for import VAT on their VAT return for goods imported from anywhere in the world. An online monthly statement will be provided by HMRC which will show the total import VAT postponed for the previous month. The VAT due on imports for the period should be included in Box 1 and (to the extent it is recoverable) Box 4 of the return, and Box 7 should include the total value of all imports of goods for the period.

For goods imported in consignments not exceeding £135 in value, the point at which VAT is collected will be moved from the point of importation to the point of sale. This will mean that UK supply VAT, rather than import VAT, will be due on these consignments, and if the customer is a UK VAT-registered business, a reverse charge process will apply.

EXPORT OF GOODS

As far as selling to the EU is concerned, sales of goods to business customers and private individuals will now become exports – zero-rated in the UK but creating a liability for import VAT and duty (where applicable) on the part of the importer into the EU.

Customer as importer – Delivery Duty Unpaid (DDU) or Delivery at Place (DAP)

If the customer is responsible for the import, i.e. it is the customer’s name on the “import of record”, they are liable to pay the VAT and duty in the country the goods are imported to. This can result in a negative customer experience and goods will be held at customs until the taxes are paid.

Seller as importer – Delivery Duty Paid (DDP)

Alternatively, if the seller is responsible for the importation of goods into an EU country, then that importation will be followed by a further onward supply of goods to the end customer. This onward supply will be deemed to take place in the country of importation and will therefore fall within the scope of that country’s VAT regime, creating an immediate requirement to register for VAT for a non-EU established company.

Some freight/courier providers are starting to market a “hybrid” option, whereby the customer is still listed as the importer of record, however the supplier will pay the VAT and duty upfront as part of the shipping costs. This has the benefit of avoiding the supplier being treated as making an onward supply in the EU and results in a better customer experience.

FURTHER CHANGES ON 1 JULY 2021

The EU is introducing an Import One Stop Shop (IOSS) system from 1 July 2021. This will enable suppliers to report distance selling across the EU of imported consignments not exceeding €150. The IOSS will require a quarterly VAT return to be filed to a tax authority in one nominated EU member state. Suppliers will declare VAT due in all EU countries on one return.

Also being introduced are rules, similar to those now in place in the UK, which will make online marketplaces a “deemed supplier” where they facilitate certain supplies to private individuals by third party sellers.

MOVEMENT OF GOODS IN THE EU

Previously, a UK intermediary supplier could benefit from the “triangulation” simplification where goods were ordered from one EU country and delivered directly to another. Now, as an example, if goods are ordered from Germany and delivered direct to the end user in France, there would be a requirement for the UK intermediary supplier to register for VAT in either Germany or France.

DEVELOPING SOLUTIONS

A possibility to consider with exporting to the EU is creating an EU presence, obtaining a VAT registration in that member state alone and moving stock to that location to fulfil sales to EU customers.

If you would like any advice on the above issues or other implications post-Brexit, our VAT team would be happy to assist.



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