

Corona Virus

Financial matters – Update 27th March 2020

Two bits of key news in the last 24 hours. Self Employed support announced and further details of how the Job Support Program (putting staff into furlough) will work. We try to cover these below together with other minor updates

1:Support for the Self Employed:

As expected the Chancellor announced support for Self Employed individuals. They said it was a complex area and that is confirmed by the rules.

The key facts appear to be:

No payment until June.

HMRC will contact qualifying people directly with a form to fill out but not for at least 4 weeks

The amount paid will be taxable and needs to be included on 2020/21 tax returns as income

At least 50% of their income must be from Self Employment to qualify

You must have lost profits due to corona virus

Scheme is only open to people currently self-employed and are looking to remain in business in 2020/21

Scheme is open to partnerships, individual partners claim

Limited to people who have had taxable income of £50,000 or less.

It will be based on average of the tax returns for the 3 years ended 5th April 2019.

You may receive up to 80% of your average taxable profits capped at £2,500pm.

The money will be backdated to 1st March.

Money will be paid directly into peoples' bank accounts

HMRC will contact individuals that they believe qualify and ask for a declaration to be completed and inform HMRC of their bank details

Company owners who pay themselves are not covered by this scheme as they are not self employed.

You can continue to work as self employed unlike employees who must cease working if put in furlough.

As before we are short on detail but there were some questions which we think we know the answer to:

Q1: I was a sole trader until 6m ago but ceased or converted to a limited company. Will I get the grant ?

A1: No you won't get the grant as you have to be self employed at the time of making the claim and plan to remain self employed in 2020/21 and declare as such.

Q2: Can I resubmit my 2018/19 tax return and claim less capital allowances to increase my profits ?

A2: Technically yes but it will increase your tax bill for last January 2020 and July 2020 and this increase in tax is likely to outweigh any money back from HMRC

Q3: I have been self employed for less than the 3 years. Will I get the grant ?

A3: Yes you will get the grant. The Chancellor has said they will use whatever information they have to make a fair award.

Q4: What about VAT on the grant ?

A4: We do not expect the amount to be VATable and would be excluded from any VAT returns

As the days move forward we expect further clarification on various points of the scheme.

We expect a large amount of spam and phishing emails over the next few weeks to people on this reclaim programme. Don't sign up for anything or click on any emails that look suspect. It will be at least 4 weeks before anything comes out from HMRC. We will let you know when to expect something.

2: Job Retention Programme

Further details were issued late last night on the scheme. Highlights are:

The scheme started on 1st March 2020 and runs to 31st May 2020 (not 3m to 30th June as previously suggested)

Companies can claim back the 80%/£2500pm plus Employers NIC and the minimum employers pension contribution

Furlough monies are liable to tax and NIC as normal so need to be run through the payroll.

Staff are not eligible if you reduce their hours. They must be not be working at all

Staff hired after 28th February 2020 cannot be furloughed

If an employee has two jobs each job is taken in isolation and can be furloughed independently

Where staff pay varies then there are some rules to provide an averaging over the last 12m if its higher than the Feb 2020.

National Living Wage. Staff on furlough are not working so this does not apply and firms cannot be fined if the 80% is less than the NLW

If staff were on SSP you can still move them into Furlough at the end of the SSP period.

Staff on Furlough:

Lots of clients are putting staff into Furlough. Again this is creating a few questions including:

Q1: Can a staff member work when in Furlough ?

A1: Technically no. They are on leave of absence so should not be working. We think a de-minimus amount of work of say occasional checking emails would be acceptable. HMRC will require a declaration by the employer that staff were not working when making the claim.

Q2: What if they get another job ?

A2: Employees on furlough should notify you if they work elsewhere. We believe that this would invalidate any claim by the company and pay to the employee. Therefore you might want to check staff have not taken up jobs elsewhere on a regular basis.

Q3: Do employees on furlough accrue holiday ?

A4: Yes, employees continue to accrue holiday when on furlough. Therefore employees will have a full amount of holiday to take when furlough ends.

Q5: Does time on furlough by an employee count towards an employee service period

A5: Yes being on furlough counts towards service. The 2 year limit on employee dismissal claims does not get extended.

Q6: How will HMRC know my employees are in furlough ?

A6: You are required to keep evidence placing staff in furlough together with their acceptance. This must therefore be in writing. Emails should be sufficient.

Q7: Does an employer have to top up the 80% or £2,500 pm to the full salary

A7: There is no requirement to top up by the employer. It should be made clear at the outset how much the employer proposes to pay.

Q8: As an employer can I wait to pay an employee until I get the funds in from HMRC

A8: Technically no, as payment should be paid in accordance with the employee contract. If you have difficulty in funding the wages then you should look for finance. However if staff are prepared to delay receipt then this can be agreed on a case by case basis

Q9: Is the amount payable net or gross of tax ?

A9: The amount payable is gross of tax and therefore PAYE should be operated on any payments. We will therefore need a list of employees together with the date they went into furlough for the April payroll run. Pension contributions are also payable/deductible.

Q10: What basis will the 80% be calculated on

A10: We understand it will be based on the February 2020 RTI return but this may have variations added to take account of fluctuating income. The rules say you calculate the higher of a: the same months earning from 12m ago or b: the average monthly earning for 2019/20.

Q11: Can owner directors claim furlough?

A11: At present there is no legislation in place so we don't know whether they will be excluded. However you have to do it in writing (to yourself !) and confirm that you are not working.

Bank Loans:

The government backed bank loan scheme has had some bad press over the last 24 hours. Some banks are saying they want personal guarantees (Lloyds) whilst others are saying they don't need them (RBS) We expect this to be resolved in the coming days.

If you think you will need a loan or overdraft we suggest that you start the process as its likely by the time your loan is approved matters will have been resolved. A loan may be a better option to go for at this stage.

Having released a copy of the Lloyds Bank application form we are pleased to say the RBS application form is considerably shorter. That's a disappointment to all Lloyds customers as you cannot apply to a bank that you don't have a current relationship with.

Government Help:

The following is a link to the Government website with links to the various business programmes being put in place with updates:

<https://www.businesssupport.gov.uk/coronavirus-business-support/>

This site lists each of the Business support schemes in place and its worth looking at each one to see if you qualify. Most are not fully operational yet.

Action:

Look at your cashflow forecast for the period through to 31st May and look at what payments you need to cancel to get through this period

Check the position on furloughed staff and they have all confirmed acceptance

Check all tax bills are not paid and stop any DDR's for VAT etc

Contact your bank manager to get an application form for a government backed loan if you think you might need a loan. If you cannot get through by phone then go to the banks website for info.

We appreciate these are difficult times and are here to support you as much as possible.

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