

CATHERINE A. WILLIAMS LTD.

— CHARTERED ACCOUNTANT —

March 2021 Newsletter and 2020/21 Tax Yearend Guide



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2020 was a year unlike no other. During the unprecedented times individuals and businesses pulled together and new ways of doing business have developed. As we emerge from the biggest crisis ever faced in peacetime, the Chancellor had to be mindful of the continuing impact and challenges COVID 19 is having on businesses. The 2021 Budget set out plans to protect and preserve jobs and livelihoods of British people. Many of the announced changes are for fixed periods to offer some certainty and security to businesses during these uncertain times. The key, relevant budget announcements are summarised within our newsletter plus other hints and tips we feel clients may find helpful.

Individuals

- Income tax and National Insurance thresholds will increase for the 2021/22 tax year but will be frozen thereafter until 2026. This will mean those tax payers benefiting from an increase in earnings will pay more tax on their income than they would have if thresholds continued to rise over the next few years.
- **Personal Allowances**—increase to £12,570 and the **Higher Rate tax threshold**—increases to £50,270 but rates of income tax remain unchanged.
- **National Insurance**—The threshold at which employees and the self employed must pay National Insurance increases slightly to £9,568 from 6th April 2021.
- The Upper earnings limit for National Insurance will be in line with the higher rate tax threshold of £50,270. Employees will pay 12% and self employed individuals will pay 9% on earnings between £9,568—£50,270
- **Pension Life Time Allowance** remains unchanged at £1,073,000 and will also be held until April 2026. (This had been expected to increase inline with inflation)
- **Carry back of losses**—This has been temporarily relaxed enabling losses to be carried back from 1 year to 3 years and will apply to losses generated in the tax years 2020/21 and 2021/22.

Businesses

- **Corporation tax is set to increase from 2023.** From the 1st April 2023, Companies with profits over £250k will pay corporation tax at 25%. A small profits rate of 19% will apply to Companies with profits of £50k or less. Companies with profits between £50k—£250k will pay tax at the main rate which will be reduced by a marginal relief.
- **Super Deduction 130%** - Companies investing in qualifying, **NEW**, plant and machinery will benefit from the super deduction of 130% on most new plant and machinery which ordinarily qualifies for main rate writing down allowances. For every £1 spent you will receive up to 25p tax relief. This relates to purchases between 1st April 2021 up to 31st March 2023.

This relief **IS NOT** available for unincorporated businesses.

- Tax losses generated during accounting periods ending between the 1st April 2020 up to 31st March 2022 can be temporarily carried back up to 3 years rather than the usual 1 year entitlement.
- Research and Development (R&D) tax relief to be capped for accounting periods starting on or after 1st April 2021 to £20k plus 3 x the company's relevant expenditure on workers.

Other

- **Capital Gains Annual Exempt** amount remains at £12,300 and fixed for the next 5 years until April 2026 with no changes to the rates of tax payable.
- **SDLT**—temporary extension of the Stamp Duty nil rate band for residential property up to £250k until 30th June 2021.

We work with a range of software partners including the following:



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Coronavirus Job Retention Scheme (JRS)

The Coronavirus Job Retention Scheme extended until 30th September 2021.

- Currently 80% of employees usual salary for hours not worked can be claimed, up to a maximum of £2.5k per employee per month.
- From 1st July 2021 the level of support will reduce as the economy reopens, as 70% of un-worked hours can be claimed and employers will have to contribute 10% towards the costs.
- During August and September 2021 employers will contribute 20% as only 60% of employees salaries can be recovered.
- Eligibility for the scheme—from 1st May 2021 those employed prior to 2nd March 2021 will be eligible for the furlough scheme as long as they were reported on a payroll submission to HMRC between 20 March 2020 and 2 March 2021.

Coronavirus (COVID-19) helpline for businesses and self-employed
0800 024 1222

Coronavirus Statutory Sick Pay Rebate Scheme

This scheme is available to employers to claim back up to 2 weeks of Statutory Sick Pay where employees are self isolating and cannot work because of COVID 19.

Coronavirus Loan Schemes and Grants

During 2020 several government-guaranteed coronavirus loan schemes were available including Bounce Back Loans and Coronavirus Business Interruption Loans.

Recovery Loan Scheme— (Opens from 6 April 2021 to 31st December 2021) this scheme will provide lenders with a guarantee of 80% on eligible loans between £25k to £10m. This is available to all businesses including those who have already received existing support.

Bounce Back Loan (Closes to new applications 31st March 2021)—Borrowers now have the option to extend the length of their loans from 6 to 10 years, make interest only payments for 6 months or pause repayments for up to 6 months.

Restart Grants (England Only) - up to £6k per premises for non-essential retail and up to £18k per premises for hospitality, accommodation, leisure, personal care and gyms. To assist businesses in re-opening safely in the coming months.

Non-Domestic Rates Linked Grants (Wales Only) - Additional support to help businesses in hospitality, leisure and non essential retail sectors is being introduced. Those with a rateable value with £12k or less will receive £4k and those with a rateable value of £12k-£500k will receive £5k. Businesses that have not already registered **MUST** do so with their local authority by 31 March 2021.

Coronavirus Payment holidays

The last time to apply for automatic payment holidays for loans or mortgages is 31st March 2021, and all payment holidays must end by 31st July 2021.

One off £500 payment for working tax credit claimants.

It applies to ALL claimants across the UK still in receipt of working tax credits. Working Tax Credits is closed to new applications and has been replaced by Universal Credit. The £500 one off payment brings the two benefits in line, as Universal Credit has already received a £20 per week uplift in response to Covid 19.

Self-Employed Income Support Scheme (SEISS)

The fourth SEISS grant has been confirmed plus the criteria for the fifth and final grant has been announced;

Eligibility criteria for these grants has been updated to take account of 2019/20 tax returns filed by 2nd March 2021. Therefore some newly self employed taxpayers not previously eligible for the first 3 grants will be eligible for the final 2 grants.

- 4th SEISS grant has been set at 80% of 3 months average trading profits, capped at £7.5k. Applications open from late April to the end of May 2021.
- The 5th and final grant will also be at 80% of the three months average trading profits capped at 7.5k but only for those whose turnover has reduced by 30% or more. Those with a reduction of less than 30% will receive a grant based on 30% of the 3 month average trading profits capped at £2,850. Applications for the 5th grant are expected to open late July 2021.
- **TAXATION of the SEISS Grant.** A separate box will be included on the 2020/21 tax return to record all SEISS grants received in the Tax Year. For those with a NON 31st March/5th April yearend, **it could mean a higher taxable income for 2021 than expected**, i.e for a 30th April 2020 yearend that full year would be included on the 2020/21 tax return plus the 3 SEISS grants, where as any costs from MAY 2020 onwards would only get tax relief on the 21/22 tax return via the accounts to 30th April 2021.
- HMRC are putting in place measures to be able to recover grants where an individual is no longer eligible for a SEISS grant following a change in circumstances. Further clarification is required where claimants assessed their eligibility at the time the claim was made and there was no requirement to reconsider eligibility if circumstances changed subsequently.

Business Rates

The Welsh Government has announced that all retail, leisure and hospitality businesses occupying properties with a rateable value of up to £500k will receive 100% non-domestic rates relief for the duration of 2021-22. This enhanced relief is in combination with the existing Small Business Rates Relief scheme during 2021-22. Local Authorities will be responsible for the administration of the scheme.

This support goes further than that currently provided to similar businesses in England where 100% relief is only for the first 3 months until the end of June and then drops to 66% relief until March 2022.



Summary of VAT announcements

- **VAT threshold**—The VAT registration and deregistration thresholds remains at £85,000 and £83,000 respectively and are **FROZEN** until at least the beginning of March 2024
- **Tourism and hospitality reduced 5% VAT on Food and Non Alcoholic Drinks** —The temporary 5% VAT rate applicable to the tourism and hospitality industry has been extended until the 30th September 2021. Following on from this the rate will increase to 12.5% for 6 months and will revert back to 20% from the 1st April 2022.
- **VAT which was deferred early part of COVID in 2020 and was due for payment by the 31st March 2021 - Further extension possible** Those businesses which deferred the VAT payments due between 20th March and 30th June 2020 must pay the deferred VAT by the 31st March 2021 **OR** opt into the VAT deferral payment scheme which offers up to 11 interest-free instalments. **DEADLINE** for the extra time opt in is before the 21st June 2021, but fewer instalments will be available the longer the take up is delayed.
- **CIS VAT Reverse Charge (Be aware BUILDERS and CONTRACTORS)**—effective from the 1st March 2021, it means subcontractors carrying out ‘construction operations’ i.e. under CIS will not charge the main contractor VAT for services rendered. Instead the main contractor will pay VAT over to HMRC on its behalf. For it to apply the subcontractor needs to be under CIS as well as being VAT registered, at the same time as working for another contractor who is NOT the end customer.

PROPERTY MATTERS

30 DAYS TO Report & Pay Capital Gains tax on UK residential Property

From the 6th April 2020 HMRC introduced a new requirement whereby you must report the gains and pay the Capital Gains tax due on the sale of UK residential property within 30 day of completion. Due to the tight timescales involved, it is therefore important to tell us **AS SOON AS POSSIBLE** so we have plenty of time to prepare.

Principle Private Residence (PPR) Relief—The final period of exemption remains and is currently 9 months . This is available where a property has at some stage been your main residence and allows the final period of ownership of a second property to be covered, even if the property is no longer your main residence during the final period.

Mortgage Interest Restrictions - All Residential Property finance costs (not just loan interest) is now fully restricted for the 2020/21 tax year and will only attract a maximum of 20% tax relief. This does not apply to commercial property or furnished holiday lettings.

ACTUAL COSTS or £1000 Property Income Allowance? - This is a tax exemption of up to £1000 per year per individual with income from land or property. If annual gross property income is £1000 or less you will not need to tell HMRC. If however you submit a tax return due to other income it will need to be declared and the allowance claimed. It is possible to use the £1000 deduction from gross property income instead of actual costs if £1000 is greater.

Individual Savings Allowance (ISA)

ISA allowances/limits for 2020/21 remain unchanged for 2021/22;

- Use this years £20,000 ISA allowance by the 5th April 2021. Any allowance not used by the 5th April 2021 will be lost.
- If your ISA is flexible you can take out cash then put it back in during the same tax year without reducing the allowance .
- Consider a Lifetime ISA (those aged 18 to 40 can apply) which lets you save up to £4000 per tax year towards a first home or your retirement and the government will add a 25% bonus on top of what you save. Potentially earning an extra £1k ,plus interest, tax free, each tax year.
- You must be
 - * Over 16 for a cash ISA
 - * 18 or over for a Stocks and Shares ISA
- Under 18's or those who want to save on behalf of a minor can put up to £9000 in to a Junior ISA .
- Innovative Finance ISA's - Peer to peer lending to borrowers or businesses. Capital is not protected but interest is not taxed .

- **Dividend Allowance** - *no change for 2021/22* it remains at £2000, where 0% tax is due on the first £2,000 of dividend income. Ensure you utilise this allowance where possible.
- **Savings Allowance** *no change for 2021/22* remains at £1000 for a basic rate tax payer and £500 for a higher rate tax payer
- **Trading Allowance** - *Do you have small amounts of Trading Income less than £1000?* If so the trading allowance of £1000 per annum may mean that you don't need to declare or pay tax on that income. If you do complete a tax return anyway due to other income you still need to claim the allowance. Those with trading income over £1000 can deduct their actual expenses as normal or use the £1000 trading allowance which ever is more beneficial.
- **Charitable donations** - *important for higher rate tax payers they get extra tax relief*. In some circumstances donations can be carried back to attract tax relief in the previous tax year as well.
- **Marriage Allowance** - *Can go back 4 years if not previously claimed*. The transfer amount is £1250 of personal allowance for 2020/21, increasing to £1,260 for 2021/22, can be transferred between spouses but only where neither spouse pays tax at a higher rate. It is beneficial when one spouse is not using their full personal allowance. It is worth up to £250 as a tax saving per year.
- **Pension Contributions** - *Even if you have no income pension contributions can be made* - up to £2880 net (£3600 Gross). It can be made for all individuals with no income including children.
- **Annual Pension Allowance** - *The maximum amount you can pay into a pension remains unchanged at £40,000*. That amount is tapered down to £10k for high earners above a threshold income of £200k (previously £110k) or £4000 for those who have already flexibly accessed their pension savings.
- **Voluntary National Insurance**—*Top up your credit for State Pension* . The 5th April 2021 is the deadline for making voluntary class 2 or class 3 contributions for the 2014/15 tax year, if you have any missing years in your national insurance record towards state pension.
- **Joint Property Election** - *for spouses to split rental income tax efficiently use the Election (HMRC form 17)*. It is a really useful tool where property assets are jointly owned by a married couple. Usually any income is deemed to be shared equally unless an election to change that split in a more tax favourable way is made to HMRC.



EMPLOYEES

- **Minimum Wage** - from 1st April 2021—**£8.91**. Qualifying age threshold will be **LOWERED** from 25 to 23
- **National Living Wages** is a **VOLUNTARY** benchmark level for those 23 years and over (*previously 25's). It is set at £9.50 (or £10.85 in London).
- **Sick pay** rises to £96.35 per week from April 2021 (2020/21:£95.85)
- **Statutory Maternity Pay** is paid for total of 39 weeks. At 90% of your average earnings for first 6 weeks then the **LOWER OF £151.97 (2020/21: £151.20) OR 90% of earnings for the next 33 weeks.**
- **Auto Enrolment Pension Rates**— No changes - minimum pension rates being 3% for employers and 5% for eligible or opted in employees.
- **CLAIM FOR WORKING FROM HOME**—Where employees have been required to work from home, even for just **ONE** day since 6 April 2020 they can claim tax relief. Go on to the Gov.UK site to claim.
- **Laundry Allowance**—Can claim a standard allowance of £60 per year if as an employee you are required to be responsible for the upkeep of uniform/protective clothing.
- **Student Loan Deductions** - from April 2021 the amount you have to earn before repaying the student loan increases. Plan 1 £19,895 and Plan 2 £27,295. If you got your loan before Sept 2012 you'll be on Plan 1 or after Sept 2012 you'll be on Plan 2. Earnings above these thresholds will continue to be calculated at 9% repayment.
- **Employment Allowance**—Eligible employers can continue to claim up to £4,000 to cover their employers National Insurance.

<u>Minimum Wage</u>	<u>NEW from 1st Apr 2021</u>	<u>OLD to 31st Mar 2021</u>
23 years +	£8.91	*£8.72
21 to 22	£8.36	£8.20
18 to 20	£6.56	£6.45
Under 18	£4.62	£4.55
Apprentice Rate	£4.30	£4.15

Making Tax Digital (MTD - What's NEW?)

Income Tax

- ⇒ All income tax payers earning more than **£10,000 BUSINESS OR PROPERTY** Income per year will join MTD from the **6 April 2023**. (Trusts, Estates and non resident Companies are Excluded)
- ⇒ Draft Regulations suggest Four 'In Year' reports will need to be made from within software within 1 month of each quarter end, followed by a Fifth 'end of period report.

Corporation Tax

- ⇒ Making Tax Digital for Corporation Tax will **not be mandated for usage before 2026**.

INHERITANCE TAX

- Inheritance tax (IHT) is payable at 40% on death of an individual's chargeable assets over £325,000. Charitable bequests over 10% of an estate's value reduces the inheritance tax payable to 36% on the whole of the remaining chargeable assets
- The '**Residence Nil Rate Band**' (RNRB) is an additional inheritance tax relief of £175,000.
- **Inheritance tax nil rate bands will be FROZEN until 2026.**
- It means that potentially £1m of assets can currently be passed to the next generation tax free but the RNRB is only available where the family home is transferred to direct blood descendants and the total value of the estate is less than £2m.
- Pension assets correctly written in trust can be deemed out side of a person's estate for inheritance tax.
- **Gifts made whilst ALIVE and Inheritance Tax**
- **Small lifetime Gifts**—You can give away **£3000** each tax year inheritance tax-free and Gifts of up to £250 can be given IHT free to any number of people in each tax year.
- **Wedding Gifts** of up to £1000 per person also Parents can give £5,000 to each of their children as a wedding gift or Grandparents can give £2,500.
- **Regular Gifts from Income** - If you gift money regularly from surplus income but are able to maintain your standard of living then that gift of income can be tax exempt from inheritance tax.
- **Potentially Exempt Transfers**— Gifts to individuals that aren't immediately tax-free will be considered as a 'Potentially Exempt Transfers' - but will only remain tax free if you survive **SEVEN years** from the date of the gift.

Important Post-Brexit VAT

POSTPONED VAT for Importers of GOODS

For transactions between the UK and EU member it is important to register for Postponed VAT Accounting (PVA) This will enable importers to account for and recover import VAT as input tax on the same VAT return, rather than having to pay it upfront and recover it on a subsequent return. It uses the online monthly C79 VAT certificate as evidence of entitlement. You'll need your EORI number and your government gateway account to get the certificates. Downloads of the certificates are only be available for 6 months online.

Exporters of GOODS and EC Sales list - VAT registered business no longer have to complete an EC Sales List when exporting goods to the EU, but businesses do need to retain evidence to prove that goods have left the UK.

VAT place of belonging for services remains largely unchanged;

Business 2 Business = supplied where customer belongs

Business 2 Customer = supplied where the supplier belongs

IR35 and Off Payroll Working Rules (CONTACTORS)

The new IR35 in the private sector referred to as off-payroll working comes in from April 2021. Where contractors work for MEDIUM or LARGE sized client organisations the responsibility will shift **from** the individuals Personal Service Companies (PSC) **to** the client organisation to determine whether the contracts fall within IR35. For Small Client end users, the PSC, still determines if IR35 applies. Being a contractor caught by IR35 means all income is taxed under PAYE but without any normal employee benefits of holiday pay sick pay or pension. HMRC has provided some helpful Off-payroll working rules flow-charts. Take CARE as lots of organisations appear to be making blanket decisions across the board rather than looking at individual contracts on their own merit. Ensure you thoroughly review all options being offered which could include employment positions, recruitment agencies operating the tax deduction and Umbrella Companies.

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