WINTER UPDATE - 5 November 2020

Contents

Take two: furlough scheme extended into 2021

As the second lockdown took effect on 5 November, the Chancellor returned to Parliament to announce a further extension to the furlough scheme through to March 2021.

The extension of financial support under the Coronavirus Job Retention Scheme (CJRS) will now run past the original new cut-off of 2 December through to the end of March. Provision is at the same level as that given for August, with employees receiving 80% of their salary for hours not worked, capped at £2,500 per month. Employers have to cover National Insurance contributions (NICs) and workplace pension costs.

Two new job support schemes (JSS Closed and JSS Open) set out in the Chancellor's Winter Economy Plan will now not take effect, if at all, until the furlough scheme ends.

Differences

One important difference from the previous furlough scheme is that claims can be made for employees notified to HMRC with an RTI submission by 30 October. Otherwise, the extension is similar to the old scheme:

- Employees recently made redundant can be rehired and furloughed if they were employed up to 23 September.
- Businesses will be paid upfront to cover their salary costs.
- Flexible furloughing is allowed, with the employer paying as normal for hours worked. For hours not worked, the employer can make up the employee's full pay if they wish.
- Employees can be on any type of contract.
- Hours not worked will be calculated by reference to the usual hours worked by the employee.
- The employer's furlough claim must be for a minimum period of seven consecutive days.
- Neither the employer nor the employee needs to have previously used the furlough scheme prior to 1 November.

The extension will be reviewed again in January to determine whether there is scope to increase employer contributions, depending on economic circumstances.

Additional measures are also available for businesses and individuals affected by this second lockdown, including:

- Cash grants for closed businesses up to £3,000 a month.
- Extension of the mortgage payment holiday for homeowners.
- One-off payment grants from local authorities.

Government-backed loan schemes and the Future Fund are likely to be extended through January in plans yet to be announced, plus options to top-up Bounce Back Loans.

If you need help in assessing your situation and requirements, please let us know.

Boost for self-employed support in extended grants

Two further grants under the self-employed income support scheme (SEISS) were announced in September and have now been updated following the second lockdown.

FThe government's new package of support measures announced in the Chancellor's Winter Economy Plan have been postponed or reworked, including an increase to the SEISS.

The original SEISS offered two support grants to the self-employed, with applications closing in July and again in October. The new extension covers a six-month period divided into two additional grants. The level of the upcoming third grant has now been increased from the original 40% to 80% of average monthly profits – even higher than the 55% set out at the end of October. Applications for the third grant covering the three months from November 2020 to January 2021 will open on 30 November and will be capped at a maximum of £7,500, paid in a single instalment.

The fourth grant will cover the three months from February to April 2021, however no further details have been released as yet.

Eligibility

To be eligible for the third grant you must have been eligible for the previous two (even if they were not actually claimed), so this excludes anyone with:

- average annual profits exceeding £50,000; or
- self-employed income that makes up less than 50% of total income.

In addition, you will have to declare that you intend to continue trading and are either currently actively trading, but are impacted by reduced demand due to Covid-19, or were previously trading but are now temporarily unable to do so due to Covid-19. The requirements to be actively trading and to be impacted by reduced demand are new and might indicate that HMRC is tightening up the rules.

The first two grants were based on average profits for the tax years 2016/17, 2017/18 and 2018/19. At this point, there is no indication if HMRC will allow profits for 2019/20 to be taken into consideration.

The Chancellor appears to have heeded the widespread criticism levelled at the drop in support for the self-employed he originally outlined. The uplift to 80% now matches the extension of the furlough scheme, at least for the time being.

If you need help with any support grants, please get in touch.

Employees can now claim tax relief for working from home

HMRC has launched an online portal to help taxpayers claim tax relief for working from home during the pandemic.

From 6 April 2020, employees can claim a tax-free amount of £6 a week to cover the additional costs of working from home. For a basic rate taxpayer, this works out to tax relief of £62.40 over the course of 2020/21, with relief of £124.80 for a higher rate taxpayer.

Taxpayers do not have to provide any evidence, such as increased bills, to support the £6 a week claim.

What to claim

For 2020/21, HMRC, in recognition of the unusual circumstances, are generously permitting a claim for the entire year regardless of how many weeks you are required to work from home. It doesn't matter if you only work at home one or two days a week. If two or more people work from the same home, then each person is entitled to make a claim.

The amount to claim for 2020/21 is £312 (52 weeks at £6). The online portal can also be used to claim for the final two weeks of 2019/20 after the lockdown commenced.

The online portal

There are two circumstances when the online portal is not applicable:

- When your employer is reimbursing the £6 a week allowance – you are already benefiting from the tax-free amount.
- If you complete a self-assessment tax return – the expense claim should instead be made on the return.

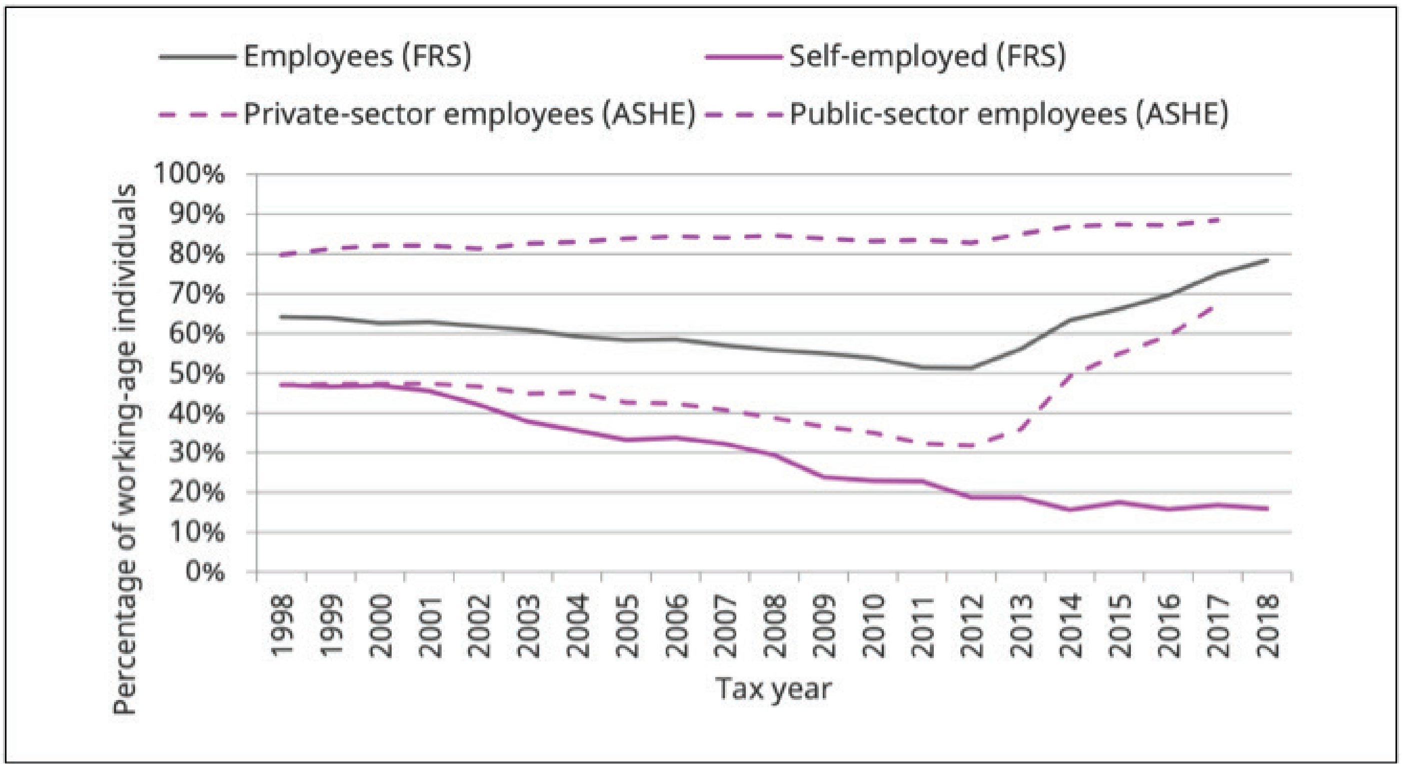
Do not expect a tax refund once an online claim is made. Relief is given by adjusting your PAYE coding, so this will reduce PAYE over the remainder of 2020/21.

You can check at the link below if you are entitled to claim work-related expenses, and then, if entitled, proceed with a claim.

www.tax.service.gov.uk/claim-tax-relief-expenses/only-claiming-working-from-home-tax-relief

Can you afford to retire if you're self-employed?

New research shows the majority of the self-employed are not saving for retirement.



Source: IFS

Here's a quick quiz:

- Are you self-employed?
- If so, have you contributed to a private pension in the last year?

The Institute for Fiscal Studies (IFS) examined the answers to these two questions and found the probability of answering yes to both is much the same. Drawing on government data, the IFS calculated that in 2018:

- 15.1% of the UK workforce – some 4.8 million people – were self-employed.
- Just 16% of the self-employed contributed to a private pension.

As the graph shows, the proportion of pension contributors among the employed and self-employed workforce was on a steady decline from 1998 until 2012. In October 2012, pension automatic enrolment was launched, and by March 2019, over 10 million workers had joined a workplace pension arrangement. The self-employed were left out of auto-enrolment, hence the sharp divergence of the employee and self-employed lines from 2012 onwards.

The IFS research struggled to establish why only one in six of the self-employed were saving in a private pension, two thirds less than 20 years ago. It found that the characteristics of the self-employed workforce have changed over that period – it now consists of more females, an older demographic and an increase in part-time workers – but none of these factors were enough to account for the fall in pension contributions. Given the tax relief which pension contributions attract, one surprising discovery was that the largest decline in self-employed contributions came from the higher-income bracket and the long-term self-employed.

If you answered yes to the first question and no to the second, then you may be expecting the state pension to make up the largest slice of your retirement income, a view shared by more than a quarter of the self-employed. At present, the state pension amounts to £175.20 a week. If that sounds like a less than comfortable retirement plan, perhaps you need to rethink the answer to that second question…

Company cars – rolling downhill?

New HMRC data show the popularity of this traditional perk could be waning.

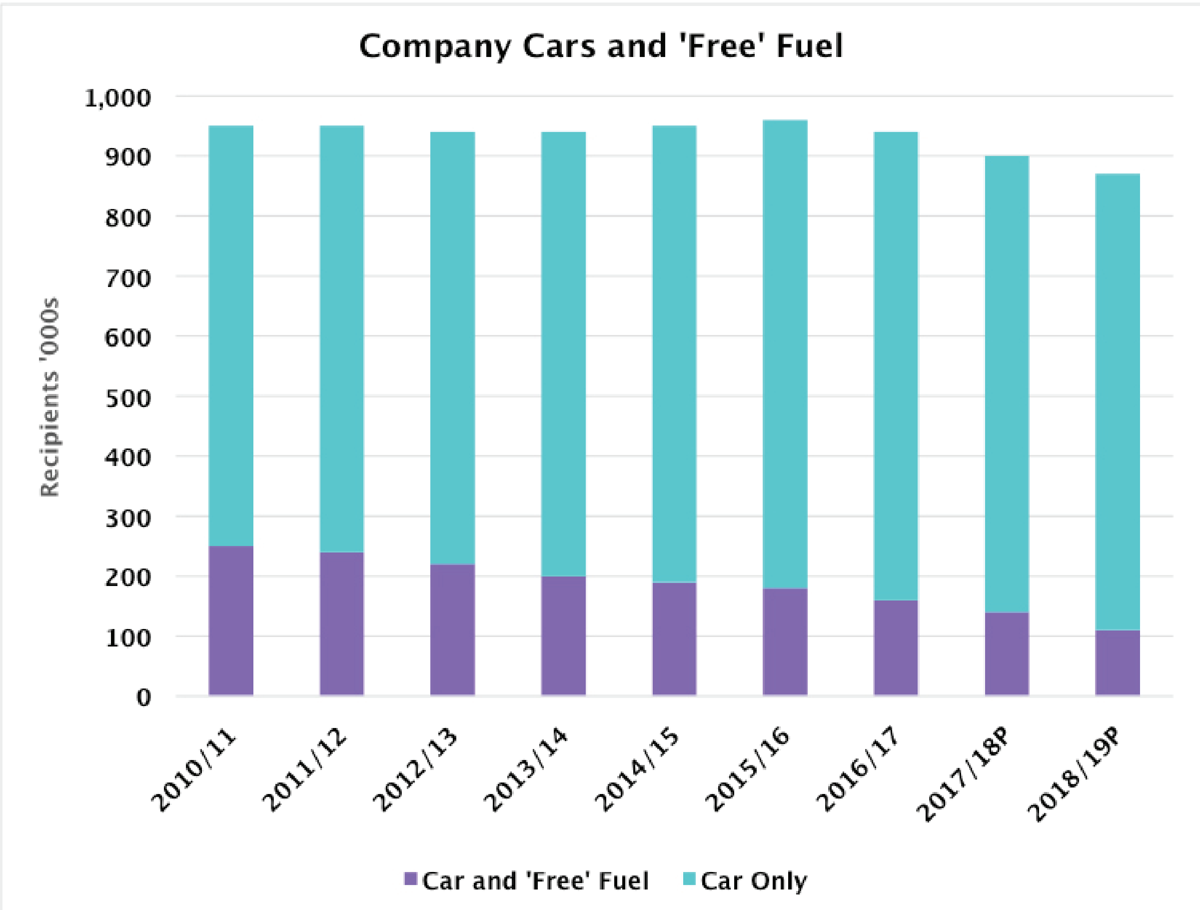
There was a time when the company car was the fringe benefit that every employee wanted. You had 'made it' once you had the keys to a car with no worries about servicing, insuring or, sometimes, even fuel costs. It could also make plenty of tax sense, as the cost of the car was not fully reflected in the amount on which tax was charged. Go back far enough and two company cars were not uncommon for some senior executives.

Unsurprisingly, the days of company cars as tax-efficient remuneration have largely passed, other than for electric vehicles. The government approach to company cars brings to mind the comment of Jean-Batiste Colbert, a 17th century French Minister of Finance, who said "the art of taxation consists in so plucking the goose as to procure the largest quantity of feathers with the least possible amount of hissing".

Some 400 years later, successive UK chancellors have steadily notched up the company car benefit scales to raise additional revenue from a stable to shrinking number of company car drivers. For example, the latest HMRC data show that between 2010/11 and 2018/19, the average company car taxable value has risen by 57% against a 19% increase in inflation over the same period.

Similarly, the taxable value of 'free' fuel (i.e. employer-funded fuel) has risen by 44%. As the graph shows, the popularity of 'free' fuel has steadily fallen – only about one in eight company car drivers now pays nothing to fill up their tank. If you are one of that minority, do make sure you have enough private mileage to justify the tax you pay. The main reason for the drop in 'free' fuel numbers is that for many employees, the tax bill would be greater than their personal refuelling cost.

The gradual demise of the company car is a lesson in how the tax system can subtly alter over time. A major revamp in the treatment of salary sacrifice schemes introduced in 2017 changed the tax landscape for other fringe benefits, too. The one that has survived and still remains attractive – at least for now – is salary sacrifice to fund pension contributions.



Source: HMRC September 2020