

COVID-19 TAX ISSUES FOR BUSINESSES

2020/21

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- Director’s Loan Accounts Explained.

All these guides are available for purchase from taxinsider.co.uk.

About This Guide

This guide takes a look at some of the tax implications of the Covid-19 pandemic on employers and employees, sole traders and unincorporated business and family companies.

The rates and limits quoted throughout are those applying for 2020/21 unless otherwise stated. The income tax rates and limits used are those applying to UK taxpayers, excluding Scottish taxpayers. Dividend tax rates apply equally to Scottish taxpayers, as do Capital Gains Tax rates. For 2020/21, the income tax rates and limits applying to Welsh taxpayers are aligned with the rest of the UK, excluding Scotland.

1

At A Glance

The Covid-19 pandemic was unprecedented and affected individuals and businesses alike. To help those adversely affected by the pandemic, the Government introduced a number of support packages, among them the Coronavirus Job Retention Scheme and the Self-employment Income Support Scheme. Grants were also available for certain businesses, and various loan schemes were launched to provide access to finance to help businesses survive the pandemic.

Some tax rules were relaxed, while help was given to taxpayers struggling to pay their tax.

This report looks at the various support measures available to help employers and employees, sole traders and unincorporated business and companies, with a focus on family companies. It also considers the tax implications of the various support measures and the additional record-keeping requirements that may be imposed as a result.

Sadly, not all businesses will survive the pandemic and not all employers will be able to keep all employees on the payroll. Consequently, the report also considers the tax implications of winding up the business and of terminating employees' employment.

The lockdown meant that businesses in many sectors were unable to open and may face losses as a result. Businesses may also suffer losses as a result of a downturn in trade as people have less money to spend and social distancing requirements mean that business can only operate at reduced capacity. Consequently, the report also takes a look at what can be done with losses and how to obtain the best possible for relief. It also looks at closing a business where it is no longer viable.

The report also looks at what help is available to taxpayers who are struggling to make tax payments in full and on time.

It is not possible to cover in detail all the issues that could potentially arise as a result of the Covid-19 pandemic. Professional advice should be sought in relation to your particular circumstances.

2

Employers And Employees

A number of measures were put in place to help employers and employees during the Covid-19 pandemic, most notably, the Government's flagship support package, the Coronavirus Job Retention Scheme (see 2.1). The scheme allowed employers to maintain their workforce by placing employees on furlough and claiming a grant under the scheme, rather than making employee's redundant.

During the pandemic, and particularly during the initial lockdown, employees were asked to work from home where they could. This changed

the way in which many employees worked and necessitated the provision of equipment, supplies and services to enable the employee to work at home. The way in which the equipment was made available to the employee affects the tax treatment, and it is important that employers are aware of the rules governing the tax treatment of support provided to employees at home (see 2.4). Some of the rules were temporarily relaxed for a limited period to provide a more level playing field where employees purchased home working equipment, the cost of which was later reimbursed by the employer.

As a result of changed working arrangements where employees are placed on furlough or are working from home, the nature of the benefits and expenses provided to employees may be different to usual. Employers need to ensure that the tax implications of providing benefits in kind to employees are understood and, where necessary, these are valued correctly and reported to HMRC (see 2.5).

Many employers operate share and share option schemes. These too have been affected by Covid-19 and HMRC have relaxed some of the rules as a result. Employers operating share and share option schemes should ensure that they are familiar with the rule changes introduced as a result of Covid-19. These are discussed at 2.6.

The impact of the virus has also meant that more employees may have been off sick than usual. Employees may also be absent from work due to Coronavirus because they are self-isolating, shielding or because they have caring responsibilities. Normally, employers must meet the cost of statutory sick pay (SSP) paid to employees. However, for a limited period, employers are able to reclaim SSP related to Coronavirus absences from HMRC (see 2.2).

Employees may go on, or return from, statutory leave during the pandemic. Employers should ensure that statutory pay is calculated correctly, particularly where the employee has been furloughed (see 2.3).

Despite the best endeavours of the employer and the support packages on offer, redundancies may be inevitable. Employers should ensure that they treat payments made to employees on the termination of their employment correctly (see 2.7).

2.1 Coronavirus Job Retention Scheme

The Coronavirus Job Retention Scheme (CJRS) provided a lifeline to significant numbers of employers and employees. Under the scheme, employers can place employees on furlough and, assuming that certain conditions were met, could claim a grant under the scheme to enable employees to continue to receive 80% of their salary up to a maximum of £2,500 per month while on furlough.

There are two phases to the scheme:

- 1 March 2020 to 30 June 2020;
- 1 July 2020 to 31 October 2020.

Prior to 30 June 2020, employers were not allowed to do any work for their employer while on furlough. However, from 1 July 2020 with the introduction of flexible furloughing, employees who had been furloughed prior to 30 June 2020 can work for their employer on a part-time basis, with the employer claiming a grant under the scheme for the furloughed hours that the employee does not work.

The scheme will run until 31 October 2020. From 1 August 2020, the support that an employer is able to claim under the scheme is gradually reduced.

Claims for grants under the scheme are claimed via a dedicated online portal and paid into the employer's bank account. The full amount of the grant claimed must be passed on to the employee.

Detailed guidance on the scheme is available on the Gov.uk website at www.gov.uk/government/collections/coronavirus-job-retention-scheme. The guidance is comprehensive and contains details of how to work out claims under the scheme in various different circumstances, together with worked examples. Employers looking to make claims under the scheme are urged to follow the guidance.

2.1.1 Eligibility

Under the CJRS, employers can claim a grant for an employee who was employed on 19 March and in respect of whom a PAYE submission under real-time information had been made by that date. Employees who were on the payroll on 28 February 2020 and in respect of whom a PAYE RTI submission had been made and who had left by 19 March can also be re-employed and furloughed. They did not need to be back on the payroll by 19 March 2020.

Claims can be made for an employee regardless of the nature of their employment contract. The scheme covers full-time, part-time agency, flexible and zero-hour contracts.

For pay periods starting on or after 1 July 2020, an employee can only be furloughed if that employee had previously been furloughed for a minimum of three consecutive weeks prior to 30 June 2020.

To be eligible to make a claim, an employer must have a UK PAYE scheme that started before 19 March 2020, be registered for PAYE online and have a UK bank account.

Employers who placed employees on furlough needed to agree this with the employee and confirm in writing that the employee has been furloughed (or reach a collective agreement to that effect with a trade union). Where an employee is flexibly furloughed on or after 1 July 2020, the employer must agree a new flexible furlough agreement with the employee.

2.1.2 What Can You Claim?

The amount that can be claimed under the scheme depends on the pay period to which the claim relates.

Prior to 30 June 2020, the employer can claim 80% of the employee's usual wages up to £2,500 per month, plus the associated employer's National Insurance under the scheme (to the extent that this is not covered by the