

TBA NEWSLETTER

Welcome to our monthly newswire. We hope you find this newsletter useful.
Please contact us if you would like to discuss any matters further.

August 2021

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COMPANY LOSS RELIEF CAN BE CLAIMED EARLY

Where a company makes a trading loss of no more than £200,000 in an accounting period it is now possible to claim relief for that loss even though the corporation tax return CT600 has not been submitted.

This will enable the company to carry back the loss to earlier years and obtain a repayment of tax previously paid.



HMRC will however need evidence of the loss to support the claim, in particular a PDF of the company's management accounts for the period.

In determining whether the loss is no more than £200,000 the company is required to claim all available reliefs, in particular capital allowances.

Where companies are members of a group the £200,000 limit applies to each individual company. Note that for members of a group the £2,000,000 limit on the temporary extended carry back applies to the group as a whole. The extended carry back allows companies to carry back trading losses two

further years in addition to the normal one year carry back. We can of course advise you on the best use of trading losses.

Losses carried back will result in a repayment of corporation tax at 19% whereas if carried forward against profits the losses may save tax at up to 25% after April 2023.

GUIDANCE ON SEISS TURNOVER TEST ISSUED BY HMRC

The fifth (and final) SEISS grant will be available for the self-employed to claim towards the end of July. HMRC will contact those traders that may be eligible with their claim date.

The eligibility criteria remain broadly the same as the fourth grant. Self-employed profits in 2019/20 must not exceed £50,000 and must be more than 50% of your total income. If that test is not met, then the same £50,000 and 50% tests are applied to average profits and total income over the four fiscal years to 2019/20.

Self-employed traders need not have claimed grants under the previous scheme to qualify for the July payment and will be required to confirm that their business continues to be adversely affected by Covid-19. The amount that traders will be able to claim will depend on how much their turnover has reduced by. If the reduction is more than 30% the grant will be 80% of average profits capped at £7,500 but if less than 30% only 30% of average profits, capped at £2,850.

Details of the turnover comparison have now been issued by HMRC. Firstly, traders will need to calculate the turnover from their

business(es) for a twelve-month period commencing between 1 April and 6 April 2020. That figure is then compared with the turnover reported in the 2019/20 self-assessment tax return, referred to as the reference year. If 2019/20 was not a normal year, for example they were on carers leave, long term sick leave or had a new child then it is possible to use 2018/19 turnover.

Note that coronavirus support payments such as SEISS, eat out to help out, and local authority grants should be excluded from the turnover figure.

For members of a partnership or LLP the turnover comparison is based on the turnover of the partnership. However, where the partner also has another business a proportion of partnership turnover is used.

Like previous SEISS grants agents are not permitted to make claims on your behalf but we can assist you in determining your turnover and checking the amount that you are entitled to.

OFF-PAYROLL WORKING, WILL HMRC ACCEPT CEST RESULT?

Since 6 April 2021 large and medium-sized organisations have had to determine whether or not a worker supplying their services via their own personal service company would be treated as an employee if directly engaged. HMRC suggest organisations use their Check Employment Status for Tax (CEST) tool on their website to check the worker's status, although that is not obligatory.

HMRC have recently confirmed that they will be bound by the result of the software provided the information is accurate and it is used in accordance with their guidance. However, they will not stand by results achieved through

contrived arrangements that have been deliberately created or designed to get a particular outcome.

MTD COMING SOON FOR INCOME TAX

VAT registered business making taxable supplies above the £85,000 registration threshold have been grappling with Making Tax Digital (MTD) since April 2019. The next roll-out will be the introduction of MTD for income tax which is scheduled to start in April 2023.

The obligation to keep records in a digital format and report information quarterly will apply to unincorporated businesses and property landlords with gross income in excess of £10,000 a year. Businesses operating MTD for VAT will already have MTD compliant accounting software but the extension of MTD to income tax will mean a major change for property rental businesses who are outside of the current rules.



There are a number of MTD compliant accounting software packages that you might wish to consider and we can of course advise you on the one that is most appropriate for your business. There are even relatively cheap software packages specifically designed for property rental businesses.

INFORMATION IN QUARTERLY MTD FOR INCOME TAX REPORTS

The precise details of what needs to be reported each quarter have yet to be finalised, but the

categories of income and expenditure are likely to be the same as currently reported for self-assessment.

The accounting software will need to record income and expenditure into the following main categories:

- Turnover/gross rents
- Costs of goods sold
- Materials
- Wages and salaries of employees
- Sub-contractor costs
- Rent, rates, power, insurance
- Repairs and renewals
- Professional fees
- Telephone and other office costs
- Interest on bank and other loans
- Motor and travel expenses

It is unclear at this stage how loans to finance residential lettings will be reported as those costs are no longer deducted in arriving at rental profits as relief is now given by way of a basic rate tax deduction.

TIMING OF MTD FOR INCOME TAX REPORTS

It is currently proposed that there will be 4 quarterly reports to HMRC followed by a finalisation return when end of year adjustments will be made. For a buy to let business that would mean quarterly returns made up to 5 July, 5 October, 5 January and 5 April. There would then be a MTD finalisation submission the following 31 January.

ABOLITION OF BASIS PERIODS AND NEW TAX YEAR END?

We are awaiting further information on MTD from HMRC this summer but one significant announcement on 20 July was draft legislation to abolish basis periods for unincorporated

businesses for the 2023/24 tax year to simplify MTD reporting.

That change would apply to sole traders, partnerships, as well as trusts with trading and property rental income. There would also be complicated transitional rules for 2022/23 which could result in a big tax bill that year for some traders.

The Treasury are also consulting on changing the tax year itself from the archaic 5 April year end to 31 March or even 31 December. A calendar tax year would bring the UK into line with most other countries at last!

We will keep you updated when more information comes available.

DIARY OF MAIN TAX EVENTS

AUGUST / SEPTEMBER 2021

| Date | What's Due |
|-------|--|
| 1/08 | Corporation tax for year to 31/10/20 (unless pay quarterly) |
| 19/08 | PAYE & NIC deductions, and CIS return and tax, for month to 5/8/21 (due 22/08 if you pay electronically) |
| 1/09 | Corporation tax for year to 30/11/20 (unless pay quarterly) |
| 19/09 | PAYE & NIC deductions, and CIS return and tax, for month to 5/9/21 (due 22/09 if you pay electronically) |

Please contact a member of our team if you would like to discuss any of the topics raised.

Call: 0208 6617878 Email: bsg@turpinba.co.uk

