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TBA NEWSLETTER

March 2021

Welcome to our latest monthly tax newswire. We hope you enjoy reading this newsletter and find it useful. Contact us if you wish to discuss any issues further.

PRE-BUDGET EDITION

Content accurate as at 25 Feb 2021

We will send you a further newsletter following the 3rd March Chancellor's Budget. It will be interesting to see if there are any tax increases, or will he focus on stimulating economic growth?

GET READY FOR THE "OFF-PAYROLL" WORKING RULES

Where large or medium-sized organisations are paying workers via personal service companies (PSC) or agencies they will need to operate new procedures from 6 April 2021.

The new rules will apply to partnerships, LLPs and larger charities as well as limited companies. Only those organisations that would be classed as "small" under the Companies Act criteria will be outside of the new rules.

From 6 April 2021 the end user organisation will be required to determine whether or not the worker would be an employee of the organisation if directly engaged. That determination will need to be communicated to the worker and the agency supplying the worker, if relevant, and is referred to as a Status Determination Statement. The determination notifies the fee-payer that income tax and national insurance is to be deducted from payments to the PSC.

HMRC recommend that the end user organisation should use the Check Employment Status for Tax (CEST) software on the HMRC website to carry out the determination but that isn't obligatory.

WHAT IF THE WORKER DISAGREES?

Where the worker disagrees with the employment status determination they should contact the end user straight away setting out their grounds for disagreement.

The end user must provide a response within 45 days of receiving the disagreement. During this time tax should continue to be deducted in line with the original determination.

WOULD THE WORKER BE BETTER OFF AN EMPLOYEE?

The new "off-payroll" working rules mean that the worker pays the same amount of tax and national insurance as if they were an employee, but without the same employment rights.

Where possible the worker should consider renegotiating a higher rate of pay to compensate them for the additional tax and national insurance deducted. They may also need to consider what they do with their personal service company going forward.

END USERS CAN BE LIABLE FOR THE TAX NOT DEDUCTED

Where the agency or fee payer lower down the labour supply chain fails to deduct tax from payments to the worker's company the liability passes up the supply chain such that the end user may be liable. This rule was introduced as HMRC have allegedly been defrauded by some structures set up by employment agencies.

Workers need to be aware of a number of schemes under investigation by HMRC.

End users should carry out due diligence and consider the wording of contracts with agencies supplying workers via personal service companies.

CURRENT IR35 RULES STILL APPLY WHERE END USER IS "SMALL"

The new "off-payroll" rules do not apply where the end user organization is "small" under the Companies Act rules. Thus, the current IR35 rules will continue to apply, with the onus on the worker's personal service company to determine whether the worker would have been an employee if directly engaged.

DON'T LOSE YOUR 2020/21 PERSONAL ALLOWANCE

For every £2 that your adjusted net income exceeds £100,000 the £12,500 personal allowance is reduced by £1. Pension contributions and Gift Aid can help to reduce adjusted net income and save tax at an effective rate of 60%.

The restriction applies between £100,000 and £125,000 adjusted net income. Another way that you could avoid this trap would be to agree with your employer to sacrifice some of your salary in exchange for a tax-free benefit in kind such as an additional pension contribution.

VAT RULES FOR CONSTRUCTION SECTOR STARTED

The new “reverse charge” system of VAT accounting affects sub-contractors supplying their services to main contractors in the construction sector.

Under the new rules, supplies of standard or reduced-rated building services between VAT-registered businesses in the supply chain are no longer invoiced in the normal way. Under the new reverse charge system, the sub-contractor does not show VAT on their invoice to the main contractor and does not account for output VAT on that transaction.

The new reverse charge applies to activities covered by the construction industry scheme (CIS) payment rules. So if Eddie the Electrician does £10,000 of work for Big Builder Ltd after 1 March he no longer shows VAT on his invoice. Big Builder Ltd will record £2,000 (20%) as input tax and output tax. Note that normal VAT invoices will continue to be issued to domestic customers and end-users.

Please contact us if you need help understanding this new system. Note also that if you are a sub-contractor using the VAT flat rate scheme it may be beneficial to leave that scheme as you may be entitled to a VAT refund on your expenses from 1 March 2021.

BUY NEW EQUIPMENT BEFORE 6 APRIL?

Your business year end, not 5 April, is relevant for capital allowances purposes. If however you are running a business and making up accounts to 31 March or 5 April you should consider buying plant and machinery to take advantage of the £1 million Annual Investment Allowance (AIA).

The AIA provides a 100% tax write off for equipment used in your business. This tax relief extends to fixtures and fittings within business premises such as electrical, water and heating systems. AIA does not apply to motor cars but there is a special 100% tax relief if you buy a new car that emits no more than 50g CO_2 per kilometer. Note however that from April 2021 100% tax relief will only apply where there are zero emissions.

2021/22 NATIONAL INSURANCE BANDS

The thresholds for employee and employer national insurance contributions (NICs) have been increased by £1 a week for the 2021/22 tax year. Employees will be liable to 12% NICs between £184 and £967 a week (£50,270 a year). Employer contributions will start at £170 a week.

The self-employed will pay 9% Class 4 NICs on profits between £9,570 and £50,270.

The higher rate tax threshold for 2021/22 will be aligned with the £50,270 NIC upper earnings limit and the personal allowance will be uprated by the same percentage to £12,570 for 2021/22. Note that there are rumours that the chancellor may freeze the personal allowance in the budget.

ADVISORY FUEL RATE FOR COMPANY CARS

These are the suggested reimbursement rates for employees' private mileage using their company car from 1 March 2021.

Where there has been a change the previous rate is shown in brackets.

Engine Size	Petrol	Diesel	LPG
1400cc or less	10p		7p
1600cc or less		9p (8p)	
1401cc to 2000cc	12p (11p)		8p
1601 to 2000cc		11p (10p)	
Over 2000cc	18p (17p)	12p	12p

Note that for hybrid cars you must use the petrol or diesel rate. You can continue to use the previous rates for up to 1 month from the date the new rates apply.

DIARY OF MAIN TAX EVENTS MARCH/APRIL 2021

Date	What's Due
1/03	Corporation tax payment for year to 31/5/20 (unless quarterly instalments apply)
19/03	PAYE & NIC deductions, and CIS return and tax, for month to 5/03/21 (due 22/03 if you pay electronically)
1/04	Corporation tax payment for year to 30/6/21 (unless quarterly instalments apply)
5/04	End of 2020/21 tax year. Tax actions need to be taken by this date (see above).
19/04	PAYE & NIC deductions, and CIS return and tax, for month to 5/04/21 (due 22/04 if you pay electronically)

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

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