Corporate tax planning in 2020/21

A guide for clients

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Managing and planning during COVID-19.

Even among those who follow good tax-planning practice and maintain forecasts running several years forward, it is unlikely that many foresaw the dramatic end to the 2019/20 tax year.

With the arrival of COVID-19 and the subsequent lockdown, the economy shrank a record 20.4% in April 2020, and 19.1% in the three months to May 2020.

The impact on businesses across the board has been significant and although the economy is reopening slowly, it is clear a return to the 'old normal' is some time away or may never return at all.

Looking forward through the next 12 months, tax management and planning could play an important role in helping your business survive these uncertain times.

Now is a good time to review whether the tax planning strategies of your business both short and long-term are still relevant for the 2020/21 tax year, regardless of whether the coronavirus crisis has had a positive or negative impact on your trading profits.

Compliance & deadlines

The first thing to consider is whether your business is staying on top of its compliance obligations in respect of all taxes and any liabilities due.

You should continue to file all returns on time, whether that be VAT, PAYE, construction industry scheme, or corporation tax, to avoid incurring any unnecessary late-filing penalties.

If your business is experiencing cashflow issues following the lockdown, you should contact HMRC as soon as possible and see if it is possible to set up a time-to-pay arrangement. This is essentially an instalment plan to clear any liability over an agreed period of time.

While interest may still accrue on any tax paid late, by agreeing a plan with HMRC, rather than simply not paying, it is possible to avoid any late-payment penalties, which can quickly result in large sums being added to your outstanding tax bill.

If you are running a VAT-registered business, you may have taken advantage of the automatic deferral of VAT payments between 20 March and 30 June 2020.

Any liabilities deferred during this period do not need to be cleared in full until 31 March 2021. However, after 30 June 2020, VAT liabilities should be paid in full, unless you have come to an arrangement with HMRC.

And for those that have furloughed staff, it is important to pay the associated PAYE and national insurance contributions on these claims or you may find that you need to repay the money to HMRC.

Loss relief & reduced taxable profits

Most businesses will likely have experienced a drop in their trading profits from 23 March 2020 as lockdown was imposed.

Inevitably this will lead to a lower corporation tax bill than the business would otherwise have expected, but could the timing of this reduction help your business manage its cashflow better?

Companies pay corporation tax based on their taxable profits for the accounting period and payment is due nine months and one day after the accounting period ends.

Therefore, a company's year-end could make a significant difference to the size of its next corporation tax bill depending on how this date falls in comparison with the lockdown period.

For a company with a year-end of 31 March 2020, little or no effect will have been felt in its trading figures and it could find itself with a sizable corporation tax bill due by 1 January 2021, after nine months of potentially reduced trading conditions and cashflow. In the year to 31 March 2021, that same company may have made significant taxable losses as a result.

These trading losses can be carried back to the previous accounting year and used to obtain a refund on any corporation tax paid for the previous year. However, this means the company may have to wait the best part of a year to access this cash refund.

This same company could, however, consider bringing forward the advantage of this loss by simply extending its year-end. A company can extend its year-end by up to six months to create a single 18-month period.

With a new company year-end of 30 September 2020, covering the effects of lockdown, any losses generated during these six months are now absorbed within the trading profits of the 12 months to 31 March 2020. The corporation tax bill due by 1 January 2021 is now lower as a result.

Benefit-in-kind changes

If your business was unable to trade during lockdown, it may be that the benefit-in-kind charges estimated and adjusted for in your and/or your employee's tax codes could now be too high both for 2019/20 and 2020/21.

This is likely to be the case where you or your employee ceased using company cars and fuel, and they were not made available by the company during lockdown.
For 2019/20, this could mean that too much PAYE was deducted at source and with the P11Ds now filed for this tax year, anyone affected could find that they have a tax refund to apply for.

If you let us know how long the cars were unavailable for, we can help to ensure the 2020/21 PAYE tax codes are correct so that moving forward the right amount of PAYE is deducted at source, in relation to the benefit-in-kind.

Although company cars are the most likely benefit-in-kind to be affected, this will also apply to any company asset normally made available for use by an employee which is subject to a benefit-in-kind and was not available during lockdown.

Now could also be the right time to change your company car fleet, with changes to the benefit-in-kind rules meaning that pure electric cars and certain plug-in hybrid cars are a tax-free benefit-in-kind for 2020/21.

And as well as being a very tax-efficient way of remunerating yourself or your employees, purchase of these cars can also qualify for first-year capital allowances.

This means you can deduct the full cost of the car from your business's taxable profits before calculating any corporation tax due.

VAT

Last month, Chancellor Rishi Sunak announced that from 15 July 2020 to 12 January 2021 VAT in the hospitality and tourism sectors would be cut from the standard rate of 20% to 5%.

The change in rate aims to stimulate consumer demand in these sectors, rather than reducing the tax burden for the business, but this does assume the full reduction in VAT is passed on to the consumer through lower prices.

However, this is not mandatory and cashflow might be improved by not reflecting the full reduction in the sales price and retaining some of it within the business.

For some businesses in these sectors, additional thought will also need to be given as to whether their VAT liabilities could in fact be reduced by considering how they account for their VAT.

Those that use the VAT flat-rate scheme, for example, may now need professional advice to work out whether the scheme is still worthwhile.

This is far from straightforward as once you have left the scheme you cannot rejoin it for 12 months and the VAT reduction has only been put in place for six months.

What next?

With the UK's debt bigger than the economy for the first time since 1963, comprehensive tax changes across the board seem inevitable.

With a major budget expected in the autumn, few hints have been given as to what these might be but it is clear from the Government's response to date on coronavirus that anything could be on the table.

There are, however, previously announced tax changes which were put on hold when the pandemic hit.

Businesses, where impacted, will need to make sure they are up to speed on reverse charge VAT in the construction industry from 1 March 2021 and changes to off-payroll working rules in the private sector, which will take effect from 6 April 2021.

Get in touch for corporate tax planning advice.

FOR GENERAL INFORMATION ONLY

Please note that this guide is not intended to give specific technical advice and it should not be construed as doing so. It is designed to alert clients to some of the issues. It is not intended to give exhaustive coverage of the topic.

Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.

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