BWM CHARTERED ACCOUNTANTS

COVID – 19 Update 24

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So, time for another Covid-19/Business update!

We await of course to hear whether all legal limits on social contact will be removed next July.

Government guidance continues to be confused and confusing but current guidance remains to continue to work from home where you can and when travelling within the UK, you should aim to do so safely and plan your journey in advance. It looks like planning holidays abroad this year remains as uncertain as ever.

A return to the Office?

Since March 2020, we prioritised the safety of our clients, our staff and their families. This has ensured BWM has remained resilient throughout and able to support our clients. Most of our team have therefore been working from home since mid-March 2020 and have adapted well to the new ways of working. Should the official guidance to '*work from home, if you are able to*' change over the coming weeks, our aim will be for a phased, orderly return to working in our offices rather than everyone heading back at once. After that we anticipate our team will split their time between working from home and the office.

We've really welcomed the chance to be able to meet in person again now that restrictions on mixing have eased, so do get in contact if you would like to arrange a meeting. However, a great many clients have also told us that they have found virtual meetings using online services such as Zoom and Teams very convenient over the last year. Please be assured that we will continue to offer this way of meeting with us, as well as in person meetings.

Our lease at Castle Chambers expires in October, and this presents a great opportunity to design a new office space around this changed working environment, offering greater flexibility and informality. Expect further updates as we develop the ideas and plans!

Business Confidence

Everyone is having a different experience but the ICAEW North West Business Confidence Index rose to its highest ever level in Q2 2021, fuelled by the prospect of an upturn in sales growth and profits:

Sales have been weak over the last year, as domestic sales were lower in Q2 2021 than a year ago while exports contracted at a much sharper rate than nationally. This weakness fed through to profits, although the falls were cushioned slightly by an easing of labour and input costs. Employment levels have fallen over the past year, but the declines have been modest, thanks to the government's furlough scheme. Businesses also intend to start hiring again, and to lift investment rates after restricting them during the pandemic.

Regulatory requirements and transport problems have come to the fore as growing challenges, partly linked to Brexit delays and COVID-19 containment measures.

The past year has been a particularly difficult one for companies in the North West. Exports contracted by 1.7% year-on-year, a much sharper fall than nationally. Although the decline in domestic sales was more modest at 0.4%, this is still considerably below the historical average for the region.

The weakness in sales put pressure on profits which declined by 0.9% in the year to Q2 2021, well below the historical average of 2.8% in the region. It is likely that the contraction would have been even more severe if not for an easing of costs. Input price inflation has slowed from 2.1% last year to 1.2% in Q2 2021 but likely future rises to possibly 3% is fuelling concerns especially whether it will continue at that level, or then fall back.

Businesses wages saw a year-on-year fall of 0.3% in Q2 2021, only the second contraction in the region since the global financial crisis back in 2008. And businesses have cut the total number of employees by 0.9%, the joint fastest rate in the region since late 2012. However, the decline in staff levels is notably more modest than the fall seen during the financial crisis, with the government's Coronavirus Job Retention Scheme helping to limit job losses during the pandemic.

The weakness in profits, together with the high level of uncertainty that businesses have faced during the crisis, has resulted in investment rates being low by the region's historical norms. Capital investment and Research & Development (R&D) spending are up by just 0.1% and 0.3%, respectively, which compares unfavourably with their historical averages of 2.1% and 1.9%.

Inevitably the new regulatory processes following Brexit and COVID-related measures are holding confidence back with transport a pressing issue.

And all the signs are that inflation is on the rise with 3% being anticipated, the uncertainty being whether this is a temporary blip or will continue, and whether this will feed through to rising interest rates? Time to fix the current rates of interest on debt, or is this rise already factored into fixed rates?

Impact on Business Leadership

The escalation in social awareness wrought by COVID-19 has energised businesses to reflect on their purpose and values, their capability to deliver what really matters and to do so in a financially, environmentally and socially responsible way. Given the increased media attention ESG has garnered in recent months, we've seen a number of cases where a lack of governance and social impact have caused issues with wages, conditions, supply chain, executive bonuses and repayment of government COVID support.

Family businesses and charities have the potential to thrive in a new ESG-influenced competitive reality and share the goals and investment areas most critical to their ESG agenda, looking at themselves through an ESG lens, seeking a deeper understanding of the impact of their actions across their spectrum of stakeholders.

One family business leader recently said: "ESG is a reflection of who we are and how we choose to do business."

In addition to their purpose-driven mindset, social concerns have historically been important to charities and family businesses given the reputational impact philanthropic activities and stakeholder commitments and these have been heightened further by Covid-19.

Those with the strongest governance practices generally performed better throughout the pandemic because they already had the mechanisms in place to identify and manage unexpected risks. Even so, when put to the test on the scale of a global pandemic many were found to be lacking. We have all learnt so much in the last year, and implemented those lessons, and hopefully won't forget them.

COVID-19 has accelerated the evolution of the ESG agenda and the revolution in digital technologies, combined with the need to adopt more robust environmental, social and governance practices has motivated a reimagining of the future.

This is due, in part, to the increasing influence of next-generation members who are embracing ESG because it fits with their values and can see the role that it can play in transforming activities and making them more sustainable. They also understand the value of technology that can advance the collecting and analysing of data for anticipating risks, gauging the success of their business strategy, and measuring the impact of ESG initiatives.

With these capabilities, it's reasonable to anticipate these feeding through to changes in priorities and actions with an increased focus on the environmental impact.

There is no question that the pandemic has been transformational on so many different levels. It has also highlighted the fact that family businesses and the 3rd Sector are resilient and strongly positioned for a business environment that considers the impact we all have on the world and what we are leaving behind for future generations.

The British Business Bank's Recovery Loan Scheme (RLS)

RLS is the replacement for CBILS, still backed by the UK Government, and you can now apply for the Recovery Loan Scheme even if you already have a Bounce Back Loan or Coronavirus Business Interruption Loan. Plus, you can spread out your repayments across a term of up to six years.

Banks are beginning to allow new customers to open accounts with them which may help facilitate accessing these loans at better rates of interest. This has been a real problem for start-ups.

The RLS supports access to finance from £25k up to £10m as UK businesses recover and grow following the Covid-19 pandemic, depending on the size of the business and can use the loan for any reasonable business purpose. It aims to help those affected by Covid-19 and can be used for managing cashflow, investment and growth, designed to support businesses that can afford to take out additional finance for these purposes.

The following notes are based on an offering from one bank so briefly:

- Applications are currently open to 31 December 2021 – but this could change.
- Repayments over a term of up to six years.
- You can apply even if your business has already used the Bounce Back Loan Scheme (BBLS), the Coronavirus Business Interruption Loan Scheme (CBILS) or the Coronavirus Large Business Interruption Loan Scheme (CLBILS).
- However, the amount borrowed under an existing scheme could limit how much you can borrow under the Recovery Loan Scheme.

To be eligible, your business must:

- be UK-based and operating in the UK
- have been affected by the coronavirus pandemic
- be able to afford to repay the loan for a term of up to six years.
- You are liable for paying back 100% of the debt, and interest and any fees associated with the RLS facility.
- All applications will be subject to credit and fraud checks, and lending assessments.
- Need a viable business proposition but may disregard any concerns over short to medium-term business performance due to the impact of coronavirus.
- Security may be required, subject to application.

- If borrowing £250,000 or less, no personal guarantee.
- If borrowing more than £250,000 there is discretion to decide whether to take personal guarantees. However, above £250,000, the maximum amount that can be covered is capped at a maximum of 20% of the outstanding loan balance after the proceeds of business assets have been applied.
- Your primary residential property can't be taken as security under the scheme.
- Banks, building societies, insurers and reinsurers (excluding insurance brokers), public sector bodies, state-funded primary and secondary schools aren't eligible.
- The scheme provides the lender with a government-backed guarantee against the outstanding balance of the facility. The borrower always remains 100% liable for the debt.

You will need to provide certain documents when you apply for an RLS-backed facility. These are likely to include:

- Management accounts
- A business plan
- Historic accounts
- Details of assets

Indicative rates from one bank for loans up to £250k are 6.25% over base, other than loans to Large Enterprises/non-SMEs where the margin may be 6.75%. Rates on loans over £250k will vary from between say 4.25% and 7.5%. Of course, this depends on your risk profile and may be less, or indeed more.

Coronavirus Job Retention Scheme (CJRS)

Changes to CJRS from July

The UK Government will continue to pay 80% of your furloughed employees' usual wages for the hours not worked, up to a cap of £2,500 per month, to the end of June.

In July, CJRS grants will cover 70% of employees' usual wages for the hours not worked, up to a cap of £2,187.50. In August and September, this will then reduce to 60% of employees' usual wages up to a cap of £1,875.

You will need to pay the 10% difference in July, and 20% in August and September, so that you continue to pay your furloughed employees at least 80% of their usual wages for the hours they do not work during this time, up to a cap of £2,500 per month.

For the hours not worked you can choose to top up your employees' wages above the 80% level or cap for each month if you wish, at your own expense.

You can claim before, during or after you process your payroll. If you can, it is best to make a claim once you are sure of the exact number of hours your employees worked, so you do not have to amend your claim later.

Conditions of claiming CJRS grants:

You must pay the associated employee tax and National Insurance contributions to HMRC. This is a condition of claiming the grant, and not doing so will mean you will need to repay the whole of the CJRS grant and you may not be able to claim future CJRS grants.

Flexibly furloughing employees:

If you continue to be affected by Covid-19, you do not need to place all your employees on full furlough. You can also use the CJRS flexibly if you bring your employees back to work for some of their usual hours. You can claim a portion of your employee's usual wage costs for the hours spent on furlough only.

As a reminder, you must not claim under the CJRS for any hours that your employees work. HMRC are carrying out compliance checks to identify error and fraud in claims.

Claims for furlough days in May 2021 must be made by 14 June 2021.

If you need help in planning ahead for future claim periods, please contact us.

For more on the CJRS see: Check which employees you can put on furlough to use the Coronavirus Job Retention Scheme - GOV.UK (www.gov.uk)

CJRS templates

If you are making your own CJRS claims the template with the details of the employees, you are claiming for (on or after 27 May 2021) has been updated by HMRC.

See: Download a template if you're claiming for 16 to 99 employees through the Coronavirus Job Retention Scheme - GOV.UK (www.gov.uk)

Your template may be rejected if you do not give the information in the right format. If your template is rejected, you will see a message on the screen and your claim will not be processed.

You will need to make sure that you:

- provide only the employee information requested here - you might be asked again, or your template may be rejected
- submit one line per employee for the whole period
- do not break up the calculation into multiple periods within the claim
- do not split data by contract type (for example, those paid weekly and monthly should be claimed for together)
- do not provide more or less columns than needed
- upload your file as an.xlsx, using the template on this page when you claim

If we submit your claim, we will contact you beforehand to gather the right information. Please talk to us if you need assistance if you submit your claims.

See: Download a template if you're claiming for 16 to 99 employees through the Coronavirus Job Retention Scheme - GOV.UK (www.gov.uk)

How to pay CJRS grants back

A new section to the guidance has been added by HMRC called 'How to correct overclaims in your next claim'. You will have seen in the press that HMRC are putting significant resources into reviewing and pursuing excessive claims, error or fraudulent, so if this might be the case, early declarations are strongly encouraged. Sue Stephens is responsible for this, please get in touch if you have any concerns.

So, if you have claimed too much through the CJRS, or you would like to make a voluntary repayment because you do not want or need the grant to pay your employees' wages, tax and National Insurance and pension contributions, you can either:

- correct it in your next claim (your new claim will be reduced, and you will need to keep a record of the adjustment for 6 years)
- get a payment reference number and pay HMRC back within 30 days (only if you are not correcting it in your next claim)

See: Pay Coronavirus Job Retention Scheme grants back - GOV.UK (www.gov.uk)

Taxation of the SEISS Grants

The SEISS grants are taxable in the year they are received. This means the tax year, not the accounting year or basis period. Charities will normally be exempt as usual.

This is legislated for so that “the whole of the amount is to be treated as a receipt of a revenue nature of the tax year in which it is received (irrespective of its treatment for accounting purposes)”.

The tax treatment thus overrides the accounting practice and basis period rules. This may well lead to a misalignment between the period in which the Covid-reduced profits are taxed and the grants which are designed to replace that lost income are taxed.

The first three SEISS grants will usually be taxed in 2020/21, and must be reported on the 2020/21 tax return. The fourth and fifth SEISS grants will be taxed in 2021/22 and must be reported on the 2021/22 tax return.

To report this on your behalf, we will need to know the accurate amount of the cash grant received to report on the tax return. This amount was reflected to the taxpayer as an on-screen message part of the grant claims process. As tax agents have been excluded from the SEISS claims process, we will not have seen this message. If you haven’t got a note of this, it will need confirmation from your bank statements for the year to 5 April 2021.

If you have repaid any part of the SEISS grants, those repayments should be deducted from the initial amounts received, and only the net grant retained should be reported on the tax return.

And then you need to ensure you have excluded the SEISS grants from the business turnover in 2020/21, as otherwise the income will be doubly taxed.

It is important that HMRC’s computer can match the total of SEISS grants paid out in 2020/21 to the taxpayer with the total grants declared on the taxpayer’s return. If the amounts don’t match, there may be a delay in processing the tax return. A manual intervention will be required by HMRC staff to check the totals and issue the tax statement. Any tax repayment due to the taxpayer will also be held back.

The SEISS grants are subject to tax as well as class 2 and class 4 NIC, as if they were part of trading profits reported for the tax year. The taxpayer needs to budget for a class 4 NIC labiality of 9% of the SEISS grants where the total profits assessable for the year plus grants received, lie in the band: £9,500 to £50,000, on top of income tax due at 20% or 40% (19% to 41% for Scottish taxpayers).

The SEISS grants are treated as trading income for pension contributions and for loss relief. Remember to add back the amount of the grants received to trading profits when calculating all of the following:

- Payment on account for 2020/21 due on 31 July 2021
- Losses set-off in 2020/21
- Annual pension allowance used in 2020/21

There is an exception for partnerships where the partnership agreement has stipulated that the SEISS grants should be treated as part of the partnership income and distributed to all of the partners in partnership. In that instance the SEISS grants should have been paid directly into the partnership business bank account and not to the individual partners (see FA 2020, Sch 16 para 3(4)).

Where both of these conditions are met the SEISS grants need to be reported as part of the partnership turnover, and the tax treatment will follow the normal accounting treatment.

Most partnerships will treat the SEISS grants as income of the individual partners that claimed those grants, in which case the SEISS grant is excluded from the partnership turnover.

Trading with the EU

Business moving goods between the UK and countries in the EU need to follow new customs and tax rules if they:

- buy goods from an EU seller and bring them into the UK
- send goods they've sold to a buyer in an EU country
- have not exchanged money, but need to move equipment they use for their business, between the UK and the EU.

You can now apply for the SME Brexit Support Fund. Smaller businesses can get up to £2,000 to pay for practical support, including training or professional advice to adjust to new customs, rules of origin and VAT rules when trading with the EU. Applications must be received before 30th June.

See: Apply for a grant to help small and medium-sized businesses new to importing or exporting - GOV.UK (www.gov.uk)

This webinar explains your responsibilities as a trader if you choose to use an intermediary to complete import or export declarations for their business. These are complex and an intermediary can save them a lot of time.

Please register here: Registration (gotowebinar.com)

Reimburse private fuel by 6 July to avoid fuel benefit

One consequence of the recent periods of lockdown is that employees may have driven fewer private miles in their company cars, particularly where they have not been driving to the office.

If they are to avoid being taxed on the provision of private fuel, they need to fully reimburse their employer for the cost of private fuel by 6 July 2021 for the 2020/21 tax year. If not, the benefit needs to be reported on the employee's form P11d for 2020/21.

Note that the CO_2 emissions percentage for the car is multiplied by the £24,500 notional list price used to calculate the benefit for 2020/21. For example, a director driving a Mercedes Benz E200 saloon company car (CO_2 emissions 169g per km) would be assessed on 37% = £9,065 for 2020/21. If they are a higher rate taxpayer that would mean £3,626 tax. That would be an awful lot of private fuel!

In addition to the tax payable by the director on the provision of private fuel, there would be £1,251 Class 1A national insurance contributions payable by the employer.

Note that the private fuel benefit is an all or nothing benefit. There must be full reimbursement by 6 July 2021 to eliminate the benefit. The simplest method would be to multiply private miles by the HMRC advisory fuel rate for the vehicle which is amended every 3 months.

Cyber Essentials Certification

The Cyber Essentials Readiness Tool, which has been developed by IASME on behalf of the National Cyber Security Centre – a part of Government Communication Head Quarters – asks organisations a series of questions related to the main Cyber Essentials criteria to help prepare them for certification.

Through the Cyber Essentials scheme, businesses can learn how to defend themselves by securing internet connections and devices, controlling access to data, and understanding how to protect against malware.

Scams warning for tax credits customers

Tax credits customers should be vigilant and alert to potential scams, HM Revenue and Customs (HMRC) has warned.

Anyone doing their tax credits renewal who has received a tax or benefits scam email, or text, might be tricked into thinking it was from HMRC and share their personal details with criminals, or even transfer money for a bogus overpayment.

Many scams mimic government messages to appear authentic and reassuring. HMRC is a familiar brand, which criminals abuse to add credibility to their scams.

If customers cannot verify the identity of a caller, HMRC recommends that you do not speak to them. Customers can check **GOV.UK for HMRC's scams checklist** to find out how to **report tax scams** and for information on how to **recognise genuine HMRC contact**.

Customers have until 31 July 2021 to notify HMRC of any change in circumstances that could affect their claims. If customers haven't received their renewal pack by 4 June 2021, they will need to **contact HMRC**.

BWM
June 2021