

# NEWSLETTER

Spring 2021

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## We hope you will enjoy our Spring Newsletter as we head out of lockdown.

Some of us will have had our first haircut and our first alfresco style meal and drink in the beer garden as we come out of the lockdown. Are we getting back to normal? Let's hope so! As you know, HLB has been open for business for most of the past 14 months of the pandemic.

We are happy to meet with you face to face under COVID conditions, virtual meetings or the conventional telephone conversation.

We pride ourselves in being available for you and strive to give you that personal service that has been expected of the team at HLB for nearly a century.

## Going on holiday. Counting the days

**Furnished holiday lettings (FHLs) have their own tax treatment, reliant on a set of strict day-count rules. With the impact of Covid-19 on occupancy, business owners may need to take stock of the position.**

A property must pass all three tests:

- pattern of occupation condition: the total of lets of more than 31 continuous days must not exceed 155 days a year
- availability condition: property must be available for let for at least 210 days in the year (exclude any days you stay there yourself)

- letting condition: property must be let commercially as furnished holiday accommodation to the public for at least 105 days a year. Exclude days let to friends or relatives at zero or reduced rates: and lets more than 31 days (unless the 31 days extend due to unforeseen circumstances, such as a guest becoming ill and unable to leave on time).

For established lets, tests apply to the tax year (for income tax): and to the 12 months of the accounting period (for corporation tax). There are slightly different rules on commencement and cessation.

If your day count to 5 April 2021 falls short of the letting condition, a 'period of grace election' could preserve FHL status. But you must still meet the other two tests. The election can be available if you have a genuine, demonstrable, intention to let, but can't, for example because of cancellations due to unforeseen circumstances. For the year to 5 April 2021, this can include Covid-19 measures like enforced closure due to lockdown or travel ban. If you have more than one FHL, you may be able to use an averaging election to similar effect. We should be delighted to advise further if you have concerns here.



# Doing business after Brexit: taking a look at the new rules

**The end of the Brexit transition period ushered in a range of new trade rules and regulations applicable to businesses that trade with the EU. Firms need to follow new rules on exports, imports and tariffs. Here we outline the changes.**

### Dealing with VAT

Before Brexit, VAT on trade with the EU entailed minimal paperwork. There was also access to a range of VAT simplifications. This has changed. Broadly, rules on the supply of services have changed less than the rules on the supply of goods. One key change relates to business to consumer (B2C) supplies of digital services, such as apps and downloads, where registration for the UK VAT mini one-stop shop (MOSS) is no longer available. Registration for the MOSS non-union scheme in an EU member state is needed instead.

### Goods sold to the EU

Business to business (B2B) supplies of goods, previously treated as dispatches for VAT purposes, are now reclassified: sales from the UK become exports. Exports can be zero-rated, provided goods are physically exported within three months of the time of supply, with export evidence obtained within the same period.

Before Brexit, the distance selling rules applied to B2C supplies of goods (also now treated as exports). But the EU distance selling regime/thresholds are no longer open to UK suppliers. Instead, you may need to register for VAT in EU countries where your customers are located. In some countries, VAT registration may also require the appointment of a local agent to deal with matters for you.

### Goods bought from the EU

Previously treated as acquisitions for VAT purposes, these are reclassified as imports, and from 1 January 2021, two new VAT schemes apply to imports, not just to imports from the EU but from anywhere in the world:

- the Low Value Imports scheme makes the relevant online marketplace or overseas vendor responsible for charging the VAT in the UK. Applies to postal imports below £135 in value
- Postponed VAT Accounting (PVA).

### Dealing with customs procedures

Trade with the EU now means following the correct customs procedures. It's a complex area involving being ready to make customs declarations, knowing how to classify goods correctly and understanding relevant safety and security requirements. The government recommends using a professional customs intermediary.

### Imports: new timetable, ongoing change

The new rules for import controls (full import customs declarations, border checks and controls) don't all take effect at once. The government's Border Operating Model set out stricter controls in three stages: 1 January 2021, 1 April 2021 and 1 July 2021. This has changed to give traders more time

to prepare with import pre-notifications for products of animal origin introduced from 1 October 2021 and from 1 January 2022 customs declarations for all goods at point of import.

### Making a declaration

Customs declarations are made either to the Customs Handling of Import and Export Freight (CHIEF) or to HMRC's new declaration platform, the Customs Declaration Service (CDS). Special software is needed.

To complete a customs declaration, you need:

- a GB Economic Operators Registration and Identification (EORI) number
- the commodity code of the goods
- the value of the goods
- the origin of goods
- access to HMRC systems, either directly or via an intermediary with such access
- for anyone using CHIEF and not using an intermediary, a CHIEF badge.

### We can help you

**Brexit has brought significant change to trade with Europe and Northern Ireland, and we have only been able to highlight key issues here. Please contact us for in-depth advice tailored to your circumstances.**





# Super-deductions:

## Budget changes for business

**‘Bold and unprecedented’. That was the Chancellor’s description of the new 130% super-deduction for expenditure on new qualifying plant and machinery announced in the Budget. The headlines were that for every pound invested, tax is cut by up to 25p.**



## Property: what’s new?

**Like the extension to the Stamp Duty Land Tax holiday to 30 June 2021 in England and Northern Ireland; the similar announcement in Wales, and absence of one in Scotland, some changes make headlines. But others escape the media spotlight.**

Capital gains tax (CGT) 30-day reporting is one of these. The new regime comes into play for any disposals of UK residential property since 6 April 2020, where there is CGT to pay. In such cases, tax must be calculated, reported and paid within 30 days of completion, rather than taking place within the self assessment tax return cycle as before. Relevant disposals in the year to 5 April 2021 should therefore already have been reported.

Reporting is done online, through HMRC’s UK Property Reporting Service. We would be happy to report recent disposals for you, as your agents. Unfortunately, HMRC’s system is not entirely hands-free, and requires you to set up a UK Property Account on gov.uk to authorise us to report for you. This account, it should be noted, is a completely different entity from the Personal Tax Account.

30-day reporting impacts you only if you have CGT to pay. Disposal of a main residence, for most people, will be covered by the CGT relief known as private residence relief (PRR). PRR applies if the property has been occupied as your main residence throughout the entire period of ownership. Scenarios where a CGT liability could arise, and hence a need for a 30-day return, include disposal of a buy-to-let property; a holiday home; property you have inherited; property you’ve never lived in; or have lived in for just some of the time you’ve owned it.

Recent changes have restricted availability of PRR, potentially bringing more property transactions within scope of 30-day reporting. Letting relief, for example, used to give relief up to £40,000 (up to £80,000 for property in joint names) on the sale of property that had, at some point, been used as the main residence, but had also been let as residential accommodation. For disposals from 6 April 2020, the relief is considerably restricted, available only where you live in the property at the same time that it is let out. Rules relating to property transfer between spouses have also changed. The recipient spouse now also receives the period of ownership and history of their property use, and this can have knock-on consequences for PRR. So, too, can change on rules giving automatic relief for the final months of ownership.

Please do talk to us in advance if you are planning property transactions, particularly if you have doubts as to whether full PRR will apply.

But what are the terms and conditions, how does it sit alongside the usual rules on capital allowances – and is it the giveaway it’s been made out to be?

First of all, it’s not available to every business. It’s targeted at companies, not unincorporated businesses. These will have to continue to look to the Annual Investment Allowance (AIA), with its temporarily extended higher £1 million limit for major capital spending up to 31 December 2021.

It’s temporary, lasting for two years. And it works by giving first-year tax relief in the form of capital allowances for expenditure between 1 April 2021 and 31 March 2023. For assets that would normally qualify for 18% main rate writing down allowances, the super deduction gives first-year relief of 130%. Assets normally qualifying for 6% special rate writing down allowances (such as integral features in buildings, like lifts and long-life assets) can qualify for a first year allowance of 50%. But this 50% allowance is likely to be relevant only to

companies that have used their AIA. Unlike the AIA, there is no cap on eligible expenditure. The rate of the deduction will be apportioned for a business making eligible expenditure in an accounting period straddling 1 April 2023.

There are exclusions. Plant or machinery must be new, not used or second hand. Expenditure incurred on contracts entered into before the Budget on 3 March 2021 does not qualify. The general exclusions that are in existing legislation relating to first year allowances apply. For example, expenditure on cars and assets for leasing are excluded – the latter point meaning that commercial landlords may benefit less than the

initial publicity of the proposals might have led them to expect.

Rules on what happens when the assets are disposed of make the picture more complex. With disposal proceeds treated as a taxable balancing charge, these potentially claw back some of the previous benefits. It will be important to keep records of assets on which the super-deduction is claimed so they can be correctly treated on sale.

Will it benefit your business?

Not in every case. As it sits alongside other tax measures, it’s a finely balanced equation. It is designed to incentivise investment now, with the corporation tax rate at 19%. But with the planned increase in corporation tax from 1 April 2023, when the super-deduction ends, the outlook for your business may change. The main rate of corporation tax is set to increase to 25% on profits over £250,000. Only companies with profits up to £50,000 will retain the 19% rate, with profits between £50,000 and £250,000 taxed on a sliding scale. Whether the super-deduction significantly benefits your company will depend on the forecast level of capital expenditure, the type of asset, financing method, and your expected corporation tax rate.

With the AIA due to revert to £200,000 from 1 January 2022 and higher corporation tax rates in prospect, careful timing of major capital expenditure is more critical than ever. The new provisions on loss carry-back could also affect decision making.

**All in all, it’s a complex area, and the right decision for your business will be unique to your business. We would be delighted to advise further.**





# Considering the changes to the COVID-19 support schemes

**The Coronavirus Job Retention Scheme (furlough) and Self-employment Income Support Scheme (SEISS) rules have changed considerably over time.**

This has created complexity and the possibility of inadvertent errors. We outline recent changes here, but for full information on how the schemes work, see [bit.ly/3c3v9Mn](https://bit.ly/3c3v9Mn) and [bit.ly/3wKfmxo](https://bit.ly/3wKfmxo).

There are two further SEISS grants, SEISS Four and Five, intended as a final, more restricted phase of support. For SEISS Four, businesses must declare a reasonable belief that there will be a significant reduction in trading profits due to reduced business activity, capacity or demand because of the coronavirus (COVID-19). The impact on the business must relate to the period 1 February 2021 to 30 April 2021, and the reduction in profit must be reflected in the figures reported on the relevant tax return in due course. Evidence must be kept to support claims: see <https://bit.ly/3snxgCx>. SEISS Five introduces an additional turnover test; the amount of grant will hinge on how much turnover has fallen between April 2020 and April 2021.

SEISS Four and Five take into account 2019/20 tax return data (if submitted by midnight on 2 March 2021), and this could produce unexpected results. It opens the door to some new claimants, such as those starting self-employment in the 2019/20 tax year, provided they meet other eligibility conditions. On the other hand, 2019/20 figures could change the position so that someone eligible for earlier SEISS grants may receive more or less than before.

The furlough scheme runs to 30 September 2021. There is no change until 1 July 2021, when government contributions drop. Employers then make 10% contributions in July, and 20% in August and September. For periods starting on or after 1 May 2021, claims can be made for employees employed on 2 March 2021, if a PAYE RTI submission has been made to HMRC between 20 March 2020 and 2 March 2021, notifying payment of earnings for that employee. It's not necessary to have claimed under the CJRS for an employee before 2 March to claim on/after 1 May 2021.

COVID-19 support schemes are very much in the public eye. HMRC stresses that it is not looking for innocent errors. However, with details of employer CJRS claims now published, new HMRC SEISS recovery powers and a new Taxpayer Protection Taskforce set up to tackle fraud, it is important that any claim is well-evidenced and can stand HMRC scrutiny. We would, of course, be glad to help you review compliance.

## Budget big freeze

**Personal taxes, capital taxes, pensions. No dramatic announcements.**

But Chancellors can create considerable change through low-key tactics, and the Budget freeze for various rates and allowances until 5 April 2026 will impact many people.

### Personal tax

Initially, the UK-wide personal allowance increases, rising to £12,570 from 6 April 2021. The basic rate band also increases, to £37,700. This means the higher rate threshold – the point at which you start paying higher, rather than basic rate tax in England, Wales and Northern Ireland, increases to £50,270 (if you have a full personal allowance).

But after this date, the personal allowance and higher rate threshold won't change until 5 April 2026. As incomes go up, this brings more people within the tax net, and pushes some basic and higher rate taxpayers into the higher and additional rate bands. 1.3 million people, in fact, according to government figures, should come into income tax by 2025/26 and one million into higher rates of tax. From the 2026/27 tax year, starting 6 April 2026, the personal allowance and basic rate limit are indexed with the Consumer Price Index by default.

Scottish taxpayers: for Scottish taxpayers, income tax rates and bands for non-savings and non-dividend income are different from the rest of the UK: see <https://bit.ly/3sk6fji>. The freeze to the personal allowance impacts Scotland, although the freeze to the UK higher rate threshold only affects those with savings and dividend income.

### Big change postponed?

There's been much discussion of a major tax overhaul, with inheritance tax (IHT), capital gains tax and pensions contenders for a makeover. It didn't happen on Budget day, nor the UK's first 'Tax Day', publication day for a raft of tax consultations. What Tax Day did produce was a commitment to reduce red tape for IHT, so that from 1 January 2022, over 90% of non-taxpaying estates shouldn't complete IHT forms for deaths when probate or confirmation is required.

But sooner or later, change is likely, as the government looks beyond the Covid-19 crisis. Perhaps it has been reined back until 2026, when the big freeze ends. We shall have to wait and see. In the meanwhile, please don't hesitate to contact us for advice in any of these areas.







# Business Round-up

## Government publishes range of consultations to help modernise UK tax system

The government has published a range of tax documents and consultations designed to help modernise the UK tax system.

More than 30 policy updates, consultations and documents have been published in an effort to give tax professionals more time to scrutinise them. These documents, which would traditionally have been published at the Budget, include a business rates review interim report and a call for evidence on the tax administration framework.

A consultation on the potential changes to Air Passenger Duty (APD) has been published, seeking views on supporting the UK's commitment to net-zero emissions by 2050 by increasing the number of international distance bands.

Additionally, documents on cutting inheritance tax (IHT) red tape for more than 200,000 estates have also been published.

Many of the announcements form a key part of the government's wider ten-year plan to build a trusted, modern tax system.

'These measures will help us to upgrade and digitise the UK tax system, tackle tax avoidance and fraud, among other things,' said Jesse Norman, Financial Secretary to the Treasury.

'By grouping them together, we want to give Members of Parliament, tax professionals and other stakeholders a better opportunity to scrutinise them.'

The tax documents can be found here: [bit.ly/3uzb2ip](https://bit.ly/3uzb2ip).

## Thousands missing out on Tax-Free Childcare bonus

Thousands of families across the UK are missing out on the chance to save money on the costs of childcare, HMRC has revealed.

Tax-Free Childcare (TFC) permits parents and carers who have children aged up to 11 (17 for children with disabilities) to pay their childcare provider via the scheme and receive a 20% government top-up on any money deposited.

Under TFC the tax relief available is 20% of the costs of childcare up to total childcare costs of £10,000 per child per year. The scheme is therefore worth a maximum of £2,000 per child (£4,000 for a disabled child).



To qualify for TFC all parents in the household must generally meet a minimum income level, based on working 16 hours a week (on average £142 a week), each earn less than £100,000 a year and not already be receiving support through Tax Credits or Universal Credit.

'Help is available towards the cost of childcare,' said Myrtle Lloyd, Director General for Customer Services at HMRC.

'Families using TFC to pay their childcare provider are already benefiting from the 20% government top-up on deposits, and you could too.'

## Reminders for your diary

### May 2021

- 3 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 April 2021.
- 19 PAYE, Student loan and CIS deductions are due for the month to 5 May 2021.
- 31 Deadline for forms P60 for 2020/21 to be issued to employees.

### June 2021

- 1 New Advisory Fuel Rates (AFR) for company car users apply from today.
- 19 PAYE, Student loan and CIS deductions are due for the month to 5 June 2021.
- 30 End of CT61 quarterly period.

### July 2021

- 5 Deadline for reaching a PAYE Settlement Agreement for 2020/21.
- 6 Deadline for forms P11D and P11D(b) for 2020/21 to be submitted to HMRC and copies to be issued to employees concerned.  
Deadline for employers to report share incentives for 2020/21.
- 14 Due date for income tax for the CT61 period to 30 June 2021.
- 19 Class 1A NICs due for 2020/21.  
PAYE, Student loan and CIS deductions due for the month to 5 July 2021.  
PAYE quarterly payments are due for small employers for the pay periods 6 April 2021 to 5 July 2021.
- 31 Second payment on account 2020/21 due.

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May 2021