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Elliot, Woolfe & Rose
Chartered Accountants

UK ECONOMY SLUMPS INTO RECESSION AFTER RECORD CONTRACTION IN APRIL

The UK's economy experienced the largest monthly contraction on record in April 2020, shrinking by 20.4%.

The sharp fall in GDP came as the UK spent its first full month in lockdown to try and halt the spread of COVID-19.

The Office for National Statistics (ONS) said April's decline was three times deeper than at any time during the previous economic downturn in 2008/09.

Analysts also published figures for the three months to April 2020, which showed a decline of 10.4%.

With lockdown being eased in May, however, April's fall in GDP is likely to mark the bottom of the recession.

In May, Chancellor Rishi Sunak said "just a few days of impact from the coronavirus" in March put the economy into decline.

Two successive quarters of economic contraction class as a technical recession, which was confirmed last month.

Tej Parikh, chief economist at the Institute of Directors, said:

"The economic turmoil caused by coronavirus is unparalleled and is likely to scar the UK economy for some time.

"Having provided businesses life support, the Government must now figure out how to stimulate activity.

"The Government must make good on its commitment to broaden existing tax reliefs for research and development.

"Waiting until later in the year to act will risk more businesses and jobs being lost."

Talk to us about managing costs.

BUILDERS' CASHFLOW CHAOS PROMPTS FURTHER REVERSE CHARGE VAT DELAY

The domestic reverse VAT charge for construction services has been delayed until 1 March 2021.

The way VAT is collected in the building and construction industry was originally due to change from 1 October 2019.

Less than a month before it was due to kick in, the change was put on hold for 12 months to avoid the measure clashing with one of the dates scheduled for the UK's exit from the EU.

With builders feeling the strain from COVID-19 and lockdown, HMRC has announced a further five-month delay.

The Chartered Institute of Taxation (CIOT) welcomed the move, with many firms feeling the effects of reduced business activity.

"We welcome the further delay because of the many unexpected pressures caused by the pandemic and the lockdown on construction businesses," said Linda Skilbeck, vice-chair of the CIOT's indirect taxes committee.

"A significant proportion of those are SMEs, and the cashflow effect of the domestic reverse charge will be significant.

"The delay should lessen the chance of disputes between suppliers and customers as to which party in the supply chain should account for VAT."

The reverse charge will apply to VAT-registered individuals or businesses supplying specified services that are reported under the construction industry scheme.

It aims to prevent VAT fraud in the construction industry, where suppliers charge their customer for VAT but keep the money.

Get in touch to discuss the reverse charge.

GOVERNMENT CLARIFIES FURLOUGH SCHEME STANCE FOR EMPLOYERS

Only employees who have been furloughed for at least three weeks on or before 30 June 2020 are eligible for the final phase of the scheme.

Employers had until 10 June 2020 to place any workers on the job retention scheme if they wanted to take advantage of it until 31 October 2020.

Jeremy Coker, president at the Association of Taxation Technicians, said:

"Unless an employee has been furloughed at some point between 1 March and 30 June 2020, for a minimum of three continuous weeks, it will not be possible to furlough them between 1 July and 31 October.

"Employers should be aware that from 1 July, the number of employees they can include on claims for periods from that date will be capped.

"The cap will be equal to the maximum number of employees previously claimed for in the first three months of the scheme."

Since 1 March 2020, the Treasury has offered to cover up to 80% of the salaries of workers who were unable to do their jobs from home due to coronavirus.

More than a quarter of the UK's entire workforce – 9.1 million employees – have been furloughed prior to the 10 June 2020 deadline and are therefore eligible for the final four months of the scheme.

Businesses do, however, have the flexibility to bring furloughed employees back part-time from 1 July 2020, a month earlier than previously announced.

Firms that opt to bring their employees back on a part-time basis will be responsible for paying their wages for the hours they work and can furlough them for the remaining hours.

From 1 August 2020, the support provided through the furlough scheme will be limited and employers' contributions will rise, to reflect furloughed employees returning to work.

For September and October 2020, the Treasury will pay 70% and 60% of wages up to caps of £2,187.50 and £1,875, respectively.

Business as usual is set to resume from November, assuming the number of coronavirus cases in the UK continues to fall.

Speak to us about coronavirus-related support.

SELF-EMPLOYED GRANTS 'ARE LIABLE FOR TAX AND NATIONAL INSURANCE'

Recipients of self-employed income support grants may not realise they are taxable, a tax group has warned.

The grants are worth up to 80% of trading profits, paid in a lump sum to cover three months, and capped at £7,500.

More than 2.6 million lump sums worth £7.6 billion had been provided through the scheme up to 21 June 2020, equating to in excess of half the UK's entire self-employed population.

Up to a third of those grants may have to be repaid in income tax and class 4 National Insurance contributions (NICs) in a 2020/21 tax return, which is due on or before midnight on 31 January 2022.

The Low Income Tax Reforms Group (LITRG) fears recipients may assume the lump sums are exempt from income tax and NICs as they are labelled 'grants'.

The LITRG said self-employed subcontractors in the construction industry will need to watch out for the grants being paid without tax taken off.

This is different to their other income, which is usually taxed before they receive it, and may mean they miss out on their usual refund after submitting their 2020/21 tax return.

Victoria Todd, head of LITRG, said:

"Many claimants might use the money as soon as they get it, for example, to catch up on liabilities or to meet essential living costs – but they need to think now about budgeting for income tax and NICs on it.

"The timing of the grants – early in the tax year – means that individuals might have to forecast their total taxable profits for 2020/21, so they can estimate the amount of tax and NICs due on the grant.

"For many self-employed claimants, this is likely to be 20% income tax and 9% class 4 NICs.

"HMRC needs to publicise that the grants are chargeable to income tax and NICs, to reduce the risk of people getting higher-than-expected tax bills."

We can handle your 2020/21 tax return.