TAX TALK

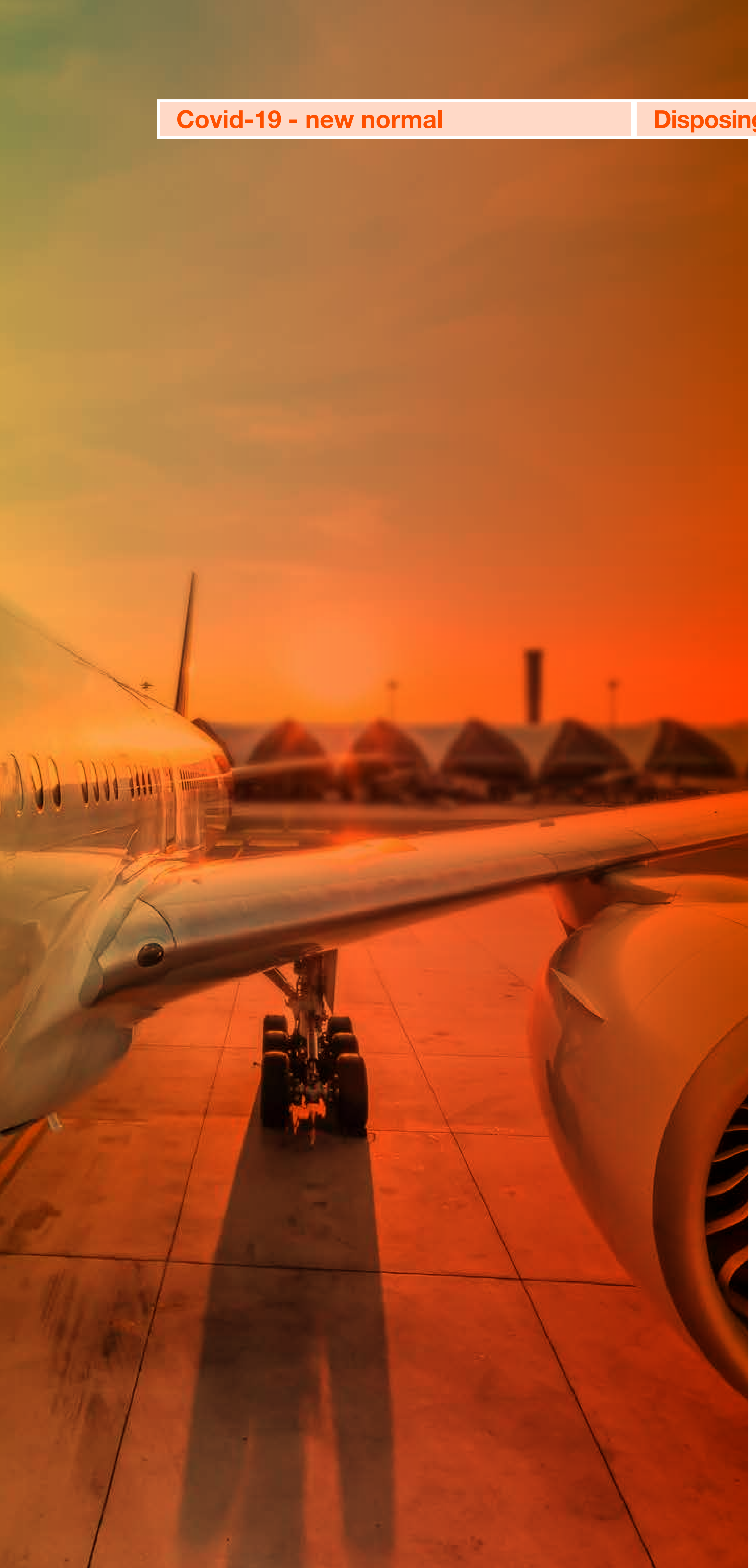
ENTER

JULY 2020

www.pkf-littlejohn.com

PKF

JULY CONTENTS



COVID19 – ARE YOU PART OF THE NEW NORMAL?

Things are returning to the 'new normal', according to Louise Fryer, who reminds us of the effect that COVID-19 has had on many businesses and the mobility of their employees; how they have learnt to adapt and how they have established many improved ways of working due to this new 'normal'.

However, there are still implications arising from the global pandemic that need to be addressed: people working where they normally wouldn't be; changes in working patterns; increased delivery times for projects (meaning that people will be in countries longer than anticipated) and more generally a consideration of whether the traditional assignment model continues to be fit for purpose.

There has been some guidance issued by HMRC in terms of UK tax residency and COVID-19 being categorised as qualifying under "special circumstances". More information is needed so that companies and their employees do not inadvertently find themselves in complex and costly positions in terms of tax and social security obligations.

HMRC have confirmed that they will be issuing an FAQ document imminently in respect of internationally mobile employees and this is eagerly awaited so that businesses can make the necessary arrangements/plans.

In the meantime, below is a summary of the most recent feedback from HMRC on COVID-19 and mobile individuals.

The Statutory Residence Test

HMRC have confirmed there would be no changes extending the exceptional circumstances legislation beyond 60 days in any one tax year when assessing UK tax residency as it is a statutory rule. There will be no leeway in the legislation pertaining to working in the UK for more than 30 days and there are no plans to change the legislation in respect of a "significant break".

Appendix 8 payroll for visitors from non-Treaty countries and from overseas branches of UK companies

HMRC confirmed they do not expect any relaxation in terms of the 60 UK workdays permissible for inclusion in the Appendix 8 payroll. Whether or not an individual qualifies will be clear from the current guidance.

Deadline Extensions

HMRC have been looking at various deadline extensions for all taxpayers in view of the COVID-19 crisis. Whilst some deadlines for niche populations such as globally mobile individuals have been extended, other deadlines have not.

HMRC are encouraging taxpayers to file on time, where possible. However, if filing is impossible because of COVID-19, then the guidance regarding "reasonable" excuse should be consulted.

This guidance has been updated in relation to COVID-19, advising that HMRC will consider coronavirus as a reasonable excuse for missing some tax filling obligations. If anyone has been affected by coronavirus, they should mention that as part of their appeal, and it will be looked at on a case by case basis.

COVID19 – ARE YOU PART OF THE NEW NORMAL? (CONT)

Coronavirus Job Retention Scheme (CJRS)

Claims can be made for inbound expatriate if the conditions of the scheme are met. The position regarding outbound expatriates is under review and comment will be provided soon.

Economic Impact Payment – US individuals

The vast majority of Americans in the UK will be entitled to an economic impact payment from the US. It is $1,200 per individual and $500 for each qualifying child. HMRC do not view these payments as subject to UK tax.

Commuters

People who commute may find themselves working in unexpected places, different to their usual circumstances and working pattern. Care is needed to make sure tax and social security filings and payment requirements are met. Workers who commute, living in one country and working in another for part of their week, are often taxable in both countries but one country will take a tax credit for tax paid in the other country.

Germany and other countries in Europe are taking the approach that if, for example, an individual typically works in Germany, but is now homeworking in the UK due to lockdown, that income will stay taxable in Germany. To date, Germany has reached agreement with France, Austria and Switzerland.

Where there is no agreement (as is currently the case for the UK) clients may end up in a situation where Germany claims they are taxable in Germany, and under UK rules they are also taxable in the UK (as they are working in the UK on those days).

If Germany are treating such individuals as taxable on their normal German workdays, they won't give a tax credit for the UK tax paid on the same income, so individuals may end up double taxed. HMRC are looking into this issue.

UK Social Security

At present there has been no guidance issued on how individuals' social security positions, certificate A1/S1 coverage and the 52 week exemption will be affected by the lockdown period and closed borders but they are under consideration and HMRC hope to issue some direction soon.

If you have any questions relating to any topic covered in this article, please contact your PKF Littlejohn contact and we will be happy to assist you.

Louise Fryer
Global Mobility Director – Human Capital
t: +44 (0)20 7516 2446
e: lfryer@pkf-littlejohn.com

DISPOSING OF UK RESIDENTIAL PROPERTY

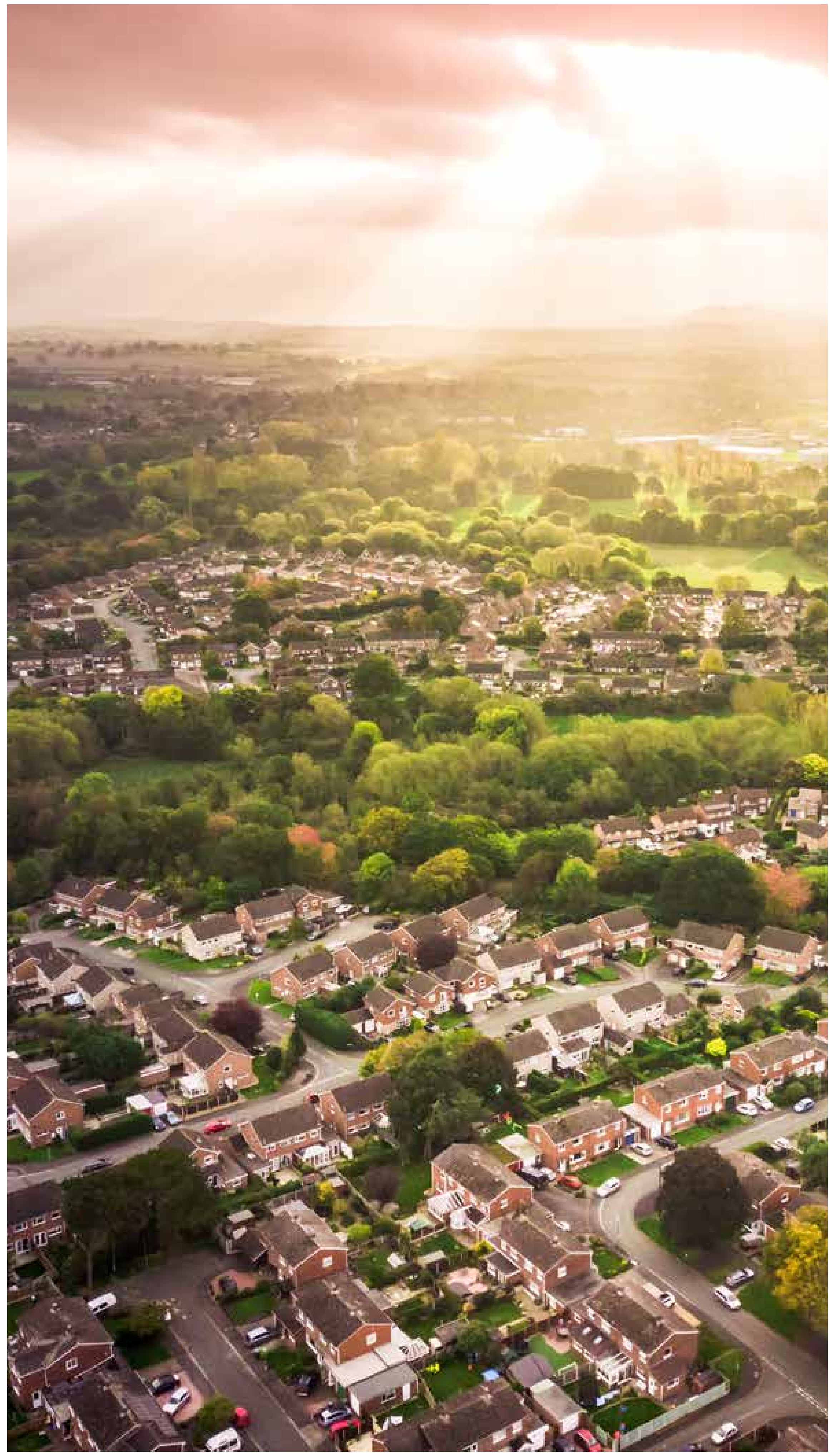
From 6 April 2020, changes were enforced by HMRC requiring any sale of UK residential property to be reported with any capital gains tax (CGT) due being paid within 30 days of the completion of the sale. These new rules have accelerated the payment of CGT in some cases by up to 18 months. The new legislation applies to individuals and Trusts but not yet to companies.

A similar regime has been in place for non-UK residents who are still required to report sales or disposals of interests in UK property or land, irrespective of whether there is a CGT liability (within 30 days of completion of the disposal). This includes disposals of residential properties, non-residential properties and indirect disposals. These new rules only affect UK residents who dispose of UK residential properties; commercial properties sold by UK residents are still under the existing regime.

It is likely, as lockdown restrictions are easing and given the current 'SDLT holiday', that disposals of UK residential property will be increasing in number. It is therefore important to be well informed with the reporting changes to avoid any potential penalties from HMRC.

What about penalties?

Usually, you would pay interest or a penalty if gains on a property are not reported within the given timeframe. However, although these rules came into effect from 6 April 2020, HMRC announced that they will not charge penalties until 31 July 2020. Thus, any transactions completed prior to 1 July 2020 cannot be liable to late filing penalties as long as the Return has been submitted and tax paid by 31 July 2020 (interest charged is subject to independent cases). Transactions completed thereafter will have to comply with the 30-day submission and payment deadline to avoid penalties.



Calculating the gain

Your gain is usually the difference between what you paid for your property and the amount you received when you sold it. However, in the calculation of the taxable gain of a disposal, only capital losses already realised, prior to the disposal, can be deducted. If losses are realised after the disposal of the property, these can only be claimed and reported via the Self-Assessment Tax Return. This can have a negative impact on an individual's cash flow, having already paid HMRC yet unable to reclaim this tax. Where you have predicted losses, it may be best to review these, alongside relevant professional advice, on how best to time your disposals.

With the 30-day window being tight, HMRC will accept 'best estimates' at the time of the Return, with amendments being available within 12 months. Otherwise, you can report the corrected position on your Self-Assessment Tax Return, with the payment of CGT being treated as a payment on account against your final tax liability for the year.

DISPOSING OF UK RESIDENTIAL PROPERTY (CONT)

We would advise that, prior to the disposal, you collate the information concerning the purchase costs to make the calculations for the Return easier to complete within the 30-day window. In addition, we would suggest contacting your tax adviser when you market your property, to enable them to explain the process in more detail, ensure your records are up to date and that you submit the return by the deadline.

Private Residential Relief and Lettings Relief

Further legislative changes were also implemented by HMRC on Private Residential Relief and Lettings Relief. If a property at any time had been your primary residence, the final 18 months of ownership were exempt from CGT. For disposals from 6 April 2020, it is now reduced to only 9 months. This will not affect the 36-month exemption where owners have left their primary residence due to disability or if they are moving into a care home.

The definition of Lettings Relief has changed in that no lettings relief will be offered unless the owner of the property has been in shared occupancy with their tenant. In effect, this now allows only live-in landlords to claim this relief, whereas previously a couple owning a second home (that they let out) could claim up to £80,000 of relief on the disposal of the property.

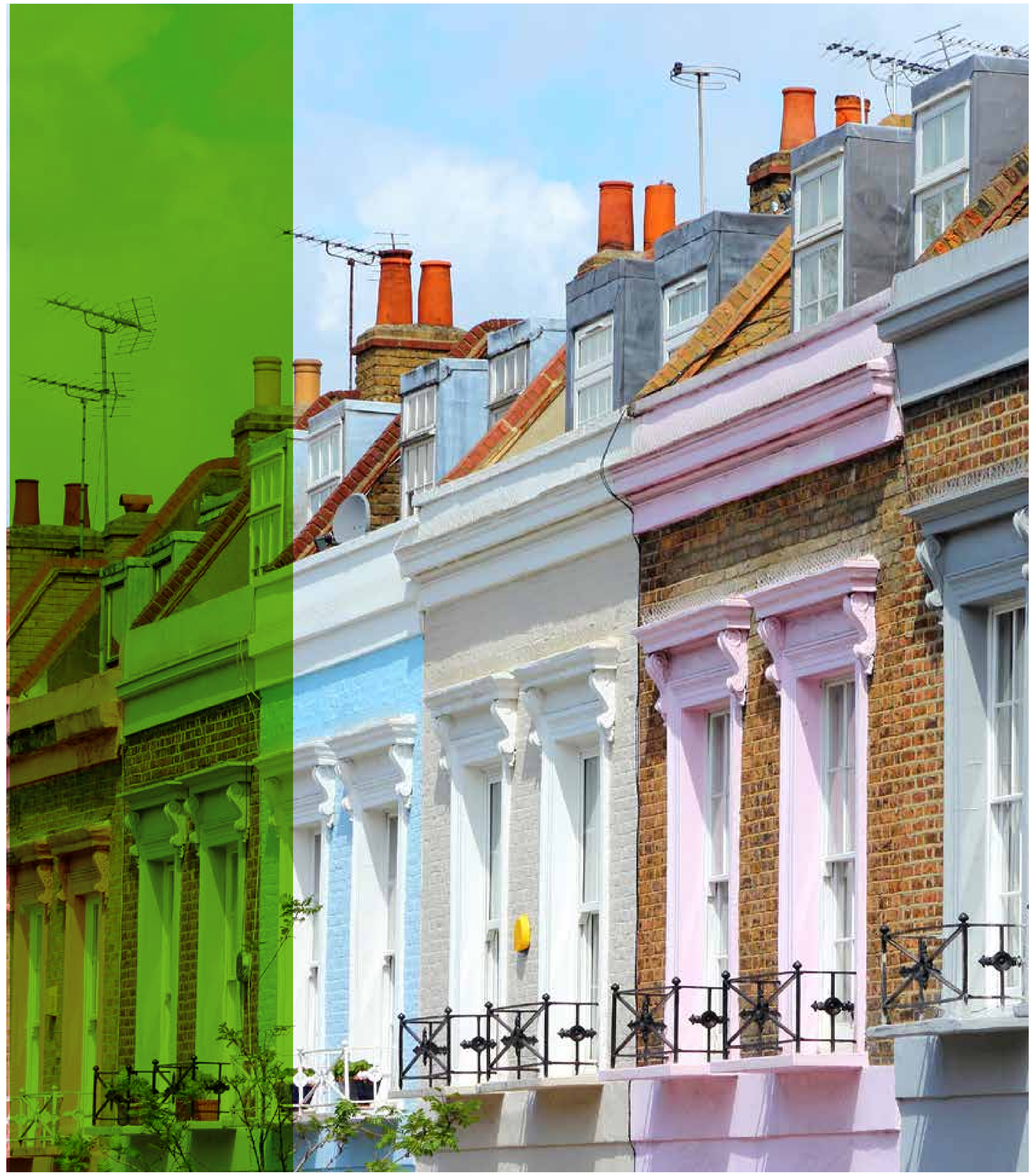
Unfortunately, there are no provisional rules for either of these reliefs. If you dispose of a property after 6 April 2020, the disposal will be treated with the new definitions for the reliefs. These calculations, to report the accurate gain on the disposal of the property, are restricted to the 30-day window, so it is best to be aware and be prepared prior to your property being sold.

If you have any questions relating to any topic covered in this article, please contact your PKF Littlejohn contact and we will be happy to assist you.

You can also download our Disposing of UK residential property guide for more information.

Phil Clayton
Manager - Private Client Tax

t: +44(0)20 7516 2412
e: pclayton@pkf-littlejohn.com



BORIS' END OF YEAR REPORT

Boris Johnson's administration recently marked its first 12 months in government. While reviews of the Prime Minister's performance have tended to focus on his handling of the coronavirus pandemic, there has also been much to discuss from a tax perspective. In the past year, Boris Johnson has overseen a bitter General Election campaign, a Spring Budget, a Summer Statement, and an unprecedented package of financial support measures. But how do some of these key tax measures stack up? Our end of year report card looks at how the government has delivered against its commitments.

Personal Measures

Income Tax

1/5

During the Conservative party leadership contest last summer, Boris Johnson pledged to cut income tax for higher earners by raising the 40% band to £80,000. This policy did not make it into the Conservative's General Election manifesto later in the year, with the party instead promising that there would be no increases in income tax.

A leaked Treasury document suggested that this commitment may no longer be feasible and that income tax would need to rise to plug the rapidly growing budget deficit. If this does happen, how far will rates or thresholds go? Or could the proposed reform of Capital Gains Tax (CGT) negate the need for income tax rises? Either way, this is likely to be a challenging issue for a party that has been historically associated with lowering rather than raising taxes.

National insurance

4/5

Ahead of the launch of the General Election manifesto, the Prime Minister announced plans to raise the National Insurance threshold to £9,500.

It was claimed that this would make everyone £500 better off - which was subsequently reduced to £100 in the manifesto (it transpired that the £500 amount is based on an increase in the threshold to £12,500, which is the government's longer term target).

The government has pledged not to raise National Insurance during the current parliament. However, like with the promise of not to increase income tax, this may need to be reconsidered as the government looks to plug the huge deficit.

BORIS' END OF YEAR REPORT

Personal Measures

Stamp duty surcharge on non-UK resident buyers

The Conservative party manifesto set out plans to introduce a Stamp Duty Land Tax (SDLT) surcharge on non-UK resident buyers to finance a commitment to the Affordable Homes Pro-gramme and other housing initiatives.

In keeping with these ambitions, Chancellor Rishi Sunak announced in the Spring Budget in March that a 2% SDLT surcharge will apply to non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021. This is on top of the existing 3% SDLT surcharge for owning more than one residential property.

However, an SDLT holiday was announced as part of the Summer Statement to stimulate the housing market in England and Northern Ireland, which ground to a halt during lockdown.

The SDLT holiday is anticipated to cost £3.8 bil-lion in lost tax revenues – dwarfing the £140 million that was expected to be generated from the 2% SDLT surcharge. This leaves a large gap for the government to fill in this area…

2/5

Review and reform Entrepreneurs' Relief

There was widespread speculation that Entrepreneurs' Relief would be abolished in the Spring Budget.

This turned out to be inaccurate - although the changes that were ultimately announced by the Chancellor in March have led many business owners to question if the regime has been abolished in all but name.

The recently announced consultation on the reform of CGT adds another dimension to this debate. Options being discussed include an alignment to income tax rates, changes to Main Residence Relief and uplifts for Inheritance Tax.

3/5

Business Measures

Corporation Tax

Despite speculation that the UK may set Corporation Tax at 17% from April 2020, the Spring Budget confirmed that the rate would stay at 19% - which is still one of the most attractive rates in the G20.

With talks on post-Brexit trade deals showing little tangible progress at the moment, future reductions in Corporation Tax to attract overseas businesses and support domestic companies may return to the political agenda.

3/5

Employment allowance for small businesses

As anticipated, the Employment Allowance increased from £3,000 to £4,000 from April 2020.

It is estimated that this will reduce the Secondary National Insurance Contributions to nil for around an additional 65,000 businesses.

In the current climate, it is questionable whether this is enough to help businesses.

4/5

VAT

As part of a 'tax guarantee' to protect the incomes of families across the next parliament, the government committed not to increase income tax, national insurance or VAT.

In line with this pledge, the rate of VAT remained at 20% in the March Budget, and a temporary cut in VAT to 5% until 12 January 2021 was announced for the hospitality sector in the Summer Statement.

5/5

BORIS' END OF YEAR REPORT

Increase in R&D Tax Credit Rate

The Research and Development Expenditure Credit (RDEC) increased in the Budget from 12% to 13% from April 2020. The cost is being met by the savings made on Entrepreneurs' Relief.

While this is undoubtedly welcome news for businesses claiming the RDEC, its benefit to the wider economy is more limited.

4/5

COVID Tax Measures

Deferral of Tax Payments and Time to Pay

VAT Payments due between 20 March 2020 and 30 June 2020 were automatically deferred and will now be payable on 31 March 2021. No interest or penalties will arise on the late payment.

Income Tax Self-Assessment payments that are due on 31 July 2020 will not be collected until 31 January 2021.

Time to Pay requests can be made to HMRC to defer tax payments which are due (or overdue) for payment to HMRC.

Whilst these measures are welcomed, it should be noted that they are only deferrals – they may ease cash flow pressures in the short term, but individuals and businesses will still need to find the funds to repay the tax they owe in the future.

2/5

Coronavirus Job Retention Scheme

The unprecedented support package for employers is now extended to 31 October as detailed here.

The Scheme was rolled out quickly and the online claims portal coped well with the demand and en-suring that claims were processed quickly. We were pleasantly surprised with how the claims process worked.

It is clear from talking to our clients, that the Scheme has been instrumental in keeping many businesses (and their employees) afloat.

5/5

The Summer Statement then went one step further and introduced the Job Retention Scheme Bonus of £1,000 per furloughed employee that is employed until 31 January 2021. Although a number of large employers have already publicly stated that they will not accept the funding, this extra boost could make a significant difference to smaller businesses.

Self-Employed Income Support Scheme

The support package for self-employed individuals was finally announced towards the end of March, with the claims process starting at the end of May.

When the scheme did get up and running, many individuals were initially rejected, despite believing that they met the required conditions.

Many self-employed individuals feel that they have been poorly supported when compared to their employed counterparts – we find it hard to argue against this view, given the available evidence.

3/5

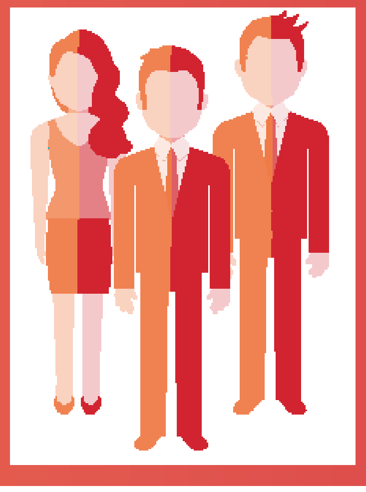
It has unquestionably been a challenging year for the Johnson administration. While it is not unreasonable to 'blame Covid' for some of the difficult decisions that the government has had to make, we believe that there is still room for some improvement on the tax front.

In our view, the Prime Minister's job will become more difficult in the coming months. Balancing the twin objectives of reviving the economy and stabilising public finances will not be easy, and we wait to see what emerges from the Chancellor's red box during the Autumn Statement later this year. Next year's report card will make for interesting reading.

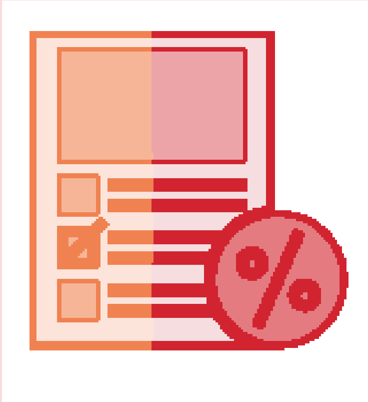
If you have any questions, please get in touch with your PKF Littlejohn contact

Catherine Heyes
Partner - Tax
t: +44 (0)20 7516 2237
e: cheyes@pkf-littlejohn.com

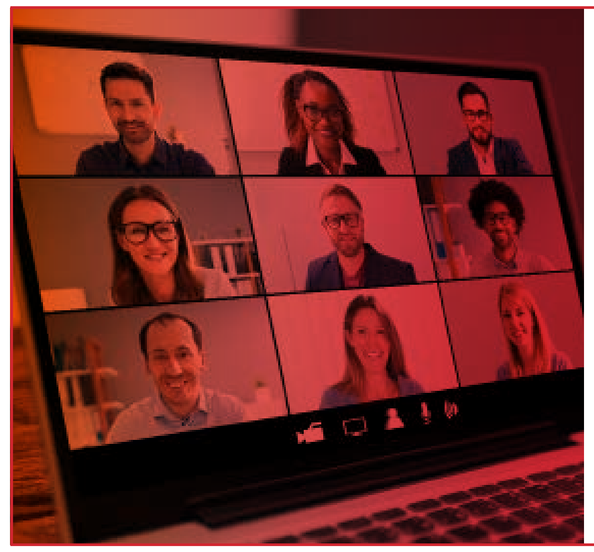
ABOUT PKF



PKF Littlejohn is a fast-growing firm of accountants and business advisers based in London's Canary Wharf.



We provide a **full range of audit, accountancy, tax and advisory services,** and are experts at simplifying complexity - we're particularly well-known for working with complex clients with challenging issues in fast-moving and highly technical areas.



Our aim is to **understand people**, the **organisations** they run, and what matters to them, so we can **simplify complexity** and help them **achieve their ambitions.**

We have **three important principles** that make a big difference in our business, and they also have a significant impact on our clients' organisations. **They are really simple:**

1. **People matter;** making a difference for the people we work with and the people we work for is our priority
2. We're **relentlessly curious,** because we want to know each client's organisation as well as they do, even better if we can
3. And we're good at **getting things done.**

£140m+
INCOME

We are the London office of PKF UK & Ireland, currently the 10th largest network in the UK with a combined fee income of over £140m.

OUR TAX SERVICES

> By bringing together the extensive expertise and experience of our tax specialists we can provide a fully rounded service that offers excellent value for money."

Cost-effective tax compliance, expert assistance for complex matters.

It's a corporate juggling act: how to keep up with ever-changing tax regulations, while minimising the amount you pay, running your business and handling your tax affairs efficiently.

PKF Littlejohn can provide bespoke advice in all areas of taxation helping our clients receive the specialist knowledge they need to make informed decisions. Our team has the expertise and capacity to take on all challenges, national and international.

WE OFFER THE FOLLOWING SPECIALIST TAX SERVICES:

VAT and indirect taxes
All issues concerning VAT in the UK, Europe and across the world

International tax services
Expert tax advice on your operations around the world, with access to tax expertise in around 125 countries through PKF International, our global network of independent accounting firms.

Tax compliance
The best way to minimise your tax liabilities and avoid penalties or fines is to hand your tax affairs over to professionals. Our processes are designed to ensure your return is completed on time and correctly

Customs duty
Assistance with trading across national boundaries in Europe

Global Mobility
Our Global Mobility team, together with the global network of PKF International, supports expatriate and internationally mobile individuals in over 150 countries

HMRC enquiries
Not only will we help you minimise the risk of an enquiry by HM Revenue & Customs, but should one be raised you can rely on our wealth of experience in resolving disputes and negotiating favourable settlements

Employee incentives
Encourage the best people to join you and stay with you

Tax planning
In our view, paying the right amount of tax means paying the minimum the law requires of you. We will help you achieve this with tailored strategies that suit your personal and business circumstances

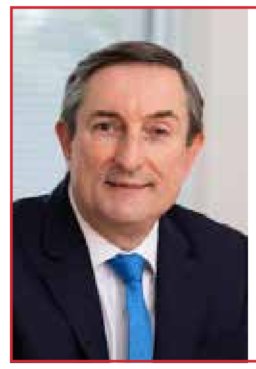
Estate planning and trusts
We can provide sound advice on how to make the best possible use of tax-saving vehicles, ensuring that your family is properly provided for

MEET THE TEAM

Corporate/International Tax
Chris Riley
t: +44 (0)20 7516 2427
e: criley@pkf-littlejohn.com

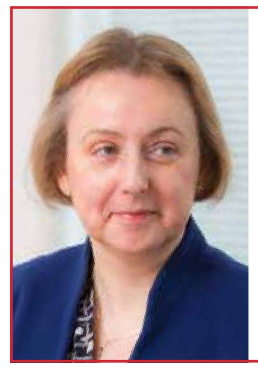
Global Mobility
Louise Fryer
t: +44 (0)20 7516 2446
e: lfryer@pkf-littlejohn.com

Property Taxes
Jonathon Collins
t: +44 (0)20 7516 2226
e: jcollins@pkf-littlejohn.com



Insurance
Howard Jones
t: +44 (0)20 7516 2295
e: hjones@pkf-littlejohn.com

Trusts and Capital Taxes
Barry Luscombe
t: +44 (0)20 7516 2204
e: bluscombe@pkf-littlejohn.com



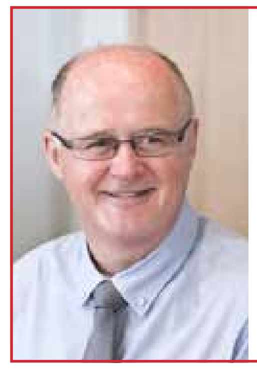
Not for Profit
Sarah Kelsey
t: +44 (0)20 7516 2298
e: skelsey@pkf-littlejohn.com

VAT and IPT
Luigi Lungarella
t: +44 (0)20 7516 2228
e: llungarella@pkf-littlejohn.com

Business Tax - International
Tom Gareze
t: +44 (0)20 7516 2212
e: tgareze@pkf-littlejohn.com

Owner Managed Business
Catherine Heyes
t: +44 (0)20 7516 2237
e: cheyes@pkf-littlejohn.com

Business Tax – Insurance
Mimi Chan
t: +44 (0)20 7516 2264
e: mchan@pkf-littlejohn.com



Business Tax - Employment
Ian Gadie
t: +44 (0)20 7516 2256
e: igadie@pkf-littlejohn.com

VAT and Customs Duties
Nick McChesney
t: +44 (0)20 7516 2262
e: nmcchesney@pkf-littlejohn.com

Private Clients
Karen Ozen
t: +44 (0)20 7516 2273
e: kozen@pkf-littlejohn.com

Private Clients
Diana Lancaster
t: +44 (0)20 7516 2278
e: dlancaster@pkf-littlejohn.com

Private Client and Trusts
Shaharan Deen
t: +44 (0) 20 7516 2396
e: sdeen@pkf-littlejohn.com

Private Clients
Phil Clayton
t: +44 (0) 20 7516 2412
e: pclayton@pkf-littlejohn.com

PKF Littlejohn LLP,
15 Westferry Circus, Canary Wharf, London E14 4HD

Tel: +44 (0)20 7516 2200
www.pkf-littlejohn.com