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Summer Fiscal Statement 2020

The Chancellor's statement on 8 July included a number of eye-catching tax measures in response to the Covid pandemic:

- for all employers – a 'job retention bonus' for keeping on furloughed employees until at least 31 January 2021 after the Coronavirus Job Retention Scheme (CJRS) ends on 31 October 2020.
- for employers who can offer apprenticeships and training placements – extra payments for taking on extra people under these schemes.
- a temporary cut in the VAT rate for certain types of business from 20% to 5%.
- a temporary rise in the nil rate threshold for Stamp Duty Land Tax to £500,000.
- the 'Eat Out to Help Out' voucher scheme for restaurants and bars – see below.

All these measures, and some others that may be of more specialised interest such as grants for improving energy efficiency in houses, are set out in the document 'A Plan for Jobs 2020' – see www.gov.uk/government/publications/a-plan-for-jobs-documents.

Job Retention Bonus

The job retention bonus gives employers an incentive to keep on employees when the government backed CJRS ends – it is winding down over the months to October 2020. The bonus will be a one-off payment of £1,000 to UK employers for every furloughed employee who remains continuously employed through to the end of January 2021. Employees must earn above the Lower Earnings Limit (£520 per month) on average between the end of the CJRS and the end of January 2021. Payments will be made from February 2021. Further detail about the scheme will be announced by the end of July.

The Kickstart Scheme

The Kickstart Scheme, traineeship and apprenticeship incentives are described in section 2.11 and subsequent paragraphs of the Plan for Jobs document. Employers who have existing training and apprenticeship schemes are most likely to be able to benefit from a range of proposals.

Temporary VAT cut for Hospitality & Leisure sector

The temporary VAT cut is described in detail in a Revenue & Customs Brief that can be found at https://tinyurl.com/ycx5ecpc. The following supplies will be charged at 5% instead of 20% from 15 July 2020 to 12 January 2021:

- food and non-alcoholic beverages sold for on-premises consumption, for example, in restaurants, cafes and pubs
- hot takeaway food and hot takeaway non-alcoholic beverages
- sleeping accommodation in hotels or similar establishments, holiday accommodation, pitch fees for caravans and tents, and associated facilities
- admissions to theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities, if they are not already eligible for the cultural VAT exemption. Where admission to these attractions is covered by the existing cultural exemption, the exemption will take precedence.

Further information is available at www.gov.uk/guidance/vat-reduced-rate-for-hospitality-holiday-accommodation-and-attractions.

This will pose various challenges for eligible businesses, particularly if they have previously only made supplies that have been chargeable at the standard rate. They will have to identify those supplies that can be charged at 5% and make sure that the correct rate is charged on those supplies that are still charged at 0% (e.g. cold takeaway food) or 20% (e.g. alcoholic drinks). It may be necessary to reprogram tills, or to consider the effect on retail scheme calculations.

Businesses will also have to decide whether to adjust their selling prices to reflect the reduction in VAT. There is no obligation to do so: the idea of the tax cut is to stimulate demand, but if the trader is confident that the demand will be there, the result is to support profits because a higher proportion of the takings are retained. It is a commercial decision -not a tax rule – that may be affected by the cost or inconvenience of changing price lists, for example on printed menus.

If the business wishes to pass on the whole of the tax reduction to customers, the reduction from 20% to 5% represents a 12.5% cut in the VAT-inclusive price – a selling price of £10 falls to £8.75.

The most technically complicated rule on a change of VAT rate applies where the tax point for the supply has been advanced by the issue of a tax invoice or the receipt of payment. This could apply where businesses have received advance bookings before 15 July for supplies that will take place afterwards. The receipt of money or the issue of a tax invoice normally moves the time of supply to that date, which means that the liability of the supply would be fixed at 20%; however, under VATA 1994 s.88, the trader may 'elect' to apply the 'basic tax point rule' instead and account for only 5%. The timing of the liability to pay HMRC is still based on the date of receipt, but the amount due can be reduced. The trader 'elects' simply by applying the rule – there is no paperwork involved.

These rules are described in detail in the VAT Guide section 30 (Notice 700, www.gov.uk/guidance/vat-guide-notice-700#changes-in-tax-rates-and-liability). If a VAT invoice has been issued showing tax at 20%, a credit note has to be issued, which means that the benefit of the reduction goes to the customer. If no VAT invoice has been issued, it is up to the trader to decide whether to make a refund to the customer – it is not required by the law. If standard rated VAT has already been accounted for on a VAT return that has been submitted, an adjustment to output tax can be made on the next return.

When the rate goes back up from 5% to 20%, it is normally permissible not to 'elect' to apply the changed rule, where an invoice or receipt falls before the change. However, it is possible that the government will introduce 'anti-forestalling rules' to stop businesses benefiting from the reduced rate on advance bookings for supplies taking place after 12 January 2021. No indication of such rules has been announced yet.

The legislation introducing the change was published on 14 July as SI 728/2020 and can be found here: http://www.legislation.gov.uk/uksi/2020/728/contents/made. It includes a table of revised Flat Rate Scheme rates, which of course are significantly different for affected businesses that continue to use the FRS.

Temporary increase in SDLT threshold

The temporary increase in the Stamp Duty Land Tax threshold means that there will be no SDLT on the purchase of a residential property between 8 July 2020 and 31 March 2021, if the total paid for the property is up to £500,000. As these rules are more generous than the existing rules for first time buyers, these rules will apply instead until 31 March 2021.

The additional 3% for 'second properties' will still be added, so there will be a 3% charge on the purchase of second homes or buy-to-lets costing up to £500,000. This is described at www.gov.uk/guidance/stamp-duty-land-tax-temporary-reduced-rates.

Eat Out to Help Out scheme

The details of the 'Eat Out to Help Out' scheme are set out here: www.gov.uk/guidance/register-your-establishment-for-the-eat-out-to-help-out-scheme. A restaurant will have to register to participate, and can then offer a discount of up to £10 per person, or 50% of the cost of food and non-alcoholic drink, on sales made from Monday to Wednesday throughout August 2020.

Money received from the government under the scheme will count as 'takings' in the normal way, so it will be subject to VAT (at 5%, or 1/21 of the gross amount) and to income tax or corporation tax as revenue.

If you do consider that there are any areas that you would like to discuss with us, please contact any of the partners on 0207 490 5525. *KLSA LLP is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.*