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Corrigan
A fresh perspective

TAX GROUP WANTS VAT SIMPLIFICATION OF FOOD AND DRINK RULES

VAT rules for food and drink in the UK are "overly complex" and in need of reform, the Association of Taxation Technicians (ATT) has claimed.

Chancellor Rishi Sunak used his Spring Budget to scrap the so-called 'tampon tax' when the Brexit transition period ends on 1 January 2021.

The ATT hopes the decision to abolish the 5% rate of VAT on women's sanitary products will extend to other inconsistent areas of VAT.

One classic example of VAT contradiction surrounds the lingering debate over cakes and chocolate-covered biscuits.

Cakes are zero-rated, whether covered in chocolate or not, while the standard rate of VAT applies to chocolate-covered biscuits.

Complexities like this, the ATT argued, are outdated and in desperate need of reform.

Michael Steed, chair of the ATT technical steering group, said:

"Many of the rules for food and drink derive from the old purchase tax regime, which was replaced with VAT when the UK joined the EU in 1973. As a result, they are often out of date and difficult to apply in the modern world.

"This has led to the tax tribunal having to consider whether Jaffa Cakes are a cake or a biscuit and whether Pringles are crisps.

"The decisions in these cases often throw up results which sound utterly ridiculous to the average person."

Talk to us about your VAT obligations.

HMRC CONFIRMS 'SELF-EMPLOYED CAN CLAIM SUPPORT IN MID-MAY'

HMRC intends to contact millions of people who are eligible for the self-employed income support scheme this month.

Those workers who have lost profits due to COVID-19 will be invited to submit online claims for payments, which will be made by early June.

The scheme provides grants worth 80% of a self-employed worker's trading profits up to a maximum of £2,500 a month.

It can be claimed for an initial three months, from 1 March 2020, as long as trading profits were less than £50,000 in 2018/19.

For tax returns dating back longer than that, average trading profits of less than £50,000 from 2016 to 2019 are used.

These profits should make up more than half of a self-employed individual's average taxable income in the same period.

Most of the UK's five million self-employed population are expected to be eligible for the scheme.

Jim Harra, chief executive at HMRC, said:

"We have the data to calculate most people's entitlement, but we need them to say whether they wish to claim as it's only open to those affected and we will need their bank details.

"I appreciate people need this money as quickly as we can possibly get it to them.

"If we can make the payments earlier, we definitely will. But mid-May is likely for when people will be able to claim."

We can advise on the eligibility for this scheme.

340,000 SIGN PETITION TO CHANGE VIRUS SUPPORT FOR THE SELF-EMPLOYED

A petition calling on the Government to relax the criteria for self-employed people to access income support during the coronavirus crisis has received more than 340,000 signatures.

The coronavirus self-employment income support scheme announced by Chancellor Rishi Sunak on 26 March soon came under fire for allowing many self-employed people to fall between the cracks.

People who are directors of their own limited companies are not eligible to claim, for example. Instead, they have been told to furlough themselves and claim support via the coronavirus job retention scheme (CJRS).

While some directors feel unable to furlough themselves because they need to continue working to keep their companies afloat, others have highlighted that even if they did furlough, the compensation to which they are entitled would be minimal.

Many company directors take only a small salary through their company's PAYE scheme and make up their earnings in the form of dividends.

Because CJRS is calculated on the basis of 80% of PAYE salary only, these individuals face a substantial drop in income.

The petition to relax the rules around the self-employed scheme was started on 27 March 2020.

A similar petition via the official Government petitions portal has 44,000 signatures – more than the 10,000 required to trigger a response from the Government but short of the 100,000 signatures necessary to prompt a debate in Parliament.

Andy Chamberlain, director of policy at the Association of Independent Professionals and the Self-Employed, said:

"The lack of support for limited company directors, in particular, is not just a crack: it is a gaping hole in the package.

"The Government must act quickly to fill it and we believe the best way would be to include dividend income in the job retention scheme.

"This would allow self-employed individuals who work through limited companies to furlough themselves and hold on to 80% of their income.

"If not, we suggest a solution involving either a temporary tax break or a grant for this significant and under-supported group."

Get in touch to discuss your options.

SECOND PHASE OF MAKING TAX DIGITAL FOR VAT DELAYED UNTIL 2021

HMRC has deferred rolling out the second phase of Making Tax Digital (MTD) for 12 months due to the coronavirus.

Phase one of MTD kicked in for VAT return periods starting on or after 1 April 2019, with what HMRC described as a soft-landing period lasting 12 months.

This included the use of basic bridging software and waiving penalties for non-compliance throughout 2019/20, and ended on 5 April 2020.

The second phase will demand more complex, robust technology solutions to ensure a VAT-registered business remains 100% compliant with MTD.

It will also introduce stringent rules around how firms digitally link their software and how they must upload their VAT returns.

Basic accounting software in use during 2019/20 may lose accreditation if it lacks the required features to submit the financial records on sales or purchases, while penalties for non-compliance will also take effect.

Some firms with complex systems were struggling to meet last month's deadline, before the coronavirus lockdown even started.

A spokesperson for HMRC said:

"We understand the impact of COVID-19 is creating extremely difficult times for all, and we are committed to helping in every way all those businesses facing unprecedented challenges.

"Therefore, we are providing all MTD businesses with more time to put in place digital links between all parts of their functional compatible software.

"This means that all businesses now have until their first VAT return period starting on or after 1 April 2021 to put digital links in place."

The deferral was welcomed by the Chartered Institute of Taxation (CIOT), which recognised many businesses are working hard to simply stay afloat.

John Cullinane, tax policy director at the CIOT, added:

"We are pleased the Government agrees this deferral of the digital links requirements can be put on ice while businesses concentrate on survival."

Speak to us about Making Tax Digital.