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COVID & RETURNS

As we all know, the last year has seen unprecedented impacts on our lives due to COVID. The UK Government has also taken unprecedented steps to try to protect jobs and the economy from the impact of COVID, including the CJRS, SEISS, SSP rebates and local authority grants, to name but a few.

However, as time moves on, we now have to start to think about the accounting and tax consequences of such support payments.

Tax

Leaving aside cash basis for the self-employed, the basis of tax is generally accounts drawn up under appropriate accounting standards but then these are subject to a plethora of tax overrides.

The taxation position of coronavirus support payments was legislated in FA 2020. For business purposes, the general position is that all such receipts are taxable business income, whether as part of the ongoing profits or as post-cessation receipts. 'Business' includes a trade, profession or vocation, a UK property business or an overseas property business and a business consisting wholly or partly of making investments.

There are no particular tax rules relating to the timing of such receipts, other than for SEISS. Where an amount of a coronavirus support payment made under the SEISS is paid to an ongoing business, the whole of the amount is to be treated as a receipt of a revenue nature for the year in which payment was received, irrespective of its treatment for accounting purposes.

However, this rule does not apply to an SEISS payment in respect of a partner of a firm where the amount is distributed amongst the partners, rather than being retained by the partner, meaning that such a payment would be taxed by reference to the accounting treatment.

An amount of a coronavirus support payment made under SEISS, a coronavirus business support grant scheme or a Test and Trace or Self-Isolation scheme in respect of a partner of a firm that is retained by the partner, rather than being distributed amongst the partners, is not to be treated as a receipt of the firm. Accordingly, the receipt is not to be included in the calculation of the firm's profits for the purposes of determining the share of profits or losses for each partner and the receipt is then added to the partner's share, the SEISS element being recognised on a receipts basis once again.

Consequently, the general principle, other than for SEISS, is to follow the accounting treatment for taxation purposes.

In addition, the FA 2020 legislation contained assessment and recovery provisions in relation to incorrectly claimed COVID support payments. Broadly, where a business accepts that it is not entitled to some or all of a payment but is not assessed separately, the sums concerned are not included as taxable income of the business but treated as tax due in the tax computation.

The tax return

Having laid out the general taxation position above, we then see that the SA and CT returns require COVID support payments to be specifically isolated and disclosed on the return. If we use the full SA return as an example, HMRC's notes state that:

'You must include amounts of taxable coronavirus support scheme payments that you received, subject to further guidance in these notes.

These include the following: Self-Employment Income Support Scheme (SEISS), Coronavirus Job Retention Scheme (CJRS), Eat Out to Help Out Scheme, any other applicable HMRC coronavirus support scheme (and) payments that you were entitled to receive from local authorities or devolved administrations.

Include SEISS payments in box 70.1 and any other coronavirus support scheme payments in box 16.'

There is then another reference to incorrectly claimed support payments:

'If you received a SEISS, CJRS, Eat Out to Help Out Scheme or any other applicable HMRC coronavirus support scheme payment that you were not entitled to and you have not voluntarily paid it back to HMRC or you have not received an assessment issued by an officer of HMRC in respect of the incorrectly claimed payment, put the incorrectly claimed amounts on page TR 5 of the main tax return SA100.'

A further important point is referred to in the notes in that the trading allowance of £1,000 cannot be used against SEISS.

More specifically, what the SA return is doing is excluding all coronavirus support scheme payments including SEISS from turnover and then asking for those payments to be separately identified. Although the tax return notes do not make this point, other than for SEISS, those sums separately identified must relate to the basis period rather than the tax year 2020/21. Presumably this is so HMRC can check that relevant sums have been declared.

The difference between accounting treatment of most COVID-related support payments and the receipts basis for SEISS is referenced later in the tax return notes:

'If you received any payments under the Self-Employment Income Support Scheme (SEISS), only include in box 70.1 the amount you were entitled to.

If you have received an assessment issued by an officer of HMRC in respect of a SEISS payment incorrectly claimed, only include in box 70.1 the amount you retained. Do not include in box 70.1 the amount of any sum that has been assessed which results in the repayment of a SEISS payment that you were not entitled to.

Include in box 70.1 the amount you were entitled to regardless of the dates your books or accounts start and are made up to.'

Corporation tax (CT)

There are similar adjustments required for the CT return but without the complications relating to SEISS.

Conclusion

Tax has never been straightforward but the advent of COVID-related support payments and the administration of these will make us all think quite hard about how to fill in the return correctly.