



## **COVID-19 BUSINESS SUPPORT: JOB RETENTION SCHEME AND FURLOUGHING STAFF**

It has been confirmed this morning that, providing a Real Time Information (RTI) filing has been made, employees employed prior to 19 March can now be furloughed. Please get in touch if you have any further questions on this – confirmation has been received that the HMRC portal will be opening on 20 April 2020, with the first payments being made 6 working days later.

Payroll clients of Butler & Co will have received full details of how to prepare and what process to follow from the payroll department directly – please contact Stacey Parkinson ([stacey@butler-co.co.uk](mailto:stacey@butler-co.co.uk)) directly with any questions arising from this.

## **COVID-19 BUSINESS SUPPORT: SELF-EMPLOYMENT INCOME SUPPORT SCHEME (SEISS)**

HMRC have now announced the process for calculating how much each individual self-employed individual will be eligible to receive from the SEISS. These conditions are detailed below. We do hope the information will guide you as to how much grant monies you will be eligible to claim.

As a reminder, this scheme is open to all self-employed individuals that have an average profit of under £50,000 for the last three years **and** earn more than 50% of their income from self-employment. Applications will be filed online, completing a form which will be made available by HMRC; forms are expected to be available in mid-May with payments being made at the start of June 2020.

### **A. CALCULATION OF ANNUAL 'TRADING PROFIT'**

HMRC will use the figures on your tax returns for your total trading income (turnover), then deduct any allowable business expenses **and** any capital allowance claims made. Allowable business expenses include:

- a) purchases of stock
- b) staff costs
- c) office costs
- d) travel costs
- e) financial charges such as interest
- f) advertising and marketing
- g) accountancy
- h) business rates

Capital allowances are the tax deductions for purchase of new plant and machinery, allocated to Fixed Assets on the balance sheet within the year end accounts. Examples include:

- a) commercial vehicles (tractors, vans etc.)
- b) computers and electrical systems (CCTV etc.)
- c) other machinery

**Example:** In the year, the business records turnover of £75,000 and allowable business expenses of £50,000. Non-allowable business expenses of £5,000 were included in the year end accounts, meaning the 'Profit' in that document was shown as £20,000. The business also purchased a van for £15,000 on which a capital allowance was claimed.

The trading profit for the year, in this example, is therefore: £75,000 (turnover) - £50,000 (allowable business expenses) - £15,000 (capital allowances) = **£10,000 'Trading Profit'** for use in the HMRC calculation.

#### **B. MORE THAN ONE TRADE**

HMRC will add together **all profits from all active trades** to work out 'trading profit'.

**Example:** If, using the working from section A, this was for a Farming Business and there was a separately trading horse livery yard earning £11,000 trading profit, then the trading profit calculation for the year would be: £10,000 'Trading Profit' from the farming business + £11,000 'Trading Profit from the horse livery yard = **£21,000 total 'Trading Profit'** for use in the HMRC calculation.

**NOTE:** If you have two or more trades and combined they breach the £50,000 average 'trading profits' limit over the last three years, no claim for SEISS can be made.

#### **C. TRADING FOR LESS THAN THREE YEARS / PART PERIODS**

If the self-employment business has been trading for less than three years, HMRC will only take into account the years the enterprise was active for the average calculation.

**Example:** If the business has 'trading profits' of £15,000 for 2018 and £21,000 for 2019, the average trading profit calculation will be: £15,000 + £21,000 = £36,000 / 2 = **£18,000 Average 'Trading Profit'** for use in the HMRC calculation.

**Part periods:** HMRC have not indicated that there will be any special measures if a business commenced part way during a year – i.e. the business only traded for 3 months in the 2017 tax year. At this stage, we have to assume that first trading period will count as an entire year, despite the lowering of the average that this will have. So, if the enterprise had 'trading profits' of £5,000 shown in 2017 for three months, but £20,000 in 2018 and 2019, the calculation would be: £5,000 + £20,000 + £20,000 = £45,000 / 3 = **£15,000 Average 'Trading Profit'**.

If HMRC provides any further guidance on this at any stage, we will confirm this immediately.

#### **D. TREATMENT OF LOSSES**

HMRC has confirmed that **losses are part** of the average 'Trading Profits' calculation.

**Example:** If the business made a 'trading profit' of £20,000 in 2017, a 'trading loss' of £10,000 in 2018 and a 'trading profit' of £15,000 in 2019, the trading profit calculation would be: £20,000 - £10,000 + £15,000 = £25,000 / 3 = **£8,333 Average 'Trading Profit'** for use in the HMRC calculation.

## E. 50% OF TOTAL INCOME CALCULATION

When HMRC refer to '50% of total income', they are referring to the total income from:

- income from earnings
- trading profit
- property income
- dividends
- savings income (interest on savings)
- pension income
- miscellaneous income (including social security income)

**Example:** If you have 'trading profits' of £35,000, property income of £10,000 and a dividend from some shares of £5,000; your self-employment income would make up 70% of your earnings, and you would be eligible for the SEISS.

If, however, you have 'trading profits' of £20,000, property income of £20,000 and dividends of £10,000; your self-employment income would make up 40% of your earnings, and you would not be eligible for the SEISS.

## F. AMOUNT OF GRANT AVAILABLE

Having come up with an average 'trading profits' figure for up to the last three tax years of 2017, 2018 and 2019; HMRC will take this figure, divide it by 12 to establish average monthly earnings; multiple this by 3 to cover a 3 month period; adjust the figure to 80% or £2,500 per month (whichever is lower) and then will pay that amount as a taxable grant directly into the business bank account at the start of June 2020. The maximum amount payable is therefore £7,500.00

**Example One:** If you have 'trading profits' of £20,000 in 2017, £30,000 in 2018 and £40,000 in 2019, then the following workings would indicate how much grant would be payable:

<b>Average Trading Profits working:</b>	$(£20,000 + £30,000 + £40,000) / 3$	<b>£30,000.00</b>
Average monthly earnings working	$£30,000 / 12$	£2,500.00
Total for three month period	$£2,500 \times 3$	£7,500.00
80% HMRC adjustment	$£7,500 \times 0.8$	<b>£6,000.00</b>

In the above example, **£6,000.00** would be payable at the beginning of June 2020

**Example two:** If you have 'trading profits' of £40,000 in 2017, £50,000 in 2018 and £60,000 in 2019, then the following workings would indicate how much grant would be payable:

<b>Average Trading Profits working:</b>	$(£40,000 + £50,000 + £60,000) / 3$	<b>£50,000.00</b>
Average monthly earnings working	$£50,000 / 12$	£4,166.67
Total for three month period	$£4,166.67 \times 3$	£12,500.01
<b>RESTRICTED TO £2,500 per month</b>		
HMRC adjustment	$£2,500 \times 3$	<b>£7,500.00</b>

In the above example, **£7,500.00** would be payable at the beginning of June 2020, due to the maximum claimable being £2,500 per month.

We hope you find the above of benefit and helps in some way to show how much grant money you will be entitled to in the coming weeks. If you do have any further questions on the above or the amount of grant you are estimated to receive, please do not hesitate to contact us at your next convenience.

We realise that these are all very difficult unprecedented times, with many people thinking about succession planning and ensuring their financial affairs are in order. If anyone has any concerns over succession or Inheritance Tax planning then please contact Fred Butler ([fred@butler-co.co.uk](mailto:fred@butler-co.co.uk)) or Julie Butler ([julie@butler-co.co.uk](mailto:julie@butler-co.co.uk)). Similarly, if anyone would like help with their Wills or Lasting Power of Attorneys (LPAs), we are currently working with a number of solicitors with a range of knowledge and expertise, who are helping on client matters through the pandemic. Please do get in contact if you are at all worried about this area.

With best wishes and stay well