

GOVERNMENTAL SUPPORT DURING CORONAVIRUS – UPDATE NO.2

After hinting for the last week that the government would make an announcement in relation to employee support, the Chancellor unveiled a further package of measures on 20 March 2020.

This note summarises the announcement and key aspects from the guidance and commentary we have seen on this so far.

Grant for 80% of salary costs: Coronavirus Job Retention Scheme

Under the Coronavirus Job Retention Scheme, all UK employers will be able to access a grant to cover the salary costs of employees who are temporarily out of work because of the Coronavirus crisis.

Government grants will cover 80% of the salary of retained workers (referred to as “furloughed” meaning the employer has laid off a worker for usually a brief or temporary period) up to a total of £2,500 a month.

There is ambiguity at the moment in relation to whether the £2,500 cap refers to the grant (i.e. a monthly grant of £2,500) or the salary threshold (i.e. a monthly grant of £2,000 for someone earnings a salary of £2,500). We are waiting for further guidance from the government on this point.

To be entitled to this grant, employers will need to:

- designate affected employees as ‘furloughed workers’, and notify your employees of this change - changing the status of employees remains subject to existing employment law so employers should not embark on this process without taking appropriate employment law advice.
- submit information to HMRC about the employees that have been furloughed and their earnings through a new online portal being created.

HMRC will reimburse 80% of furloughed workers’ wage costs, up to a cap of £2,500 per month. At present it looks like this grant is calculated by reference to their regular gross salary entitlement and not bonuses, overtime, pension contributions, the apprenticeship levy or employer’s national insurance.

Normal tax and national insurance deductions will need to be made as these individuals continue to be paid through the payroll.

By way of an example, the cost to the company of a furloughed employee who continues to be paid £2,500 per month is as follows:

	£
Gross salary	2,500
Employer’s national insurance	244
Apprenticeship levy (*)	13
Employer’s pension contribution	60
80% grant	(2,000)
Cost to company (per month)	817

* The apprenticeship levy is only paid by employers with a wage bill of more than £3 million

Where an employee’s salary is reduced as a result of these changes, they should be reminded that they may be eligible for support through the welfare system, including Universal Credit to top up any shortfall in their earnings.

The government has indicated that the Coronavirus Job Retention Scheme is to run for at least three months from 1 March 2020, but will extend if necessary. As the only certainty is for the next three months, in your negotiations with your employees, employers should bear this in mind if making long-term commitments to them.

While an employee is furloughed, they continue to accrue rights as an employee. So, for example, employees will continue to accrue service for the purpose of having rights to claim for unfair dismissal after two years of employment.

HMRC is in the process of setting up a scheme that will allow these payments to be made to employers, and this is due to be in place at some point in April. Realistically we would not expect any grants to be received until May at the earliest.

Deferment of due date for VAT payments

As a specific and targeted extension of the existing time-to-pay facility, HMRC has introduced an automatic deferral of VAT payments which would otherwise have fallen due to be paid in the period from 20 March 2020 to 30 June 2020.

No application to rely on this VAT deferment facility is needed but do remember to cancel direct debits if that is how your VAT payments are made..



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Businesses who choose to defer making these payments will be expected to pay any liabilities that have accumulated during the deferral period on or before 5 April 2021.

VAT refunds and reclaims will be paid by the government as normal.

HMRC has made no comment on whether late payment interest will accrue during this period. If it does, the current rate of interest applicable is 3.25% although, with the recent reduction in the Bank of England base rate, it is expected that this will also reduce.

The deferment period given above should cover the VAT due for quarterly VAT payers for the quarter ended 29 February 2020 through to the quarter ended 30 April 2020. For monthly VAT paying businesses, they should check the payment schedule issued to them by HMRC to identify which payments will fall within the automatic deferment period.

Deferment similar to this was available before this specific announcement through the HMRC time-to-pay facility. However, as waiting times were stretching to up to two hours before being able to speak to a person at the HMRC call centre, this measure should take some of the strain off this facility.

Deferment of due date for Income Tax payments due from self-employed individuals

The chancellor also announced a deferral of tax payments from the self-employed. Payments of income tax and class 2 and 4 national insurance due on 31 July 2020 under self-assessment will be deferred to 31 January 2021.

The guidance on this aspect of the announcements states, “No penalties or interest for late payment will be charged in the deferral period” so we are assuming that no interest will be due in respect of this deferred payment whatsoever and not just a delay in it being charged to after the deferment period but this is not clear. If interest is charged, it will be at a rate of 3.25%.

In the details released so far, this seems to be a facility available only to individuals with self-employed entries on their tax returns and not a deferment of the July payment on account for all individuals (i.e. buy-to-let landlords) unless they also have self-employment income. Clarification is needed in this area.

Extension of interest-free period for Coronavirus Business Interruption Loan Scheme

The details of the loan scheme, providing loans of up to £5 million with a guarantee from government as security for the lending banks, were covered in our earlier updates.

The changes the chancellor announced as part of this package of measures are:

- The turnover threshold for companies eligible to apply for the loan scheme has increased from £41 million to £45 million.
- The commencement date has been brought forward by a week so it is open for applications as of today, Monday 23 March.
- The interest-free period has extended from six months to 12 months.

More details have been updated on the British Business Bank website at www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils.