ACTIVE PRACTICE UPDATES

OCTOBER 2021

jamesscott
Chartered Certified Accountants

2020/21 INCOME TAX RETURNS & THE SEISS

Three grants worth up to £21,570 are taxable.

A chunk of time has passed since the self-employed income support scheme (SEISS) was launched in May 2020, following the onset of the COVID-19 pandemic.

The first taxable grant, worth up to £7,500 in total, was paid out in August 2020. That was followed by a second grant of up to a total of £6,570 and a third grant, worth up to £7,500 in total.

Many self-employed individuals or business partners who met the SEISS's eligibility criteria could have claimed up to £21,570 in total from these grants claimed during 2020/21.

What's that got to do with your next personal tax return, you might wonder? Quite a lot, actually, as any of the three emergency support grants you received via the SEISS between 6 April 2020 and 5 April 2021 are taxable.

The time will shortly be upon us to report all of your taxable income from the 2020/21 tax year, prior to the next self-assessment deadline for online tax returns due on or before midnight on 31 January 2022.

For many self-employed individuals, a large portion of their taxable income for 2020/21 will have come via the SEISS grants, because many businesses were forced to close due to lockdown restrictions, or simply struggled to do business.

As ever, having records of your income and expenses relating to the previous tax year is vital when it comes to filing your tax return, and that includes any records of the three SEISS grants this time around.

REGISTERING FOR SELF-ASSESSMENT

Surprisingly, more than 400,000 startups were created in 2020/21 during the height of the pandemic. For these business owners, certain deadlines are fast approaching.

If you were one of these entrepreneurs, you should have already received two separate letters from HMRC: one containing your 10-digit unique taxpayer reference number; the other containing an activation code.

These are necessary to register for self-assessment by 5 October 2021, which will enable you to file a personal tax return on or before 31 January 2022. If you're reading this with a sense of panic, it will almost certainly be too late.

While there are no penalties in place for missing this self-assessment registration deadline, you will run the risk of not being ready to file your first tax return on time – and with that comes an instant £100 fine, which can escalate the longer you leave it.

SELF-ASSESSMENT FILING DEADLINES

The first filing deadline is for paper tax returns on or before midnight on 31 October. Only 468,447 paper tax returns (less than 5% of the total) were filed by this deadline last year, which related to the 2019/20 tax year.

This method of reporting taxable income is on the way out, however, with Making Tax Digital for income tax self-assessment (MTD for ITSA) starting from April 2024.

What this means is that when the time comes to file your 2024/25 tax return on or before 31 January 2026, for most taxpayers, online will be the only mode of submission.

Using 2019/20 as a yardstick, when 95.64% or 10,274,940 tax returns were filed online before the end of January 2021, this change will only affect a minority of taxpayers.

The same midnight deadline on 31 January 2022 applies for online submissions of 2020/21 tax returns, which we are already working on for our self-employed clients.

REPORTING THE SEISS GRANTS

If your unincorporated business was adversely affected by the pandemic and had annual trading profits of £50,000 or less, you would've been eligible to obtain the first three taxable grants via the SEISS in 2020/21.

These need to be included in your 'profits from self-employment' for 2020/21, and will be subject to income tax and Class 4 NICs. The grants also form part of the small-profits threshold for Class 2 NICs.

There is a separate box on your self-assessment tax return within the 'other tax adjustments' section for disclosing the amount of SEISS received.

Assuming you claimed the maximum amount (£21,570) on the three SEISS grants in 2020/21, this will be added to any other taxable income before you are assessed for income tax on the excess above the £12,500 personal allowance.

The fourth and fifth grants will also be taxable for income tax and NICs purposes, but not until 31 January 2023. This is because if your applications are successful, you will receive these payments in the 2021/22 tax year.

SEISS RECORDS YOU NEED

You need to have records of the amounts you claimed from any or all of the three grants paid out in 2020/21, along with the claim reference number.

For the first two grants, you should disclose evidence of how the pandemic impacted on your business's trading profits. This could include:

- business accounts showing lower turnover
- evidence of any COVID-19 business loans you received
- dates your business closed due to lockdown restrictions
- dates your staff were unable to work due to COVID-19 symptoms, shielding or caring responsibilities due to school closures.

For the third taxable grant, having records of fewer invoices, contract or appointment cancellations, test-and-trace communications, and positive COVID-19 tests can demonstrate to HMRC how your business was affected.

OTHER RECORDS

There are no rules on how you must keep records. You can keep them however you wish, although we advise using software approved by HMRC which will comply with MTD for ITSA.

The tax authority advises keeping records of any income from sales or receipts from business expenses incurred in 2020/21. You should retain PAYE records if you employ anyone, and keep hold of VAT records if you're VAT-registered.

Records of any personal income, such as from investments, savings, pensions, or rental proceeds, should also be kept and declared in your tax return.

HMRC states you must keep your records for at least five years after the 31 January submission deadline of the relevant tax year. This is to ensure you pay the correct amount of tax.

EXPERT ADVICE IS AVAILABLE

There's still plenty of time for you to share all of your records or spreadsheets with us to process and upload your 2020/21 tax return digitally – our preferred method – in plenty of time.

We are already running the rule over clients' records, applying any reliefs and reclaiming any allowable expenses before we calculate their taxable profits to ensure they only pay what they need to.

With MTD for ITSA also on the horizon, we are also introducing HMRC-approved software to our clients and showing them how to use it within their business.

The sooner you embrace this, the easier this process will be when MTD for ITSA becomes mandatory.

This collaborative approach works so well, it actually gives our clients a real-time picture of their business's health whenever they need it and makes self-assessment a doddle for us.

We handle every aspect of self-assessment.