SUMMER NEWSLETTER - JULY 2020

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Revised furlough scheme stretched through October

The Covid-19 furlough scheme has been effectively revised into a new scheme running from 1 July until 31 October, but this comes with a level of complexity that did not exist in its original guise.

Much of the complexity arises because employers can now bring furloughed employees back to work flexibly on a part-time basis, while still being able to claim under the scheme for the hours not worked.

One very important change is that claims cannot now straddle months. This is because the scheme rules will change from month to month.

From 1 July, only employees who were furloughed under the original scheme ending on 30 June are eligible for further grants. However, the minimum three-week furlough period has now been removed.

Hours worked

For flexibly furloughed employees, employers will have to calculate the employee's:

- **Usual hours** – There are two different calculations depending on whether an employee works fixed or variable (or zero) hours. The calculation can be confusing and may not always deliver the obvious answer, especially for employees on variable or zero hours.
- **Actual hours worked** – This could be an issue for directors who have no fixed hours. Accurate record keeping will be essential for both employees and directors. For hours actually worked, employees must be paid their normal wage.
- **Furloughed hours worked** – Simply calculated as usual hours less worked hours.

A new written agreement is required for flexibly furloughed employees to confirm the new arrangements.

When claiming for flexibly furloughed employees, employers should not claim until they are sure of the exact number of hours that will be worked during the claim period. If a claim is made in advance and fewer hours are worked than expected, a refund will have to be made to HMRC.

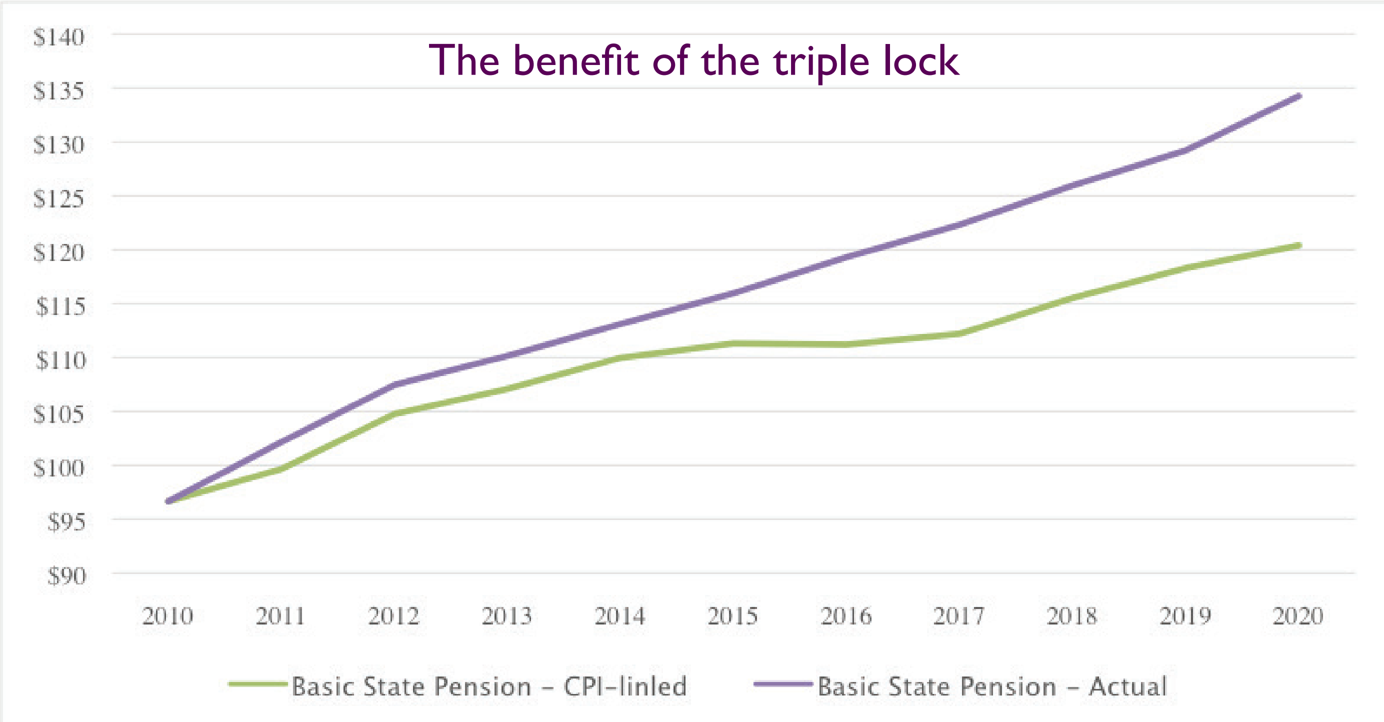
Maximum number

With certain exceptions, the maximum number of employees included in a furlough claim from 1 July onwards cannot exceed the highest number of employees included in any claim up to and including 30 June.

HMRC has provided various worked examples of how to calculate an employees' wages, NICs and pension contributions.

Calling time on the triple lock?

The state pension triple lock may not survive much longer.



The impact of Covid-19 on earnings could mean a change in the way that state pensions are increased in each year. If nothing is done, it could give pensioners a large income boost, but cost the government dearly.

At present, the new (single tier) state pension and its predecessor, the basic state pension, both benefit from increases based on the 'triple lock'. This was introduced by the Coalition government in 2010 and means that these two state pensions increase each April by the greater of:

- yearly CPI inflation to the previous September;
- average weekly earnings growth to the previous July; or
- 2.5%.

This basis means that for 2021, the increase is likely to be 2.5% because CPI inflation will be lower (it was 0.5% in May) and earnings could well be falling due to the impact of furloughing.

It is in 2022 that a potential problem emerges for the Treasury. The furlough scheme ends at the end of October 2020, and if the economy starts to recover, by July 2021 earnings could be back to near 'normal'. The fact that by then some of the formerly furloughed employees will be unemployed makes no difference to average earnings figures.

Economists reckon that the difference between 'normal' average earnings in July 2021 and furlough-depressed average earnings in July 2020 could be significant. In its Covid-19 'reference scenario' the Office for Budget Responsibility has estimated earnings growth of over 18% in 2021 (against a 7.3% fall for 2020). No Chancellor would want to fund such a large rise in state pensions, not only because of the expense, but also on grounds of intergenerational fairness.

The Treasury and many economists have long argued that the triple lock is an unnecessary cost, but politicians have always been wary of upsetting an important section of the electorate. This additional problem now created by Covid-19 gives the government the best justification it is ever likely to have to dispense with the lock. There are even suggestions that state pensions could be frozen for the next two years until the issue (hopefully) disappears.

State pensions play an important role in many people's retirement income planning, but their payment is ultimately a state decision, as evidenced by the many changes of recent years (for example to starting age). For that reason, if no other, private provision remains a vital component of your retirement planning.

Consumer credit Covid-19 measure extended

Help for consumers to manage their credit and debt has been extended to the end of October.

In mid-June, the Financial Conduct Authority (FCA) told firms to extend measures to provide help to people with credit cards, store cards, catalogue credit and personal loans who faced difficulties with their finances as a result of the Covid-19 crisis. This help was set to last initially for three months from April, but a recent update means there will now be a further three months' flexibility ending on 31 October 2020.

Payment freeze

If you have already taken a payment freeze, you may now be able to take a further payment deferral or reduce payments to what you can afford. For anyone who has not yet requested a payment freeze, they can do so during the extended period.

A very important consideration is that you must still pay the debt back at the end of the deferral period, so there is potential to simply store up problems for a later date. With many people now returning to work, it makes sense to try to resume payments as soon as possible. It is at the discretion of the firm involved whether you will be charged interest during the payment freeze.

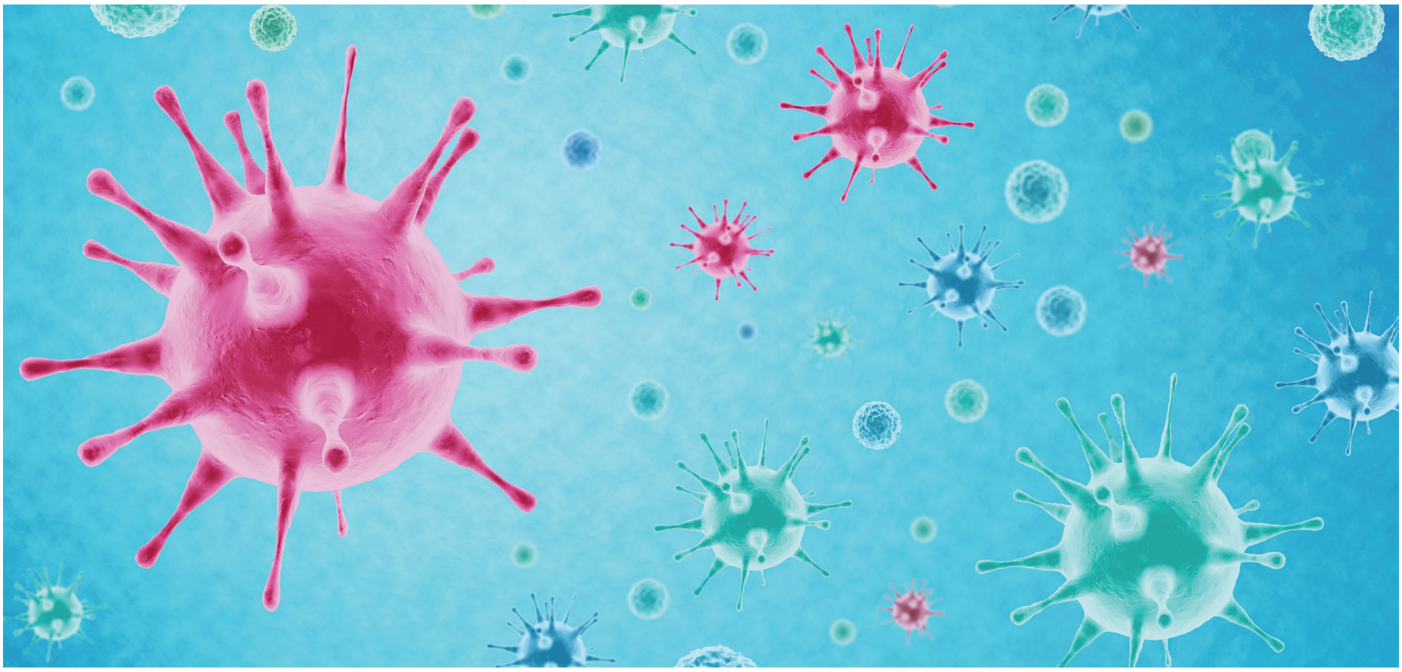
In theory, payment deferral should not affect your credit rating, but there is no guarantee that all loan providers will abide by this.

Overdrafts

Bank customers have been able to apply for an interest-free overdraft of up to £500. The interest-free period will now also run until 31 October 2020. Anyone who has not yet taken advantage of this measure has further time to do so. You can also request a lower rate of interest on borrowing in excess of the £500 interest-free buffer.

However, the FCA has not extended the temporary measure that meant overdraft customers were no worse off, with regards to their potential overdraft charges, than before April when a new temporary pricing structure for overdrafts was introduced. Although only a single rate of overdraft interest can now be charged, this can be around 40%.

The FCA provides detailed guidance on what Covid-19 means for your finances - **www.fca.org.uk/coronavirus-support**



Card tax payments to incur charges

When making tax payments to HMRC, you are currently only charged a fee if you pay by business credit card, while payments by personal credit card are not permitted. However, from 1 November 2020, payments made using a business debit card will also attract a fee.

The rationale behind the change is to avoid any cost to the public purse, so business debit card users will be charged a fee equal to the total cost incurred by HMRC when receiving the card payment.

Alternatives

HMRC accepts a wide range of alternatives which will not incur charges for the taxpayer, including:

- Online banking – Quick and easy to set up, with the advantage that details are saved for the future, with Faster Payments normally being immediate. You can also pay with CHAPS or Bacs or use telephone banking.
- At your bank or building society – This method is only an option if you still receive paper statements from HMRC and also have the paying-in slip HMRC sent you (printing one is not an option).
- Direct debit – Set up is via your HMRC online account, this is not quite as convenient as online banking, with payments normally taking longer to process. You need to plan ahead if paying by direct debit. HMRC says to allow five working days to process a Direct Debit the first time one is set up, and three working days the next time if you're using the same bank details.
- By cheque through the post – You can print a payslip to use if HMRC has not sent you one. Allow three working days for the payment to reach HMRC, with an obvious delay if the cheque is not completed correctly.

The fee-change is only to business debit cards, so payments made using a personal debit card can continue to be made to HMRC free of any charges.

HMRC has online guidance on paying your taxes - **www.gov.uk/topic/dealing-with-hmrc/paying-hmrc**

Time to look at an alternative tax?

The adoption in the UK of a transatlantic approach to income tax could appeal to a cash-strapped Chancellor.

"…only the little people pay taxes."

That 1980s comment by the New York Hotel owner Leona Helmsley sums up an attitude that many taxpayers still believe to be true. Today the same idea often comes up in headlines suggesting that the chief executive pays a lower rate of tax than his (it's usually his) cleaner. There is an element of truth in such assertions, as the wealthy generally have greater opportunity to plan when, where and how they receive their income.

The US has long attempted to address the problem with the Alternative Minimum Tax (AMT). The rationale behind AMT is simple: those with income above a certain threshold ($197,900 in 2020) must pay a minimum rate of tax on their income after deducting a flat exemption. If their tax bill calculated on a normal basis is lower than the one produced by applying the AMT rates, then it is the AMT amount that must be paid. There comes a point, therefore, at which tax planning has no benefit.

Two UK academics with links to leading think tanks recently published a paper examining the possibility of a UK version of AMT. With the help of anonymised HMRC data, the pair were able to show that the average effective rate of tax paid by one in ten people with income (including capital gains) of over £1m was lower than for somebody earning £15,000. The inclusion of capital gains is open to challenge and one reason why the result was produced – capital gains are more lightly taxed than income.

The headline proposal of the paper was that the UK government could raise £11bn a year – about the same as 2p on the basic rate of tax would produce – by applying an AMT rate of 35% to anyone with income (again including gains) above £100,000. For a government that was elected with a pledge not to increase income tax rates, AMT offers an interesting revenue raising opportunity. If nothing else, these AMT proposals are a reminder that – at least for now – tax planning can save you money.

Disclaimer: This information provides an overview of the issues considered and is for general information only. It is not intended to provide advice and should not be relied upon in any specific transaction.