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CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISERS

Originated 1841

August 2020

ECONOMIC UPDATE

Since the Budget in March, businesses have seen a stream of different support schemes and policies announced to help them manage the financial impacts of the coronavirus lockdown. When Chancellor Rishi Sunak stood in the House of Commons again on 8 July, it was in the context of the gradual reopening of the economy, with several lockdown restrictions having been eased on 4 July.

The update wasn't an official Budget speech or fiscal statement, and it only lasted around half an hour, but it contained several important measures, some of which I have highlighted below.

VAT cut in hospitality and tourism sectors

One of the headline measures of the Chancellor's speech was a temporary cut to VAT for food, accommodation and attractions, from 20% to 5%.

From 15 July 2020 to 12 January 2021, the reduced VAT rate applies to supplies of food and non-alcoholic drinks from restaurants, pubs, bars, cafés and similar premises, and to supplies of accommodation, such as hotels and B&Bs, and admission to attractions. The measure is intended to encourage consumer activity in the hospitality and tourism sectors, which have been hit particularly hard by the effects of the coronavirus pandemic.

However, there are some concerns it could increase complexity for the businesses it aims to help. Some will need to deal with varying rates of VAT on different products and services they offer, as well as managing invoices which had already been raised or advance payments received, before 15 July, on which the original 20% rate was charged. There may also be a risk of cashflow problems for businesses that have not set aside their VAT, and now need to pay the 20% due for previous quarters, while only collecting 5% from consumers. Essentially, the change means more care needs to be taken over VAT accounting in most cases.

Furlough bonus scheme

During the speech, the Chancellor took the opportunity to emphasise that the Coronavirus Job Retention/Furlough Scheme will not be extended beyond its current end date of 31 October. However, as concerns remain about rising redundancies with employers no longer able to claim furlough pay after that date, the Chancellor offered an incentive for businesses to bring back furloughed staff and keep them in employment over the next six months.

Employers who bring back furloughed staff and keep them in continuous employment to the end of January 2021 will be able to claim a job retention bonus of up to £1,000 per employee. This only applies if workers are paid at least £520 a month on average during November 2020 to January 2021. Payments to employers under the scheme are expected to be made from February 2021.

Kickstart scheme and apprenticeships

Other measures in the speech were focused on supporting jobs for the younger generation, with the Chancellor noting that under-25s are

"two-and-a-half times as likely to work in a sector that has been closed" during lockdown. One part of this was a 'kickstart' scheme, which aims to incentivise employers to offer six-month work placements to people aged between 16 and 24, who are on Universal Credit and deemed at risk of long-term unemployment. This offers funding for each placement, covering 100% of the national minimum wage for 25 hours per week, plus the associated employer National Insurance contributions and minimum automatic enrolment contributions.

Additionally, the Government is encouraging employers to offer work experience to young people on traineeships, offering a £1,000 bonus for each new trainee they take on. And from 1 August 2020 until 31 January 2021, employers in England will receive payments for hiring apprentices, of £2,000 for each new apprentice under the age of 25, or £1,500 for new apprentices over 25.

Half-price discount on eating out

This Government-backed so called 'eat out to help out' scheme will offer diners a 50% discount of up to £10 per head on their meal or drinks at participating businesses. That means restaurants, cafés, pubs, and other food service firms can sign up to be fully reimbursed for the 50% discount. The discount can be used unlimited times and will run from Mondays to Wednesdays throughout August.

To be eligible to join the scheme, a business must sell food for immediate consumption on its premises, provide its own dining area or share a dining area with another establishment for eat-in meals, and it must have been registered as a food business with the relevant local authority on or before 7 July 2020. Establishments that only offer takeaway food or drink, dining and catering services, and mobile food vans cannot join the scheme. Businesses can register for the scheme through the Government's website.

Other announcements

Finally, in addition to the measures aimed at businesses, the Chancellor announced a stamp duty land tax holiday, raising the lower threshold at which the tax is due from £125,000 to £500,000 for transactions taking place between 8 July 2020 and 31 March 2021.

Additionally, a green homes grant is being made available to homeowners and landlords from September, providing a minimum of £2 for every £1 spent on making residential properties more energy efficient. This will cover up to £5,000 per household, or £10,000 for lower-income households.

The above is for general guidance only and no action should be taken without obtaining specific advice.

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