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N E W S L E T T E R

Lockdown

Contrary to what I said in my last newsletter, I have not yet re-opened my office to the public, as Covid cases and deaths had started to increase again when restrictions lifted. I will see clients in the office for a brief meeting where absolutely necessary (such as to take ID) as long as a face covering is worn after checking the photo ID.

SEISS Grants

The 2020/21 tax returns which I am currently preparing have to include the first three SEISS grants paid to self-employed people whose businesses were adversely affected by Covid itself or the consequent lockdown. Part of HMRC's review of those returns will be to try to identify individuals who have claimed the grants in error or fraudulently.

The first stage will be to compare the business turnover and profit with the previous year. At first sight, an increase in earnings would seem to indicate that the taxpayer was not entitled to any grants, but things are not so straightforward: each grant had eligibility criteria based on a period of about three months, so that is what really matters rather than the year as a whole. For instance, during the first lockdown, many businesses which were not required to close had to anyway because their suppliers and customers were closed. I have notice that many of them have done very well since re-opening.

Where I see that HMRC are likely to suspect that a person was not entitled to the SEISS grants claimed, I am including additional notes on the tax return, explaining the reason for the claim, such as illness with Covid, self-isolation or inability to operate the business. The first grants did not require any particular level of financial loss, but just that the business had been adversely affected in some way by Covid. That contrasts with the grants paid in 2021/22, where the loss must exceed a threshold in order to qualify.

Social Care

It has been long accepted by all political parties that there is an urgent need to reform the system of social care, particularly the way the elderly are charged in nursing homes. Currently, anyone with assets of over £23,250 (including the value of property such as the family home) has to pay in full for social care. Of course, people are not forced to sell their home in order to pay for the care; the local authority puts a legal charge on the property, so that they collect their money when it is sold, which may not happen until after the owner has died. To avoid such a claim being made, people often give away their homes to their children well before they need to move into a nursing home.

Although the system is unpopular with the public, governments have put off making any changes, aware that any reduction in the contribution people make to their own care would have to be funded by increases in taxation, which could prove equally unpopular. This should not really be a political issue, but a cross-party consensus on a solution has proved elusive.

It has yet to be approved by parliament, but the government's proposed solution is that, from October 2023, there will be a lifetime limit of £86,000 on what anyone has to pay for personal care. Furthermore, payments will stop when the individual's assets drop below £20,000, even if the lifetime limit has not been reached. If assets are between £20,000 and £100,000, then payments will be means tested, so may also never reach the lifetime limit. The local authority will still be able to put a charge on property where the individual does not have enough liquid assets to be able to pay the care costs.

I would assume that all of the financial limits and thresholds will rise in line with inflation in the future.

Health and Care Spending

Because of the Covid pandemic, NHS spending in 2020 was 25% higher than the year before, while routine procedures were postponed, leaving a large backlog to catch up on. The new levy will provide an extra £12 billion for health and social care for each of the next three years.

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Health and Social Care Levy

Funding the new system is going to be expensive and it is an inescapable limitation of government finances that the only way to raise large amounts is by increasing taxes which are paid by a lot of people. In practice, that means VAT, Income Tax or National Insurance; any attempt to just "tax the rich" would never raise enough.

Some people had called for National Insurance to be extended to people over state pension age who are still working, who currently are not paying any. That, however, would have gone against the principle that National Insurance is a contributory system, where payment earns the right to benefits, most significantly the state pension but also short-term benefits such as sick pay and job seeker's allowance. Retired people have already earned their state pension and cannot claim the short-term benefits, so paying National Insurance would entitle them to nothing extra.

The government know, therefore, that raising the money to fund social care would require them to break a manifesto commitment to not increase VAT, Income Tax or National Insurance. They opted for an increase in National Insurance, but also increased the rate of tax payable on dividend income. That latter change will partially address the ludicrous situation (blame Gordon Brown) where people who run a business through a limited company can pay themselves a small salary, which is not liable to National Insurance but still earns benefits, then take the bulk of their remuneration in dividends.

The new Health and Social Care Levy is a charge of 1.25% to be applied to the following from April 2022:

1. Employees' National Insurance (Class 1 primary).
2. Employers' National Insurance (Class 1 secondary).
3. National Insurance on Benefits-in-kind (Class 1A).
4. Self-employed National Insurance (Class 4).
5. Dividend income over £2,000 in any tax year.

For the tax year 2022/23, the 1.25% will be collected as a higher National Insurance charge. From 2023/24, it will be split off as a separate charge which will appear on payslips and tax calculations. At that point, people over state pension age (currently 66) will become liable to the levy if they are still working; the contributory principle is thus preserved, as they will be paying to fund a benefit which they may later be claiming themselves.

The main criticism of the new system has been that the elderly will be the main beneficiaries, while having paid in little or nothing themselves. We have to start somewhere, though, and the situation is analogous to that 100 years ago, when National Insurance and the state pension were introduced: the first people to claim a state pension had never paid any National Insurance.

Self-isolation Payment

People on low incomes who have been contacted by the NHS Test and Trace app, and then required to self-isolate, can claim compensation of £500. That payment is taxable, so I need to include in on the tax return, but may be unaware of it as it was probably banked in a private account. If you have received such a payment, remember to tell me when I am preparing your tax return.

State Pension

For many years, the state pension has increased each April by a percentage which is determined by a system known as the "triple lock" which is the highest of the annual rate of inflation, annual increase in wages, or 2.5%. When the April 2021 increase was determined in late 2020, average wages had fallen compared to the previous year, because of Covid and many employees being furloughed. As people have gone back to work, earnings have risen sharply and the annual rate of increase would be around 8%. The government could never afford to increase pensions by that amount so, for this year only, the triple lock is suspended and the April 2022 increase will be the higher of the rate of inflation or 2.5%.

Pass it on

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