Recovery from Coronavirus

Positioning SMEs to rebuild the economy

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2 Introduction

2.1 The UK200Group

The UK200Group is the UK's leading professional services group of independent chartered accountancy and law firms. Our organisation brings together 150 member offices in the UK with more than 600 partners who serve the needs of roughly 150,000 small, medium and large businesses across the UK together with countless private individuals.

We have an unrivalled knowledge of their relationships with one another, with banks, and with their employees, and a wide range of experience and expertise in all sectors of the economy.

2.2 Our objectives

Our aim is to help ensure that the UK's small businesses are in a position to come out of the coronavirus crisis in a fit state to carry on in business. That requires that the businesses still exist, that they have access to the proper resources, and that the wider economic ecosystem is healthy.

To this end, we are actively engaged with our client businesses on a day to day basis, but as the issues affect the whole economy, we consider that Government is best placed to provide the necessary support.

We recognise that the Government has delivered an unprecedented support package which has been enormously helpful, but as with any situation requiring quick and decisive action it is always possible to do more. We therefore seek to assist the Government in doing so by providing insight, experience, and information.

2.3 Concerns

From our extensive consultations with businesses over the last few months, by way of online polls and surveys as well as direct communication with our clients, we have identified two pressing concerns:

- **Cashflow**
- **Confidence**

The importance of cashflow is well known, but we consider that confidence is equally vital: morale is very low in many sectors, with no apparent light at the end of the tunnel. It is essential that business owners be reassured that they will have an income in the short term, rather than increased costs.

We are conscious that Government funds and other resources are under severe pressure at present and have therefore sought solutions which carry low Exchequer costs and administrative burdens.

2.4 Action

In this paper we have set out a number of mechanisms for consideration by Government, which are designed to assist UK SMEs in surviving both the immediate crisis and the transition to a new normal.

These are set out briefly and should not be regarded as a coherent package, but more as a springboard for debate. It would not be appropriate to adopt all of them, as there is a measure of double-counting, but there are also synergies between them which could multiply their effectiveness.

3 Summary of proposals

3.1 Loan repayments

Bank loans and postponed taxes could be combined into a longer-term debt whose basis of repayment is tied to ability to repay, as with student loans.

Banks have recently suggested a similar scheme, but more limited in that it would only apply to bank debt. Our proposal is wider-ranging and would also provide a mechanism for Government to directly support other measures without requiring the involvement of banks, thereby bypassing the teething problems of CBILS.

3.2 Business Owners' Support Scheme

A number of individuals might expect to have qualified for SEISS and/or CJRS but do not.

The Business Owners' Support Scheme ('BOSS'), a supplementary scheme to assist them, would be relatively simple to implement. By levelling the playing field substantially, it would have a significant impact on the viability of businesses, market confidence, and the perception of the Government's overall support package.

3.3 Corporation tax relief

Incorporated businesses do not qualify for SEISS, even if the business itself is identical to an unincorporated one.

It would be very simple to provide a similar level of support through the corporation tax system. Using this route ensures that any benefits are felt by the business rather than the owner.

3.4 Capital allowances

Investment is key to growth in the new economic environment, but cash for new plant and equipment is tight. A slight modification to the capital allowances regime, making use of existing tax structures, would reduce the upfront cost of investment for small businesses at no net cost to Government.

3.5 Employee ownership

A common result of the crisis has been to highlight the loyalty of a business's workforce, who have frequently gone above and beyond what would normally be expected of them.

Government policy over the last few years has been to encourage employee control of businesses, and the groundswell of feeling represents an excellent opportunity to emphasis and encourage such transitions.

3.6 Other measures

A number of other measures could be taken to soften the impact of the crisis, such as refining the furlough system and tailoring the VAT system to reflect changes in consumer spending.

In addition, opportunities now exist to encourage Government policy and to remove unhelpful anomalies in the tax and finance systems.

4 Loan repayments

4.1 Issue

Many businesses are facing a 'wall of debt' early in 2021:

- Income tax payments on account deferred from July 2020 are due on 31 January 2021
- VAT deferred from June 2020 is due by March 2021
- Bounce-back loans and CBILS have 12-month repayment holidays, and so payment will start in spring 2021.

In the absence of solid cashflow forecasts, this is a worry.

4.2 Essence

The debts can be repaid if there is cash. If there is no cash, the debts will collapse the businesses.

Ability to repay this debt is dependent on positive cashflow – that is, profit.

4.3 Inspiration

University students incur a wall of debt during their studies which must be repaid.

They repay this only if they earn a reasonable amount, and the repayment is linked to earnings.

4.4 Solution

Consolidate certain debts into a single business support loan owed to HMRC.

Establish a threshold for repayment based on a criterion such as:

- Average profits of the last 3 years
- Size of business
- Size of loan.

To the extent that taxable income exceeds that threshold, apply an additional rate of tax which discharges that debt.

Interest accrues on the outstanding loan balance.

4.5 Illustration

A company has deferred a VAT payment of £20,000 and taken out a Bounce Back loan of £50,000. It would normally have to pay £20,000 in March 2020, and around £10,000 per year for the next six years.

Instead it has a total business support loan of £70,000 at 31 March 2021. The threshold for repayment is set at 20% of the loan value (£14,000), the interest rate is 5%, and the repayment rate is 25%.

In the year to 31 March 2021 the company makes taxable profits of £10,000:

- It pays £1,900 of corporation tax
- The profits are below the threshold and so no debt is repaid.

In the year to 31 March 2022 the company has recovered and has profits of £50,000.

- It pays £9,500 of corporation tax
- Profits exceed the threshold by £36,000
- The repayment due is £9,000
- The balance due is now:

Original loan	£70,000
Interest	£3,500
Repayment	(£9,000)
Balance	£64,500

In the year to 31 March 2023 the company has profits of £100,000.

- It pays £19,000 of corporation tax
- Profits exceed the threshold by £86,000
- The repayment due is £21,500
- The balance due is now:

Opening balance	£64,500
Interest	£3,250
Repayment	(£21,500)
Balance	£46,250

4.6 Implementation

This may require some effort to implement, particularly as it involves a combination of Government and bank debt, but the basic repayment principles have already been established for student loans, and a similar mechanism for collection could be used.

One option would be for Government to form a fund which can assume responsibility for a business's bank debt in return for a repayment scheme as outlined above. This would simplify the structure, while exposing the Government to no more risk than it currently has under the loan guarantees. Such a fund would essentially be self-funding - indeed, to the extent that it helps businesses to survive and repay the loans rather than resorting to the guarantees, it would be a net revenue generator for Government.

The fund would also provide an avenue for other direct financial measures provided to businesses to support other Government initiatives (such as employee ownership – see 8.2 below).

We note that banks have recently called for such a structure, albeit limited to their existing coronavirus-related loans. It would seem logical to extend it to include non-bank debt: the inclusion of tax debt could easily be regarded as a structured 'Time To Pay' arrangement.

4.7 Conclusion

This would directly tie the repayment of the wall of debt on the ability to repay. Successful businesses would repay the debt earlier; those which are struggling would have additional time.

This eases the business's cashflow position and increases confidence by alleviating concerns over debt repayments. There would be no net cost to the Exchequer; some administrative burden would be involved, but it appears that banks may be willing to shoulder at least some of this.

Basing the repayment on taxable profit means there is no impact on existing tax incentives such as capital allowances or R&D credits.

5 Business Owners' Support Scheme

5.1 Issue

CJRS helps employees. This represents the majority of workers.

SEISS helps the self-employed. This is a sizeable minority of workers.

The SEISS was set up to get support to as many people as possible in a short space of time and was therefore necessarily simplistic.

A large number of workers are not employees, but fail to qualify for SEISS, such as:

- Company directors
- The newly self-employed
- Newly incorporated businesses
- Freelancers with a mix of employment and self-employment
- Gig economy workers with a number of part-time employments
- Non-trading businesses such as holiday lets.

Many of these have received little or no support. This not only prejudices the future of their businesses, but it also feels extremely unfair to them.

5.2 Essence

The term 'self-employed' has a narrow technical definition, but it also has a wider use. Most people outside the tax and accounting professions use it to refer to a worker who is proprietor of their own business, however it is established. For example, individuals have been known to say, '*I'm self-employed: I have my own company that I work through.*'

In addition, the SEISS only applies to trading businesses: this again is a technical tax term which excludes many full-time occupations.

5.3 Inspiration

SEISS is based on using information already available to HMRC about self-employment, using the narrow definitions above.

SEISS has done an excellent job for those it includes, it could be supplemented with a further scheme, modelled on SEISS but broader in scope and based on the wider definitions used on the Clapham omnibus.

5.4 Solution

The Business Owners' Support Scheme ('BOSS') potentially applies to all business owners, although a substantial majority will be excluded by the double-counting rule.

5.4.1 Eligible individuals

All UK business owners (shareholders, sole traders, partners, and so forth) are eligible.

Individuals whose income comes only from employment, pensions, and/or passive investments are excluded.

5.4.2 Eligible income

All taxable income deriving from the individual's business activity in the tax year 2019/20 is included, such as:

- Self-employment income
- Property income, where it is treated as a business
- Dividends and salaries from personal companies
- Employment income.

5.4.3 Excluded income

Passive income is not included:

- Interest
- Dividends from investments
- Non-business rent
- Pensions.

A potential refinement would be to restrict eligible employment income to employments related to the primary business, such as consultancy contracts where the engager puts the consultant on payroll in the interests of administrative simplicity and tax compliance.

5.4.4 Amount due

The amount of grant is calculated on a similar basis to SEISS: 80% of eligible income, so long as it exceeds excluded income.

5.4.5 Double-counting

All amounts received by the individual under SEISS or CJRS are deducted from the amount due.

This immediately eliminates anyone who has only a single employment or self-employment, as they will have received full relief under CJRS or SEISS.

5.5 Illustration

The impact on a number of common scenarios would be as follows:

5.5.1 Freelancer

A freelancer earns £10,000 of self-employed income and has £12,000 of income from many short-term contracts under PAYE.

- At present they get neither an SEISS grant nor furlough pay

- Under BOSS, they would get relief based on 80% of their £22,000 income. No deductions reduce this.

5.5.2 Company director

An individual owns and manages a construction company which has profits of £20,000pa, after tax and a salary of £10,000. All profits are paid out as dividends. Their staff are furloughed but they have not been able to furlough themselves, as they are still dealing with sales.

- At present they get neither a SEISS grant nor furlough pay

- Under BOSS, they would receive a grant based on £30,000 of eligible income.

Had they been able to furlough themselves, the furlough pay received would reduce the BOSS grant.

5.5.3 *Holiday letting*

An individual owns a number of holiday cottages, normally generating an income of £20,000 and requiring 30 hours a week in cleaning, maintenance, billing, sales, and so forth. Bookings for the 2020 season are negligible but the work is still needed. They also have a part-time job in a shop earning £10,000pa, from which they have been furloughed.

- At present they get neither a SEISS grant nor furlough pay

- Under BOSS, the letting is treated as a business and so the income qualifies for a grant. The grant is based on total income including the employment, although the furlough pay reduces the amount receivable and so the effect is to pay a grant based only on the business income.

5.5.4 *Management consultant*

An individual has two part-time employments advising large businesses, each of which pays £20,000pa for one day a week. They normally spend the other three days on similar self-employed work, earning an additional £45,000 per year. They are furloughed from both employments but continue to work self-employed.

- At present they get furlough pay of £2,667 per month plus full SEISS grants, giving an income exceeding £5,000 per month. Their self-employment income is only marginally affected

- Under BOSS, their eligible income would be £85,000pa and they would qualify for no relief. They may even be required to repay the SEISS grant and £167 of the furlough pay, as that exceeds the £2,500 cap on coronavirus reliefs.

5.6 *Implementation*

The relief would only apply to individuals with moderately complicated tax affairs.

The figures can all be derived immediately from existing tax records, and the criteria are direct equivalents to existing tax concepts such as:

- An activity being a ‘business’ if it requires more than 20 hours a week

- A ‘personal company’ being one where the individual is both a shareholder and an employee.

A claim would be made to HMRC by the taxpayer, ideally via an online portal. As the BOSS calculations are much simpler than those for a tax return, the preparation of a claim should present no significant problem to the claimant.

HMRC has indicated in an SEISS context that it is unable to identify some income such as dividends from personal companies. While this is true if one looks only at the boxes on a tax return, taxpayers have a statutory duty to maintain records to support those figures and so can reasonably be obliged to supply them to HMRC if required to support a claim. It should be noted that it is not necessary to look at all dividends received: only those from a personal company would require evidence.

For HMRC to check a claim would be relatively simple: a claim need only include a breakdown of total income which can be reconciled to the 2019/20 tax return, plus details of any SEISS and/or CJRS support received. This should require the checking of only a few screens followed by approval of the claim through a modified version of the SEISS system.

5.7 Variations

A number of variations on this theme would be possible, such as:

- The payments could be repayable loans rather than outright grants. This would alleviate cashflow issues, although it would add to the wall of debt. It would however reduce the cost and make BOSS distinct from SEISS

- Where an individual has received both furlough pay and SEISS grants, the amount due under BOSS could be negative, generating a repayment of the excess and capping total relief at £2,500 per month

- Dividend income could be excluded if the company itself is receiving relief (see below)

- Income other than self-employed trading income could be treated as qualifying only to determine eligibility for the scheme, but not in the calculation of the grant

- This would for example mean that the freelancer in 5.5.1 above would be entitled to a grant based on £10,000 of income: the PAYE income would be treated as qualifying for purposes of the 50% test, but the grant itself would be based on the self-employed income. This would be more a refinement of the SEISS scheme than BOSS proper.

5.8 Conclusion

BOSS represents a simple way of extending relief to those workers who are currently unsupported.

It complements and completes the work done by SEISS, ensuring that very few businesses will be left behind.

By providing business owners who have not benefited from other support with a cash grant it alleviates cashflow concerns and provides confidence that their business can continue to provide some income in the short term.

The administrative burden would fall largely on business owners, although HMRC would need to accept and check claims. The processes would appear to be similar to those for SEISS, and so should require only an extension to those systems.

There would be a net Exchequer cost in providing additional grants. We would expect that this would fall within the original costings of the SEISS scheme, but some research would be required to establish this.

6 Corporation tax relief

6.1 Issue

SEISS gives unincorporated businesses a grant based on recent profit.

Incorporated businesses get no such assistance. In addition, the owners will not be eligible for SEISS, and are frequently unable to benefit from CJRS.

6.2 Essence

The legal form of the business has a direct impact on the aid available. This is an unfair distortion of competition.

Although there is a perceived tax advantage to incorporation, in practice this is largely illusory.

6.3 Inspiration

A grant equal to 80% of three months' profit is effectively a tax credit at 20%.

6.4 Solution

Give small companies a tax credit equal to the corporation tax paid in their most recent year and the previous year. This supports the business directly, and the owners indirectly.

6.5 Illustration

A sole trader earns £20,000 per year. They received an SEISS grant of £4,000 in June, and another £3,500 in September.

A small company has profits of £20,000 per year. The corporation tax of £3,800 paid on 1 January 2020 is repaid, and the £3,800 due on 1 January 2021 is reduced to nil.

A large company has profits of £20,000 per year. The corporation tax of £3,800 due each year remains payable.

6.6 Implementation

The figures are already held by HMRC, and all corporation tax returns must be filed electronically, and can be amended electronically.

A simple claim mechanism could be established within corporation tax software to allow the tax rate for qualifying companies to be reduced to nil in the appropriate returns.

6.7 Conclusion

This allows a simple mechanism to support small companies in the same way as unincorporated businesses. The cost/benefit analyses which apply to SEISS would apply to this measure.

7 Capital allowances

7.1 Issue

Investment is urgently needed to amend facilities and processes to cope with new ways of working.

7.2 Essence

The Annual Investment Allowance (AIA) of £1,000,000 currently means almost all SMEs get full relief for investment in plant, but it is due to fall to £200,000 from 1 January 2021. However, if investment exceeds profits the full benefit is not felt for several years.

7.3 Inspiration

R&D tax reliefs incentivise investment by providing cash now to support business growth.

7.4 Solution

Retain the £1,000,000 Annual Investment Allowance for at least another year and allow businesses to surrender excess AIA for a 14.5% tax credit.

7.5 Illustration

A company has profits of £50,000 per year (before investment is included). It buys new plant costing £250,000 to redesign its workspaces to allow for new ways of working.

At present, it would pay no corporation tax for five years. This is effectively an income stream of £9,500 per year, received nine months in arrears. The total value is £47,500, but this has to be discounted for late receipt.

If it can surrender excess AIA it would not pay tax of £9,500 this year but receive a credit of £29,000. This represents an immediate receipt of £38,500. The absolute value is lower, but the cashflow impact is significant.

7.6 Implementation

Corporation tax systems include this facility for R&D claims already, and HMRC regularly review repayment claims. All that is needed is for software to be amended to permit the additional claim.

7.7 Variation

As with R&D reliefs, it would be possible to increase the rate of capital allowances above 100%.

The repayable tax credit could be extended to any trading losses, not just those arising from AIA.

7.8 Conclusion

A direct cash incentive is given to SMEs which invest. Large companies do not benefit.

This provides an immediate cashflow benefit and encourages investment and growth.

The overall cost to the Exchequer is negative, as the repayable credit at 14.5% is worth less than the future tax relief foregone. The administrative burden is negligible.

8 Employee ownership

8.1 Issue

Many companies' revenues and cash levels have plummeted or even disappeared, with continued restrictions posing challenges to a quick bounce back. If still viable, many will be holed just above the waterline and unable to withstand any further shocks. Many employees will be traumatised, disorientated, and/or exhausted.

Equally, many employees and businesses have come to realise how closely aligned their interests are.

8.2 Essence

This poses several challenges, including resilience, ability to pay salaries and rebuild employee morale and commitment which will be critical to successful recovery.

It also creates an opportunity to capitalise on the shared experiences of employer and employee to create a new way of working.

8.3 Inspiration

Creating a stake for employees in their company's future success will create a powerful new reason for them to engage and a longer-term financial reward linked to business performance. It may also help companies which need to reduce operating costs and rebuild resilience. It will dismantle the divide between owner and employee and enable a fresh, common purpose. ***Evidence shows that employee ownership builds stronger companies: see*** http://theownershipeffect.co.uk/

If not now, when?

8.4 Solution

Foster significant growth in employee ownership, whether through a minority holding reserved for employees or the transfer of a controlling stake to an employee ownership trust.

Potential benefits:

- Providing a stake in the upside of any recovery
- As furlough comes to an end, helping a company retain the skilled people it will need as it works toward recovery
- Creating a shared purpose
- Showing there is a clear plan for how a company's employees will benefit from the effort they devote to business recovery
- As new working practices develop (to manage continuing restrictions and/or make good use of efficiencies developed out of necessity in recent months), ensuring that employees share in the resulting benefit
- Where necessary in some cases, reducing operating costs by exchanging an agreed pay reduction for shares (or share options).

8.5 Illustration

How employee ownership can be created	Goals it can help achieve
Shares (minority holding) are transferred to an employee ownership trust (**EOT**). Any future financial benefits (profits attributed to those shares or growth in their value) are then shared between employees. Alternatively, award employees' free shares. If this is done under a Share Incentive Plan (**SIP**), employees are not taxed, and any further growth is free of Capital Gains Tax (**CGT**). *Each of these is risk free for employees*	Providing all employees with a stake in the benefit of any recovery By making free shares conditional on staying with the company for three years, this may (but will not on its own) also encourage employee retention Encourage employees to embrace smarter working If a company has had to reduce staff costs, then this is a way of giving something in return. With clear communication, a listening culture and openness about company's performance, create a stronger foundation for employee engagement and common purpose
Transferring all (or a majority of) the company to an EOT *This is also risk free for employees*	By making a company wholly or majority employee-owned, creates the strongest possible seedbed on which to grow employee engagement, enterprise, resilience, and commitment.
Share options. Senior leaders/key people granted a right (option) to acquire shares in their employer company at a fixed price equal to today's value (which may be suppressed by the impact of COVID-19). As business recovers, share value should grow. After (say) three years, the employee can take up that right and become a shareholder (if they wish to), paying what is now a discounted price. *This is risk free for any participating employee*	Helping retain senior leaders/key people (by making it a term of their option that they lose it if they leave) and rewarding them for longer term performance.

(other approaches are also available – these are examples only)

8.6 Implementation

Government support could include:

- Support for generating know how, publicising the support available and subsidising the cost of obtaining advice on how to do it
- Allow CBILs and bounce back loans to be used to fund employee ownership (e.g. funding payments to EOTs to enable them to acquire shares from existing owners)
- Write off such loans on condition they are used to fund employee ownership.

9 Other measures

9.1 Extended furlough

The extension of CJRS to October is extremely helpful, but a number of businesses will struggle at that point. Not only are many seasonal, and so will have trouble finding work for staff, but many have been working through their existing order books while future sales have dried up. Such businesses have had less need to furlough staff so far, but by October will find themselves in less need of staff.

Some measure which allows limited extensions to furlough would be extremely useful in reducing redundancies. This could be on a sector by sector basis or based on specific criteria.

9.2 VAT reliefs

The reduction in VAT for hospitality businesses is extremely welcome. Other sectors are also struggling however, and we would urge that similar reductions be put in place to assist them. We are in an excellent position to advise on the practical impact of VAT on small businesses, and to help target reductions.

9.3 Payment deferrals

The deferral of VAT payments in the quarter to 30 June has been very successful in taking short-term pressure off businesses. Could consideration be given to similar deferrals for other taxes?

For example: a small company which prepares accounts to 31 December each year will pay the tax for that year on the following 1 October. If a company is profitable in 2019, breaks even in 2020 due to the crisis, and returns to profit in 2021, it will have to pay tax (for 2019) in 2020, when cash is tight, and no tax in 2021 when cash should be flowing again.

If corporation tax payments due from SMEs for the year ended in 2019 could be deferred by a year, this would help match incomings and outgoings for companies affected. Companies which have remained profitable through the crisis would get a small timing benefit, but the cost to the Exchequer would be very small given current interest rates – or indeed would be nil, if interest accrues on the unpaid tax.

9.4 Mortgages

Business owners will have significant difficulty in the short to medium term in securing mortgages, Banks should be directed to allow for this, perhaps by ignoring the impact when assessing earnings.

9.5 Eliminating anomalies

The coronavirus crisis has brought a number of anomalies in the tax system into focus.

An example is the increased need for non-emergency patient transport, where the VAT treatment of the transport depends on whether the vehicle used was a van which has been converted into an ambulance, or a minibus which has been converted.

Although the final vehicles can be absolutely identical, and the service provided is exactly the same, the VAT on costs associated with a patient journey in an ex-minibus can be recovered, but the VAT connected to an ex-van ambulance cannot.

This additional cost can be the difference between viability and failure for a business. It is absurd the origin of a vehicle, rather than its final form and its use, should have such an arbitrary effect.

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Established in 1986, UK200Group is an association of independent Chartered Accountants and Lawyers offering strategic business services advising key industries throughout the UK, in over 150 locations and internationally through our International Associates in some 70 countries.

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