

Retail, hospitality and leisure grants issues

(Lecture B1222 – 12.46 minutes)

A business was eligible for a grant if:

- It was based in England;
- It was in the retail, hospitality or leisure sector; and
- It had a rateable value of under £51,000 on 11 March 2020.

Properties eligible for the grant will be those that are wholly or mainly being used as a hospitality, retail, or leisure venue, such as a:

- Shop;
- restaurant, café, bar or pub;
- cinema or live music venue;
- estate agent or letting agency;
- assembly or leisure property - for example, a bingo hall, a sports club, a gym or spa;
- hospitality property - for example, a hotel, a guest house or self-catering accommodation.

If the business had a property with a rateable value of £15,000 or under, the grant was £10,000.

If the business had a property with a rateable value of between £15,001 and £51,000, the grant was £25,000.

This article deals with the tax implications of the grant (it was confirmed that the grant was taxable from the outset), which will flow from the accounting treatment.

Accounting treatment

The grants were unconditional – the only requirement being that the business was in the sector. Local councils will have contacted businesses that were eligible.

FRS 102 and FRS 105 (UK GAAP) require the grant to be recognised when it was receivable i.e. on 11 March 2020. The Financial Reporting Faculty of the ICAEW has agreed with this and apparently has passed it by Financial Reporting Council, which also agreed.

Even if a business did not get confirmation that it is entitled to the grant until (say) mid-May but has a 31 March year end, this is an ‘adjusting event’ since it confirms an entitlement which existed at 11 March and therefore the grant should be recognised in year ending 31 March 2020.

The only remaining accounting issue is how it should be recognised in profit or loss. It would appear that the grant was simply to support the business and was not designed to cover specific costs, or losses in revenue over a given period of time.

As such, the grant should be recognised as income in the profit and loss account on 11 March 2020, when it was receivable.

Tax issues

This creates a problem for a business with a 31 March or 5 April year end – especially for income tax since the income is recognised in a profitable period, i.e. where the accounting period largely covers the period before lockdown, and before losses or lower profits started arising the next period of account.

For a company it merely accelerates the due date for payment but for income tax could result in tax payable at higher rates, problems with loss relief, waste of personal allowances etc.

One possible solution to mitigate any adverse effect is to change the accounting period (to 28 February before the announcement) or 31 July (after lockdown). It may also put pressure on finalisation of subsequent accounts to get the benefit of being able to carry back loss relief.

There is a potential issue in that tax returns and accounts may have been incorrectly completed without recognising the grant and there are accounting issues arising from this (prior year adjustments) and tax issues (having to amend prior period returns).

Example

A sole trader in the leisure sector has an accounting date of 31 March. The business received a Coronavirus Leisure Grant of £10,000 on 30 April 2020.

In its year ended 31 March 2020, the tax-adjusted trading profit is £48,000 before considering the grant. In the previous year, taxable profits were £36,000.

Since mid-March 2020, its business has been severely affected by Covid-19 and the sole trader is expecting to incur a loss in its year ended 31 March 2021 of approximately £25,000, ignoring the grant received.

Analysis

The grant needs to be included in the accounting period ending 31 March 2020. This increases the taxable profit to £58,000.

Assuming the taxpayer has no other income, this means that £2,000 of the grant is taxable at 20% and £8,000 of the grant is taxable at 40% which will need to be paid by 31 January 2021.

The loss of the following year will not be established until well after 31 March 2021 and so the carry back of that loss will not generate a repayment of tax until late 2021.

If the trader changes the accounting date to 29 February 2020, then the grant will not fall into this period. Assume that the profit for this period is £49,000 (March 2020 making a loss due to COVID-19).

The taxable profits for 2019/20 would be based on the 12 months to February 2020:

March 2019: 1/12th x 36,000	3,000
1 Apr 2019 – 29 Feb 2020:	<u>49,000</u>
	<u>52,000</u>

This gives a smaller taxable profit than with a 31 March 2020 accounting date, and creates £3,000 of overlap profits to carry forward.

The grant would form part of the profit for the year ended 28 February 2021, reducing the forecast loss for that period.

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