

Japan tax alert

Ernst & Young Tax Co.

UK Government COVID-19 measures

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In a series of announcements, the UK Government have set out what they have called a package of “temporary, timely and targeted measures” to support public services, people and businesses through the disruption caused by the COVID-19 outbreak. The measures focus on supporting employment, providing cash flow support to businesses and increasing welfare support.

Areas being addressed:

1. Providing liquidity through financing schemes
2. Helping employers to protect jobs
3. Business support through removal of fixed costs and provision of grants
4. Cash-flow support, including tax deferrals
5. Administration, including governance
6. Benefits entitlements

These aims are primarily being delivered through:

- The banking system in terms of both financing schemes that have been announced;
- The central tax system (covering cash tax deferral and employment support) as well as the local tax system (for business rates and cash grants); and
- The benefit system (for Universal Credit), though Statutory Sick Pay will be paid by employers and reimbursed to them

As with the Budget (see [here](#) for our earlier Alert), there are a number of measures targeted at supporting small- and medium-sized businesses, which are unlikely to have a significant impact on Japanese groups. For large Japanese corporates operating in the UK, the key potential items of interest should be access to short term funding, deferral of certain tax payments, business rate holidays and also Government contributions to wages.

A brief summary of these key measures is as follows:

Loan funding

- ▶ £330bn of Government-backed and guaranteed loans to businesses through two main schemes:
 - ▶ To support liquidity among larger firms, there will be a new lending scheme to provide low cost, easily accessible commercial paper. The scheme will be open to companies that can demonstrate they were in sound financial health before the pandemic began, defined as companies with a short or long-term rating of investment grade as at 1 March 2020.
 - ▶ To support lending to small and medium sized businesses with turnover of no more than £45m per annum, the new Business Interruption Loan Scheme announced at the Budget, will now provide loans of up to £5m with no interest due for the first six months

Business rates holiday

- ▶ Business rates are a UK property related tax paid with respect to commercial properties, based on the rateable value of properties. The 2020-21 business-rates holiday offered at Budget 2020 for retail, hospitality and leisure businesses with a rateable value of less than £51,000 will be extended to all businesses in this sector, regardless of their size.

Cash grants for retail, hospitality and leisure businesses

- ▶ The Retail and Hospitality Grant Scheme provides businesses in England in the retail, hospitality and leisure sectors with a cash grant of £25,000 per property with a rateable value of more than £15,000 and less than £51,000. Similar grant schemes are available in Scotland and Wales.
- ▶ Properties that will benefit from the relief will be occupied properties that are wholly or mainly being used:
 - ▶ as shops, restaurants, cafes, drinking establishments, cinemas and live music venues
 - ▶ for assembly and leisure
 - ▶ as hotels, guest and boarding premises and self-catering accommodation

Wage and National insurance contributions

- ▶ Coronavirus Job Retention Scheme (JRS) which will allow employers to claim for 80% of the usual monthly wage costs of 'furloughed' employees up to £2,500 a month. Detailed guidance has been released and provides clarification on a number of key aspects of the scheme, including the employer costs which will be covered and the criteria for determining which employees are eligible.
- ▶ Employer National Insurance contributions and minimum automatic enrolment employer pension contributions can be claimed in addition to wage costs.

Tax payment deferral

- ▶ All UK VAT registered businesses can defer Value Added Tax (VAT) payments due between 20 March 2020 and 30 June 2020 until 31 March 2021. No interest or penalties will arise on the payments that are deferred, although VAT returns will still need to be submitted to Her Majesty's Revenue and Customs (HMRC) in line with existing filing deadlines. This is an automatic payment holiday with no application required. Direct debit payments will need to be cancelled. VAT refunds and reclaims will be paid by the Government as normal.
- ▶ Corporation tax quarterly instalment payments may potentially be reduced (for future payments) and/or refunded in the event that profit expectations have changed.
- ▶ All businesses in financial distress, and with outstanding tax liabilities, may be eligible to receive support with their tax affairs through HMRC's Time To Pay service. The arrangements will be agreed on a case-by-case basis but in the first instance it seems HMRC is likely to offer a one-off, three-month full deferral of the liability. This is for all taxes within HMRC's jurisdiction (though VAT is already subject to the automatic deferral above), so will cover PAYE, Air Passenger Duty and corporation tax.

Exceptional circumstances tax measures

- ▶ Travel restrictions in place as a result of the international response to the spread of COVID-19 may impact individuals' UK residence position, for example, unplanned days of presence spent in the UK potentially triggering tax residence. The legislation can allow for "exceptional circumstances" to be taken into account when considering certain days of presence. HMRC have issued additional guidance, stating that they will continue to consider exceptional circumstances on a case by case basis, but provides the following examples of circumstances HMRC would consider to be exceptional in the context of COVID-19:
 - ▶ Individuals who are quarantined or advised by a health professional or public health guidance to self-isolate in the UK as a result of the virus

- ▶ Individuals who are affected by official Government advice suggesting they should not travel from the UK as a result of the virus
- ▶ Individuals who are unable to leave the UK as a result of the closure of international borders
- ▶ Individuals who are asked by their employer to return to the UK temporarily as a result of the virus

There may also be implications to company`s residence and permanent establishment which arise as a result of COVID-19 travel restrictions which should be considered on a case-by-case basis.

EY can assist Japanese businesses with assessing the impact on their UK operations, and supporting companies with analyzing the availability to and accessing relevant measures.

Policy changes across the globe are being proposed and implemented on a daily basis.

Clients can contact EY professionals directly with any queries, and can also access the latest EY Tax COVID-19 Response Tracker [here](#), providing a snapshot of the policy changes that have been announced in jurisdictions around the world in response to the COVID-19 crisis.

For additional information with respect to this alert, please contact the following:

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