Covid-19 Update – SEISS Payments May Add to Your Tax Burden

Information correct as at 1:00pm on 05.02.2021

- SEISS payments will be treated as taxable income
- Prepare part year budgets to determine likely profits
- Speak to your accountant about tax mitigation strategies for the 2020-21 tax year

Some businesses may have qualified for the Self-Employed Income Support Scheme (SEISS) as part of the Government's response to support business through the Covid crisis.

In some cases, where either there have been multiple claims through the year and/or there are multiple partners in the business, the total SEISS claimed on some farms will have been substantial. However, businesses need to be aware that the SEISS grant will form part of their taxable profit calculation.

The grant was assessed by HMRC according to past profits. Therefore, it is possible that some businesses might have had an unexpectedly good year of trading in 2020-2021, having taken advantage of the SEISS payment. Businesses need to be aware that any taxable profits in the 2020-21 year will be boosted by the SEISS grant that has been received.

Compliance Aspects	
Are the grants taxable?	Yes, the grants are taxable. They are subject to both Income Tax and Class 4 National Insurance Contributions.
When are the grants taxable (in which tax year)?	The grants are taxable in the tax year 2020/21. They should be reported in full on your 2020/21 self-assessment tax return in due course. Specific boxes will be provided on the form for them. No part of the grants should be reported on your tax return for the tax year 2019/20.

What to do?

Firstly, recognise that the SEISS grant is not a capital grant like the equipment grants farms are accustomed to receiving, but rather more akin to BPS which is taxable.

Prepare some nine-month accounts (e.g., April to Dec) to give a flavour of where trading profits might sit for the year. Understand that for the purpose of this exercise, the money received via SEISS (which in management accounts may well be sitting as a credit to drawings) should sit alongside BPS.

It is not the remit of this note to give tax planning advice but rather to flag up that there is a possibility that a substantial part of the SEISS income might be exposed to higher rate tax.

Where there are concerns that this could be the case, it would be sensible to discuss with your accountant, who will be able to recommend ways to mitigate this risk. For instance: Farmers averaging, Pension contributions, a qualifying capital purchase or other practical ways to reduce specific tax liabilities arising from the SEISS.