A Brief Guide to…

Accounting for COVID-19 Support Schemes

The below is a guide for UK Companies on how to account for the various COVID-19 Support Schemes and how they will be treated for Corporation Tax purposes.

Coronavirus Job Retention Scheme (CJRS)

Accounting

This is a government grant (Section 24 of FRS 102).

The grant should be shown as other income (not set against payroll costs) and recognised in the same period as the related costs.

For March 2020 furlough claims, despite the claims portal not being active, where it is reasonable to assume that the business had complied with the conditions of the grant and it was therefore likely to receive the grant, the grant should still be recognised in that period and a debtor included.

Please note: this means that despite the portal not being open at 31st March 2020, for businesses which made a March 2020 furlough claim subsequently, they are likely to include grant income in their March 2020 year end accounts.

Tax

CJRS grants are an income received designed to meet the payroll costs of furloughed staff (which are allowable revenue expenditures). The grants should therefore be treated as trading receipts in the same period they are included in the accounts.

Please note: the grant is designed to meet, at a maximum, the payroll costs to the business; therefore the end result should be that there is no 'profit' from the grant on which to pay tax.

Small Business Grant Fund (SBGF), Retail, Hospitality and Leisure Grant Fund (RHLGF) and Discretionary Fund

Accounting

This is a government grant (Section 24 of FRS 102).

The grants above do not specify any future performance related conditions (performance model) and is not paid in relation to specific future costs (accrual model). Therefore, the grant should be recognised as income in the period it is receivable.

The grant is receivable when there is certainty over the eligibility of the grant to the Company. This is likely to be when the scheme eligibility criteria were first published (at the Budget on 11th March 2020) or where there was uncertainty, when confirmation was received from the local authority.

Please note: for most Companies this will mean that the grant is recognisable at 11th March 2020 with a corresponding debtor, meaning it is included in their 31st March 2020 year end accounts.

Tax

The above grants are designed to meet revenue expenditure (rather than capital). The grants should therefore be treated as trading receipts in the same period they are included in the accounts (in the same way as the CJRS grants)

Business Rates Relief

Accounting

Where Companies are given a business rates payment holiday from the local authority, this is a reduction in the rates expense and should not be included as income.

Time apportionment may be necessary where a Company's year-end is not coterminous with the rates financial year.

Tax

As this is a relief, rather than a grant, the result will be a lower business rates expense in the company accounts. Deductible trading expenses may therefore be lower in the Tax Computations.

Statutory Sick Pay (SSP) Rebate

Accounting

This is a government grant (Section 24 of FRS 102).

The grant should be shown as other income (not set against payroll costs) and recognised in the same period as the related costs.

Tax

SSP grants are designed to meet revenue expenditure (rather than capital), and are therefore treated as trading receipts in the same period they are included in the accounts in the same way as CJRS, SBGF and DGF grants.

Coronavirus Business Interruption Loan Scheme (CBILS) and Coronavirus Bounce Back Loan Scheme (BBLS)

Accounting

These are financing transactions (Section 11 of FRS 102). This requires them to be recognised at present value of future payments, discounted at a market rate of interest (likely the stated rate on a CBILS or BBLS loan).

However as the government will make payment to the lender to cover the first 12 months of interest, the result is a non-market rate of interest overall, for the Company.

Any difference between the amount of cash received (DR Bank) and the discounted present value (CR Liability) will be recognised as finance income. This represents the present value of the interest in the first 12 months paid by the government.

Subsequent measurement is amortised cost using the effective interest method.

Please note: attached is an example of how this might look in practice.

Tax

The CBILS and BBLS are trade-related loans meaning any credits are treated as trading receipts and debits as deductible trading expenses.

Interest is relieved when it accrues in the accounts, rather than when it is actually paid. This means there will be a timing difference between when the interest is recognised for tax and when the interest is paid.

Time to Pay Arrangements

HMRC are aware that this will be a financial difficult time for a large number of businesses and they have therefore scaled up their ‘time to pay’ offer to help those struggling to make their next tax payments due to COVID-19, including VAT, employers’ PAYE and Corporation Tax.

If you would like to discuss this with HMRC they have a dedicated phone line: 0800 024 1222.

VAT Deferral and Time To Pay

Accounting

This is a deferral of tax due, not a deduction in the amount due. For VAT Deferral, the liability will simply sit on the Balance Sheet for a longer period than usual, until it is paid.

For Time To Pay arrangements, interest usually will still accrue on the amount due and this should be recognised in the accounts in line with the agreement with HMRC. Any negotiations on the Time To Pay arrangement after the Balance Sheet date are non-adjusting events under FRS 102, therefore for the year end accounts it is the Balance Sheet date position which should be recognised.

Please note: for Companies who deferred their VAT payments due between 20th March 2020 and 30th June 2020, these must be repaid by 31st March 2021.

Tax

There is no corporate tax effect for delay in payment of VAT.

Interest on a Time To Pay arrangement is treated as a deductible trading expense when the interest is accrued.

Cash Flow Forecasting and Budgeting

We have dedicated teams who provide more than just accounts support. Regular reporting at a detailed level can give business owners the insight they need into their Company’s finances to manage difficult times.

Should you need further support, please contact one of our specialists listed below.

Find out more

For further information, advice and guidance please contact one of our specialists:

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Coronavirus Business Interruption Loan Scheme (CBILS) and Coronavirus Bounce Back Loan Scheme (BBLS)

Accounting – in summary

These must be initially recognised at present value of future payments, discounted at a market rate of interest (likely the stated rate on a CBILS or BBLS loan).

Subsequent measurement is at amortised cost using the effective interest method.

Any difference between the amount of cash received (DR Bank) and the discounted present value (CR Liability) will be recognised as finance income. This represents the present value of the interest in the first 12 months paid by the government.

Example

Business receives a loan of £200,000 at 3% interest, with the first 12 months “interest-free” (the government pays the interest). The term is 5 years with regular monthly repayments. For simplicity, the below example assumes the loan was taken out on day 1 of the business’ financial year.

Initial recognition

At the end of year one, the accounts need to show a creditor of £200,000 as this is when the payments will begin and interest will start accruing. Therefore on day one the loan must be recognised at present value as if 3% interest had been accrued. This gives £194,174 (£200,000 x (100/103)).

DR Cash £200,000, CR Liability £194,174, CR P&L £5,826

At the end of year one, the liability needs to increase to agree to the amount owed.

DR P&L £5,826, CR Liability £5,826

Following this the accounting treatment is as per usual, reducing the liability for the amount paid monthly and increasing it for the accrued interest for the period.