



Update: 29/11/2020

## **COVID-19: THOUGHTS AND ADVICE ON THE 3RD SEISS CLAIM (AND 4TH)**

Comments in black are those from HMRC

**Red comments are our commentary**

[Hyperlinks will take you to relevant GOV.UK sites](#)

### **Terms of the third SEISS grant**

The third grant will cover a 3-month period from 1 November 2020 until 31 January 2021. The Government will provide a taxable grant calculated at 80% of 3 months average monthly trading profits, paid out in a single instalment and capped at £7,500 in total. This is an increase from the previously announced amount of 55%.

The Government are providing the same level of support for the self-employed as is being provided for employees through the Coronavirus Job Retention Scheme which has also been extended until March 2021.

The Government has already announced that there will be a fourth grant covering February 2021 to April 2021. They will set out further details, including the level, of the fourth grant in due course.

The grants are taxable income and also subject to National Insurance contributions.

**It is clear that HMRC have reworded the claim requirements to reduce the number of people who will claim and it has been a hot topic this last week amongst our clients. Clearly you need to decide but I have listed here the full HMRC guidance with some notes in red.**

**One of the problems is that you cannot foresee the next 2 months lockdowns/self-isolations and customer habits and may be making the call now before you have worked out if you have lost money.**

**Some situations are easy, the leisure industry and retail in the whole will claim as they will 99.9% lose money.**

**Professionals may be at the other end of the scale, but trades people are in an almost impossible situation as no one can predict the future.**

**However, you can wait until January to claim.**

**HMRC will, I am sure, run some analysis of the results when you file the next few years' tax returns and may come and ask for the evidence.**

**We insure our clients for this type of investigation (so long as you have taken out our TaxWise product in your annual fees) so all you need to do is keep the relevant information and ensure your reasons are valid to support your claim and if they ask, we will respond on your behalf.**

**HMRC does not simply have the manpower to investigate the large number of claims and will probably simply issue "nudge letters" asking you to reconsider your claims. This has been very successful in the**

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**past of them getting the taxpayer to admit undeclared income and I am sure will play a big part over the next few years as it is quick, simple and effective.**

**In summary I think if you are asking the question “should I claim” then you probably should, most people know if they shouldn’t as they have not been affected. It is all about making sure you have the right arguments and proof and don’t let HMRC scare you out of making the claim. You won’t get the chance to make a late claim!**

**After all, the Government and Tax inspectors haven’t lost a penny in this crisis, but remember “We are all in this together”!**

### **HMRC Guidance on whether you should claim this 3<sup>rd</sup> Grant:**

HMRC expects you to make an honest assessment about whether you reasonably believe your business will have a significant reduction in profits.

**Don’t get confused with the level of sales, you are not looking at reduced sales and therefore profit. A drop in headline sales is not the only reason you could lose money due to the restrictions. Maybe you have higher sales due to selling more expensive products but at a smaller margin, so your turnover goes up, but your profits go down. The reverse may be true – you might switch to selling different cheaper products, but they have a higher profit margin so it important to know what Gross profit you are now making.**

To make a claim for the third grant your business must have had a new or continuing impact from coronavirus between 1 November 2020 and 29 January 2021.

**Clearly very easy where your business has been closed or customers dramatically reduced. Where you are a trade, then this may be more difficult. Having spoken to several people who have been contacted by Test and Trace and had to isolate for 2 weeks – they have lost significant income – never to be replaced.**

**The main issue here is that you cannot tell what will happen to you in the future but my thoughts are that you are likely to see reduced work over the winter by customers deciding not to have you on their premises or by being isolated and not able to work.**

**One client has had 3 two-week isolations since August, losing over £10,000 in chargeable time. I personally would claim as this is your only chance. I also know of three clients who have had their businesses closed for 2 weeks due to staff being found positive.**

**HMRC have given options to repay this in the past and I’m sure they will again, they just won’t give you the option to claim it in February!**

### **Applications for the third grant will open from 30 November 2020.**

Make your claim from the date HMRC provide to you, either by email, letter or within the service. **If you’re eligible, you must make your claim for the third grant on or before 29 January 2021.**

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The grant does not need to be repaid if you're eligible but will be subject to Income Tax and self-employed National Insurance and must be reported on your 2020 to 2021 Self Assessment tax return.

You must [keep evidence](#) to support your claim.

### **If you're currently trading but have reduced demand:**

You must keep any evidence that your business has had [reduced activity, capacity or demand](#) due to coronavirus at the time you made your claim, such as:

- business accounts showing reduction in activity compared to previous years.
- records of reduced or cancelled contracts or appointments.
- fewer invoices.
- a record of dates where you had reduced demand or capacity due to government restrictions.

**Remember HMRC are using your business that was reported on the 2019 tax returns. If you have started a new or different business and that is doing well, but your old business is suffering, then you may qualify.**

### **If your business is temporarily unable to trade:**

You must keep evidence if your business has been [unable to trade](#) due to coronavirus, such as:

- a record of dates where you had to close due to government restrictions
- NHS Test and Trace communications - if you've been instructed to self-isolate in-line with NHS guidelines and are unable to work from home (if you've been abroad and have to self-isolate, this does not count)
- a letter or email from the NHS asking you to shield
- test results if you've been diagnosed with coronavirus
- letters or emails from your child's school if you have had parental caring responsibilities

**All of this is very clear cut, but again you will only know this in January so you can wait to make the claim.**

### **Impacted by reduced demand:**

This applies to your business if it has been impacted by reduced demand, activity or capacity due to coronavirus.

For example, you:

- have fewer customers or clients than you'd normally expect, resulting in reduced activity due to social distancing or government restrictions
- have one or more contracts that have been cancelled and not replaced. **This is more difficult, take an accountant who finds that he has lost a number of businesses that have stopped trading, this does not affect the actual work in November to January but he can clearly identify lost contracts in this period which will see reduced income over the next few years and therefore qualifies? I think so Yes, the accountant could show lost contracts in this period!**
- carried out less work due to supply chain disruptions.

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**You must not claim if the only impact on your business is increased costs. For example, if you have had to purchase face masks and cleaning supplies. This would not be considered as reduced demand.**

### **Previously trading but you are temporarily unable to do so:**

This applies to you if you're temporarily unable to carry out your business activities due to coronavirus, because for example:

- your business has had to close due to government restrictions
- you've been instructed to shield or self-isolate in-line with NHS guidelines and are unable to work from home (if you've been abroad and have to self-isolate, this does not count)
- you've tested positive for coronavirus and are unable to work
- you cannot work due to parental caring responsibilities, for example as a result of school or childcare facility closures

If you had to close before 1 November 2020 and continued to be closed for a period of time up to 29 January 2021, you can still claim as long as you are eligible.

### **Examples of reduced demand or unable to trade**

These are examples of people who have been impacted by coronavirus between 1 November 2020 and 29 January 2021.

#### **Reduced demand and reasonable belief**

A cafe owner has fewer customers due to government restrictions on households mixing, which reduces her takings. She reasonably believes this will significantly reduce her trading profits. She is eligible to claim.

A plasterer cannot get materials due to supply chain issues due to coronavirus. This has reduced the amount of work he can complete and be paid for. He reasonably believes this will significantly reduce his trading profits. He is eligible to claim the third grant.

A part-time personal trainer works in a gym that has closed due to government restrictions. This reduces her business activity on the days that she works. She reasonably believes this will have a significant reduction on her trading profits. She is eligible for third grant.

#### **Reduced demand and no reasonable belief**

A cafe owner has fewer customers due to government restrictions on households mixing, which initially reduces her takings. She increases her prices and believes her trading profits will not reduce significantly, so she is not eligible to claim the third grant.

**This is unlikely in the current lack of demand environment and in my opinion any prices rise you can get through will not cover the lost profits from the lack of normal trading levels. Most businesses work on economies of scale making profits, not adding 50p to a product and selling 50% less.**

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A plasterer cannot get materials due to supply chain issues due to coronavirus. This has reduced the amount of work he can complete and be paid for, but he manages to quickly find a new supplier. He does not believe that the reduced demand will cause a significant reduction in his trading profits. He is not eligible to claim the third grant.

### Unable to trade and reasonable belief

A hairdresser has had to shut his shop due to government restrictions. He will not have any income due to the closure and reasonably believes the reduction in his trading profits will be significant. He is eligible to claim the third grant.

A builder has received a letter from the NHS identifying him as [clinically extremely vulnerable](#) and it asks him to stay at home. As he is unable to work from home, he has a reasonable belief that there will be a significant reduction in his trading profits. He is eligible to claim the third grant.

### Unable to trade and no reasonable belief

A hairdresser was unable to work for 2 days as his hair salon closed to be deep-cleaned due to a positive coronavirus case. He does not believe this will significantly reduce his trading profits. He is not eligible to claim the third grant. **However, most hairdressers I have spoken to have seen a slow return to normal trade due to the work from home ethos being pushed by the Government. Most are simply not as busy due to less people around and many people having Covid19 home haircuts. The space restrictions meaning people have to queue outside and with the onset of winter people just give up. My local shop had queue's all summer outside, now I can go in nearly every day without queuing and they still only allow 3 people at a time in the shop. It's cold and wet – people don't queue unless they really need to.**

A builder has developed coronavirus symptoms and self isolates for 5 days before receiving a negative test result. During those 5 days he was unable to work from home but was able to rearrange his contracts. He does not believe there will be a significant reduction in his trading profits. He is not eligible to claim the third grant. **This depends on what you think "a significant reduction of your income is"? It may represent all the spare money he had for that month, so it is significant. The builder is not being paid for, and will never be able to charge those lost hours again. It seems impossible that anybody who loses a week's work will NOT see their trading profits significantly unaffected.**

### Other examples

An electrician is still trading but has had increased costs due to buying masks, cleaning supplies and screens. She is not eligible for the third grant because increased costs were the only impact on her business, and she has not lost customers. **I think HMRC are mudding the waters, they are talking about ad-hoc costs such as CV19 PPE but people I have spoken to think this relate to the costs of creating a sale. Go back to the opening sentence:**

"HMRC expects you to make an honest assessment about whether you reasonably believe your business will have a significant reduction in profits."

**Don't let this mix up ad-hoc increased costs to an increase in providing your sale due to supply or customer contact issues. I would argue that if you have increased costs to make the sale, such as buying a van and hiring a person to make deliveries, then you may have higher costs which need to be taken**

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**into account when you are considering making the claim. You may have more waiting staff on to deliver table service. After all, you may just have shut without that cost/service.**

A dentist returns from a holiday abroad and has to self-isolate for 14 days due to quarantine rules. As this is the only impact on her business, she is not eligible to claim the third grant. This is because reduced demand due to self-isolation after foreign travel is not included in the eligibility criteria. **Seems a little unfair, this is a restriction put in by the Government only due to CV19 and holidays have been pre-planned and paid for. You would not lose this time of work had it not being for Cv19. For you to decide if you want to take the risk and argue it.**

An accountant reduces his business activity because he wants to partially retire. He reasonably believes this will have a significant reduction on his trading profits. He is not eligible for third grant because the reduced business activity was not caused by coronavirus. **How could HMRC argue this unless the accountant said that directly to them? I agree that if you make the decision to wind down you are not eligible but at the same time people may just sit back for a while because of the risk to them (I assume he is older in this case so more at risk) until the pandemic blows over. He may not decide to wind down until next April when he has decided he has had enough, would that make a claim not invalid? Again, the right evidence and the right timeline is what you need to justify your claim.**

The client of a dog walker cancels a contract due to coronavirus. The dog walker could but chooses not to look for additional work to replace the contract. This means her business activity and her trading profits are reduced because she chooses not to replace the contract and not because of coronavirus. She is not eligible for the third grant.

**Ridiculous and impossible for HMRC to prove. The dog walker clearly looked for new contracts but with people working from home the demand has clearly dropped and new business is in short supply. In addition, many people have setup in business as dog walkers due to losing their jobs or being on furlough and competition is now even greater! Which evidence would you believe?**

An IT consultant has other income from renting property. He has made losses on renting due to renovation costs. This is not related to his trading profits from his IT consultancy service. As his consultancy business has not been affected due to coronavirus, he is not eligible for the third grant.

**Agreed, renovation costs are not a reasonable reason to claim but I think this example backs my view that you need to look at the profits your business was making pre covid and on your 2019 tax return. It is not about how much money you are now making with a new business but how that old business was performing now compare to the 2019.**

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