COVID-19 – Accounting treatment for support schemes – 6 November 2020

There have been a variety of support schemes and funds made available to businesses during the pandemic. Our updates have provided guidance as to how this support can be accessed. We have now compiled this overview as to how the support should be reflected in your accounting records.

Business rates holiday
No grant is being given or paid to any business; it is simply a reduction of business rates to zero. Therefore, unless you have already recorded rates in your accounting software in which case you need to process the related credit note, there is nothing further to do.

Coronavirus job retention scheme (CJRS)
This is treated as a Government grant in the accounts and therefore on receipt it should be recorded in a separate code in your accounting software. In addition, if your year-end falls within in the CJRS period then the accounts will need to include an adjustment for the claim amount expected for the relevant period if not received by your year end. Of course, we will deal with any such calculations when we prepare your statutory accounts if you have not already actioned this.

Coronavirus business interruption loans (CBILS)
As the Government is paying any interest and fees for the first 12 months, how the finance agreement is worded will determine how the loan is recorded in the accounts in terms of the amount of interest element. The expected position is that the accounting for the interest and any other fees for the first 12 months will be treated as Government grants and so accounted for in a similar way to that described above for the CJRS scheme. Each month an interest expense will be recognised with an equal amount of grant income recognised in the profit and loss account.

There has been discussion as to whether the interest rate charged within these loans represents a commercial interest rate, the issue being that if the rate is considered to be below prevailing market rates under FRS102 there is a requirement to restate the loan using market rates. Our view is that the CBILS loans have been made so widely available that the rates agreed reflect a market rate, and so no such restatement is required.

There is a requirement for additional disclosures within the financial statements, in relation to the accounting policies and the loan terms, and this narrative should provide sufficient detail to enable a user of the financial statements to understand the nature of the facility.

Please ensure that the full finance agreement is provided to us when we prepare your accounts so that we can determine the correct approach.

Coronavirus Large Business Interruption Loan Scheme (CLBILS)
The loan scheme available originally to larger businesses, CLBILS, has now been extended to all larger viable businesses.

The finance is lent at a commercial rate of interest, and unlike the CBILS scheme whilst the Government is providing a guarantee it is not covering the interest or fees in the first twelve months. Therefore, there is no Government grant to recognise for this scheme.

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Bounce back loans
This scheme is aimed at smaller businesses, providing relatively quick and easy-to-access loans of up to £50,000.

Loans under this scheme have a fixed rate of interest (2.5%) and no fees can be charged. The UK Government will cover the interest costs for the first twelve months.

In accounting for the BBL scheme the interest paid by the Government in year one is treated as a Government grant. The rate of 2.5% is considered to be the market rate of interest given that this loan facility is available for all small entities and so no consideration of a market rate of interest is required.

We would again ask that you provide the full finance agreement to us when we prepare your accounts.

Rent holiday
Many lessees have been granted rent concessions because of the COVID-19 pandemic. These arrangements can include forgiveness of a portion of or all lease payments for an agreed period.

UK accounting standards do not explicitly specify how to account for such changes in lease payments, and there have been differences of opinion over how to the requirements of FRS102 should be applied to these changes, leading to differences in accounting treatment. As a result, the FRC published amendments effective for accounting periods beginning on or after 1 January 2020 with early adoption being permitted.

In summary any change in lease payments arising from ret concessions granted because of COVID-19 should be recognised over the period that the change in payments is intended to compensate.

With the following grants\schemes:

- Small Business Grant
- Retail, Hospitality and Leisure Grant
- Local Authority Discretionary Grant
- Self-Employment Income Support Scheme

All should be disclosed as grant income in a separate code in the accounting software.

Taxation
The grants are classed as taxable income, but the businesses can, of course, claim tax relief on the expenditure supported by the grant. So for companies the grants would be subject to corporation tax and for the self-employed they would be subject to both income tax and Class 4 National Insurance, but there may be no taxes to pay if business expenses exceed total income including the grant income.

VAT
Also worthy of note is that these Covid-19 support grants are considered outside the scope of VAT and so no output VAT should have to be accounted for. Also, the grant income should be disregarded for VAT registration, deregistration limits and when calculating VAT partial exemption %.

We will ensure that the correct treatment is applied when we prepare your accounts. For further information of assistance please contact your usual team, or Shelim Rahman details below:

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