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Newsletter

TAX AMONG TOP BUSINESS CONCERNS

The Office for National Statistics (ONS) regularly reports on how UK businesses feel about the economy, their concerns, and assessment of their performance.

For some time, the most recurrent challenge cited has been how to deal with economic uncertainty.

But a new trend is starting to emerge, with a growing number of businesses citing tax as a key concern for the immediate future. After falling demand, tax is the most common headache reported by the businesses surveyed, and it's been steadily rising up the rankings since summer 2024. It's probably no surprise, in view of developments like the increase in employer National Insurance costs which are now just beginning to bed in after 6 April 2025.

In the current economic climate, it can be valuable to monitor on a regular basis the options that could be available to your business. We are more than happy to help you review costs, pricing, overall profitability and business strategy. We can help you check that you are maximising tax allowances and reliefs available, as well as advising on how best to structure and remunerate your workforce.

Planning is key to navigating uncertainty, and we are always on hand to help. Please don't hesitate to get in touch.

Making Tax Digital for Income Tax going live

Making Tax Digital for Income Tax (MTD IT) is being phased in from April 2026, and HMRC is now starting to write to taxpayers it thinks are in scope.

Despite last-minute delays in the past, there is a confidence that this time MTD IT really will happen. High-level contact with HMRC by the tax and accountancy professional bodies tends to confirm this, and with MTD IT expected to reduce error and help close the tax gap, it seems highly unlikely that the government will back down now. Another strong driver is the fact that MTD IT sits on HMRC's new Enterprise Tax Management Platform, and moving taxpayer data onto this platform is fundamental to modernising HMRC's own digital systems.

What's involved: MTD IT has three key components:

- keeping digital accounting records
- filing updates with HMRC every quarter, summarising business income and expenses. Updates must flow directly to HMRC from the digital records without manual input
- an end of year finalisation process.

Who is impacted and when: From April 2026, MTD IT will be mandatory for self-employed individuals and landlords, with what's called gross qualifying income of more than £50,000 from those sources.

From April 2027, it will be mandatory where such income is more than £30,000, and from April 2028 for those with income more than £20,000.

Not yet in scope: Partnerships are expected to come into MTD IT at a later (unspecified) date.

Exemptions and deferrals: Limited exemptions apply either automatically or with notification to HMRC; we can help you ascertain if any of these apply to you. In addition, certain taxpayers will have a deferred entry to MTD. These include individuals who submit the residence/remittance basis pages with their tax return (SA109), who will not be required to join MTD IT until April 2027.

Moving ahead: MTD IT is a major change. It impacts the way you interact with HMRC, and how often you interact with HMRC. It also revolutionises the yearly timetable for accounts preparation. The scale of the change can't be over emphasised, and it will be wise to start making some key decisions now.

If MTD IT is going to apply to you, we will be in touch to discuss what's needed in more detail. We can also talk through the options for record keeping, and quarterly filing, so you can decide how much input you would like us to have, and how much you want to tackle yourself. We look forward to working with you to find the MTD IT solution that's right for you.

Off-payroll working: change to company size thresholds

The government is changing the thresholds that determine company size, in a bid to cut red tape impacting businesses. As company size plays a key role in compliance with the off-payroll working and IR35 rules, the change will also have a knock-on effect here.

New thresholds

The new rules alter the thresholds set out in the Companies Act 2006, and are expected to benefit up to 132,000 companies, by moving them into categories with lighter-touch accounting and reporting requirements. The new thresholds take effect from 6 April 2025.

Previously, a company was classed as being small if it met at least two of these tests for two consecutive financial years:

- it had turnover of not more than £10.2 million
- it had a balance sheet total of not more than £5.1 million
- it had an average of not more than 50 employees.

Under the new rules, a company is classed as small if it meets at least two of the following tests:

- it has turnover of not more than £15 million
- it has a balance sheet total of not more than £7.5 million
- it has an average of not more than 50 employees (unchanged).

Company size and off-payroll working

Off-payroll working rules apply where the client of someone working through an intermediary, such as a personal service company, is in the public sector; or is classed as a medium or large-sized client in the private or voluntary sector. Under the off-payroll working rules, it is the responsibility of the client to make the employment status decision. Where it is decided that the worker is a deemed employee, the client is then likely to have responsibility for PAYE deductions and National Insurance contributions, unless the supply chain is such that another party is the deemed employer.

Where services are provided to what is defined as a small client, the IR35 rules apply instead, and it falls to the worker's intermediary to make the employment status decision.

In all cases, it's the company size as set out in the Companies Act 2006 that is the measuring rod.

How the new rules impact this: and when

Those working through an intermediary may therefore find that some of their clients fall into a different size category in future. Where a client falls into the small company category, the responsibility for assessing employment status will also change, and the decision will pass to the worker's intermediary/personal service company.

But although the new rules on company size have legislative effect from 6 April 2025, in terms of what it means for off-payroll working, it's slightly different. This is because of the way the two sets of rules mesh together. Since off-payroll working rules kick in from the start of the tax year after the financial year end, the new rules on company size are in fact unlikely to bring change to off-payroll procedures until the year beginning April 2026, and in most cases, April 2027.

Client companies reclassified as small will be able to look forward to a reduction in the admin burden. Those working through an intermediary need to be aware that change and new responsibilities could be on the horizon. Do talk to us to help prepare for what lies ahead.

HMRC backtracks on employee data requirement

Plans requiring employers to provide more detailed information on the hours worked by employees in their Real Time Information PAYE reporting have now been cancelled.

The requirement to provide employee data was due to take effect from April 2026, and had already been postponed from April 2025.

Announcing the cancellation, HMRC said: 'The government has listened to businesses and acted on their feedback about the administrative burden the PAYE . . . data requirements would bring.'

Whilst the decision to abandon the proposal will undoubtedly come as welcome news for employers, it is, of course, important to remember that employers are already under an obligation to keep records of employee hours worked in order to satisfy their responsibilities under the minimum wage regime. With the latest increase to minimum wage rates in effect from 1 April 2025, it is all the more critical to be confident that working time is correctly paid and recorded.

We can help you review any aspect of your PAYE and minimum wage compliance, so please don't hesitate to contact us for advice.

Neonatal care: new entitlement for employed parents

From 6 April 2025, there is a new statutory right to neonatal care leave and pay for employed parents. The new law applies in England, Scotland and Wales, but not in Northern Ireland.

The move is expected to benefit around 60,000 parents, helping them face the emotional and practical challenges of having a baby in neonatal care, without having to work or use up existing leave.

There are two elements to the new entitlement: neonatal care leave (NCL) which gives additional time off work as a day-one employment right; and neonatal care pay (NCP), for which a minimum period of employment and a minimum earnings test apply.

Conditions

The entitlement is available:

- to parents of a baby born on or after 6 April 2025
- where the baby is admitted into neonatal care up to the age of 28 days, and has a continuous stay of seven full days or more.

'Parents' in this context include adoptive parents, parents fostering to adopt, and the intended parents in surrogacy arrangements. The partner of the baby's mother is also eligible. Partner here is defined as someone living with the mother or adopter in a long-term family relationship, but who is not related to them. They must also expect to have responsibility to raise the child.

Neonatal care is defined as medical care in hospital; medical care received elsewhere on discharge from hospital, given under the direction of a consultant; and palliative or end of life care.

Leave

Parents can take anywhere from between one to 12 weeks of leave, depending on how long their baby is in neonatal care. Leave must be taken in full weeks. Employers should be aware that each parent has their own entitlement to leave: it doesn't have to be shared between partners. Note also that NCL is in addition to any right to maternity, paternity or shared parental leave.

Leave must be taken within 68 weeks of the birth. Given that a parent qualifying for NCL is already likely to be on some type of family leave, it is likely that NCL will be added to the end of this.

Pay

To qualify for NCP, someone must have worked for at least 26 weeks for their employer, ending with the relevant week. They must also earn over the Lower Earnings Limit, £125 per week from April 2025. Eligible employees will be entitled to NCP for up to 12 weeks.

Other requirements

Leave is referred to as being in one of two categories: Tier 1 and Tier 2. Tier 1 leave is taken when the child is still receiving neonatal care, and up to a week after discharge, and can be taken in non-continuous blocks, of at least a week at a time. Tier 2 leave is taken at any other time, up to the end of 68 weeks from the child's birth, and must be taken in a continuous block.

The notice periods for each Tier are different, and only for Tier 2 must an employee give notice in writing. As well as giving the employer notice, the employee also needs to provide certain information to the employer, such as the child's date of birth.

What employers need to do

Employers will need to update their policies, and make sure that employees are aware of the new rules. Payroll systems will also need adjustment.

We are always on hand to advise on the small print of legal change. Please do contact us with any questions you may have.

New questions for Self Assessment tax return

The information required on the Self Assessment tax return will change for some taxpayers from 6 April 2025. This will impact tax returns for 2025/26 and future years.

The change affects taxpayers who begin or end self-employment, and directors of close companies. Broadly speaking, a close company is a company controlled by its directors, or by five or fewer 'participators', such as shareholders. Most family or private companies are likely to fall within this category.

From April 2025, where a self-employed person begins or ceases trading during the tax year, it will be mandatory to report this, with relevant dates, on the tax return. Previously this was a voluntary requirement. This additional requirement will impact personal tax returns, partnership returns and trustees' returns.

For company directors, it becomes mandatory, rather than voluntary, to disclose close company directorships. Directors will also have to state the name and registered number of the close company; the value of dividends received from the close company for the year, declaring this separately from other UK dividends; and the percentage shareholding in that company for the year. If shareholding changes during the year, it's the figure for the highest percentage shareholding that is needed.

RESEARCH AND DEVELOPMENT CLAIMS: WHAT'S NEW?

To deal with high levels of error and fraud, the Research and Development (R&D) tax relief regime has been significantly reshaped since 2023, and HMRC risk assessment is now much sharper.

Claimant support packages

As part of its drive to make sure that companies understand the rules, HMRC is starting to email some claimant companies, on a random basis, on receipt of the R&D Claim Notification and Additional Information Form (AIF). Applicant companies may now receive a 'guidance package' by email, with links to online guidance, or other HMRC information sources. HMRC advises that there is no need for recipients to respond, or take any specific action as a result.

In the past, there have been instances where fraudulent R&D claims have been submitted without the knowledge of the company involved, and HMRC's new guidance packages are partly meant to ensure that companies are aware that an R&D claim is being made in their name.

Dealing with errors

A recurrent theme in HMRC compliance activity is the number of incorrect and spurious R&D claims submitted by rogue firms in the past. This is something that sometimes only comes to light when a company changes its professional adviser.

To address the position where past inaccuracies in an R&D claim emerge, HMRC now has an online disclosure facility, allowing companies to report historic inaccuracies, and to upload relevant calculations. There is also a letter of offer that can be submitted to HMRC as part of a contract settlement.

Use of the facility is voluntary, and is only appropriate where:

- the company is out of time to amend the Corporation Tax return
- too much R&D tax relief has been claimed
- there is therefore a need to pay Corporation Tax or repay overclaimed tax credits for R&D relief
- the incorrect claim did not arise from deliberate behaviour.

Using the disclosure facility should usually qualify as making an unprompted disclosure to HMRC, and this in turn should lessen any penalty involved. However, care is advised where there is a need for disclosure of any kind, and we would strongly recommend professional advice before taking any action.

Keeping up to date

R&D tax relief is a specialist area, and keeping up with the rules is demanding. HMRC has, for example, recently revised its guidance, following two recent decisions at the First-tier Tax Tribunal. These involved technical issues on what counts as subcontracted work and subsidised expenditure for R&D tax relief under the small and medium-sized enterprises scheme which applied before 1 April 2024. In addition, the Spring Statement 2025 announced a consultation on a facility to apply for advance clearance for R&D claims.

We are always on hand to advise on the detail of the rules such as these, to give you confidence that you know which expenses can correctly be included in any claim for R&D. Do please contact us for a discussion.

Tax compliance: much more than common sense

Keeping up to date with tax isn't always as simple as it seems, as one taxpayer, Mr Hammant, recently found to his cost.

The cost was in fact £1,200, and the expensive bill arose because Mr Hammant thought he had filed his Self Assessment tax return online, and didn't discover that it hadn't been submitted correctly until over a year later.

Mr Hammant had signed up for paperless communication from HMRC, and not realising that anything had gone wrong with the tax return filing, hadn't seen the need to check his personal tax account for some time. He also mistakenly believed that 'important' communications from HMRC would be sent in the post. This meant that penalty notices, reminders and statements were clocking up in his personal tax account, unnoticed. And in the meanwhile, £1,200 accrued in penalties - despite no tax being due on the return itself.

When Mr Hammant finally realised what had happened, he acted at once. The tax return was filed, and he made an appeal against the penalties. But the appeal was not allowed, and the penalties stuck.

It comes as a shock to many people to realise just how inflexible the tax system can be. HMRC did not give up the penalties in this case: and indeed, it has only limited discretion to do so. The First-tier Tax Tribunal weighed up the

law, but it, too, has only a certain amount of wriggle room.

The best plan is always to get it right first time: to be on top of the deadlines, and to know how to meet your tax responsibilities. That is what we are here to help with. Please don't hesitate to contact us at any time.