2025 SPRING NEWS

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Lots on the tax agenda

Despite the uncertain economic environment at the moment, Rachel Reeves has promised to hold only one 'fiscal event' each year, so we are not expecting any further tax announcements until the Autumn Budget. However, many tax changes are now scheduled for April and others for a year later, so you can't take your eyes off the tax ball without it potentially costing you dearly. In this newsletter, we look at the impact of some of these changes as well as keeping you up to date with other developments.

We begin with the tax changes announced concerning double-cab pickup vehicles, which will be very significant for those who use them in their business.

On page 3, we discuss the impact of the big increase in employers' National Insurance Contributions (NICs) that takes effect in April along with a 6.7% increase in the National Living Wage. Both these will increase the costs of employing someone, often very significantly, although we remind you of the reliefs that are available to mitigate employers' NICs too.

This NICs increase is one of several different tax changes in recent years (starting in the days when George Osborne was Chancellor) that have changed the tax landscape for owner-managed businesses. We discuss on page 4 why a limited company may, in some cases, no longer be the most appropriate business structure to have.

Other topics that we mention include research and development, where HMRC has introduced a special disclosure facility for those who have inadvertently overclaimed tax relief in the past, and the upcoming increase of 1.5 percentage points in the annual rate of interest on tax paid late.

There are many other issues that we could have included (and no doubt will include in future newsletters) that may also affect you or your business. There has been a lot of publicity over the potential Inheritance Tax (IHT) increases that many farmers will face from April 2026. What has not been so well reported is that the changes will affect most other businesses as well. If you have a family trading company, under the current proposals, some IHT will be payable if the value of the shares that you are leaving on death exceeds £1m. Although we await the final legislation (the proposals are not in the current Finance Bill) it may be sensible to get ahead of the game and look at how you might want to change your Will. You may even want to bring forward plans to gift the shares to a child, as there is still complete exemption from IHT for lifetime gifts where the donor survives at least 7 years.

A year further on, in April 2027, the IHT rules on pensions are expected to change too, so IHT is going to be an important topic over the coming years.

Some other changes are happening well before then. Having put up most CGT rates from Budget Day, the rate of tax on disposals eligible for Business Asset Disposal Relief (BADR) rises from 10% to 14% from 6 April 2025, before increasing to 18% a year later.

A temporary reduction in the normal Stamp Duty Land Tax (SDLT) rates expires on 31 March 2025. Up to that date, the first £250,000 is charged at nil; from 1 April 2025, the band from £125,001 to £250,000 will once again be charged at 2%. There is also a reduction in the thresholds for first-time buyer relief: from 1 April 2025, the nil rate will apply to the first £300,000 of a property costing up to £500,000, down from the first £425,000 of a property costing up to £625,000.

For the self-employed and landlords, the much more onerous reporting requirements of Making Tax Digital for Income Tax Self-Assessment (MTD ITSA) will start being phased in from April 2026.

There is not much good news on the tax front, but we are here to help you navigate these changes and to keep your tax bills as low as we can. ***Please contact us if you want to discuss anything raised in this Newsletter.***

Double-Cab PickUps – Should you change your vehicle?

A double-cab pickup (DCPU) normally has:

- a front passenger cab, with two rows of seats for the driver and around 4 passengers;
- four doors capable of being opened independently; and
- an uncovered pickup area behind the passenger cab.

They are very commonly owned as business vehicles, particularly in the agricultural sector. Tax policy currently treats DCPUs with a payload of:

- under 1 tonne as cars; and
- 1 tonne or more as vans.

Vans have a more favourable tax treatment than cars, in that:

- Vans have lower benefit-in-kind (bik) charges than cars;
- The cost of vans can usually be deducted for tax purposes in the year of acquisition, via the Annual Investment Allowance or 'full expensing', whereas tax relief via capital allowances on cars is usually much slower; and
- VAT is not recoverable on business cars where there is any element of private use.

In a major change of policy, from 1 April 2025 for corporation tax and 6 April 2025 for income tax, all DCPUs will be treated as cars for the purposes of capital allowances and biks. However, there are some fairly generous transitional rules for those with a payload of one tonne or more, as follows:

- The existing capital allowances treatment will apply to those who purchase DCPUs before the change.
- Transitional bik arrangements will apply for employers that have purchased, leased, or ordered a DCPU before 6 April 2025; they will be able to use the previous treatment, until the earlier of disposal, lease expiry, or 5 April 2029.

The new approach is due to a Court of Appeal decision on hybrid vehicles, where it was decided that, unless a vehicle is designed 'first and foremost' for the transport of goods or burden, it should be treated as a car. This change was originally announced to take effect a year ago, but the announcement was rapidly reversed (many felt because of the upcoming General Election). It is now going ahead.

Note that the VAT treatment is unaffected and will continue to be based on payload:

- Anything under one tonne is classified as a car, and
- Anything of one tonne and over as a van.

If your business uses DCPUs with a payload of one tonne or greater, you should talk to us about how this change in treatment will affect you. It may be sensible to bring forward plans to replace such vehicles, in order to take advantage of the transitional rules, but time is short to make such decisions.

Have you overclaimed R&D relief?

There have been major changes over the last couple of years to the tax incentives for expenditure on research and development (R&D). Most companies now come within the RDEC (Research and Development Expenditure Credit) regime, although some companies qualify for the R&D-intensive scheme, which is for small and medium-sized companies that have R&D expenditure constituting at least 30% of (broadly) total tax-deductible expenses plus capitalised R&D costs.

Having for many years adopted a 'light touch' approach to processing R&D claims, in recent times HMRC has beefed up its procedures in this area. For example, any new claimants (or those who have not made a successful R&D claim in the preceding 3 years) now must give HMRC notice of their intention to make a claim within six months of the end of the relevant accounting period. If this six-month deadline is missed, any claim will be rejected, even if in all other respects it meets the qualifying conditions. Note, however, that the time limit for a valid R&D claim remains two years from the end of the relevant accounting period.

HMRC realises that, over recent years, many companies may have made erroneous R&D claims inadvertently, with the errors not being picked up by HMRC. It has therefore launched a new online service to disclose errors made in claims.

The key points from HMRC's guidance are as follows.

1. The service can be used where all the following conditions are met:
   - The company has claimed too much R&D tax relief.
   - The time limit for amending the tax return to correct the claim, which is generally twelve months from the filing deadline for the return, has passed. (The company should amend its return in the normal way if it is within the permitted time limit.)
   - The company needs to pay corporation tax or to pay back overclaimed tax credits.
   - The company's behaviour in making an incorrect claim was not deliberate.
2. The disclosure is made by submitting an online form and supporting computations. HMRC's guidance sets out the information needed to complete the form and prepare the computations.
3. At the end of the form, there is a 'letter of offer', which the company can submit to HMRC as part of a contract settlement. The offer the company makes to HMRC will include:
   - the tax due/credits to repay; plus
   - interest and penalties.

   HMRC's guidance explains how to do this and how to calculate the interest and penalties.
4. Once the disclosure has been made, HMRC will either request more information or issue a letter of acceptance.
5. The company should receive a payment reference number within 15 calendar days of making the disclosure, following which the amount due can be paid online. If the company cannot pay what it owes in full, it can ask HMRC for time to pay, but HMRC will usually ask the company to pay the full amount within 12 months.

Note that a company that has made an error in a claim for R&D tax relief is likely to be charged greater penalties if it is contacted by HMRC rather than making a voluntary disclosure. Depending on circumstances, HMRC may also decide to open a criminal investigation.

If you think that your company may have overclaimed R&D relief in recent years, please get in touch to discuss making a voluntary disclosure. There is much to consider, but it is better to come forward yourself than wait for HMRC to issue discovery assessments on your company.

Employers NICs increases on the way

For paydays on and after 6 April 2025:

- the rate of secondary National Insurance Contributions (NICs) paid by employers on an employee's earnings above the 'secondary threshold' will increase from 13.8% to 15%; and
- the secondary threshold will reduce from £9,100 to £5,000 per annum.

The reduction in the secondary threshold means employers will have an obligation to send the full payment submission (FPS) for employees earning above this threshold (£96 per week/£417 per month). Previously the obligation applied where earnings were above the Lower Earnings Limit (LEL), which is the point at which an employee accrues a right to certain state benefits. The LEL is £125 per week/£542 per month for 2025/26.

These changes represent a big extra cost for businesses and, because of the big reduction in the starting threshold, the increase is proportionately greater on lower salaries. For example, the employers' NICs payable on an annual salary of £12,570 (the level of the tax-free personal allowance) increases next year from £479 to £1,136 (i.e. a 137% increase); on a salary of £30,000 p.a., the increase is from £2,884 to £3,750 (i.e. 30% more). Many employers will also have to cope with the increases in the National Living Wage (NLW) and National Minimum Wage that take effect in April, increases that will themselves increase employers' NICs charges.

There are some ways to mitigate the increased employers' NICs, so make sure you make use of any of the following that could apply to your business.

The Employment Allowance

For 2025/26 onwards, the annual value of the Employment Allowance (EA), which gives exemption from employers' Class 1 NICs, is increased from £5,000 to £10,500 per business. This means that a business employing four people full-time on the NLW will not incur employers' Class 1 NICs on their salaries.

The government is also abolishing the rule that you can only claim EA if your total employers' Class 1 NICs liability is below £100,000 in the tax year before the year of claim. As a result, many businesses will now qualify for EA that didn't previously.

Note that the other restrictions on claiming EA (e.g. for single-director companies and domestic employees (such as a nanny) remain unchanged.

It is possible to backdate employment allowance claims for the previous four tax years so, when thinking about eligibility for 2025/26, also consider if the employment allowance could have been claimed for an earlier year.

Employing veterans

There is exemption from employers' Class 1 NICs when employing an armed forces veteran in their first twelve months of employment after leaving the armed services. This exemption applies up to a salary of £967 per week (£4,189 per month or £50,570 p.a.).

The same exemption and thresholds apply when employing those aged under 21 and certain apprentices aged under 25.

Employees in Freeports and Investment Zones

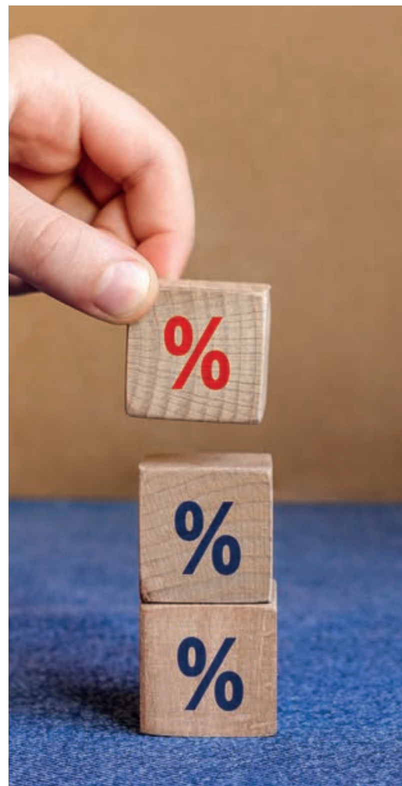
The last government introduced numerous Freeports and Investment Zones, within which businesses get various tax breaks. One of these is exemption from employers' Class 1 NICs for 'new' employees. This exemption is on earnings of up to £481 per week (£2,083 per month or £25,000 p.a.) and applies for a maximum of 36 months from the date first employed.

For an employer to be eligible:

- the employee must be newly employed; and
- they must spend at least 60% of that employment in a single Freeport or Investment Zone; and
- the employer must have business premises in that tax site.

Contrary to many expectations, the Labour Government is keeping Freeports and Investment Zones, at least for the time being. If your business is based in one, make sure you take advantage of this employers' NICs break.

Please contact us if you need any help in planning for the increased employer NICs costs that are coming in April, particularly if you think your business is eligible for one of the reliefs above.



Claim Income Tax relief when you don't have income!

The Enterprise Investment Scheme (EIS) has, for three decades, provided generous tax breaks for those investing in qualifying unquoted trading companies. These tax incentives include:

- 30% Income Tax relief on the amount subscribed for the shares; and
- CGT exemption on any gain on eventual disposal of the shares.

There are many detailed conditions that apply to the EIS, including that the income tax relief is clawed back and the capital gains exemption will not apply if the shares are disposed of within three years of issue (or the start of trade, if later).

This Income Tax relief can produce great tax savings for investors, as the investment limit is up to £2 million p.a. However, some investors who have little or no income (e.g. when living off capital) do use the scheme, where they think they will be able to make large gains on eventual sale of the shares and enjoy the CGT exemption available. A recent case at the Tax Tribunal, however, has highlighted an oddity in the rules that can mean that such investors fail to qualify for the CGT exemption.

The investor was issued with shares in an EIS-qualifying company on 1 September 2013. In November 2019, he disposed of his shareholding and claimed CGT exemption in his tax return on a gain of £8.28 million. HMRC denied the claim, as for the CGT exemption to apply, you need to have made a valid claim for EIS Income Tax relief! With no taxable income, the investor had, understandably, not done this. The time limit for such a claim is the fifth anniversary of the normal self-assessment filing date for the tax year. The shares were issued on 1 September 2013, so within 2013/14. This meant that the filing date for this return was 31 January 2015, so the 5th anniversary of this date was 31 January 2020.

It was already past this date when HMRC started their enquiry, so the taxpayer filed a late claim for income tax relief, but HMRC (and then the Tribunal) refused to allow the late claim. Through this somewhat absurd technicality of not claiming Income Tax relief when he had no taxable income, the investor lost his CGT exemption!

Both the EIS and Seed EIS schemes give very generous (though slightly different) tax reliefs, but have multiple, often complex, rules to comply with. If you are thinking of investing in either scheme, or your company is looking to use either scheme to raise finance, please contact us so that we can make sure you will be fully compliant with the rules.

Interest – some interesting developments!

Late payment interest

HMRC interest rates are set in legislation and are linked to the Bank of England base rate. There are 2 rates:

- late payment interest, set at base rate plus 2.5%; and
- repayment interest, set at base rate minus 1%, with a lower limit of 0.5% (known as the 'minimum floor').

The late payment interest rate encourages prompt payment.

As you can see, there is a built-in 'turn' for HMRC of 3.5% in the legislation.

HMRC currently charges interest at 7.25% p.a. on tax that is paid late and credits a taxpayer with 3.75% p.a. on repayments of tax (as the base rate is 4.75%).

As announced at the Budget, the rate of interest on late payments will increase by 1.5 percentage points from 6 April 2025 to base rate plus 4%. There is no such increase in the repayment interest rate, so this is a straightforward increase in HMRC's turn to 5%.

If you have any outstanding tax bills, try to pay them as quickly as possible, to avoid the higher interest charges coming in and reduce the likelihood of late payment penalties. Speak to us if you are having trouble paying your tax bills.

Official Rate of Interest (ORI)

The ORI (which is currently 2.25% p.a.) is used in the calculation of:

- Accommodation benefit, which always uses the ORI at the start of each tax year; and
- Loan benefit, which uses the ORI in place during the tax year.

Twenty five years ago, the Inland Revenue (the predecessor of HMRC) gave a commitment that, going forward, the ORI would not change within a tax year. However, this is about to change; from 6 April 2025, the ORI can increase during the tax year and will be reviewed quarterly. This will potentially make the calculation of loan benefits more complicated than in recent times.

Please contact us if you are unsure how the change in the ORI will affect benefits that you or your employees have.

Time to disincorporate?

There are many factors to consider when deciding whether to run a business as a sole trader or via a limited company, but tax has always been a key one. Although there are some tax advantages of being unincorporated (e.g. the ability to carry back losses arising in the first four fiscal years of trade against other income; lower national insurance rates), the ability to choose when you draw income from a company (and are therefore taxable on it) and the option of taking mainly dividends (to avoid employer and employee NICs) has made the company option much more tax efficient, particularly for businesses with high profits.

Almost surreptitiously, this area has evolved over recent years, to the extent that many smaller companies should be considering whether a limited company structure is still appropriate for them. The reasons are as follows:

1. Since 1 April 2023, companies with profits above £50,000 have seen a significant increase in their marginal corporation tax rate, from 19% to 26.5%, until profits reach £250,000, when the main rate of 25% kicks in. These profit limits are reduced where there are associated companies (broadly, companies under common control).
2. Employers' NICs are to increase significantly from 6 April 2025. The threshold at which contributions start decreases from £9,100 p.a. to £5,000 p.a. and the rate increases to 15% (from 13.8%).
3. The potential tax savings by taking dividends rather than salary have been greatly eroded, due to:
   - the four-percentage point reduction in the main rate of employees' NICs that has happened in two stages, commencing in January 2024; and
   - the effective increase of about 8.75% in dividend tax rates, which began with George Osborne's abolition of the dividend tax credit system in 2016; dividends are not deductible for corporation tax purposes, unlike salary.

The practical impact

For the owner of an OMB, the exact tax cost of withdrawing profits from a company will depend on several factors, including how it is done (dividend or salary, or perhaps interest or rent), what other income you have, the availability of the Employment Allowance (EA) to mitigate employers' NICs and the company's level of profits.

The table below is based on the following assumptions:

- The EA is not available (e.g. it is a sole director company);
- The owner has no other income; and
- A salary equal to the personal allowance is taken, with the post-corporation tax profits being fully paid out as dividends.

The table also gives figures for a sole trader with equivalent profits.

As you can see, the sole trader is better off at each profit level. Of course, the director would not need to make a full distribution of profits, but many, particularly at lower profit levels, may need to do so. It is worth adding that there seems to be little likelihood of personal tax rates being cut soon, so delaying distributions until later years may not save much tax anyway.

Some OMBs may want to consider disincorporation. There are no special reliefs when disincorporating, so how this is done will need careful consideration.

We are happy to advise you on whether a limited company is still the most appropriate structure for your business, so please contact us if you want to discuss this area.

Profit before director draws salary/dividends (£)	Post tax income for director (£)	Post tax income for sole trader (£)
30,000	24,657	25,468
80,000	56,804	57,711
150,000	87,178	92,040

Payrolling benefits - an update

Several years ago, HMRC introduced 'payrolling' of benefits on a voluntary basis. Where this is done, the benefit is accounted for throughout the year and compliance at the end of the year is simplified, as the amount does not need to appear on a P11D. HMRC has recently confirmed plans to mandate the reporting of benefits via payroll software from April 2026. Class 1A NICs on benefits will be reported at the same time and paid each month through the PAYE system.

However, payrolling of accommodation or loan benefits will be optional from April 2026 and mandated later. Modified P11D and P11D(b) forms will be available to report loan and accommodation benefits if employer does not wish to payroll them.

HMRC says it has not decided when it will mandate the reporting of loans and accommodation through payroll software and 'careful consideration will be given to make sure sufficient notice of any change will be provided'.

An end-of-year process will be introduced to amend the taxable values of any benefits that cannot be determined during the tax year, but HMRC expects the taxable values of most benefits to be reported as accurately as possible during the tax year.

The requirement to submit P46 (car) forms will be removed, as functionality will be provided to report the data required through payroll software in real time.

Please speak to us if you are concerned about how these changes will affect your PAYE obligations.

This newsletter is written for the benefit of our clients. Further advice should be obtained before any action is taken.