

WATSON

Basis Period Reform: Additional Profits

From 6 April 2024 all unincorporated businesses (sole traders and partners in a partnership) are required to report profits or losses in line with the tax year.

Businesses with an accounting period end other than 5 April or 31 March will need to report pro-rated results from two accounting periods for tax purposes, unless the accounting period is changed to align with the tax year.

For the 2023-24 tax year, dubbed the 'transitional year' by HMRC, businesses must report their profits from the start of the accounting period ending in 2023-24 to 5 April 2024. For a 31 December year end this is the period from 1.1.23 to 5.4.24. This 15-month period is made up of the 12 months to 31.12.23 'the standard part' and the three months to 5.4.24 'the transitional part'.

As this will result in extra taxable profits for many businesses, HMRC is allowing the profits from the 'transitional part' to be spread over five tax years. Any unused overlap profits can be deducted from the transitional part.

By default, transitional profits will be spread evenly over the five years to 2027-28. It is also possible to accelerate the recognition of these, by bringing more of the extra profits into earlier tax years. There are many reasons why it may be beneficial to recognise more than the minimum amount of transitional profits in a particular year.

For example a sole trader whose business is growing might decide to

recognise more of their transitional profits in 2023-24 and 2024-25, while ensuring they stay under the higher rate threshold. This would leave less extra profit to be recognised in 2025-26 onwards when the business is expected to make higher profits and potentially taxed at a higher rate.

Contact us to discuss whether your business could benefit from this.

Where overlap profits exceed transitional profits, resulting in a loss, this is not spread over five years. Instead it is deducted from the profit or loss in the standard part in 2023-24.

Where a business chooses to change its year end to align with the tax year end, it may still be possible to spread any transitional profits over five years.

Changing accounting date to 31 March or 5 April (or any date in between) will reduce ongoing administrative burdens from April 2024 onwards. In particular, it will remove the need to apportion figures from more than one set of accounts, and the possibility of having to file and correct provisional figures. However, it will not remove the need to apply the transitional rules in 2023-24, or prevent additional profits being brought into account.

We have been preparing for the basis period reform for several years and can help you manage the transition.

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OUR SERVICES

Corporate strategy
Accounting & audit
Business development
Taxation
Software support & training
Payroll
Outsourced management accounting





Major R&D Scheme Overhaul

A new merged research and development (R&D) scheme has come into effect for periods beginning on or after 1 April 2024.

The new scheme unifies the old R&D expenditure credit (RDEC) for large companies and the small and medium entity (SME) relief schemes.

In line with the RDEC, the merged scheme offers a taxable credit of 20% of qualifying R&D expenditure. This is a net benefit of 15% of qualifying expenditure for claimants paying the 25% main rate of corporation tax, or 16.2% for companies paying the 19% small companies rate and loss-making companies.

Under the previous RDEC scheme, services contracted out to another individual or company did not attract relief except in very limited circumstances. Under the new scheme the approach to subcontracting is more generous, closer to the previous SME relief rules.

Enhanced R&D intensive support (ERIS)

A separate more generous regime is available for loss-making 'R&D intensive' SMEs. To qualify for the ERIS an SME must have a trading loss before R&D expenditure and qualifying R&D expenditure must be 30% or more of its total expenditure (reduced from 40% from 1 April 2024).

The existing subsidised expenditure rules for SMEs have been removed so expenditure will now qualify for the relief even if the R&D project is subsidised. This is good news for innovative start-up companies and claimants in industries where grant funding is common.

Third parties can no longer be nominated to receive R&D tax credits on behalf of claimant companies for claims submitted after 31 March 2024.

These changes are likely to have a significant impact on most if not all businesses involved in R&D. Contact us to discuss what this might mean for your business.

Crypto Investors Urged to Declare Gains

HMRC has reminded investors in cryptoassets that they should declare any income or gains above the tax-free allowance on a tax return.

If you hold cryptoassets such as Bitcoin you need to pay tax on any income or gains you have made.

Most individuals investing in cryptoassets will be subject to capital gains tax on the following activities:

- ▲ selling cryptoassets in exchange for regular currency;
- ▲ exchanging cryptoassets for other cryptoassets;
- ▲ gifting cryptoassets to anyone other than a spouse or civil partner; and
- ▲ using cryptoassets to buy goods or services.

In some exceptional circumstances, an individual transacting in cryptoassets may be deemed to be trading and subject to income tax rather than capital gains tax. If you need to report income or gains on cryptoassets that relate to the tax year 2023-24 these can be added to your self assessment tax return.

For gains relating to 2022-23 there is still time to amend a previously submitted return.

For any gains relating to previous tax years HMRC has launched a voluntary disclosure service to enable taxpayers to report undeclared income or gains.

Using the new service is not compulsory and taxpayers with more complex tax affairs, or undeclared gains not related to cryptoassets, should consider other reporting routes. We can help you decide on the most suitable option for you.



Consider Restarting Child Benefit

The clawback threshold for the high-income child benefit charge (HICBC) was increased to £60,000 from 6 April 2024.

If you are entitled to child benefit and your or your higher-earning partner's adjusted net income (ANI) is above £60,000 it is possible that you will have chosen not to receive your child benefit payments as the full amount would previously have been clawed back via the HICBC.

As announced in Spring Budget 2024, the point at which that charge kicks in has been increased from £50,000 to £60,000. The rate of the charge has been reduced so that 1% of child benefit is repayable for every £200 of ANI over the threshold (previously 1% per every £100). This means child benefit is paid back in full when ANI reaches £80,000 (previously £60,000).

Taxpayers who have chosen not to sign up for child benefits, or opted out of receiving the payments, whose ANI is between £60,000 and £80,000 should consider restarting, or signing up for, child benefit payments.

Where the higher earning parent or guardian has adjusted net income above £80,000 there will be no benefit to receiving payments. However it is often advisable to sign up for child benefit and opt out of payments as this will protect your entitlement to state benefits.

Where the higher earner's ANI is between £50,000 and £60,000 they will now keep 100% of their child benefit and are no longer required to deal with the HICBC. Individuals with ANI between £60,000 and £80,000 who decide to opt back into receiving (or sign up for) child benefit will need to notify HMRC of their liability to the HICBC via self assessment.

If your or your partner's adjusted net income is between £60,000 and £80,000 contact us to discuss the most efficient next steps for you.

Making Tax Digital: Quarterly Update Returns

HMRC has confirmed the mandation dates for making tax digital for income tax self assessment (MTD SA) as announced in the Autumn Statement 2023.

From April 2026, taxpayers subject to income tax on their trade, profession, property income or business and who have income above £50,000 will be required to keep their accounting records electronically (either using suitable software or on a spreadsheet) and file quarterly update returns to HMRC with details of their income and expenditure together with any other information that HMRC specifies.

The mandation date for self-employed taxpayers and landlords with income between £30,000 and £50,000 is April 2027.

There are currently no plans for MTD SA to be implemented for taxpayers with income below £30,000.

HMRC has also published an update notice announcing that quarterly updates will be cumulative. This will allow errors in one quarter's reporting to be updated in the following quarter, removing the need to resubmit previous quarters.

The requirement to submit an end of period statement in addition to quarterly returns has been removed as planned.

Taxpayers who file self assessment tax returns with income above £50,000 need to prepare for MTD SA now. We have been preparing for MTD and can advise you on the best options for your business.



Mandatory Payrolling of Benefits

The reporting and paying of income tax and Class 1A national insurance contributions on benefits in kind is to be made mandatory via payroll software from April 2026.

Most employers who have not entered into a PAYE settlement agreement currently report benefits in kind (BIKs) provided to employees on the P11D form and calculate Class 1A national insurance contributions (NIC) at the end of each tax year.

To simplify and digitise the process, from April 2026 the Government will mandate the reporting and paying of income tax and Class 1A NIC on BIKs via payroll software. The taxable BIKs will be calculated for the year and the monthly amount (ie one twelfth of the annual amount) will be added to the employee's monthly payslips, with tax deducted accordingly.

This will lessen the administrative burden for employers; remove the need for end of year returns to be submitted; and simplify the tax affairs of individuals, reducing the need for them to contact HMRC.

HMRC will engage with stakeholders to discuss their proposals to inform design and delivery decisions, and draft legislation will be published later in the year. Guidance will be made available in advance of 2026.

The payrolling of benefits and the associated advantages to employers don't have to wait until 2026. If you'd like to discuss introducing this system sooner, contact us.

New VAT Compliance Test for CIS

HMRC has issued guidance on various changes to the existing construction industry scheme (CIS) rules.

If you are a sub-contractor, obtaining gross payment status (GPS) allows you to receive full payments from your customers without tax deducted. To achieve GPS you need to prove that you or your business:

- ▲ have filed and paid taxes on time in the previous twelve months (the compliance test);
- ▲ fall under the CIS regime and have a bank account (the business test); and
- ▲ have net construction turnover for the past twelve months of at least £30k.

From 6 April 2024 new and existing GPS applicants will also need to meet a VAT compliance test. To pass this test contractors will need to prove that they have filed all VAT returns and paid their VAT on time for the previous twelve months.

The new test offers some flexibility for late VAT returns and payments. Contractors can submit up to three late VAT returns as long as they are no more than 28 days late. Payment can be made up to fourteen days late but only where the VAT liability is less than £100.

If you are aware of potential issues with your VAT compliance in the last twelve months, contact us without delay and we can help you to remedy these before HMRC withdraws your GPS status.

HMRC verifies GPS holders' compliance history on a twelve-month basis. The guidance indicates that the first review for new applicants will be brought forward to six months after the application, reverting to twelve months thereafter.

If you regularly engage the same suppliers or contractors you should re-verify their GPS on the HMRC website with these changes in mind.





Understanding S455 Tax: What It Is and How It Is Calculated

S455 tax, also known as the Section 455 tax, is a charge levied on directors' loans in the UK.

This tax arises when a company lends money to its directors or shareholders, a situation that is not uncommon among small businesses and family-run companies. The purpose of this tax is to discourage companies from making untaxed loans to directors and shareholders instead of paying dividends or salaries, which are subject to income tax and National Insurance contributions.

When a director's loan account is overdrawn at the end of the company's accounting period and it is not repaid within nine months and one day after the period ends, the company must pay S455 tax on the outstanding balance. The current S455 tax rate is 33.75%, mirroring the higher rate of dividend tax.

For example, if a company's accounting period ends on 31st December 2023, and the director owes £10,000, the repayment deadline is 1st October 2024. If not repaid by this date, the S455 tax would be £3,375 (33.75% of £10,000).

It's important to note that if the loan is eventually repaid, the company can reclaim the S455 tax paid, albeit this can only be done nine months after the end of the accounting period in which the loan was repaid. Thus, while S455 tax can be a temporary financial burden, proper planning and timely repayments can mitigate its impact.

In addition to understanding the tax implications, businesses should keep meticulous records of any director loans and repayments to ensure compliance and avoid unnecessary tax liabilities. Furthermore, seeking professional advice can help navigate the complexities of S455 tax and identify the most tax-efficient strategies for your business.

For further advice and tailored solutions, please contact us to discuss the options that may be available.

Cash Basis by Default

From 6 April 2024 the cash basis has replaced accruals as the default method for preparing sole trader and partnership accounts for tax purposes.

Previously, only unincorporated businesses with total receipts below £150,000 were entitled to opt out of accruals and file their accounts with HMRC using the cash basis. That restriction has now been lifted so that the cash basis is available to unincorporated businesses of any size and they now need to opt out of the cash basis if they want to continue filing using accruals.

The accruals basis will remain the most appropriate method for most businesses. Those choosing to continue to file their accounts in this way need to opt out of the cash basis for 2024-25 and this preference will be automatically carried forwards for future years.

Some businesses may benefit from the simplicity of filing accounts under the cash basis as this will remove the need to calculate and post accruals adjustments. This could reduce the quarterly reporting burden when making tax digital for income tax is mandated.

Switching to the cash basis may also present tax planning opportunities for some businesses, for example tweaking the timing of certain receipts or payments to keep taxable profits within a particular tax band each year. The potential tax benefits of these should be balanced against other business needs.

Where a business that was reporting under the accruals basis does not opt out of the cash basis, adjustments will be required for the tax year 2024-25 to ensure income and expenses are not double counted.

We can help you decide whether switching to the cash basis or sticking with accruals is the best option for your business.

New Director at Watsons

We are delighted to announce the appointment of a new Director, Joe Funnell.

Having joined the company originally as a trainee Joe has been involved in all facets of the business and in recent years has developed his experience and skills in all areas but in particular commercial advice and guidance to SME's, Owner managed business's and large corporate clients.

Joe says: "I am truly honoured and excited to be appointed as a Director at Watsons. It's a privilege to join such a talented and dedicated team of Directors. I look forward to being a part of the journey ahead"

Steve Moore, Managing Director at Watsons: "Joe is an enthusiastic and highly skilled individual. Myself and the Directors are excited to have him on board"

Congratulations Joe!

Free Business Advice Service

Business owners in East Sussex can access up to 18 hours of expertise, for free, thanks to a new council project.

A fantastic team of independent specialist advisors has been assembled, and are available to provide support for businesses across Eastbourne and the Districts of Lewes, Rother and Wealden.



The programme, called Big Ambitions, is for businesses looking to employ one or more team members within the next 18 months. The business owner is linked with one of 20 specialists from different areas of business (including Marketing, HR, Finance, Strategy, Technology and more) for up to 18 hours of 1:1 support.

You can find more information on the East Sussex Business Hub - <https://eastsussexbusinesshub.mn.co/> or you can book a meeting with the programme lead, Gavin McWhirter from Digital Islands here:

<https://calendly.com/gavin-sebb/east-sussex>



Valiant Vipers Reach Cup Final

We are delighted to sponsor the Under 12 Pevensey and Westham boys football team, coached by our very own Andy Talbot. The boys had a superb cup run this season culminating in a final. The team put in a brave performance but were not able to win on the day. Nevertheless, the boys can be proud of their performance and we look forward to seeing what the Vipers can achieve next year.

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