Technical Bulletin

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The end of the line for FHLs

Since 1984, the furnished holiday lettings (FHL) rules have enabled property owners to benefit from the tax rules on trading income. This has allowed taxpayers to claim capital allowances on furniture and equipment additions, take advantage of a reduced capital gains tax rate of 10% (where business asset disposal relief (BADR) is available) and claim business asset rollover relief or holdover relief. Profits from a FHL business can also currently be treated as income for pension purposes and are not affected by the restriction on finance costs for property income, nor the special rules for jointly held property.

Although there have been several tax advantages of FHL status, HMRC manual IHTM25278 makes clear that FHL properties don't qualify for business property relief unless there is a sufficient level of additional services provided. Schedule 9 VATA 1994 also includes FHL properties in the scope of VAT.

Changes in the 2024 Spring Budget

In the Spring Budget, Chancellor Jeremy Hunt announced the abolition of the FHL rules for residential property. He highlighted that whilst the rules have made short terms lets more attractive, they have also reduced the properties available for long term rental by people in local communities.

The Chancellor appears to have taken the recommendations from the November 2022 Office of Tax Simplification report into account. The report considered the need for reform to the FHL rules, which were available not just to properties in the UK but also in the European Economic Area (EEA).

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The government announced that the abolition will take effect from April 2025, and we look forward to reviewing the draft legislation when it's published. We do however note that there will be an anti-forestalling rule introduced to avoid taxpayers rushing through a transaction in an attempt to take advantage of the capital gains tax advantages for FHL properties before the new rules take effect. This will apply from the day

the Budget was announced, which is somewhat different to the April 2025 date for the other changes.

Impact of new rules

Although taxpayers will no longer qualify for a 10% capital gains tax rate (if BADR is available), the Chancellor did announce a reduction in the higher rate of capital gains tax on residential property from 28% to 24% from 6 April 2024. (There was no change to the 18% capital gains tax rate for gains on residential property payable at the UK basic rate). The jump in capital gains tax rates will therefore not be as significant as it may have been.

But the anti-forestalling rule could have an impact on transactions which were in progress, but not concluded, on Budget Day. The inability to claim business asset disposal relief will be an extra blow to taxpayers who may have sought to rely on business asset rollover relief (where the proceeds from the sale of a FHL property or other qualifying asset have been reinvested in another qualifying asset) or holdover relief (where a FHL property has been gifted).

The announcements so far appear to relate to the income tax and capital gains tax changes, so we are unaware of any proposed changes to the treatment of FHL properties for business property relief for inheritance tax and VAT.

We do however seek clarity from the government as to whether there will be any balancing adjustments for capital allowances claimed in respect of FHL properties and the treatment of losses prior to the abolition of the FHL rules.

The Spring Budget made no reference to the fact that FHL treatment is also available to companies. We await details of how Section 65 CTA 2010 will be affected in respect of its reference to FHL income being treated as a trade. This could have a knock-on impact on the capital gains tax relief available on the disposal of shares in companies that have carried on a FHL business.

Scottish Taxpayer Status

There were grumbles a few years ago among Scottish taxpayers when the Scottish government increased the rates of income tax and reduced the higher rate income tax threshold, compared to taxpayers in the rest of the UK. These grumbles became louder as the differential between Scottish taxpayers and taxpayers in the rest of the UK increased further and the recent Scottish budget is causing a number of individuals to seriously consider whether to move house.

Where it may seem simple to move from Gretna to Carlisle, in most cases relocation to south of the border is simply not practical. However, there is a significant number of Scottish taxpayers who spend considerable periods working in the rest of the UK.

The Scotland Act sets out the tests which are to be applied in determining whether an individual is a Scottish taxpayer. These are covered very succinctly in HMRCs manuals at STTG 4100:

A. The individual is a Scottish parliamentarian.

B. The individual has a close connection to Scotland through either:

   i. having only a single place of residence which is in Scotland, or

   ii. where they have more than one place of residence where their place of residence is Scotland for at least as much of the tax year as it has been in each other part of the UK.

C. Where there is no close connection to Scotland, or indeed any other part of the UK, as it is not possible to identify any place of residence or a main residence, the question as to whether the individual is a Scottish taxpayer or not is carried out though day counting.

For the above purposes, the UK is Scotland, England, Wales and Northern Ireland.

An individual is a Scottish taxpayer for a whole tax year and there is no split year treatment similar to that which applies for the statutory residence test.

A and C will apply to a relatively small number of individuals and B will be the main test which will apply.

An individual with a house in Scotland, who sells this and purchases a house in England should therefore cease to be a Scottish taxpayer, albeit possibly from the start of the next tax year.

Matters become more complicated however, where someone who is a Scottish taxpayer acquires say a flat in London, spends the week working in London and

living in the London flat, and returning to Scotland on Friday nights.

HMRC manuals provide a lot of guidance and there are some useful examples in the manuals at STTG 4400. As always, marginal cases are the most difficult and the following three examples, which are reproduced from HMRC manuals are helpful:

1. Bob is single and has worked and owned a flat in Carlisle for many years. He is a member of various clubs and social groups in the city. However, Bob also owns a house outside of Oban, where he likes to go walking and fishing most weekends and for longer in the summer holidays. Both properties are furnished with Bob's possessions, but his doctor's, dentist's and optician's registration are all in Carlisle.
2. Bob has two places of residence but his main place of residence is in Carlisle, as this is the residence with which he has the closest connection, both in terms of social and functional links and in which he spends the most time. Bob is therefore not a Scottish taxpayer.
3. Jane has a family home in Kilmarnock with her husband and children but works in Cardiff. To avoid the commute, she rents a flat in Cardiff which she furnishes herself and where she keeps some of her possessions and stays during the week, returning to the family home in Kilmarnock each weekend. All of the friends that Jane sees socially, live in or around Kilmarnock and she is a member of various local sports and social groups in the town.

   Despite having a place of residence in Cardiff throughout the tax year, Jane's main place of residence, by virtue of her family, social and other links, is her family home in Kilmarnock. Jane therefore has a "close connection" to Scotland and is thus a Scottish taxpayer.
4. Solomon is a student at university in Glasgow, living in a house with his friends from his course. He works part-time to help cover his rent and tuition fees and his name is on the phone and utility bills for the house. His parents live in Norwich and he returns to the family home outside of every term time. The correspondence address on his bank and credit card accounts are the family home in Norwich, most of his possessions are there and his doctor's and dentist's registration are also in Norwich.

   Solomon's main place of residence, the place with which he has closest connection is his parent's house, his family home in Norwich. Solomon is not a Scottish taxpayer.

Jane is the closest example of a long-distance commuter but, in HMRC's eyes at least, she would have to change her doctor, dentist and mailing address to Cardiff, as well as making friends and joining groups there. Beyond that, perhaps some of her children may go to university in Cardiff, get jobs there and live with her. Even better if her husband was a rugby fan and came to Wales on a number of weekends to join Jane and go to a match…...

Considerations for the mandatory payrolling of benefits in kind

The clock is ticking

Payrolling all benefits in kind (BIKs) will become mandatory from 6 April 2026, giving employers much to think about and prepare over the next 450 working days. Two years is a very short period in which to consult on, create and implement the legislative provisions; change HMRC Real Time Information systems; train staff, inform all employees and get their buy-in; and successfully submit the first set of returns.

The considerations that agents will need to discuss with clients can be broken down into five main headings, as follows:

All benefits in kind

Currently, the employment taxes legislative provisions within ITEPA 2003 don't facilitate the payrolling of living accommodation benefit and beneficial loans. All other BIKs can be payrolled voluntarily. Many employers do this already, by declaring the Class 1A NICs on the P11D(b) and submitting P11Ds for the living accommodation and beneficial loans separately as part of their tax year filings. However, many employers still prefer to submit online P11Ds in the traditional way, either by preparing them themselves or asking their agent to do this for them. From 6 April

2026, P11Ds will be abolished, resulting in the mandatory online payrolling of BIKs.

ICAS is part of a key stakeholder discussion group on how the transition might work. Most experts around the table have commented that the legislation at Part 3, Chapter 5 of ITEPA 2003 (covering living accommodation) and Part 3, Chapter 7 of ITEPA 2003 (covering loans) needs upgrading to make it fit for the future and easier for employers to work out the taxable value of the BIK.

However, HMRC is currently proposing not to change the underlying legislation. This will mean that the burden of performing calculations for BIKs in each pay period would fall on the employer. ICAS has made strong representations to the HMRC policy team, pointing out that the legislation must be changed first to reduce complexity in the years following the mandating. It may be the case that the legislation never gets changed once mandating comes in, if it isn't changed beforehand.

Software

As all BIKs will need to be processed through payroll software in future, employers will need to ensure that their provider is up to speed. Software developers first need to understand the changes being made before they can design and build the necessary programmes, and carry out pilots and testing of payroll software changes.

Employee cash flow

Employers will also have to consider how many BIKs can be processed through any one pay period, which will result in deductions from pay. Note that under the Income Tax (PAYE Regulations) 2003 the amount of tax deducted from a payment of salary cannot exceed 50% (this is known as the 'overriding limit').

Individual taxpayers who have been in receipt of BIKs in 2025/26 will be starting to pay the tax through their tax code on those BIKs in 2026/27. If 2026/27 BIKs are then payrolled at each pay interval, this will lead to an overlap situation where they are paying last year's and this year's tax simultaneously, until the overlap period ends at the end of the 2026/27 tax year. In some cases, this may result in hardship, and employers will need to consider what steps they might be able to take to mitigate that possibility.

Student loan repayments

The income on which student loan repayments is assessed doesn't include BIKs (unless these attract Class 1 NICs). Employees making student loan repayments need to complete a Self-Assessment return. But, where benefits are payrolled, the Self-Assessment process is unable to distinguish between BIKs that are expressed as taxable income by means of the benefits code and any balancing PAYE income, and an anomaly arises. The result is that student loan repayments appear as if they are due on the whole amount, including payrolled benefits. In the absence of changes to HMRC systems, which would be the best route, a suitable workaround needs to be found to overcome this anomaly.

Employment legislation

Employers should be aware that contractual terms may need to be revised, along with salary sacrifice and flexible benefits/reward statements. Employment law advice may need to be sought in this regard to ensure employers are not falling foul of any traps. It is also advisable in unionised settings for employers to formulate a way forward with the union.

Training and administrative focus

Payroll and HR staff will need to understand the changes being made so that they can handle queries and make changes to employee handbooks and intranet information, as well as explain payslips to employees. How will new starters and leavers be handled? If someone has a company car with a high BIK value, how will the balancing charge be treated when they leave the employment? Will they be keeping the car, or handing it back? Will they be in receipt of a termination payment? All of these questions will need to be considered.

Engagement letters and fees

Engagement letters and service level agreements will also need to be reviewed if you run an outsourced payroll bureau. This is so that services can be defined, responsibilities specified and work fully costed out. The loss of revenue from P11D work will hit some accountancy practices fairly hard, and this may not be able to be fully recouped through charging additional amounts per payslip for those employees who receive BIKs. Employers often miss the detail when it comes to preparing payslips and fail to appreciate the work that goes on behind the scenes. Historically, many accountancy practices have sold payroll services as a loss leader – perhaps it is time to change this perception once and for all.

Further thoughts

There are numerous other considerations such as employee communications, employees working under 'modified payroll' arrangements, double taxation agreements and NICs certificates of coverage mechanisms.

Draft legislation will be published later this year for consultation as part of the tax legislation cycle. It will be interesting to see what is planned and what effect the payrolling of BIKs has on the tax-geared penalties regime, as well as the inevitable employer compliance focus that will accompany it.

We hope that the PAYE Regulations and guidance will also be amended to take account of what an employer is permitted to deduct through payroll to ensure that no employee falls into hardship.

Read the letter sent to the Financial Secretary to the Treasury on behalf of the Employment & Payroll Group (EPG).

If you have spotted a tax anomaly that is getting in the way of doing business, why not share it with the ICAS tax team by emailing tax@icas.com.

Spotlight on capital allowances

Full expensing

In the 2023 Spring Budget, Chancellor Jeremy Hunt announced full expensing as a replacement for the super deduction which came to an end from 31 March 2023. Full expensing is a 100% First Year Allowance (FYA) for assets in the Capital Allowances main pool and a 50% FYA for assets in the Capital Allowances special rate pool (including long life assets).

To be able to claim full expensing, Section 7 Finance (No. 2) Act 2023 requires the expenditure to be incurred by a company within the charge to corporation tax. Section 1259 of the Corporation Tax Act 2009 states that the taxable profits of a partnership, where the members include a company within the charge to corporation tax, are to be calculated under the corporation tax rules. This means that such partnerships are effectively treated as a 'notional company'.

A partnership which only has companies as members can claim full expensing, subject to the other criteria being met. For a partnership with some members within the charge to income tax and some within the charge to corporation tax, it may be necessary for the partnership to submit more than one computation: one in respect of the individual members who are subject to income tax and the other in respect of company members who are subject to corporation tax. The corporate partners will be able to benefit from full expensing based on their proportion of the partnership profits.

Full expensing is only available on expenditure on new and unused assets, but companies may still able to claim annual investment allowance, subject to the criteria below. There are also other exclusions for expenditure on cars and other exclusions in section 46 CAA 2001. We explored the capital allowances treatment of cars in our recent article.

The 2023 Autumn Statement gave companies an element of clarity that full expensing should be permanently available. However, in reality, this is only permanent as long as the life of the current government.

Full expensing was not initially available on assets purchased for leasing purposes, However, the 2024 Spring Budget has indicated that the government is looking to extend full expensing to assets purchased for leasing as soon as possible. We await developments on this.

Annual investment allowance

Since it was introduced in 2008, annual investment allowance (AIA) has only been available on qualifying expenditure by qualifying persons, subject to the £1 million annual limit which may need to be shared by connected businesses under common control.

Section 38B of the Capital Allowances Act 2001 (CAA 2001) outlines the key AIA exclusions, with the most common examples being expenditure on cars and expenditure in the final period of a business operations. To qualify for AIA, Section 38A CAA 2001 stipulates that the business incurring the expenditure must be an individual, company or a partnership comprising entirely of individuals. Partnerships with a company or a trust as a partner are not entitled to AIA.

This means that a partnership with a corporate partner buying used plant and machinery can only claim

writing down allowances (currently 18% per annum), as full expensing is only available on expenditure on new and unused plant and machinery and AIA is not available to mixed partnerships.

Claim full expensing or AIA?

In the case of special rate pool expenditure, it is normally better for a company to claim AIA as this will give a full deduction rather than 50% FYA.

It would also be worth considering utilising any remaining £1 million AIA annual limit not used by used plant and machinery, in preference to full expensing. The reason for doing so is in the treatment of the eventual disposal of the asset.

The proceeds on the disposal of assets on which full expensing has been claimed give rise to a 100% balancing charge (50% for assets in the special rate pool) regardless of how much tax written down value is in the capital allowances pool. Whereas the disposal of assets on which AIA was claim are disposal proceeds in the appropriate Capital Allowances pool, so it may be possible to use the tax written down value brought forward to reduce the balancing charge in the accounting period of disposal.

There's no annual limit for full expensing, so any remaining qualifying expenditure could be subject to a full expensing claim.

Disincorporation – what are the tax consequences?

Whilst many owner managed business will incorporate as they scale up, in some cases a corporate structure will no longer be suitable for them. Transferring a business from a company to an unincorporated structure will have several tax implications for the client to be aware of.

End of corporation tax accounting period

The cessation of the company’s trade on transfer to the unincorporated business will give rise to the end of the company’s final corporation tax accounting period. The final corporation tax return will need to be submitted to HMRC as normal within 12 months of the end of the accounting period. Assuming the company is not paying tax under quarterly instalments (which seems unlikely in this scenario), the corporation tax for the final period will be due for payment 9 months and 1 day after the end of the accounting period as normal.

Careful timing will need to take place in respect of any loans payments to participators in the company, especially where tax is paid under Section 455 of the Corporation Tax Act 2010 (CTA 2010) as refunds of tax are only entitled to be received 9 months and 1 day after the end of the corporation tax accounting period in which a loan have been repaid to the company.

Capital Allowances

Similar to an incorporation, the default position on the transfer of the trade is that there is a deemed market value transfer. No annual investment allowance can be claimed by the unincorporated business due to the connect per Section 217 of the Capital Allowances Act 2001 (CAA 2001) and full expensing would not be available to an unincorporated business in any case. However, it is possible for the parties to sign an election under Section 266 CAA 2001 within two years of the succession taking place so that the transfer can take place at tax written down value.

Stock

Whilst a different section number, in a similar way to an incorporation, the default position per Section 166 of the Corporation Tax Act 2009 (CTA 2009) is that any stock transferred between connected parties should be treated as if sold at market value. However, it is possible for the parties to sign an election under Section 167 CTA 2009 so that the transfer is treated as being for the higher of market value and the amount realised for the sale.

Transfer of chargeable assets

Section 18 of the Taxation of Chargeable Gains Act 1992 (TCGA 1992) provides that the transfers of chargeable assets between connected persons must be at market value and a company is connected with its shareholders per Section 286 TCGA 1992. The company will need to pay corporation tax on the chargeable gain arising in the final period.

Whilst disincorporation relief was introduced in April 2013, its scope was limited as the total market value of the qualifying assets at the time of the transfer could

not exceed £100,000. But it is no longer available for transfers after 31 March 2018.

Gift holdover relief under Section 165 TCGA 1992 may be available on transfers to a limited company, but not on disincorporation. Similarly, rollover relief under Section 152 TCGA 1992 is not available on a transfer of assets between a company and an unincorporated business. As such, it may be necessary for the unincorporated business to pay for the assets to ensure that the company has sufficient funds to pay the corporation tax liability arising.

It is important that any market value used is sufficiently accurate to withstand HMRC challenge in the event of an enquiry.

Terminal losses

The transfer of trade to an unincorporated business does not affect the application of Section 39 CTA 2010 on any terminal losses incurred by the company prior to the trade transfer.

Extracting funds from the company

Once the final accounts for the company have been prepared, it will be necessary to decide how to extract the remaining funds from the company.

Dividends

The extraction of funds via dividend will be subject to income tax. After the dividend allowance (currently £1,000), this would be at a rate of tax of 8.75% (basic rate), 33.75% (higher rate) and 39.35% (additional rate).

Unless the remaining reserves in the company is small, this option is not necessarily the most desirable route particularly if the taxpayer would be subject to income tax at the higher or additional rate of tax. In some cases, timing of dividend payments over adjacent tax years may enable the utilisation of basic rate income tax band and defer the timing of the tax payment. But it would have to be borne in mind that this would be at time when the taxpayer would have additional taxable income from the unincorporated business.

Capital treatment

The availability of capital treatment would usually be preferred as the capital gains tax rates are lower than income tax rates. This would particularly be so if business asset disposal relief (BADR) was available and a 10% rate of capital gains tax could be achieved on gains above the capital gains tax annual exemption (currently £6,000, but due to reduce to £3,000 from 6 April 2024).

Section 1030A CTA 2010 outlines the option of an informal winding up. Since the withdrawal of ESC C16 in March 2012, this restricts the options of informal winding up to companies where the reserves do not exceed £25,000.

Where an informal winding up is not available, it will be necessary to appoint a liquidator and it is important that the likely liquidator's fees are taken into account before making a final decision on which route to proceed with.

However, the availability of capital treatment cannot be assured and there are two possible scenarios when a distribution can still be subject to income tax as a dividend even when a liquidator has been appointed.

Section 404A of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005) outlines the targeted anti-avoidance rule (TAAR). The TAAR applies when a distribution in a winding up meets all four of the following conditions:

- Condition A: The individual receiving the distribution had at least a 5% interest in the company immediately before the winding up.
- Condition B: the company was a close company at any point in the two years ending with the start of the winding up.
- Condition C: the individual receiving the distribution continues to carry on, or be involved with, the same trade or a trade similar to that of the wound up company at any time within two years from the date of the distribution.
- Condition D: it is reasonable to assume that the main purpose, or one of the main purposes of the winding up is the avoidance or reduction of a charge to Income Tax.

Careful review of the TAAR criteria is necessary and it is important to bear in mind that HMRC does not provide a clearance procedure on whether it applies. In the case of a disincorporation, it is likely that Condition C will apply if the same trade is continuing in the form of an unincorporated business within two years. Reliance on whether Condition D applies in terms of the tax avoidance motive will be key and this is something that members in practice will need to consider closely before making a final decision.

The Transactions in Securities (TiS) rules apply in certain circumstances where there is a 'tax advantage'.

Section 684 of the Income Tax Act 2007 (ITA 2007) was extended to include distributions on a winding up within the scope of TiS from 6 April 2016. Section 687 ITA 2007 sets out that a 'tax advantage' is "the amount of any income tax that would be payable by the person in respect of the relevant consideration if it constituted a distribution exceeds the amount of any capital gains tax payable in respect of it".

Unlike TAAR, there is a statutory TiS clearance procedure outlined in Section 701 ITA 2007. Details of how to do this can be found on the HMRC website.

Both TAAR and TiS are extremely complicated areas of the tax legislation and this can often have a bearing on the costs involved in winding up a company.

Modernising the tax administration framework: the latest call for evidence

Important proposals for changes to HMRC powers and taxpayer safeguards

HMRC has published a call for evidence on enquiry and assessment powers, penalties and safeguards, including proposals to align powers and safeguards across direct and indirect taxes. This is the latest stage in the implementation of the government's 10-year strategy (published in 2020) to build a trusted, modern tax administration system.

HMRC's enquiry and assessment powers

The call for evidence explains that HMRC relies on taxpayers notifying liability and supplying information to make the tax system work. HMRC has a range of powers enabling it to check the accuracy of information provided and to tackle non-compliance. These powers currently vary across different tax regimes, for example, the approach for direct taxes is different to the approach for indirect taxes.

One of the most significant proposals is to replace HMRC's current enquiry and assessment powers with a single set of powers that apply across all taxes. Alternatively, circumstances or taxes where a common approach could be applied would be identified, so that appropriate powers could be designed.

Penalties

The call for evidence outlines challenges arising from the current penalty regimes, including, proportionality, complexity, establishing behaviour and agents contributing to non-compliance.

Ten proposals for reform are put forward, aiming to consolidate and simplify penalties, making them easier to understand and implement while strengthening incentives to comply. One of the suggestions includes penalty escalation for continued and repeated non-compliance. Another proposes regular uprating of penalty amounts to help maintain their value in real terms.

Safeguards

The last part of the call for evidence considers safeguards. It highlights the importance of the right to appeal as a strong safeguard – responses to earlier consultations indicated that more could be done to preserve that right and to build on it. However, HMRC notes that aspects of the current safeguards create challenges for HMRC, taxpayers and agents.

The final six proposals for reform include potentially aligning how appeals are made (and payment requirements) across direct and indirect taxes. HMRC also wants to explore the creation of a system that encourages take up of alternative dispute resolution and statutory reviews, which might include an opt out approach, or mandating statutory reviews in certain cases. However, to prevent taxpayers exploiting safeguards to prolong disputes and defer payment, HMRC would also like to withdraw the option of statutory review in some cases.

Let us know your views

We welcome input from members to shape the ICAS response to the call for evidence. Please email tax@icas.com by 15 April to give your views.

Double cab pickups u-turn

Changes to guidance on double cab pickups

On 12 February 2024, HMRC issued revised guidance on its interpretation of the tax treatment of double cab pickups. This meant that they would be treated as cars instead of vans and denied future claims of first year allowances on them. Following pressure from the motor trade and agricultural sectors, the guidance was reversed back to the original treatment a week later, on 19 February 2024.

Note that the legislative provisions in relation to double cab pickups hadn't changed, just the guidance. However the complete lack of consultation with key stakeholder groups such as the Employment and Payroll Group (EPG), which is co-chaired by ICAS, was concerning to both professional and sector representative bodies. As such, the EPG decided that a letter to the Financial Secretary to the Treasury, the Rt. Hon Nigel Huddleston, was necessary.

Unintended consequences?

Had the measures gone ahead, it is likely that many businesses would have suffered terrible financial consequences. Thousands of fleet orders were cancelled and many businesses and individuals in agriculture, construction and other sectors sought professional tax, accounting and legal advice during the week in question. This resulted in costly professional fees for those affected.

Find out more

Watch this video by Justine Riccomini, or read the letter to the Financial Secretary to the Treasury to find out more.

FRC revises UK and Ireland accounting standards

The Financial Reporting Council (FRC) has issued comprehensive improvements to financial reporting standards applicable in the UK and Republic of Ireland. These are Financial Reporting Standard (FRS) 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 105 'The Financial Reporting Standard applicable to the micro-entities regime' which are used by an estimated 3.4 million businesses.

The changes follow extensive stakeholder engagement and consultation on the proposals with the FRC required to undertake a periodic review of FRS 102 every five years.

The most significant changes apply to leases and revenue recognition to align with recent changes to international financial reporting standards IFRS 16 'Leases' and IFRS 15 'Revenue from contracts with customers'.

Due to feedback from respondents to its earlier consultation, including feedback from ICAS, the FRC has made improvements to the proposals for lease accounting and revised the recognition exemption for leases of low-value assets to clarify that the focus is to ensure that the most significant leases are recognised on balance sheet.

The FRC has also made a number of improvements and clarifications designed to make it easier for preparers to apply and understand the standards.

We would also highlight that, as previously intimated by the FRC, these periodic review amendments do not introduce an expected credit loss model of financial asset impairment (as found in IFRS 9 'Financial Instruments') and do not introduce any alignment with IFRS 17 'Insurance Contracts'. The FRC intendeds that any alignment with IFRS 17, or further alignment with IFRS 9, will be part of a future project and subject to consultation in due course.

The amendments to the standards. will in most cases. be effective for accounting periods beginning on or after 1 January 2026. However, the effective date for new disclosures about supplier finance arrangements relating to the statement of cash flows is 1 January 2025. Early application is permitted for both tranches of amendments.

During 2024, the FRC intends to publish new editions of the standards and updated staff factsheets with guidance on key aspects of the new requirements.

The FRC will also be hosting a webinar to discuss the new standards at 11am on 15 May 2024.

Key changes to extant standards

	FRS 102	FRS 105
Leases	Removal of the distinction between operating and finance leases for lessees; more leases now recognised with an asset and liability on-balance sheet (similar to extant finance lease accounting). Recognition exemptions permit short-term leases and leases of low-value assets to remain off-balance sheet. Compared with IFRS 16 'Leases', a higher threshold for low-value assets means that FRS 102 preparers are not required to recognise as many leases on-balance sheet.	No equivalent change is made to FRS 105.
Section 23 Revenue from Contracts with Customers	A single comprehensive five-step model is introduced for revenue recognition for all contracts with customers, based on identifying the distinct goods or services promised to the customer and the amount of consideration to which the entity will be entitled in exchange.	Similar amendments are made to FRS 105, with additional simplifications.
Section 1A Small Entities	For UK small entities, more clarity on which disclosures are expected to be necessary in order to give a true and fair view as required by law.	N/A
Section 2A Fair Value Measurement	Updated to align definitions with latest international standards and provide additional guidance.	N/A
Section 7 Statement of Cash Flows	New disclosure requirements about supplier finance arrangements (effective 1 January 2025).	N/A
Section 26 Share-based Payment	Additional guidance aiding application of the principles in certain situations.	N/A
Section 29 Income Tax	Introduction of guidance on accounting for uncertain tax positions.	N/A
Section 34 Specialised Activities	Various improvements and clarifications to clarify existing requirements and make consequential changes to reflect other amendments.	N/A

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Rise in company reporting and audit exemption thresholds

The UK government is at the final stages of preparing regulations to bring about significant increases in the company size thresholds in the Companies Act 2006. We expect that a Statutory Instrument. The Companies (Non-financial Reporting) (Amendment) Regulations 2024, will be laid this summer, and that the changes will take effect for accounting periods beginning on or after 1 October 2024.

This article focusses on the proposed changes to size thresholds. However, the 2024 regulations are also expected to set out changes to the narrative reporting requirements placed on some companies, so look out for separate articles on this aspect of the government's reforms.

Rationale

The government believes that the proposed increases to the monetary thresholds which determine company size to account for past and future inflation will reduce disproportionate regulatory burdens on 'smaller' companies. There will be no changes to the number of employees criterion, in each size category, which also applies. The thresholds were last updated for accounting periods beginning on or after 1 January 2016, following revisions to the EU Accounting Directive.

Existing thresholds - Company and group size (net)

2 out of 3 of:	Micro	Small	Medium	Large
Annual Turnover (£)	Not more than 632k	Not more than £10.2m	Not more than £36m	More than £36m
Balance sheet total (£)	Not more than 316k	Not more than £5.1m	Not more than £18m	More than £18m
Average no. of employees	Not more than 10	Not more than 50	Not more than 250	More than 250

Existing group size thresholds (gross)

2 out of 3 of:	Micro	Small	Medium	Large
Annual Turnover (£)	N/A	Not more than £12.2m	Not more than £43.2m	More than £43.2m
Balance sheet total (£)	N/A	Not more than £6.1m	Not more than £21.6m	More than £21.6m
Average no. of employees	N/A	Not more than 50	Not more than 250	More than 250

Proposed Company and group size thresholds (net)

2 out of 3 of:	Micro	Small	Medium	Large
Annual Turnover (£)	Not more than 1m	Not more than £15m	Not more than £54m	More than £54m
Balance sheet total (£)	Not more than 500k	Not more than £7.5m	Not more than £27m	More than £27m
Average no. of employees	Not more than 10	Not more than 50	Not more than 250	More than 250

Proposed group size thresholds (gross)

2 out of 3 of:	Micro	Small	Medium	Large
Annual Turnover (£)	N/A	Not more than £18m	Not more than £64m	More than £64m
Balance sheet total (£)	N/A	Not more than £9m	Not more than £32m	More than £32m
Average no. of employees	N/A	Not more than 50	Not more than 250	More than 250

The small company audit exemption in section 477 of the Companies Act 2006 is directly referenced to the small company thresholds in section 382 of the Act and therefore this will rise accordingly as set out above.

The government estimates that the impact of increases in the size thresholds, in terms of companies in particular categories, will be as follows:

Estimated number of companies adjusted for reporting regime eligibility criteria (to the nearest 1,000)

Effective size	Current size criteria	With 50% uplift	Net change in size-band
Micro	3,168,000	3,281,000	+113,000
Small	381,000	281,000	-100,000
Medium	49,000	40,000	-9,000
Large	104,000	99.000	-5,000

Members may wish to consider the impact on their client portfolios bearing in mind that these are draft regulations which could be subject to change.

UK corporate governance code update 2024

The Financial Reporting Council (FRC) has published the 2024 UK Corporate Governance Code (the Code) following consultation. The supporting Corporate Governance Code guidance has also been published following review by the FRC's stakeholder insight group.

The FRC have clarified that:

- The "comply or explain" principle offers flexibility and does not force a company to comply. It is preferrable to have a good explanation demonstrating sound governance rather than compliance with a specific Code provision that does not suit the company's circumstances.
- The supporting guidance is not part of the Code but aims to assist understanding; the digital presentation should support more efficient updates.

Additionally, the role of the board is emphasized throughout the Code. For example, it is for a Board to determine what should comprise its material internal controls to reflect its specific company and business model.

The 2024 Code applies to financial years beginning on or after 1 January 2025. The first reporting (excluding provision 29 on internal controls) will be from 1 January 2026. An additional transitional year has been offered to help companies implement the changes relating to internal controls.

ICAS responded to the formal Code consultation and overall, we are pleased to see that our views were taken on board in several key areas.

Bruce Cartwright CA, Chief Executive at ICAS, said in a media statement:

"*We support the FRC's approach to streamline changes to the new Corporate Governance Code. We believe this better balances governance needs and proportionate regulation.*"

The main changes to the Code are as follows:

1. Board leadership and company purpose (section one of the Code):
    - A new Principle C - part of the extant principle, relating to necessary resources, has been consumed within principle A. The remaining content is new and highlights that governance reporting should focus on board decisions and their outcomes in the context of the company's strategy and objectives. Where the board reports on departures from the Code's provisions, it should provide a clear explanation.
    - Provision two has been amended to include that boards should not only assess and monitor culture, but also how the desired culture has been embedded.
2. Composition, succession and evaluation (section three)
    - Principle J has been amended to promote diversity, inclusion and equal opportunity, without referencing specific groups.
    - Provision 23 has been amended to reflect the fact that companies may have additional

initiatives in place alongside their diversity and inclusion policy.

- References to 'board evaluation' have been changed to 'board performance review'.

3. Audit, risk and internal control (section four)

- Principle O has been amended to clarify that the board is responsible for establishing and maintaining the effectiveness of the risk management and internal control framework.
- Provision 25 and Provision 26 have been updated to reflect the Minimum Standard: Audit Committees and the External Audit, and duplicative language has been removed.
- The new Provision 29 states that the board should monitor the company's risk management and internal control framework and, at least annually, carry out a review of its effectiveness. This should cover all material controls, including financial, operational, reporting and compliance controls. This is effective from 1 January 2026.
- The board should provide in the annual report:
  - A description of how the board has monitored and reviewed the effectiveness of the framework;
  - A declaration of effectiveness of the material controls as at the balance sheet date;
  - A description of any material controls which have not operated effectively as at the balance sheet date, the action taken, or proposed, to improve them and any action taken to address previously reported issues.

Overall, the new provision 29 builds on the existing provision in the 2018 Code. The effective date of this revised provision is from financial years beginning or after 1 January 2026. The main difference is the need for a declaration on the effectiveness of material controls.

4. Section five – Remuneration

- Provision 37 has been amended to include that directors' contracts and/or other agreements or documents which cover director remuneration should include malus and clawback.
- The new Provision 38 asks companies to include in the annual report a description of their malus and clawback provisions which includes:
  - The circumstances in which malus and clawback provisions could be used
  - A description of the period for malus and clawback and why the selected period best suits the organisation; and
  - Whether the provisions were used in the last reporting period. If so, a clear explanation of the reason should be provided in the annual report.

FRC publishes revised Ethical Standard

Auditors undertaking an audit in the UK, and professional accountants undertaking other public interest assurance engagements in compliance with the engagement standards issued by the FRC, are required to comply with the requirements of the Financial Reporting Council's Ethical Standard.

In January 2024, the FRC published its Revised Ethical Standard 2024, which becomes effective from 15 December 2024. Along with the Revised Ethical Standard 2024, the FRC also published guidance on the objective, reasonable and informed third party test.

The main changes from the FRC's extant 2019 Ethical Standard are highlighted below:

Part B: Section 1 – General Requirements and Guidance Compliance - Breaches

The 'Breaches' provisions in extant paragraphs 1.21 and 1.22 are now included in paragraphs 1.21 to 1.25. New provisions highlight the following:

- Firm monitoring arrangements are to be designed with the objective to effectively capture all relevant breaches of the ethical standard which are identified by the firm.
- Whenever a possible or actual breach is identified, in making the judgement as to the action to be taken the Ethics Partner and engagement partner

are to consider the perspective of an Objective, Reasonable and Informed Third Party.

- The firm is to report to the Competent Authority about individual breaches outside of the biannual timetable where the Competent Authority would reasonably expect notice. This may be due to the nature or seriousness of the breach, including for example where the firm may need to consider resigning from an engagement.
- Whether a breach is inadvertent is a matter of professional judgement based on an objective assessment of the evidence.

Part B: Section 2 – Financial, Business, Employment and Personal Relationships

Financial Relationships

The provisions in relation to personal financial independence in paragraphs 2.3 and 2.4 have been re-worded for clarification. This is not intended to create new requirements.

Financial Interests Held as Trustee

An addition to paragraph 2.16 in relation to financial interests held as trustee states that a trustee interest is not to be held, in the case of a firm, where a covered person, a person closely associated with them, or a network firm is an identified potential beneficiary of the trust.

Part B: Section 3 - Long Association with Engagements and with Entities Relevant to Engagements

A new table has been added at the end of this section at paragraph 3.22 to summarise the rotation periods for audit partners, engagement quality reviewers, and other senior staff.

A new paragraph 3.23 has also been added which draws on guidance from the FRC Technical Advisory Group's (TAG's) "Rolling record of actions arising" when there are significant gaps of service.

Part B: Section 4 - Fees, Remuneration and Evaluation Policies, Gifts and Hospitality, Litigation

In paragraphs 4.21, 4.22, 4.25, 4.27 and 4.29 (extant paragraphs 4.23, 4.24, 4.27, 4.29 and 4.31) there is a new restriction on fees from entities related by a single controlling party. This is an important new restriction and widens the applicability of the fee's requirements.

Part B: Section 5 – Non-audit/additional services - Section A - General Approach to Non-audit / Additional Services

Documentation

Paragraph 5.32 states that the engagement partner has to ensure that the reasoning for a decision to provide non-audit / additional services is appropriately documented. Paragraph 5.33 has been re-worded (see in bold below) to better highlight what the FRC expects practitioners to document:

"5.33 Matters to be documented include:

- threats identified;
- safeguards adopted and why they are considered to be effective in responding to the specific threats identified;
- any significant judgements concerning the potential threats and proposed safeguards; and
- Where relevant, how the Objective and Reasonable Third Party Test was applied;
- communication with those charged with governance."

Part B: Section 5 – Non-audit/additional services - Section B - Approach to Non-audit / Additional Services Provided to Public Interest Entities

The 'Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports' has been moved from the list of 'Services required by law or regulation and exempt from the non-audit services cap' to being included under the list of 'Services subject to the non-audit services cap'. The revised Ethical Standard 2024 also adds that: 'In situations involving a dual listed entity where iXBRL tagging assurance is required by the laws and regulations of another jurisdiction, then the part of the fee relating to such another jurisdiction is not subject to the fee cap.'

Part B: Section 5 – Non-audit/additional services - SECTION C - Approach to Non-audit / Additional Services Provided in any Statutory Audit Engagement

Internal Audit Services

A new paragraph 5.46 provides clarity of the Internal Audit Services definition.

Information Technology Services

New paragraphs 5.53 and 5.54 have been added in order to reflect the International Ethics Standards Board for Accountant's (IESBA's) 'Technology-related revisions to the Code' which will become effective 15 December 2024.

"5.53 Examples of services provided to an entity relevant to an engagement which create threats to the integrity, objectivity and independence of the firm and covered persons include:

- Storing or managing the hosting of data on behalf of an entity relevant to an engagement. Such services include:
  - Acting as the only access to financial or non-financial information system of such an entity.
  - Taking custody of or storing the entity's data or records such that the entity's data or records are otherwise incomplete.
  - Providing electronic security or back-up services, such as business continuity or disaster recovery functions, for the entity's data or records.
  - Operating, maintaining, or monitoring such an entity's IT systems, network or website.

5.54 The collection, receipt, transmission and retention of data provided by an audited entity in the course of an audit or to enable the provision of a permissible service to that entity do not create the threats described in paragraph 5.53."

Tax services

The FRC has added (d) to paragraph 5.67 (extant paragraph 5.64) in relation to the range of activities covered by the term 'tax services':

"5.67 The range of activities encompassed by the term 'tax services' is wide. They include where the firm:

a) provides advice to the entity on one or more specific matters at the request of the entity; or

b) undertakes a substantial proportion of the tax planning or compliance work for the entity; or

c) promotes tax structures or products to the entity, the effectiveness of which is likely to be influenced by the manner in which they are accounted for in the financial statements, or in other subject matter information;

d) performs any of the services described in paragraphs a-c to individuals who are the controlling shareholders of an entity relevant to an engagement. Firms need to identify threats to independence from the provision of such services, including familiarity threats, and any relevant safeguards that can be applied."

Paragraph 5.74 has been included to be in line with the provisions in the IESBA Code highlighting that the preparation of tax calculations of current and deferred tax liabilities (or assets) for an audited entity for the purpose of preparing accounting entries that support such balances creates a self-review threat.

Paragraph 5.80 has also been added which incorporates FRC Technical Advisory Group guidance to the prohibition in paragraph 5.79 on providing tax services where this would involve acting as an advocate for the entity in the resolution of an issue.

Legal Services

Paragraph 5.87 (extant paragraph 5.83) has been amended to bring the provision in line with the prohibition in the IESBA Code stating that "the firm shall not provide legal services to an entity relevant to an engagement, where this would involve acting as the General Counsel of that entity, or a solicitor formally nominated to represent the entity in the resolution of a dispute or litigation."

Recruitment and Remuneration Services

Paragraph 5.89 (extant paragraph 5.85) has been changed to be more in line with the provisions in the IESBA Code by extending the prohibition on recruitment services as set out in this paragraph to network firms and adding bullets noting services which could be considered 'recruitment services'.

Corporate Finance Services

The FRC has also amended paragraph 5.97 (extant paragraph 5.93) to be more in line with the provisions in the IESBA Code by extending the prohibition on corporate finance services being provided when the service would involve the firm taking responsibility for dealing in, underwriting, or promoting shares, debt and other financial instruments, or providing advice on investments in such shares, debt or other financial instruments.

Other Entity of Public Interest (OEPI)

In its consultation, the FRC also sought views on whether to withdraw the category of 'OEPIs'. Entities which fall within this category are subject to enhanced restrictions on the types of non-audit services which their auditors can provide. In its Feedback Statement and Impact Assessment, the FRC noted the following:

"The FRC does not have the statutory powers to revise the definition of a UK Public Interest Entity (PIE). That is a decision for government. However, the FRC does have the power to amend or withdraw the OEPI category, and given the unanimous nature of this consultation feedback it is highly likely that we will do so once details of any new statutory definition are known. We believe this will be an effective de-regulatory action, reducing complexity and helping the competitiveness of the UK economy. The FRC entirely agrees with the objective to have a simple and straightforward definition of a UK PIE, including one that is as closely aligned as possible to the IESBA Code."

The 70% non-audit services fee cap for PIE auditors

In our response to the FRC's consultation we noted that, with regard to the provision of assurance on sustainability-related matters to PIEs being exempted from the 70% cap, in order to ensure a level playing field with other potential assurance providers, we believe that where such a service is provided by an entity's financial statement auditor, the fee concerned should not form part of the non-audit services cap calculation.

In its Feedback Statement and Impact Assessment, the FRC noted that whilst the FRC has no powers to amend the 70% non-audit services fee cap for PIE auditors, at the same time they acknowledge the large volume of feedback received, which they will share with the Department for Business and Trade.

Further information

For further information, read the FRC's news article about the publication of the Revised Ethical Standard 2024 (including links to the Feedback Statement and Impact Assessment, Summary of Key Changes, and the FRC's new guidance on the objective, reasonable and informed third party test).

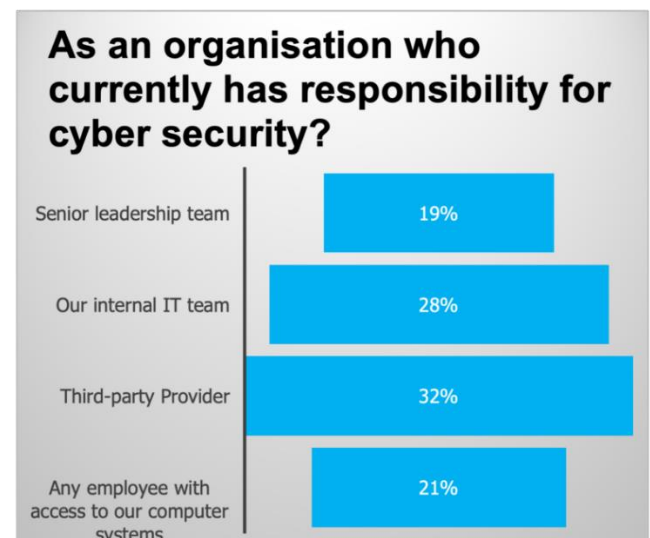
Cyber security: why senior leaders need to take charge in 2024

Written by Lugo

Only 21% of organisations are very confident in their organisation's current approach to cyber security, according to data gathered during a recent ICAS webinar co-hosted by Lugo and Mitigo during CyberScotland Week 2024. The webinar which attracted around 100 attendees, also revealed that over half of respondents felt only somewhat prepared to handle the latest cyber threats. These findings highlight the critical need for effective leadership in building robust cyber defences within organisations.

Leadership's unwavering responsibility: a legal requirement

As an organisation who currently has responsibility for cyber security? The central theme of the webinar emphasised the critical role of senior leadership in establishing and upholding cyber security within organisations. While the poll conducted during the webinar revealed diverse perspectives on who holds responsibility (with 19% indicating the senior leadership team, followed by other options like third-party providers and internal IT teams), it's crucial to remember that directors ultimately hold legal accountability for managing cyber security risks effectively, as detailed in the UK Companies Act 2006 (specifically, Section 172). This legal requirement underscores the unwavering responsibility of senior leadership to prioritise cyber security.



Remote work rush: a security gap waiting to be exploited

The findings suggest that businesses were not widely prepared for the shift to remote working that the COVID-19 pandemic necessitated, with 40% of respondents indicating that their organisation was 'not

comfortable at all' with remote working before the COVID-19 pandemic. This suggests that a significant portion of organisations lacked the necessary infrastructure or culture to support remote work effectively.

The COVID-19 pandemic has had a significant impact on the way that businesses in Scotland use technology. The shift to remote work and the need to adapt to new ways of working have likely driven the increased reliance on IT. The vast majority of respondents (over 97%) indicated that their organisation's dependence on IT has increased since the pandemic, having become more reliant on IT in order to function effectively in the new remote work environment.

The pandemic forced a rapid shift to remote work, and many businesses simply weren't ready. This lack of preparation likely led to shortcuts and insecure work arrangements. While the priority was keeping the business running, security may have been overlooked. This creates a vulnerability that cyber criminals can exploit. Now, as businesses settle into a hybrid work model, it's crucial to take a step back and reassess your security posture. This is where Zero Trust comes in.

While some organisations are leading the way with cyber security by implementing a Zero Trust approach, many others seem unsure. Zero Trust means never automatically trusting anyone or any device trying to access your network, constantly checking their identity and permissions. Half of those surveyed weren't sure if their business has adopted a Zero Trust approach to cyber security, and a quarter said they definitely haven't. This suggests there's a need for more cyber education around this change in mindset to a Zero Trust approach to data security.

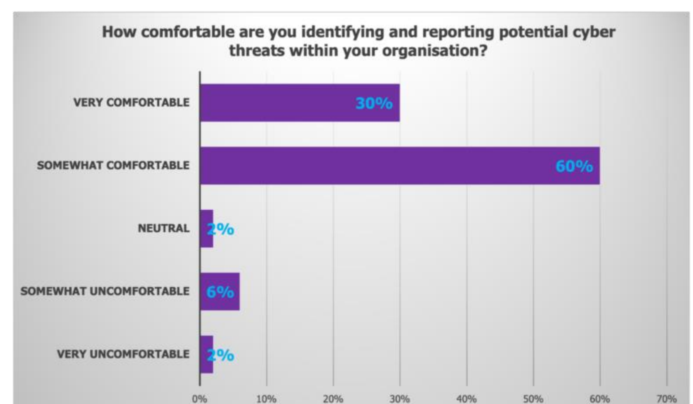
Shared awareness, engaged workforce

While leadership holds ultimate accountability, the data also highlights the importance of fostering a culture of shared awareness within the organisation. Nearly a third of respondents indicated their organisation relies on a third-party provider for cyber security, highlighting the value of external expertise. However, over a quarter rely on their internal IT team, and almost a fifth involve an employee with access to systems. This underscores the need for clear communication and ongoing education to equip everyone with the knowledge and vigilance to identify and report potential threats.

Building resilience: a leadership-driven approach

The presentation emphasised the importance of building organisational resilience against cyber threats, supported by over 60% of respondents indicating they are only somewhat prepared to handle the latest threats. This leadership-driven approach to building resilience involves three key areas:

1. Establishing a clear cyber security strategy - aligning cyber security measures with organisational goals and risk tolerance is crucial. Leadership plays a vital role in defining this strategy and ensuring its implementation.
2. Implementing robust security measures – this encompasses technical controls (such as those implemented through Cyber Essentials certification), user education, and incident response plans tailored to the organisation's specific needs. (See CyberScotland's Incident Response Resources). Leadership plays a key role in allocating resources and approving the implementation of these measures.
3. Continuous learning and adaptation – regularly reviewing and updating security practices is essential to stay ahead of evolving threats. Nearly half of respondents indicated a need for further learning on various topics, including risk management, new threats, and multi-factor authentication. Leadership can facilitate this learning by providing access to training resources and encouraging knowledge sharing within the organisation. It is important to remember that everyone has a role to play in cyber security, and organisations should strive to create a culture where employees feel comfortable reporting suspicious activity.



Collaboration for a secure future

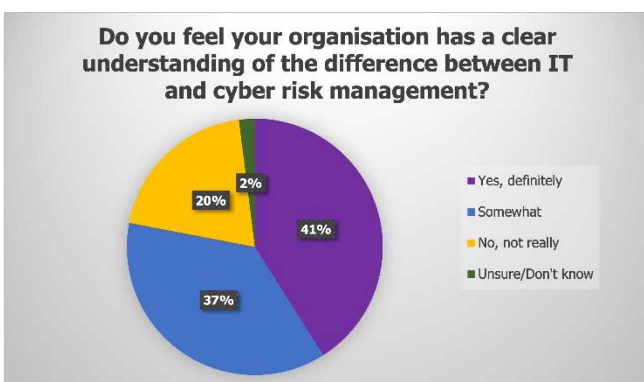
Lugo's keynote presentation at the ICAS webinar concluded with a call for continuous learning and

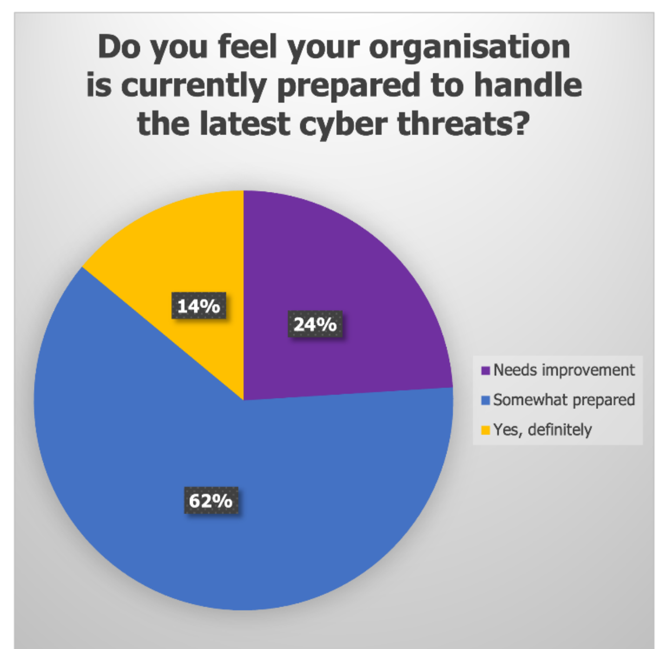
collaboration within businesses. Sharing knowledge, best practices, and resources, as facilitated by events like CyberScotland Week, can significantly enhance collective cyber resilience. By embracing their unwavering responsibility, fostering a culture of shared awareness, and implementing data-driven security measures, senior leadership teams can create a more secure and resilient digital environment for their organisations.

Are you ready to take your organisation's cyber security to the next level?

Join Lugo at their upcoming educational seminar in the Abertay cyberQuarter, Dundee for a brunch briefing from 9:30am on Tuesday 7th May. Places are limited, so book now to avoid disappointment.

Further findings from the webinar:





Audit news

Audit Monitoring launches two new modules in its revised mandatory audit course

The ICAS mandatory audit course is currently being redeveloped to bring it up to date with ISQM (UK) 1 requirements.

New video modules will be released throughout 2024 which will be communicated via Audit News.

The first two videos in the revised mandatory audit course series 'Keeping Audit on the Right Track' have been launched. They focus on Root Cause Analysis and Action Plans given these are new requirements in ISQM (UK) 1 and areas that firms are finding challenging.

Find out more about the modules and watch the videos.

Share your views on the ISA for LCEs

The International Auditing and Assurance Standards Board (IAASB) published the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities in December 2023.

Commonly known as the ISA for LCE, this global auditing standard recognises the importance of smaller businesses and their specific audit needs and is known as the ISA for LCE.

We are keen to hear the views of audit practitioners as to whether the adoption of this standard in the UK would be beneficial. Would its use in the UK be beneficial to your firm in terms of proportionality, effectiveness and efficiency?

Email your views to James Barbour CA, Director, Policy Leadership @ jbarbour@icas.com

ICAS Audit Monitoring file grade definitions

ICAS Audit Monitoring has changed its file review gradings for 2024 onwards to align with the FRC grading framework.

We previously operated the grading structure 1, 2A, 2B and 3. From 1 January 2024 onwards, we have changed the file grading structure in order to align with the FRC's grading structure.

This won't have a significant impact on the monitoring visit as it's essentially a re-labelling of the previous grades.

Common findings from the 2023 ICAS Audit Monitoring results

The Audit Monitoring Team have released highlights from the common findings identified in the 2023 monitoring visits.

For the highlights of the common findings click here. Alternatively, a full report is available on the common findings, along with some prompts to help make sure you avoid the same mistakes.

FRC's thematic review of audit sampling

The Financial Reporting Council (FRC) has recently published its thematic review of audit sampling.

Although the review was conducted of Public Interest Entity (PIE) audit registered firms, the outcomes of the sampling review should still resonate with all ICAS audit firms. We outline the main findings of this review and summarise what can be learned by ICAS firms.

FRC areas of supervisory focus for 2024/25

The Financial Reporting Council (FRC) has announced its areas of supervisory focus for 2024/2025.

These areas of focus include priority sectors for corporate reporting reviews and audit quality inspections.

This article is not just relevant to PIE audit registered firms but has wider relevance to all audit firms as these sectors are considered by the FRC to present higher audit / review risk and so, by extension, ICAS Audit Monitoring will also take these areas of supervisory focus into account when conducting monitoring visits.

HMRC and Companies House updates

Flexible AI upskilling fund pilot: expression of interest

The Department for Science, Innovation and Technology (DSIT) recently announced a £7.4 million pilot scheme to subsidise the cost of AI skills training for small and medium-sized enterprises (SMEs) in the Professional Business Services (PBS) sector. £6.4 million of grant funding is available in the financial year 2024-2025.

Through the pilot programme, eligible business can apply for funding for up to 50% of the cost of AI skills training. This is training which supports employees to develop their technical skills and/or understanding of AI to be able to develop, deploy, or use AI in their role.

The programme aims to increase AI adoption and productivity by incentivising greater employer-led investment in skills and training. AI holds huge opportunities to drive productivity and prosperity across the UK economy, with businesses who adopt AI more likely to be successful than those that do not. But evidence shows that a lack of AI skills in businesses is hindering AI adoption, in part due to low investment in AI upskilling in UK businesses, particularly in smaller companies.

Review the eligibility criteria to see if you can apply for funding when applications open on 1 May. In the meantime if you are interested in applying to the programme, you should register for the Expression of Interest and attend the online Q&A session on 16 April 2024.

Testing of MTD for ITSA

If you have clients who are self-employed or landlords with an annual income over £50,000, they will be legally required to start keeping digital records and send quarterly updates of income and expenditure to HMRC using compatible software from April 2026. This requirement will extend to those with an annual income over £30,000 from April 2027.

Making Tax Digital (MTD) for Income Tax Self Assessment (ITSA) is being introduced by HMRC to modernise the way self-employed individuals and landlords manage their tax affairs, helping avoid errors and get tax right.

HMRC want to ensure that the service meets the needs of you and your clients so are expanding the testing programme criteria. You will be able to sign up your clients from **22 April 2024**.

Taking part will involve using software compatible with MTD to keep digital records and submit quarterly updates. This will give you the opportunity to get ahead of MTD changes with selected client(s) before it becomes mandatory, with access to our dedicated MTD Customer Support Team.

You should check whether you have an agent services account (ASA) as you will need this before signing up to MTD ITSA.

More information will be sent out week commencing 22 April 2024 HMRC on how the testing programme will work, updated eligibility criteria and software choices, and how to sign up your clients. In the meantime, let the ICAS tax team know if you are interested; tax@icas.com

No paper repayment notifications for CT and SA

From 8 April 2024, HMRC will no longer send a letter notifying clients of a repayment since these letters often arrive after the repayment has been made.

There is no change to the repayment process itself, so customers will still receive monies owed to them as normal.

R&D tax relief – restricting nominations and assignments

HMRC will no longer make payments of Small to Medium Enterprise (SME) R&D tax credit or Research and Development Expenditure Credit (RDEC) to nominees for claims submitted on or after 1 April 2024. New assignments of these payments made on or after 22 November 2023 are void. For affected claims, claimant companies will need to provide their own payment details on the CT600.

Removal of services from HMRCs legacy Online Service for Agents

On 16 April 2024 HMRC will remove some functionality from HMRC's legacy VAT services. You will no longer be able to use this service to submit a VAT return, set up or amend a direct debit or change VAT registration details on behalf of your client. This does not impact services within the Agent Services Account (ASA).

From 16 May 2024 the remainder of services on the legacy portal will be withdrawn.

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