Technical Bulletin

Issue no. 179
November 2024

A significant budget for UK businesses

The speculation leading up to, and subsequent reaction following, Rachel Reeves' first Budget as Chancellor illustrates the impact that the changes announced will have on UK businesses. Whilst farmers may have protested in Westminster, we know that business owners (regardless of sector) will have already been in touch with their accountant/tax adviser about the specific impact of the Budget and how to adjust their plans for the future. ICAS members in practice will have a crucial role in supporting their clients as they navigate the various changes.

Changes for employers

Employers will see an impact of the increases in the minimum hourly rates to be paid on employees. From April 2025, the National Living Wage for over 21s will increase to £12.21 per hour and the National Minimum Wage for 18-20 year olds to increase to £10.00 per hour.

Additional salary costs will have a direct impact on pension contributions for employees and earnings subject to Class 1 National Insurance.

As well as that, the Chancellor announced that the Employer's Class 1 National Insurance threshold will be reducing from £9,100 to £5,000 per year from April 2025, alongside an increase in the rate of Employer's Class 1 National insurance increasing from 13.8% to 15%. Whilst the increase in Employment Allowance from £5,000 to £10,500 and the withdrawal of the £100,000 threshold for Employment Allowance will mean that 865,000 employers (according to government figures) will pay no Employer's Class 1 National Insurance in future, the changes will have a significant impact on costs on those employers having to bear the additional costs. This will be particularly so for employers of part time employees, whose earnings might have previously been below the threshold for paying National Insurance.

Certainty for companies

The government published a Corporate Tax Roadmap to give clarity on the tax regime for companies, including over the Corporation Tax rates and the Capital Allowances, Patent Box and Research and Development regimes.

Contents

A significant budget for UK businesses
Entertainment and gifts – a reminder
Making Tax Digital Update
Employment status in the UK
Companies House Economic Crime Act Update
The IFRS for SMEs Accounting Standard
The FRC's Annual review of corporate reporting 2023/24
Improving your charity's finances
An interesting decision
The importance of regular device restarts
AML Compliance in Accountancy
HMRC and Companies House updates

ICAS welcomed the confirmation that the main rate of Corporation Tax will not increase from the current 25% and that there will be no changes to the 19% small profits rate or marginal relief for the lifetime of this parliament. This is because feedback from members highlights how companies make investment decisions for the long term, decisions which have an impact on the strength of the overall UK economy.

Companies will still be able to claim full expensing on their qualifying plant and machinery additions and both companies and unincorporated businesses will be able to claim £1 million in Annual Investment Allowance, subject to the usual criteria.

Personal Tax thresholds

The Chancellor confirmed the previous government's plans to freeze personal tax thresholds until April 2028. However, it's intended to raise thresholds in line with inflation from 2028/29 onwards. Scottish taxpayers will need to await the Scottish Budget on 4 December 2024 to see whether there will be any changes for the tax rates on non-savings, non-dividend income.

Changes to Inheritance Tax reliefs

Individuals looking to pass on the family business to the next generation will be concerned by the freezing of Inheritance Tax rates and bands for a further two years to April 2030 as well as the changes to Agricultural Property Relief and Business Property Relief from April 2026.

From 6 April 2026, the existing 100% rates of relief for Agricultural Property Relief and Business Property Relief will only continue for first £1 million of value of combined agricultural and business assets and a 50% rate will apply on the value of thereafter. Time will tell as to whether this influences decisions on when to pass on the family business to the next generation, but the reduced availability of Agricultural Property Relief and Business Property Relief may reduce the incentive to hold on to assets until death.

Although the changes will apply from April 2026, anti-forestalling rules mean that lifetime transfers on or after 30 October 2024 will also be affected if the donor dies on or after 6 April 2026, if this is less than 7 years of the date of the gift.

Those with pension investments might also see their Inheritance Tax exposure increase as unused pension funds and death benefits payable from a pension will be included in value of estates for Inheritance Tax purposes rom 6 April 2027.

Changes to Capital Gains Tax

For taxpayers looking to make capital disposals, the announcements on Capital Gains Tax will impact on their post-tax cash flow on sale.

The lifetime limit for gains covered by Business Asset Disposal Relief (BADR) was not increased (despite it applying on gains from 2008) and the Autumn Budget reduces the lifetime limit for Investors Relief from £10 million to £1 million for qualifying disposals made on or after 30 October 2024.The Chancellor also announced an increase in the Capital Gains Tax rate for gains covered by BADR or Investors Relief from the current 10% to 14% from 6 April 2025 and 18% from 6 April 2026.

Gains not covered by BADR will be subject to an immediate increase on Budget Day to 18% (for gains within the UK basic rate income tax band) and/or 24% (on any remaining gains).

The Finance Bill includes anti-forestalling rules to override the normal rules for the timing of disposals, where those disposals complete after a change in rate. Genuine commercial transactions should be unaffected by these rules.

Furnished Holiday Lettings

The Autumn Budget confirmed the government's intention to proceed with the changes in the draft legislation for the abolition of the special tax rules for Furnished Holiday Lettings outlined in the September 2024 edition of Technical Bulletin.

Following the feedback from ICAS and other stakeholders the government published a clarification on abolition of the furnished holiday lettings tax regime. ICAS is disappointed to note that the government has not taken forward the suggestion to take account of those taxpayers who operate a Furnished Holiday Lettings business as a full time occupation for the purposes of 'relevant earnings' for pension purposes or the ability of a taxpayer to pay Class 2 National Insurance contributions when they run a FHL business but do not have any other sources of employment or self-employment income.

High Income Child Benefit Charge

High Income Child Benefit Charge (HICBC) increases the complexity of the tax system and there has been a growing level of tax case law in recent years where taxpayers have been caught out by an unexpected tax liability when their income exceeded the threshold. ICAS supported the previous government's decision to

increase the threshold in the Spring Budget, whilst recognising the need for wider reform.

ICAS was however sceptical of the suggestion of basing the HICBC liability on household income as it is important that any reform does not jeopardise the importance of independent taxation. HMRC also needed to be mindful of the challenges that household income brought to the Tax Credits system, especially where there is a change of income or circumstances.

The announcement that HICBC will not be based on household incomes in future is welcome and that HMRC will make it easier for taxpayers to get their HICBC liability correct. This includes the ability to report Child Benefit payments through a PAYE coding notice from April 2025 and pre-prepopulate Self-Assessment tax returns with Child Benefit data.

Changes to the tax rules on double cab pick ups

Earlier this year, the previous government caused significant confusion when HMRC announced a change in its guidance on the benefit in kind and capital allowances treatment of double cab pickups. This meant that they would no longer follow the VAT rules and would be treated as cars instead of vans from July 2024, for it only to abandon the change a week later.

The government has now confirmed in the Autumn Budget that double cab pickups will be treated as cars where they are bought from 6 April 2025, in a change to the initial ‘u turn’ announced earlier this year. This creates an element of uncertainty, but at least there is a short time for businesses to consider how the change will affect them and their employees before it is implemented.

ICAS has welcomed the fact that vehicles purchased before that date will be able to continue claim the existing capital allowance treatment and that leased double cab pickups will be able to claim the existing treatment until 5 April 2029 (or the lease expiry if earlier).

Going forward, the change will have a significant impact on farming and fishing businesses in particular. By being treated as cars, it will no longer be possible for businesses buying such vehicles to receive a 100% tax deduction on purchase through full expensing (where the double cab pick up is new and used and bought by a company) or annual investment allowance (in other cases), because neither full expensing or annual investment allowance is available on the purchase of cars.

The changes to the benefit in kind rules will also have a significant impact on both the tax liabilities of employees and the Class 1A National Insurance liabilities of their employer. Double cab pickups currently treated as vans will be subject to van benefit of £3,960 and van fuel benefit of £757, where fuel is provided for private use. The benefit in kind for cars will be based on a percentage of a list price when new and the scope of car benefit is more significant than van benefit.

The additional burden to those employers who will need to continue to provide these vehicles for genuine business reasons is significant as these vehicles have a high market value and engine size, and they will incur significant benefit in kind charges with further amounts of employer’s Class 1A National Insurance at 15% chargeable on them. It is likely that people may consider cancelling fleet orders (as happened back in February) and considering alternative options. The double-cab pickup manufacturers will probably have to go back to the drawing board to make their vehicles lighter and more environmentally friendly. Scottish landed estates will be likely to need to consider their budgeting forecasts and make decisions about what to do going forward.

Changes to interest charged on unpaid tax

The Chancellor announced that HMRC interest rates charge on unpaid tax will increase by 1.5% from April 2025. Whilst this will act as a disincentive to use HMRC as an alternative to (potentially more expensive) bank funding, HMRC interest rates already take account of changes to the Bank of England base rates.

It is important to note that no changes have been announced to the interest rates paid on repayments on tax, which is overpaid. ICAS members regularly report that their clients have to wait a significant period for their tax repayments from HMRC. In some cases, this can have an impact on cashflow at a time when there are significant cost pressures for businesses, including the additional costs for businesses announced in the Budget.

ICAS would like to see HMRC use the resources promised by the Chancellor to deliver better customer services to our members when supporting their clients and make sure that repayments due to taxpayers are paid out in a timelier manner.

Entertainment and gifts – a reminder

As the festive season approaches, clients will be starting to consider entertaining or providing gifts to business contacts or employees. Here's a reminder of the key issues to consider.

For decades, there have been special rules on the tax treatment of business entertainment and gifts provided to clients and other business contacts.

Understanding the general position

The general position is that expenditure on business entertainment and gifts is not deductible from the business' trading profits. This means expenditure on this should be disallowed in tax computations.

For companies, this is outlined in Section 1298 CTA 2009. For unincorporated businesses, this is outlined in Section 45 ITTOIA 2005.

As always, there are exceptions to the general rule. These can be found in Sections 1299 and 1300 CTA 2009 for companies, and Sections 46 and 47 ITTOIA 2005 for unincorporated businesses.

Although the legislation for companies and unincorporated businesses are in different Acts, the rules are essentially the same.

Trade samples

If the gift or entertainment is part of the business of the trader and are given as part of the advertisement of a product to the general public, such as trade samples, this would be allowable.

This makes the context of the business important. Here are two examples:

- An alcohol manufacturer gifts a miniature bottle of alcohol as a trade sample to the public. This would be classed as an allowable deduction as it showcases their product.
- Someone who runs a joinery business gifts customers a bottle of wine at Christmas. This would be disallowed as the bottle of wine is not the business' trade to provide, so the special rules for trade samples can't apply.

Small gifts with a clear advert for the business

There is a specific exception for small gifts where there is a clear advertisement for the trader. This exception normally enables things like calendars, golf umbrellas, pens and other similar items to be gifted.

To qualify for the exception:

- The gift must have a prominent advert, such as a company logo.
- The cost of the gift, plus any other gifts to the same recipient, must not exceed £50 per accounting year for companies, or per tax year for unincorporated businesses.

The exception can't apply if the gift is food, drink or tobacco, or a voucher which can be exchanged for any of these things. However, if the gift was a trade sample, it may qualify for the exception above.

Staff entertaining and gifts

The cost of staff entertaining and staff gifts provided to employees would normally be an allowable deduction from the business' taxable profits.

However, if a company's employees receive entertainment or gifts that are incidental to the entertainment and/or gifts provided to others, this will be classed as part of the cost of client entertaining and/or client gifts. This is disallowable in the tax computation of the business.

It's important to determine whether the expenditure is classed as client or staff entertaining/gifts as this will have an impact on the employment taxes issues for the employee or director.

- Client entertaining (whilst not tax deductible for the business) is not a taxable benefit on the employee as long as it relates to their duties of employment.
- Staff entertaining (which should be tax deductible for the business) could be taxable, although there are exemptions for annual social functions and parties open to all employees and trivial benefits.

There have been instances where HMRC has considered whether the individuals being entertained were business contacts or customers. For example, if a director were to entertain their family or friends, who are neither a customer or supplier or other business contact, this would likely be classed as staff entertainment and follow the treatment above. In some cases, the circumstances will need to be looked at closely before determining the correct treatment.

In cases where staff entertaining and/or gifts would lead to a taxable benefit in kind on the employee, many employers enter into a PAYE settlement

agreement with HMRC. This allows the employer to pay the tax and national insurance on behalf of the employee, although it will be more expensive as the amounts included are "grossed up" by the employee's tax rate.

Special rules for the hospitality sector

HMRC manual BIM45030 covers special rules for businesses in the hospitality sector that sell goods or services as part of the normal course of trade. This is not classed as business entertainment, and the relevant expenditure in providing the hospitality would be allowable as a deduction from trading profits. However, this exception won't apply where goods or services are subsidised or given away, unless it is for advertising purposes, which is explored further in HMRC manual BIM45032.

If we take a restaurant business for example, the business may offer special offers to the public such as 'two meals for the price of one'. This would be part of the normal course of trade and wouldn't be considered business entertainment. However, if the same restaurant gave free meals to selected friends or customers, this wouldn't be part of the normal course of trade, and the cost of the meals would be disallowable.

A further example would be where the hospitality is not part of the main trade but is part of the service which customers would normally expect from that trade. HMRC give the example of customers being provided a tea or coffee in the hairdressers or refreshments at a casino. As long as the expenditure is not "excessive", HMRC should accept that the cost of the refreshments is included in the overall price that the customer pays.

Gifts to charities and good causes

The tax treatment of entertaining and gifts can be complicated when they interact with donations to charity and sponsorship for good causes, such as supporting community groups and organisations.

Sponsorship of local good causes are likely to be deductible from the taxable profits of the business. This would be particularly so if there's an element of promotion or publicity of the business, like a prominent advert in recognition of the sponsorship.

Charitable donations

For companies, charitable donations are different. These are added back in the calculation of trading profits, but then deducted from profits chargeable to corporation tax, in line with Section 189 CTA 2010.

Qualifying charitable donations can reduce a company's taxable profits to nil but can't create a loss. This means if a company doesn't have sufficient taxable profits to cover the charitable donation, the tax relief may be lost.

For unincorporated businesses, where relief is not available as a deduction from trading profits, it's possible that the sole trader or partner may be able to claim Gift Aid on charitable donations. This would depend on whether they had signed a Gift Aid declaration and paid sufficient income tax and/or capital gains tax to cover the tax recovered on the gift.

Sponsorship with benefits

If a business sponsors a sporting, cultural or similar event for promotional/publicity purposes, this would be an allowable deduction from its taxable profits. This scenario is covered in HMRC manual BIM45055.

But if the business receives something in return (such as free tickets) for the sponsorship, the value of the benefits received should be disallowable.

However, sponsoring a community event (such as school sports teams, community organisations) is different again. As the business is less likely to receive anything in return, the promotion/publicity generated is likely to make the expenditure an allowable deduction from the taxable profits of the business.

In all cases, it's best to look at the circumstances before deciding on the final tax treatment.

Making Tax Digital Update

In recent years, there has been a high level of scepticism about Making Tax Digital (MTD) for Income Tax, following the changing timescales. The government announced in December 2022 that the legal requirement for unincorporated businesses and landlords to submit quarterly updates would be extended until April 2026 (for those with a gross income above £50,000) and April 2027 (for those with a gross income above £30,000). It's widely accepted that neither HMRC nor the taxpayers affected (nor their agents) would have been ready for the original April 2024 timescale for self-employed taxpayers and landlords with gross income above £10,000.

In the Autumn Budget, the government announced that MTD for Income Tax will be extended to sole traders and landlords with gross income over £20,000 by the end of this Parliament, although the exact timing will be announced at a later date. ICAS supports MTD for Income Tax as a concept and are encouraging our members to register some of their clients for the current trial, but we feel that it is important for HMRC to fully evaluate the success of MTD for unincorporated businesses and landlords with income above £50,000 (from April 2026) and £30,000 (from April 2027) before moving the goalposts to require even smaller, unincorporated businesses and landlords to have to submit quarterly updates. As a trusted stakeholder, ICAS will continue to have dialogue with HMRC on this.

As April 2026 approaches, it's important to understand your client base and how MTD for Income Tax will affect both you and their business. Having conversations about respective responsibilities at an early stage will help them plan ahead. For some, this will require a change in mindset – especially for those clients who may be used to calling into their accountant's office with a bag of receipts ahead of the 31 January tax return deadline. Some clients may seek to rely on their accountant to support them with their quarterly updates, and this will undoubtedly need to have an impact on their fees.

Preparing for MTD

ICAS recently hosted Craig Ogilvie, HMRC's MTD Director, and Lenny Barry, from its MTD programme support team, at our Making Tax Digital for Income Tax: Get your practice ready webinar to explore the issues to consider when preparing your practice for April 2026.

As part of our dialogue with HMRC on MTD, we worked closely on problem issues, such as the importance of being able to authorise multiple agents – this means that it should be possible to have both main and secondary agents to avoid issues with authorisation being revoked. Being clear about who is responsible for what will be important.

Having compatible software will also be essential – HMRC updates its list on a regular basis and in recent weeks more of the commonly used software providers are now featured on the list.

For some taxpayers, bridging software may be an appropriate option. At our recent webinar, HMRC also confirmed it is having dialogue with developers regarding the provision of free software which may be suitable for smaller self-employed taxpayers and landlords.

All agents operating in MTD will need an Agent Services Account (ASA). In a recent development, HMRC has confirmed that existing client authorisations within the "old" agent account can be linked to the ASA, so there is no need to secure the digital handshake to register the client for MTD.

Additional HMRC resources

HMRC has also recently updated its Use Making Tax Digital for Income Tax guidance to provide further information and clarification about how MTD for Income Tax will apply in practice. This includes additional information about how to sign up and what you need to do after you have signed up for MTD for Income Tax.

If the business would like to submit quarterly updates on a calendar quarter basis (as opposed to tax quarters ending on the 5th of July, October, January and April), it is necessary to make a calendar quarter election before the first submission. The new HMRC guidance gives more details about how to do this.

HMRC has also launched a new interactive tool: Check if you need to use Making Tax Digital for Income Tax as well as further guidance on how to work out your qualifying income for MTD for Income Tax.

Volunteering for the HMRC trial

In April, HMRC launched the private beta phase of the MTD for Income Tax trial. This new phase enables a larger (but still restricted) pool of self-employed taxpayers and landlords to test HMRC's systems, as well as their own readiness. The testing will expand to a wider range of taxpayers in the public beta phase from April 2025.

While we recognise our members are dealing with the challenges of basis period reform and its impact on their clients, we encourage you to register some of your clients for the private beta. Doing so will allow your practice to properly prepare and test the compatibility of your own systems (and those of your clients) ahead of implementation. If every tax agent volunteered to put a handful of clients into the trial, this would give HMRC a broad spectrum of self-employed taxpayers and landlords to ensure thorough testing during the period where a more lenient penalty system is in place.

Taking part in the private beta will also give you access to HMRC's dedicated MTD support team, which will be able to provide the taxpayers involved in the trial with full self-assessment support, as well as guidance on MTD matters. This support will, however, only be available to taxpayers who register in the 2024/25 tax year.

Only self-employed taxpayers and landlords who use compatible software can take part in this phase, with more software providers expected to become compatible in the coming months. Following this, the trial will enter the public beta phase, so that full testing can take place ahead of MTD mandation in April 2026.

MTD links you may find useful

Guidance

Overview of Making Tax Digital - GOV.UK (www.gov.uk)

Making Tax Digital for Income Tax as an agent: step by step - GOV.UK (www.gov.uk)

Check if you'll need to sign up for Making Tax Digital for Income Tax - GOV.UK (www.gov.uk)

Check when to sign up for Making Tax Digital for Income Tax - GOV.UK (www.gov.uk)

Create an agent services account - GOV.UK (www.gov.uk)

Sign in to your agent services account - GOV.UK (www.gov.uk)

Find software that works with Making Tax Digital for Income Tax - GOV.UK (www.gov.uk)

Sign up your client for Making Tax Digital for Income Tax - GOV.UK (www.gov.uk)

Use Making Tax Digital for Income Tax - Guidance - GOV.UK (www.gov.uk)

Penalty Reform for Making Tax Digital for Income Tax Self Assessment volunteers - GOV.UK (www.gov.uk)

Legislation

The Income Tax (Digital Requirements) Regulations 2021 (legislation.gov.uk)

Making Tax Digital for Income Tax: update notice - GOV.UK (www.gov.uk)

Employment status in the UK

Employment status is and always has been a very complex matter in the UK. However, in the years leading up to 1996, one could reasonably conclude that it was markedly less complex than it is now, in 2024.

What are the main stumbling blocks?

The main stumbling blocks with making employment status decisions that are commonly encountered by employers, individuals and agents alike are:

- Misunderstanding the terms around employment status.
- Making assumptions and not having the whole fact pattern to hand.
- Trying to (consciously or unconsciously) make the role fit the preferred status.
- Not being told the whole truth by someone about the role and the terms of engagement.
- Not seeking expert advice.
- Trying to do things too quickly and missing things.

Employment law

The legislation concerning itself with the employment law part of employment status is overseen by the

Department for Business & Trade (DBT) and is contained within the Employment Act, and several other pieces of legislation which compliment it, such as the Employment Rights Act. This legislation is further supplemented by Employment Tribunal case law precedents from the Employment Appeal Tribunal and higher courts. In employment law, since 1996, there have been three statuses – employed, self-employed and "worker".

In employment law, a "worker" is defined by section 230(3) ERA 1996 as: "an individual who has entered into or works under (or, where the employment has ceased, worked under) –

a. a contract of employment; or
b. any other contract, whether express or implied and (if it is express) whether oral or in writing, whereby the individual undertakes to do or perform personally any work or services for another party to the contract whose status is not by virtue of the contract that of a client or customer of any profession or business undertaking carried on by the individual."

So essentially, worker status falls in between employed and self-employed status. Workers have some employment rights, but not as many as employees. They have a more flexible arrangement, but with fewer statutory rights.

Workers are sometimes referred to as 'limb (b)' workers. This term comes from the Employment Rights Act 1996.

Employment rights

Workers are entitled to:

- a written statement of employment particulars outlining their job rights and responsibilities
- National Minimum Wage
- paid holiday
- payslips
- protection for whistleblowing
- protection against discrimination
- protection from less favourable treatment for working part time.

Employment taxes

'Employment taxes' is a very wide-ranging term for a host of different pieces of legislation covering different aspects of employment and working arrangements, such as payroll, National Minimum Wage (NMW), Income Tax (PAYE), National Insurance contributions (NICs), Pension arrangements, benefits in kind, remuneration planning, share schemes and reward, working time, termination payments, Construction Industry Scheme (CIS), Optional Remuneration Arrangements (OpRA), off-payroll working arrangements, to name but a few.

The employment status legislation for tax purposes is essentially, and unhelpfully, non-existent, because there is nothing set down in legislation which points the researcher to a definitive set of rules and guidance which sets out when someone is classified as employed or self-employed.

So, how is employment status for tax determined?

Employment status for tax is determined by referring back to tax case law precedents and HMRC guidance (generally understood to be HMRC's own interpretation of the legislative provisions and case law) on the subject, as well as some supplementary legislative provisions set out at Part 2 of ITEPA 2003, chapters 7,8,9 & 10. HMRC has also produced guidance in the form of their Employment Status Manual on GOV.UK, as well as a status determination tool, known as Check Employment Status for Tax (CEST).

Case Law

The most important case law precedent in terms of employed v self-employed dates back to the Ready Mixed Concrete case of 1968. McKenna J issued a decision containing a three-part test which has been and still is today referred to in most employment status cases by other judges – including the most recent case of Professional Game Match Officials Ltd, which was decided on 16 September 2024. The essential elements for a contract of employment to exist are mutuality of obligation, control and then an overall assessment of whether the whole fact pattern points towards employment should be carried out.

Part 2 ITEPA 2003 Chapters 7,8,9 &10 – also known as the "intermediaries' legislation"

There are some legislative provisions which have evolved since 1999/2000 which aim to capture alternative working arrangements such as working through a limited company or LLP (an 'intermediary'), or an agency, or perhaps through a Managed Service Company (MSC) or via an Umbrella Company. All of these pieces of legislation have been introduced to try to combat various methods of working which have attempted to circumvent the normal "employed v self-employed" rules. These rules tie in with or must be

considered before ("trump"), other aspects of employment taxes legislation.

Ch. 7 Part 2 ITEPA 2003 - this is the Agency rules. Where Chapter 7 applies, the agency is treated as the worker's employer and has tax and NICs withholding obligation.
Ch. 8 Part 2 ITEPA 2003 – this is the "IR35" rules. Where Chapter 8 applies, private sector clients are supplied with work by an intermediary (usually a Personal Service Company or PSC). The PSC decides if IR35 applies to them. From 6 April 2021, Chapter 8 only applies where the services are provided to private sector clients that are small or have no UK connection.
Ch. 9 Part 2 ITEPA 2003 is the Managed Service Companies (MSC) rules. Where Chapter 9 applies, the intermediary providing the labour is classified as a MSC. Chapter 9 trumps Chapter 8.
Ch. 10 Part 2 ITEPA 2003 - this is the Off Payroll Working rules. Where Chapter 10 applies, from 6 April 2017, a public sector body must apply the rules to intermediaries supplying workers' services. From 6 April 2021, it applies where the work is provided to medium and large UK connected private sector clients. The engager decides if OPW applies

Note that the intermediaries' legislation trumps the Construction Industry Scheme legislation, so it must be considered first.

CEST and HMRC guidance

The first thing to note is that the CEST tool is to be used to determine employment status for tax only.

HMRC decided that employers should have access to an interactive tool which assisted them to quickly and efficiently determine employment status for tax purposes, and by doing so, employers could obtain a decision which HMRC would honour based on the facts supplied at the time of completing the tool. Obviously, should the facts not match the reality, HMRC would not honour the decision. Crucially, the test famously does not consider mutuality of obligation and so appears not to fall in line with Ready Mixed Concrete.

However, it is very difficult to produce a tool which can determine employment status without considering a whole host of facts, and each case is different. The guidance on employment status, produced by HMRC, is not the only guidance which needs to be looked at, because it is about taxation and not employment rights. Ideally, the two parts of employment status should not be considered in isolation, but in tandem. This helps to avoid problems further down the line and also helps to eradicate exploitation of immigrants and low-paid workers, and indirectly tackle issues such as modern slavery.

Auto-enrolment for pension, and a host of other issues

Other considerations which come with employment status decisions are issues such as:

- Auto-enrolment for pension – employees must be enrolled from day 1 of employment.
- Working Time Regulations – employers must adhere to these.
- National Living/Minimum Wage – all employees who qualify for NMW must be paid it.
- Automatic right to request flexible working from day 1 across the UK. (N.B. slightly different in NI)

However, just because an employer does not wish to have these responsibilities doesn't mean to say they can recruit everyone as self-employed!

What is the new UK government saying about employment status?

Labour's Plan to 'Make Work Pay' sets out a reform agenda which targets boosting worker protection, ensuring fair pay, and modernising workplace practices. If they are implemented, these revisions will significantly impact employers cross-sector. They seem to want to achieve the revisions with lightning speed, too – Labour committed to consulting on these reforms within the first 100 days of its new government.

Labour is proposing to merge together the existing 'employee' and 'worker' categories – returning to pre-1998 times. The consequence of such a change would significantly extend vital rights (e.g. paid holidays, statutory sick pay, and anti-discrimination protections)

to many more individuals who are currently classified as workers including agency and zero-hours contracts workers (also known as 'casual' contracts). The work needed to do this will involve unpicking several legal precedents. Changing over the contracts to employment contracts will be complex, and it is not currently clear whether some individuals will be able to retain self-employed contracts while gaining a suite of employment rights.

In spite of challenges, the proposals around a "single worker status" are not necessarily all doom and gloom because the outcome may be to finally achieve simplification of what is a universally acknowledged complex area and provide some stability into the bargain.

What is ICAS advocating about employment status?

ICAS responded to a joint HMRC/BEIS (now DBT) /HMT consultation in 2018, setting out a series of points in relation to employment status decision-making and explaining why in its current form, it is never going to serve the UK properly.

In an attempt to tackle this, Justine Riccomini, who heads up the employment tax policy side of things at ICAS, has set up the Employment Status Consultative Committee (ESCC) in June 2024 which is a collective of representatives from a number of different professional, representative and industry bodies who are hoping to work with the UK government to consider the whole of employment status and consider how it could be reconfigured to attain a workable and viable, future-proof solution. A letter has been written to the Exchequer Secretary to the Treasury (XST), James Murray MP.

How do employers and agents need to approach employment status?

There is a tendency to try to rush employment status decisions because there is a perceived need to recruit someone "yesterday" for the role. It's always best, therefore, that agents and their employer clients plan well, understand that recruitment is necessary, and talk through the issues around whether the person required is to be classified as employed or self-employed, ensuring they are comfortable with their decision-making process and the fact pattern fits the eventual contractual terms of engagement.

Given the various punitive measures adopted by HMRC if an incorrect classification is made, as well as potential other measures such as falling foul of The Pensions Regulator for failing to auto-enrol someone, or non-payment of National Minimum Wage/non-adherence to Working Time Regulations etc, there is clearly a lot to consider and the days of slap-dash recruitment are long gone. Never forget that the employment law side must also be given due consideration – self-employed workers can also appeal to the Employment Tribunal if they feel they should have been classified as an employee all along!

Advising clients on employment status/ Professional Conduct in relation to Taxation (PCRT).

ICAS members should always be aware of Professional Conduct in Relation to Taxation when advising clients on any tax matter – and employment taxes are no exception. Given that employment taxes are such a fast-changing area of tax, Members should know their own limits and seek advice from a suitably qualified professional when the need arises.

ICAS Webinar – Employment status for tax purposes: policy and practice

Justine Riccomini, ICAS Head of Tax, provides a comprehensive update on the complexities surrounding employment status – watch now on catchup.

Companies House Economic Crime Act Update

Background

The Economic Crime and Transparency Act (2023) ('The Act') which is currently being implemented in stages is reforming the role of Companies House. In doing so it will improve transparency over UK companies and other legal entities to strengthen the business environment, support national security and disrupt economic crime, while delivering a more reliable companies register to underpin business

activity. This article provides an update on the state of implementation of the Act and

There are 3 registrars of companies in the UK in Cardiff, Edinburgh and Belfast. The legislative changes are underpinned by the following four new objectives for the registrars:

1. To ensure that any person who is required to deliver a document to the registrar does so (and that the requirements for proper delivery are complied with).
2. To ensure that information contained in the register is accurate and that the register contains everything it ought to contain. This reference to 'the register' includes any records kept by the registrar under any enactment.
3. To ensure that records kept by the registrar do not create a false or misleading impression to members of the public.
4. To prevent companies and others from: carrying out unlawful activities or facilitating the carrying out by others of unlawful activities.

Overview

The Act gives Companies House the power to play a more significant role in disrupting economic crime and supporting economic growth.

There'll be new responsibilities for:

- all new and existing company directors
- people with significant control of a company (PSCs)
- anyone who files information on behalf of a company.

This is a large and complex set of changes which will be introduced in phases over the coming years. The ongoing operation of the changes will be paid for by an increase in Companies House fees, on a cost recovery basis and indeed, some fees were increased on 1 May 2024.

The programme of change has a number of distinct strands, starting with increased powers which will began with the process of cleaning information on the existing registers and querying new information as it is submitted. This started on 4 March 2024, with work ongoing over a number of years as incorrect or fraudulent information is removed from the register in priority order. Companies House will take an iterative approach and will be testing, monitoring and recalibrating new processes. From that date, Companies House was given increased powers to analyse and share data with law enforcement agencies and other government departments. By the latter part of 2024, it will have implemented the power to sanction new offences.

Identity verification is a major component of the reforms and involves significant system development work. By spring 2025, Companies House will introduce the first step by allowing Trust and Company Service Providers (TCSPs) and other professional service providers (such as accountants and solicitors), who are registered for Anti Money Laundering with a supervisor in the UK, to register to become Authorised Corporate Service Providers (ACSPs). This will allow them to carry out verification services for their clients and provide these details to the registrars.

By autumn 2025 Companies House will commence the new identity verification requirements where all directors and PSCs for new incorporations will be required to verify their identity at the point of incorporation. There will be a transition period of 12 months for existing companies who will be required to provide identity verification credentials for their directors and PSCs when their confirmation statement is due.

Reforms to limited partnerships (LPs) will take place no sooner than spring 2026 meaning their information will be more accessible and transparent.

Further transparency of company ownership will be improved by the publication of more information on shareholders. Companies House recognise that this will be a significant undertaking for some companies and are currently working through the implementation options.

Lastly, following an extensive formal notice period, Companies House will require all accounts to be delivered to it via software. It is not as yet in a position to announce the commencement of the formal notice period due to the complexity of these changes but will do so as soon as it is able.

Implementation

While the scale and scope of these changes should not be underestimated, the work already done through Companies House wide-ranging and ongoing transformation programme puts it in a strong position to implement them as quickly and efficiently as possible. However, the changes to Companies House are technically and operationally complex and many

require the ongoing collaboration from expert stakeholders.

It is not currently possible to set a firm timetable for implementation of all measures as some require secondary legislation. Around 50 statutory instruments will be commenced over 18 months with implementation activity and transitional periods continuing until completion in 2027. Timelines are dependent on suitable Parliamentary time in both houses and will be kept under review; unforeseen challenges may also extend the timelines.

Companies House are committed to upholding the integrity and effectiveness of the legislation. On occasion, developing complex services and systems to support this may require it to adjust planning and delivery timelines and they plan to provide updates as and when appropriate.

Communicating the changes

A comprehensive communications exercise is taking place to inform customers and their agents of the new requirements with plenty of notice. It's important that companies make sure their registered email address is correct and that emails are monitored.

The Companies House Changes to UK company law website details the changes and what customers and/or their agents need to do and by when. You can also get the latest information by subscribing to Companies House newsletter.

Summary of changes

This is the current intended timetable. Timelines are dependent on suitable Parliamentary time in both houses and will be kept under review.

From 4 March 2024

Companies House has been able to improve the quality of information on the register by:

- querying and rejecting new information received in customer filings which it suspects to be wrong or fraudulent.
- removing more inaccurate information from the register, including removing names and addresses of citizens which have been used without consent – the processes for removing information are being streamlined and more information can be removed administratively, without people needing a court order.
- querying and rejecting company names which have been chosen to mislead customers, facilitate fraud, or give the false impression that the company is connected to a foreign government.
- improving the accuracy and reliability of registered office addresses by introducing a new definition for an appropriate address (companies are not able to use a Royal Mail PO Box and equivalent services offered by other parties) – Companies House will be able to commence strike off measures against companies if they do not provide an appropriate address within a specified period.

Companies House has been able to improve investigation, enforcement and data sharing by:

- sharing more information with law enforcement agencies and regulatory bodies to help tackle money laundering, fraud and other criminality.
- undertaking greater analysis of information held, including comparison against other data sets obtained externally.

Companies House has been able to better prevent disqualified directors from acting by:

- rejecting documents notifying appointment of a new director to an existing company where the individual is a disqualified director.

Companies House has also been able to require companies to:

- provide a registered email address to allow Companies House to contact companies about matters relating to their filing quickly and efficiently (this email address will not be shared on the public register).
- confirm that the future activities of the company are lawful at the point of incorporation, and to confirm this every year on the confirmation statement.

From 1 May 2024

Companies House has been able to charge higher incorporation and annual fees to fund investigation and enforcement activities against those misusing the register.

By autumn 2024

Companies House should be able to issue financial penalties for any relevant offences under the new Act and the Companies Act.

By winter 2024 into 2025

Companies House should be able to:

- expedite the striking off of companies where the registrar has concluded the company has been formed for a false basis.
- annotate the register in a wider range of circumstances, such as when a company has a director who has been disqualified but has yet to terminate their appointment on the register, or where Companies House has issued a statutory notice to require more information from a person, but the matter remains unresolved.

By spring 2025

Companies House should be able to:

- carry out checks on Authorised Corporate Service Providers (ACSPs) to authorise them to carry out verification services – ACSPs will be required to be registered in the UK and be subject to the UK's anti-money laundering regime.
- allow individuals to voluntarily verify their identity.
- receive and assess applications from individuals seeking to have residential addresses suppressed from public disclosure in certain circumstances.

By summer 2025

Companies House should be able to allow access on request to certain trust information on the Register of Overseas Entities.

By autumn 2025

Companies House should be able to:

- make identity verification a compulsory part of incorporation and new appointments for new directors and PSCs.
- begin the 12-month transition phase to require more than 7 million existing directors and PSCs to verify their identity – the identity verification will happen as part of the annual confirmation statement filing.

By spring 2026

Companies House should be able to

- make identity verification of the presenters a compulsory part of filing any document.
- require third party agents filing on behalf of companies to be registered as an ACSP.
- reject documents delivered by disqualified directors as they will be prohibited from doing so, unless they are delivered by an ACSP for specified filings permitted by law.

By the end of 2026

Companies House should be able to:

- require all limited partnerships to submit more information, providing greater transparency for users of the register.
- complete the transition period for all individuals on the register requiring identity verification and start compliance activity against those who have failed to verify their identity.
- facilitate greater cross-checking of information and data between Companies House and other public and private sector bodies.

Following accounts reform

Companies House should be able to:

- mandate software-only filing for all accounts – package accounts will be able to use the new zip package functionality.
- remove the option for small companies and micro-businesses to file abridged accounts.
- require all companies to file profit and loss accounts, helping to improve the financial information on the register – and require small companies to also file their directors' report.
- require a company claiming an audit exemption to provide an enhanced statement from their directors on the balance sheet, specifying the exemption being claimed and confirming the company is eligible for it.
- limit the number of times that a company can shorten its accounting reference period.

Following the implementation of restrictions on corporate directors

Any corporate directors of companies will be restricted so that any corporate director of a company must have an all-natural person board.

All the directors of the corporate director will be required to verify their identity in order for the corporate director to be registered.

Only UK corporate entities with legal personality will be capable of acting as a corporate director. The use of overseas companies from acting as corporate directors in the UK will be prohibited.

Reporting

The ECCT Act requires Companies House to present a report to Parliament no later than 6 months after

Royal Assent. This report is required to report on progress of particular aspects of the Act's implementation. The first of these reports was published in May.

More information

Campaign website: Changes to UK company law

Factsheets: Economic Crime and Corporate Transparency Act 2023

The IFRS for SMEs Accounting Standard

The International Accounting Standards Board (the IASB) is expected to publish a revised third edition of the International Financial Reporting Standard for Small and Medium-Sized Entities (the IFRS for SMEs Accounting Standard) in the first quarter of 2025.

This third edition is to be published following a second comprehensive review, which began with a consultation draft in September 2022. An addendum to the consultation draft was published for comment in March 2024.

While not applicable in the UK, the Financial Reporting Council (FRC) considers the evolution of the IFRS for SMEs Accounting Standard during its periodic reviews of FRS 102 (the Financial Reporting Standard applicable in the UK and the Republic of Ireland). However, the FRC and the IASB are taking a different approach on when, and possibly if, to align with full IFRS Accounting Standards on two significant matters.

The FRC took the decision to align FRS 102 with the on-balance sheet lease accounting model from IFRS 16 'Leases' with appropriate simplifications. However, the IASB has confirmed its intention to consider aligning the IFRS for SMEs Accounting Standard with IFRS 16 during its next comprehensive review. Hence, the third edition will not include the on-balance sheet lease accounting model from IFRS 16. Worth noting is that the FRC made the decision not to align the lease accounting requirements within FRS 105 (the Financial Reporting Standards applicable to the micro-entity regime) with IFRS 16.

Conversely, the FRC has deferred its decision as to whether to align FRS 102 with the expected credit loss model of financial asset impairment from IFRS 9 'Financial Instruments'. Any proposals to align with this expected credit loss model will therefore be presented in a future consultation. The IASB, having initially intended to align with IFRS 9 in this regard, tentatively decided in January 2024, that only SMEs who provide financing to customers as one of their primary businesses will be required to apply the expected credit loss model. Other SMEs will be required to continue to apply the incurred loss model.

The FRC will likely keep a close eye on the experience of overseas SMEs providing financing to customers of applying the expected credit loss model from IFRS 9, as their experience will impact on future decisions about FRS 102 alignment.

Further information about the latest comprehensive review of the IFRS for SMEs Accounting Standard is available on the IASB's dedicated project page. There is a link from this page to more detailed information about the review and tentative decisions made to date.

Details about the revised editions of UK and Ireland standards, issued in September 2024, are available from the FRC.

The FRC's Annual review of corporate reporting 2023/24

The Financial Reporting Council (FRC)'s Annual review of corporate reporting provides information relevant to preparers and auditors, investors and other users of corporate reports and financial statements, and wider FRC stakeholders.

The 2023/24 report (September 2024) is divided into three sections: Highlights; findings in greater depth; and appendices; providing a high degree of transparency about the review and a summary of upcoming changes to narrative reporting.

The FRC's headlines from the review are as follows:

- The quality of FTSE 350 reporting is maintained with some evidence of the gap in quality between FTSE 350 reporting and other companies widening.
- There is a continued need for improvement in relation to the impairment of assets and statements of cash flow.
- The clear and consistent disclosure of uncertainties, risks and assumptions remains an area of focus for the FRC.
- Climate-related reporting is becoming more well established, but the scope of this reporting is widening.
- Good quality reporting does not necessarily require a greater volume of disclosure.

While companies falling within the scope of the review are FTSE, AIM listed and large private companies, these findings will help the preparers and auditors of other companies to focus in on potential areas for improvement.

In addition to reflecting on its findings for 2023/24, the FRC also sets out its key expectations for 2024/25.

Detailed recommendations arising from the FRC's headlines

The FRC's recommendations are cross-referenced to full IFRS Accounting Standards and the Financial Conduct Authority (FCA)'s Listing Rules. So, in interpreting these recommendations to the circumstances of a particular company, preparers and auditors should refer to the relevant standards and company law requirements.

Presentation of financial statements

Companies should ensure that:

- Company-specific material accounting policy information is clearly disclosed [IAS 1.117].
- Disclosures on going concern and related matters are consistent with information elsewhere in the annual report.
- The financial statements are reviewed carefully to avoid common areas of non-compliance with IAS 1 'Presentation of financial statements', including the classification of receivables as current or non-current [IAS 1.66] and the presentation of material impairment losses in relation to financial assets on the face of the income statement [IAS 1.82(ba)].

Impairment of assets

Companies should ensure that:

- They provide adequate disclosures about the key inputs and assumptions used in their impairment testing, including justifying the use of financial budgets/forecasts for periods longer than five years [IAS 36.134; IAS 1.125].
- The effect of tax is consistently reflected in the discount rates and projected cash flows used in value in use calculations [IAS 36.51], and the forecasts used for value in use calculations reflect the asset in its current condition [IAS 36.44].
- Impairment reviews and related disclosures appropriately reflect information elsewhere in the report and financial statements about events or circumstances that are indicators of potential impairment, as well as information about the company's business operations and principal risks.
- They explain the sensitivity of recoverable amounts to reasonably possible changes in assumptions where required [IAS 36.134(f); IAS 1.129].

Statements of cash flow

Companies should ensure that:

- The classification of cash flows, as well as cash and cash equivalents, comply with relevant definitions and criteria in the standard and cash flows are appropriately netted in both the group and (where applicable) parent company cash flow statement [IAS 718.6; IAS 7.21].
- Amounts and descriptions of cash flows are consistent with those reported elsewhere in the report and financial statements.
- Non-cash investing and financing transactions are excluded from the statement and disclosed elsewhere if material [IAS 7.43].

Judgements and estimates

Companies should ensure that:

- All significant judgements have been described in appropriate detail, including explanations of the uncertainties involved [IAS 1.122].
- Disclosures of significant estimates are clearly distinguished from other estimates and contain sufficient company-specific information. A list of uncertainties is not sufficient [IAS 1.125].
- Sufficient information is provided in order for users to understand the significant judgements and estimates, for example disclosure of sensitivities and the range of possible outcomes [IAS 1.129].

Taskforce on Climate-related Financial Disclosures (TCFD) and climate-related narrative reporting

Companies in scope of the relevant requirements should ensure that:

- They explain the extent of compliance with the comply-or-explain TCFD framework, the reasons for any areas of non-compliance and the steps being taken to address these areas together with the expected timeframe in which compliance will be achieved [Listing Rule 9.8.6R.8; Listing Rule 14.3.27R]
- Disclosures are concise and company-specific, sufficient detail is provided, and material information is not obscured.
- It is clear how any material impact of climate change has been reflected in the financial statements.
- Mandatory Companies Act 2006 Climate-related Financial Disclosure (CFD) requirements are met and not given on a comply-or-explain basis. Companies who are also required to provide TCFD related disclosures under the Listing Rules should consider the differences between the requirements such as the location of disclosures.

Recommendations on the following additional topics are also included in the FRC's report:

- Financial instruments
- Revenue
- Strategic report and other Companies Act matters
- Income taxes
- Fair value measurement

Key FRC expectations for 2024/25 annual reports and financial statements

Pre-issuance checks

Companies should have a sufficiently robust review process in place to identify common technical compliance issues. The review process should include checking that clear, company-specific accounting policies are included for key matters such as revenue recognition.

Risks and uncertainties

Disclosures about uncertainty and risk should be clear and consistent and sufficient for users to understand the positions taken in the financial statements. The FRC frequently asks companies to enhance their disclosures when they fail to comply with requirements in these areas.

Narrative reporting

Companies should ensure their strategic report includes a fair, balanced and comprehensive review of their development, position, performance and future prospects. Care should be taken to comply with the applicable climate-related reporting requirements, ensuring disclosures are concise and that material information is not obscured.

Take a step back and consider the annual report and financial statements as a whole

The annual report and financial statements should:

- Together, tell a consistent and coherent story throughout.
- Be clear, concise and understandable.
- Include all material and relevant information, including information not specifically required by standards, where it is necessary for users' understanding.
- Include only material and relevant information.

Visit the FRC's website to read its full Annual review of corporate reporting and to watch its related webinar.

Improving your charity's finances

The Charity Commission for England and Wales has updated its guidance on Improving your charity finances (CC12). The guidance is directed towards charity trustees and consists of three parts:

- Improving your charity's finances - what to do if your charity is in financial difficulty.
- What to do if your charitable company or Charitable Incorporated Organisation (CIO) is insolvent or at risk of insolvency.
- What to do if your unincorporated association or charitable trust is insolvent or at risk of insolvency.

CC12 is also accompanied by a checklist that charity trustees can use to assess insolvency risk.

This is a timely update for the trustees of charities in England and Wales and will be especially useful for medium-sized charities preparing their financial statements in accordance with the Charities SORP.

Charity trustees have collective responsibility for the financial management of their charity and for taking steps to minimise the risk of their charity getting into financial difficulty. Irrespective of their level of financial expertise, each trustee should understand their charity's finances, so that the trustee board can act together to identify and address early indications of financial problems.

CC12 sets out practical steps that trustee boards can take to improve their charity's financial situation before it becomes insolvent. However, when in doubt about what to do next, the trustee board of a charity in financial difficulty should seek professional advice.

The messaging is simple and practical, and in broad terms the guidance will be useful to the trustees of charities in Scotland and in Northern Ireland too. However, it is important that the trustees of charities not based in England and Wales, are mindful that the underlying legal and regulatory requirements are different.

While company law is UK-wide, charity law is devolved in Scotland and in Northern Ireland and their legal systems are different. It is important that trustees understand this. They must comply with their legal duties under the relevant charity legislation, and, where the charity is a company, their directors' duties under UK company law. Understanding that different legal systems operate across the UK is highly relevant to trustees if their charity is insolvent or at risk of insolvency.

Also, important to note is that the CIO legal form is only available to charities based in England and Wales. In Scotland, there is the Scottish Charitable Incorporated Organisation (SCIO) legal form. There is no equivalent legal form available under charity law in Northern Ireland.

ICAS members directing charity clients in Scotland and in Northern Ireland to CC12 should highlight that there are differences in the legal and regulatory environment compared to England and Wales.

An interesting decision

HMRC's appeal against a decision of the First Tier Tribunal was dismissed by the Upper Tribunal in the case of R & C Commrs. v Gould (2024) BTC 534.

In March 2016, Nick Gould received an interim dividend of £20 million from the Regus Group (Holdings) Ltd, when his marginal tax rate was lower. His brother Peter did not receive his £20 million dividend until December 2016, by which time he was not UK resident for tax purposes.

The FTT held that there had been an informal agreement whereby the Regis Articles had been amended to allow a dividend to be paid to Nick Gould without creating an enforceable debt to Peter Gould. The FTT considered that clear advice that had been given, and followed through in meetings, that the brothers had agreed to the actions taken "to make it inequitable for them to deny that they had given their approval".

HMRC considered that the FTT had erred in finding that Peter Gould had waived his right to enforce payment of the dividend on grounds that, as there was no consideration, it was not contractually binding. The UT did not agree with this holding that Peter Gould had agreed to waive his right to enforce payment until the following tax year, in exchange for him agreeing to the company paying the interim dividend. "At the time of that agreement there was no enforceable debt. It is not the case of an existing creditor agreeing to give up an entitlement to be paid without receiving anything in return".

In summary, the UT upheld the FTT decision that an interim dividend may be taxed on recipients in different tax years, depending on when it becomes payable. The alleged statement by Michael Caine that "not many people know that" may spring to practitioners' minds.

The importance of regular device restarts

Cyber security is a paramount concern for all organisations, particularly for accountancy firms. As a leading IT provider, Lugo recognises the critical importance of safeguarding sensitive data and maintaining robust cyber defences. One often overlooked, yet highly effective, practice in enhancing cyber security is the regular restarting of devices.

Accountants should be aware of the risks associated with financial data, such as invoice fraud and phishing attempts that target client information. Unapproved software increases the risk of security weaknesses. Regular updates to devices and limiting access to only necessary software helps minimise these risks.

We suggest making use of free tools like the NCSC's Basic Cyber Security Check to identify gaps in your protection. Remember, you don't need to outrun the bear, just the person next to you!

The hidden benefits of restarting

Restarting devices – whether computers, smartphones, or tablets – offers several cyber security benefits:

1. Improved performance

Restarting your PC regularly helps clear out temporary files and processes that may be slowing down the system. It allows system resources to be reallocated more efficiently, leading to a smoother performance. This can prevent conflicts between programs and improve overall system responsiveness.

2. Memory management

Restarting helps to clear out the RAM (Random Access Memory), which can become cluttered with unnecessary data from running programs. This can prevent memory leaks and improves overall system stability.

3. Software updates

Many software updates require a full restart to take effect and apply. Restarting guarantees that all updates are applied, improving both security and functionality.

4. Troubleshooting

Restarting your device can often fix minor technical issues or glitches. It provides a fresh start for a troubleshooting process and can help isolate the cause of persistent problems.

5. Security

Restarting your device can help eliminate potential threats or malware that may have infiltrated the system. It closes unnecessary network connections and clears out temporary files where malicious software may hide.

6. Long-term device health

Regular restarts help to maintain the long-term health of your PC as it prevents system performance issues and crashes. It can extend the lifespan of hardware components by reducing strain and preventing overheating.

The UK cyber security landscape

According to the Cyber Security Breaches Survey 2024, 39% of UK businesses identified a cyber-attack in the last 12 months. This statistic underscores the pervasive nature of cyber threats and the need for proactive measures.

Additionally, the survey highlights that 58% of medium-sized businesses and 66% of large businesses have a formal cyber security strategy in place. From our experience, smaller organisations, including many accountancy firms, haven't implemented comprehensive security measures, such as a cyber incident response plan.

Practical steps for accountancy firms

For accountancy firms, the implications of a cyber-attack can be severe, ranging from financial loss to reputational damage. Here are some practical steps to incorporate regular device restarts into your cyber security strategy:

1. Schedule regular restarts: implement a policy that mandates regular restarts for all devices. This can be done weekly at the very minimum, Lugo recommends once a day.
2. Educate staff: raise awareness among your team about the importance of restarting their devices. Provide training on how to perform restarts and the benefits it brings. Ideally, run refresher training every 1-3 months.
3. Monitor compliance: regularly monitor and report on compliance with the restart policy. Use this data to identify any gaps and take corrective action.

4. Having a trusted, dedicated IT team with specialised cyber knowledge is essential for your own peace of mind. Ensure they are well equipped to manage threats and respond swiftly to incidents, minimising downtime and data loss.

   Consistent security updates and tailored solutions, go a long way to keeping your systems secure and compliant with regulations. This allows you to focus on your core business, knowing that your cyber security is in expert hands.

Conclusion

While restarting your devices may seem like a minor task, it plays a significant role in maintaining cyber security. For accountancy firms, this simple practice can help mitigate risks, enhance system performance, and ensure that security updates are effectively applied.

At Lugo, we are committed to helping our clients implement effective cyber security strategies, and we believe that regular device restarts should be a cornerstone of these efforts.

By taking proactive steps and fostering a culture of cyber security awareness, organisations can better protect themselves against the ever-evolving landscape of cyber threats.

Lugo – ICAS partner

As ICAS Partners, Lugo can offer a free education meeting at a time to suit you – book your time slot here.

AML Compliance in Accountancy

Written by Amiqus, ICAS Evolve Partner

The evolving AML compliance landscape

As key gatekeepers for the financial system, accountants are crucial in facilitating essential transactions that underpin the UK economy. They bear a significant responsibility in ensuring that their services are not exploited for criminal purposes. An important component is ensuring absolute anti-money laundering compliance and conducting thorough due diligence on existing and new clients.

Traditionally, Know Your Customer (KYC) and Anti-Money Laundering (AML) checks have relied on manual procedures, which entails in-person meetings with clients, manual identity verification, and email exchanges to gather essential documents. This approach can impose a substantial administrative burden on firms, leading to loss of significant time and resources.

However, new digital solutions are rapidly changing the landscape, offering a streamlined approach that meets regulatory standards and supports efficient client onboarding. Consequently, firms are increasingly adopting a digital approach surpassing traditional methods' limitations in AML checks and compliance.

AML obligations under the CCAB framework

The guidance by Consultative Committee of Accountancy Bodies (CCAB) outlines obligations for accountancy firms to prevent, recognise and report money laundering and terrorist financing while ensuring compliance with the relevant legislation. These include:

- Risk assessment: firms must conduct risk assessments to identify and understand the risks they face regarding money laundering and terrorist financing.
- Customer Due Diligence (CDD): firms must perform CDD on their clients to verify their identities and understand the nature and purpose of their business relationships.
- Reporting obligations: firms must report suspicious activities to the relevant authorities.
- Record-keeping: firms should maintain records of CDD, transactions, and risk assessments.
- Training and awareness: firms should provide appropriate training to their staff to ensure they understand their AML/CTF obligations and can recognise suspicious activities.
- Compliance monitoring: regular monitoring and review processes should be in place to ensure compliance with AML regulations.
- Policies and procedures: firms must establish and implement policies and procedures to mitigate and manage the risks identified in their risk assessments.

In addition to checking existing and new clients, the guidance also lays down rules around employee screening. Section 3.6.22 states:

'Businesses must consider the skills, knowledge, expertise, conduct and integrity of all relevant employees before and during their appointment…. However, businesses must have a mechanism for evidencing Money Laundering, Terrorist and Proliferation Financing (MLTPF) knowledge within such procedures: for example, a test for which the results are recorded can evidence knowledge and expertise.'

Assessing your firm's AML compliance processes and needs

Irrespective of whether you currently conduct AML checks and processes manually or employ digital tools for this purpose, assessing the most suitable approach for your practice requires careful consideration of the following questions:

1. Are you compliant with the latest AML legislation and guidance?
2. What is your process for keeping client data safe?
3. What types of checks do you need to conduct on your clients?
4. Do you conduct screening on your BOOMs (beneficial owner, officer, or manager) and frontline AML staff?
5. How much time and resources do you spend on conducting AML/KYC checks?
6. How do you shape the client experience during the onboarding process?
7. How do you maintain an audit trail?
8. How do you manage client and firm-wide risk assessments?

Choosing an approach: manual vs. digital AML processes

Though well-established, the traditional, manual approach to AML/ KYC checks can be complex, often requiring in-person document verification and extensive face-to-face interactions. Accountancy firms must evaluate the compliance risks associated with this method as non-compliance can result in heavy penalties and reputational damage. In comparison, digital solutions enable faster, more secure processes that support compliance with evolving AML standards.

	Manual	**Digital**
Collecting documents	Documents are collected via unsecured email, post or in-person and stored physically.	Documents are collected online via secure encrypted portal and stored in digital form.
Checking the authenticity of documents	The identity document is reviewed through a visual examination and results may vary depending on the training and tools available. The training requirements for this process would add time, cost, liability etc.	The identity document is verified against numerous online secure sources of data. Checking the authenticity of identity documents digitally is a robust process which involves checking for image quality, data integrity, consistency etc, and gives accurate results.
Verification	The process can take up to weeks. Professionals may have to meet clients face-to-face to verify their identity against their ID documents.	Advanced biometric comparison enables professionals to remotely verify identity and onboard clients up to 4x faster than manual processes.

Advantages of using a digital provider for AML compliance

Adopting a digital tool or provider for identity verification and AML checks offers several advantages:

1. Compliance: a digital provider offers a robust solution for ensuring compliance with the latest AML regulations. It simplifies the process of staying up to date with evolving legislation by automatically incorporating regulatory changes into the system.

2. Client data security: digital providers often come with advanced security features, including encryption, secure data storage, and access controls that safeguard your client data from unauthorised access and data breaches.
3. A range of checks from a single platform: digital solutions provide a centralised platform for conducting the full suite of KYC/AML checks. This streamlines the process and ensures that all necessary checks are performed consistently and efficiently.
4. Integration: many digital providers are designed to integrate seamlessly with your practice management software. This integration improves workflow efficiency, reduces data duplication, and simplifies record-keeping.
5. Staff screening: a digital provider can assist in conducting checks on your staff, including Right to Work verification and criminal record checks.
6. Time and cost saving: by automating AML checks and processes, your firm can allocate resources more efficiently. This also reduces operational costs associated with conducting AML checks manually.
7. Better client experience: same-day access to services has become the norm in other sectors, and clients are now seeking such convenience in professional services. A digital solution empowers clients to complete checks via a user-friendly platform.
8. Managing risk assessment and audits: with digital providers, you can seamlessly complete, track and store risk assessments. For audits, you can digitally record and monitor every stage of the AML process, creating an exhaustive audit trail of actions and decision-making.

Key criteria for selecting the right digital provider

Selecting the right digital provider for AML/ KYC checks is a critical decision. Consider the following key questions and vendor selection criteria:

- Usability: is the solution user-friendly for your firm and clients, accessible through various devices, and easy to navigate?
- Accreditation: is the digital provider accredited under the UK Government Digital Trust Framework or similar standards, and to what level i.e. low, medium or high?
- Monitoring: does the provider offer ongoing monitoring for PEPs, sanctions, and adverse media screening?
- Efficiency: does the solution streamline onboarding new clients while ensuring compliance?
- Comprehensive support: can the provider assist with all aspects of AML compliance, including checking relevant staff members and providing risk assessment functionality?
- Integrations: how easy is it to integrate the provider into your practice management software and other internal systems?
- Security: is the provider ISO27001 accredited or meets Cyber Essentials Plus as a minimum requirement, ensuring data security?
- Accessibility: does the solution adhere to web accessibility standards, ensuring ease of use for clients?

AML compliance has evolved beyond identity verification; it now encompasses a comprehensive approach that involves understanding clients, assessing risks, and monitoring transactions. By carefully evaluating digital solutions against strict criteria, accountants can enhance efficiency, security, and compliance while providing a top-notch client experience.

Amiqus - Evolve partner

ICAS have partnered with Amiqus to offer AML and compliance checks with exclusive discounts for Evolve members.

Book a discovery call for more information about their AML and client onboarding solutions, custom pricing, compliance and regulation related queries.

HMRC and Companies House updates

Workaround for submitting Corporation Tax returns for companies with extended accounting periods

Earlier this year, ICAS highlighted the practical issues with HMRC's legacy computer system for Corporation Tax returns for companies with accounting periods lasting longer than 12 months. As Corporation Tax accounting periods cannot exceed 12 months, when a company prepares accounts for a longer period it is necessary to submit two corporation tax returns for the two corporation tax accounting periods.

The HMRC computer issue has caused problems with the ability to accept Corporation Tax returns and amended returns electronically. This is because the HMRC computer system automatically assumed that a company has a filing deadline of 12 months after the end of the corporation tax accounting period, even where Schedule 18 Finance Act 1998 provides otherwise.

As this is a subject that has caused inconvenience and additional costs for members (and ultimately their clients) by having to submit returns manually, ICAS has had ongoing dialogue with HMRC to see whether any workarounds can be identified.

Following this dialogue, it should now be possible for HMRC to override the default filing dealing and accept amended returns outside of the default that the HMRC computer system will have of two years from the end of the Corporation Tax accounting period window. Where the filing deadline has been manually updated, it should be possible to submit Corporation Tax returns after 48 hours, by which time the system has updated to reflect the correct filing deadline. The HMRC software should then take account of this when deciding whether an amendment submitted online is within the amendment window.

So, for example, if a tax agent were to contact HMRC today to ask for the filing dates for an extended accounting period from 1 July 2021 to 31 December 2022 (the corporation tax accounting periods being year ended 30 June 2022 and six months ended 31 December 2022), it should be possible to submit an amended return after a couple of days. This reflects the statutory position, rather than the incorrect default position in the computer system of not accepting amendments to the return for the year ended 30 June 2022 because more than two years have passed since the year end.

ICAS will continue to have dialogue with HMRC on this issue but will rely on feedback from our members in practice as to whether returns are being accepted electronically. Please email tax@icas.com to share feedback on if you are finding that this workaround is successful for your clients, where they have an accounting period lasting more than 12 months.

HMRC – talking points

HMRC's regular Talking Points provide information, guidance and tips to help with tax issues.

VAT on private school fees webinar will help to:

- check if and when you need to register for VAT as an education provider
- recognise the goods and services you need to charge VAT on and reclaim VAT for

Basis period reform: moving to the tax year basis webinar will cover:

- the tax year basis
- basis period reform transition year
- overlap relief
- transition profits

The 'Income Record Viewer' is the quickest and easiest way to check your clients pay, tax details, employment history, and pension information. There is also a short YouTube video which shows clients how to authorise your request.

Although care has been taken in the production of this Technical Bulletin, it is a summary only of the topics discussed. Any views expressed by contributors within this publication are their personal views and not necessarily the views of ICAS. Neither ICAS nor the members of the editorial board shall be liable for negligence in the preparation, presentation or publishing of the material contained herein, nor for the correctness or accuracy of that material, nor for actions, failures to act, or negligence on the part of those to whom the material is disseminated, which results in any liability, loss, claim or proceedings whatsoever and howsoever caused by, on behalf of, or against any person.

© Copyright 2024 ICAS. Reproduction of the contents of this Technical Bulletin by an ICAS firm shall not constitute an infringement of copyright provided always that such reproduction shall be limited for the purpose of training and administration within the firm or the private study of partners or employees thereof and for no other purpose whatsoever.

Editorial Board

James Barbour	Director, Policy Leadership, Accounting and Auditing ICAS
John Cairns	Partner, French Duncan LLP
Jeremy Clarke	Assistant Director, Practice Support, ICAS
Kate Neilson	Practice Support Specialist, ICAS
Justine Riccomini	Head of Taxation (Employment and devolved taxes), ICAS
Guy Smith	Tax Director, Independent Tax
Ron Weatherup	Director, Lugo
Liz Smith	Business Development Director, Lugo
Chris Campbell	Head of Taxation (Tax Practice and OMB Taxes)

CA House, 21 Haymarket Yards, Edinburgh, UK, EH12 5BH
+44 (0) 131 347 0100
connect@icas.com
icas.com