Technical Bulletin

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2023 Autumn Statement

In what was expected to be a largely quiet Autumn Statement on 22 November, it turned out to be quite the fiscal event. Our high level review of the Autumn Statement and more detailed analysis is on the ICAS website.

The Overview of tax legislation and rates (OOTLAR) was published on the day of the statement and the Autumn Finance Bill was published a week later.

National Insurance changes

The reduction of National Insurance Contributions (NICs) from 12% to 10% means an across the board saving for anyone below state pension age, earning above £12,570 per annum. This will put cash directly in peoples' pockets, regardless of where they are employed in the UK. Someone earning the new level of National Living Wage in 2024 of £11.44 (for 21 and over), which is a 9.8% increase on last year, will now earn £20,820 as a full time equivalent. The reduction to NICs will also afford them a further £165 in savings. Similarly, an employee earning £40,000 per year will save around £550 a year in NICs.

The abolition of the Class 2 weekly National Insurance charge of £3.45 a week will be welcomed by the self-employed as it represents a simplification of their affairs, as well as an annual saving of around £192 a year. Combined with the reduction in Class 4 NICs to 8%, this should save the average self-employed worker £353.70, while someone on a salary of £30,000 will save £349. However, anyone earning profits above £30,000 won't see the same level of benefit as someone on a salary over £30,000.

Contents

2023 Autumn Statement

Two important employment tax cases with wide-reaching implications on expenses

High Income Child Benefit Charge: a review of some recent cases

The Beesley case: a great illustration of how not to complete a CGT computation

Principal Private Residence relief: where the original house is demolished

Land remediation relief

FRC's periodic review of UK GAAP

Changes to filing requirements

FRC issues revised ISA (UK) 505 'External Confirmations'

IFAC guide for SMEs on ISQM

Cyber risks in a world of AI

PCRT Helpsheets D and E

Regulation news

Audit news

HMRC and Companies House updates

Income £	Employees: Annualised NIC pre Autumn Statement £	Employees: Annualised NIC £	Employees: Annualised NIC saving £	Self employed: Annualised NIC pre Autumn Statement £	Self employed: Annualised NIC £	Self employed: Annualised NIC saving £	Self-employed v employed NIC payable £	Self-employed v employed NIC saving £
15,000	292	243	49	398	194	204	49	(155)
20,000	892	743	149	848	594	254	149	(105)
25,000	1,492	1,243	249	1,298	994	304	249	(55)
27,850	1,834	1,528	306	1,555	1,222	332	306	(27)
30,000	2,092	1,743	349	1,748	1,394	354	349	(5)
35,000	2,692	2,243	449	2,198	1,794	404	449	45
40,000	3,292	2,743	549	2,648	2,194	454	549	95
45,000	3,892	3,243	649	3,098	2,594	504	649	145
50,000	4,492	3,743	749	3,548	2,994	554	749	195
55,000	4,619	3,865	754	3,667	3,111	556	754	198
60,000	4,719	3,965	754	3,767	3,211	556	754	198
70,000	4,919	4,165	754	3,967	3,411	556	754	198
80,000	5,119	4,365	754	4,167	3,611	556	754	198
90,000	5,319	4,565	754	4,367	3,811	556	754	198
100,000	5,519	4,765	754	4,567	4,011	556	754	198
110,000	5,719	4,965	754	4,767	4,211	556	754	198
120,000	5,919	5,165	754	4,967	4,411	556	754	198
140,000	6,319	5,565	754	5,367	4,811	556	754	198
150,000	6,519	5,765	754	5,567	5,011	556	754	198
160,000	6,719	5,965	754	5,767	5,211	556	754	198
180,000	7,119	6,365	754	6,167	5,611	556	754	198
200,000	7,519	6,765	754	6,567	6,011	556	754	198
250,000	8,519	7,765	754	7,567	7,011	556	754	198
500,000	13,519	12,765	754	12,567	12,011	556	754	198

Analysis provided by

icas.com

Corporation Tax Full expensing

Full expensing for companies was announced in the 2023 Spring Budget. Since April 2023, companies have been able to benefit from the new 100% First Year Allowance for assets in the Capital Allowances main pool and a 50% First Year Allowances for assets in the Capital Allowances special rate pool (including long life assets). This is in respect of investment in new and unused qualifying plant and machinery.

The original plan was for full expensing to apply until March 2026. We've been asking for full expensing for companies to be permanent to give businesses much needed upfront tax relief on any investment they make in certain kinds of new and unused equipment and machinery for some time. This announcement gives companies confidence about the tax relief they can expect to receive on their planned capital spending. But we will want assurances that this change will last beyond the current government.

Research and Development (R&D)

The Chancellor has confirmed that a merged scheme for R&D tax relief will go ahead, but we feel that the start date of April 2024 is too soon, and we wanted more time for proper consultation. We support a simpler, single scheme that would be easier for companies to deal with, reducing the scope for error and limiting opportunities for abuse.

However, in the Autumn Finance Bill, the implementation date is by regulation. This could mean there is scope for the government to delay the implementation should the government decide to do so. The possibility of a last minute "u turn" to delay the implementation is not entirely off the table.

Making Tax Digital for Income Tax Self Assessment (MTD ITSA)

Following the small business review, the Chancellor decided to not extend the requirements of MTD ITSA to self-employed taxpayers and landlords with income below £30,000 at this time. This is a decision that we welcome, and ICAS will continue to represent the views of our members on this topic as part of our engagement with HMRC. The position will however be kept under review, and it's likely that the government will look at how MTD ITSA is working for self-employed individuals and landlords with income of £50,000 or above before reaching a final decision.

Although we support digital interaction with HMRC, we're not fully convinced that the benefits of quarterly reporting outweigh the costs of doing this, particularly for the smallest of businesses. So, whilst it is welcome news that the income threshold is not being reduced below £30,000 for the time being, we would have liked to see the Chancellor go further. Earlier this year, ICAS called for the quarterly reporting requirement to only apply to self-employed businesses and landlords with income below the VAT registration threshold (currently £85,000). This would have ensured that the additional burden would largely only fall on unincorporated businesses who are already dealing with MTD for VAT.

The small business review did however take the opportunity to look at some practical changes for MTD ITSA, taking account of feedback provided by ICAS and the other professional bodies:

- Cumulative reporting

  The quarterly return process will now be on a cumulative basis. This means that if a MTD ITSA submission early in the tax year contains an error, it should be possible to adjust this on the next quarterly return so that the declaration reflects the cumulative year-to-date figures. Clearly, this is not possible for updates that are not in the same tax year, but it could simplify matters for in-year adjustments that need to be made and potentially reduce the costs of the quarterly reporting requirements.

- End of Period Statement

  The previous plan was for there to be a mandatory End of Period Statement (EOPS), in effect a form of final declaration to certify the final figures for the year. The government has accepted that this plan has the potential to cause confusion, so this is no longer going to be a formal requirement under MTD ITSA.

- Multiple agents

  The nature of in-year returns under MTD ITSA means that it's possible that a taxpayer could have more than one person acting for them. For example, the taxpayer's accountant may deal with their year-end returns, but they may have a bookkeeper who would be dealing with their quarterly MTD ITSA returns. Authorising multiple agents will be possible, which will be helpful for those unincorporated businesses who need assistance in complying with their tax reporting obligations.

- Jointly owned properties

  For landlords who own property jointly with another person, they will currently report their share of the income on their tax returns, although there are special rules for people who are married or in a civil partnership. In any case, properties will often be owned in different ways between joint owners, so the logistics of pulling together details for each property return was considered cumbersome. The government has announced that it will be possible to submit income-only returns each quarter, as well as less detailed digital records for joint properties.

- Specific exemptions

  The government has announced specific exemptions for foster carers and taxpayers without a National Insurance number. The latter could potentially benefit inbound expatriates in some circumstances, including where they remain on the social security system in their home country because of that country's agreement with the UK.

- Non-aligned accounting periods

  The implementation of basis period reform in the 2023/24 transitional year is likely to mean that the number of unincorporated businesses which don't have a year-end which aligns with the tax year will reduce significantly. But there will be some unincorporated businesses, possibly for non-tax reasons, that won't be able to change to a 5 April or 31 March year-end. HMRC is engaging with

software developers to explore computer software options to support those unincorporated businesses with a year-end that isn't aligned with the tax year with their MTD ITSA obligations.

- Minimum standards for software developers

  To help ensure that there is a wide market for MTD ITSA software products, HMRC will review its minimum standards for software developers. This change is designed to make it commercially viable for software developers to create innovative software products which will assist taxpayers and their agents with the requirements of MTD ITSA.

The government is introducing what it considers to be a fairer penalty regime for the late filing of tax returns under MTD ITSA.

For the late submission of returns, a penalty point regime will operate in a similar way to VAT penalties, although the mechanics will be slightly different whilst MTD ITSA is not mandatory. Where the taxpayer misses an annual submission deadline, they will incur a penalty point. A penalty of £200 will be charged after two points have been reached. Once MTD ITSA is mandated, the penalty regime will be more strictly applied. Late payment penalties will also apply.

Two important employment tax cases with wide-reaching implications on expenses

Two tax cases were recently decided at the Upper Tribunal which concern themselves with expenses payments. The first, Laing O'Rouke, centres on the NICs legislation and its interaction with the payment of mileage allowances. The second, Kunjur, concerns itself with the tax relief for living accommodation expenses claimed by a trainee surgeon whilst living away from his home during the week to complete his studies and on-the-job training.

Laing O'Rourke

This case, Laing O'Rourke Services Limited v HMRC & HMRC v Willmott Dixon Holdings Limited [2023] UKUT 155, which is two cases with very similar circumstances heard simultaneously, serves as a reminder that National Insurance legislation is not always aligned with income tax legislation. The NI treatment of mileage allowances is such an example and differs to the income tax treatment. The Social Security (Contributions) Regulations 2001 s.22A deals with Relevant Motoring Expenditure (RME) and we see upon reading it that RME is only treated as earnings for National Insurance contributions purposes if it exceeds the amount the employer can pay NI-free – known as the "Qualifying Amount" (QA).

RME and Qualifying Amount

RME is defined in the National Insurance Manual (NIM) 05820 as:

- A mileage allowance payment, or
- An amount that would be such a payment but that is paid to another for the benefit of the employee, or
- Any other form of payment, except a payment in kind, made by or on behalf of the employer and made to, or for the benefit of, the employee in respect of the use by the employee of a qualifying vehicle.

According to NIM 05830, the QA is arrived at by multiplying the relevant approved mileage rate by the total business miles being paid.

What did the employers do to instigate their respective disputes?

Laing O'Rourke and Willmott Dixon both operated car allowance schemes (i.e. company car or equivalent car allowance). Both had subjected the cash allowances to income tax and NICs in full as one might expect, under s.62 ITEPA 2003. It is likely that they did not realise there was an NICs misalignment until the payments had been made over several years.

However, both employers then submitted repayment claims for Class 1NICs for all employees with business mileage which they considered did not exceed the QA. HMRC refused the claims. Both employers then proceeded to appeal to the First Tier Tribunal – Wilmott Dixon were successful and had their appeal allowed, but Laing O' Rourke were not. The Wilmott NICs refund claim was for £1.5m and Laing O' Rourke were claiming £2.25m. Note that Wilmott Dixon made their claim following the successful 2012 Court of Appeal decision in Cheshire Employer and Skills Development Ltd (formerly Total People Ltd) v HMRC [2012] EWCA Civ 1429.

When HMRC appealed the Wilmott Dixon decision, and Laing O'Rourke appealed their decision, the Upper Tribunal decided to hear both cases together. They dismissed HMRC's appeal and allowed Laing

O'Rourke's, having satisfied themselves that the car allowance payments were earnings and RME.

This meant the QA could be deducted from the value of the allowances paid, which then triggered an entitlement to a refund of NICs paid in excess.

HMRC had until 4 September 2023 to appeal the decision – and has confirmed it will not appeal.

Conclusion

ICAS members should speak to client/ fleet managers/ HR departments about this matter in case similar circumstances have occurred and NICs rightfully reclaimed.

Kunjur

In HMRC v Jayanth Kunjur [2023] UKUT 154 (TCC), the Upper Tribunal (UT) overturned the decision from the First-Tier Tribunal when they confirmed the living accommodation expenses incurred by Mr Kunjur did not qualify for tax relief under s.336 ITEPA 2003, because they were not "wholly, exclusively and necessarily " incurred in the proper performance of the employee's duties.

Background

Mr Kunjur trained as a junior doctor between 2012 and 2016 at St George's Hospital in Tooting. Formerly a dental surgeon with 17 years of experience, he had retrained as a maxillofacial surgeon. His job required him to be on-call for two nights a week and within 30 minutes of the hospital. He also needed to take phone calls during the night, which happened most nights.

His home was in Southampton, and he rented living accommodation close to the hospital to ensure that he could be on call. Mr Kunjur claimed a proportion of the rental expenditure as a deduction from employment income in his tax returns. HMRC denied the deductions and issued assessments, closure notices and a penalty.

On appeal to the First Tier Tribunal (FTT), it was held that Mr Kunjur had to meet the three elements of s.336(1) ITEPA 2003 (known as the "wholly, exclusively and necessarily" test). Unusually, the FTT also consulted the less rigorous test in s.34 ITTOIA 2005 which deals with expenses for the self-employed and a "wholly and exclusively" test, and on examination of the fact pattern, decided that Mr Kunjur should be granted a partial tax deduction because some of the work he carried out could be done from the apartment, such as research, taking calls and providing advice.

HMRC appealed to the UT on the grounds the FTT had erred in law, leading it to arrive at a perverse conclusion – indeed, most employment tax experts would probably agree that the FTT did appear to have been distracted from applying the strict requirements set down in the s.336 ITEPA test which should have been applied to this tax relief claim. Mr Kunjur was, after all, an employee.

Upper Tribunal decision

The UT decided that Mr Kunjur had failed the test at Section 336 ITEPA 2003, stating in Paragraphs 33 and 34 of the decision:

33. "We accept that the Premises were being used whilst Mr Kunjur performed his duties, but expenditure on the Premises was not incurred in the performance of the duties. Rather, it was incidental expenditure which provided Mr Kunjur with accommodation from which he could, amongst other things, take calls and carry out research. It put him in a position to do the work he was employed to perform, but he did not incur the expenditure in the performance of the duties of his employment.

34. We are therefore satisfied that the FTT erred in law in finding that the expenditure on the Premises was incurred by Mr Kunjur "in the performance of his duties".

Conclusion

ICAS members should take the opportunity to speak to their clients to review any employment-related expenses that may be being claimed and ensure that employee handbooks contain clear and unequivocal guidance. There appears to be no sensible reason why this case even ended up in the Tribunal.

Mr Kunjur made the claim because subjectively he believed that he was incurring partial work-related expenditure, when in fact, it was his own personal choice which drove his decision to rent the apartment and live there. He could have stayed in student accommodation but chose not to as he was a mature student. The act of putting himself in a position to carry out his duties did not mean he incurred the expenditure in the proper performance of his duties. It is this distinction which employers and employees alike need to be clear about.

High Income Child Benefit Charge: a review of some recent cases

High income child benefit charge (HICBC) applies where a taxpayer has an adjusted net income of more than £50,000, and either they or their partner receive child benefit for at least a week in the tax year. The charge currently applies to the partner with the highest adjusted net income, and it's normally necessary for them to register for self-assessment to settle the tax payable.

HICBC applies a percentage charge based on the adjusted net income above £50,000 of the higher earning partner, with child benefit being withdrawn in full where adjusted net income reaches £60,000.

Our article marking the tenth anniversary of HICBC reviews the legislation which brought in the charge, as well as some of the practical issues for tax practitioners to consider. It also considers the Jason Wilkes case (HMRC v Wilkes, CA [2022] EWCA Civ 1612), which was heard in the Court of Appeal in December 2022. This concerned a taxpayer who did not realise he was liable to HICBC until he received a HMRC nudge letter and received discovery assessments from HMRC. Although the outcome was in the taxpayer's favour, a subsequent change in legislation prevents the decision from having effect in later cases.

Our follow up HICBC article in the Summer drew attention to the Meodes case (TC8844). In the case, the taxpayer and his wife separated, but despite the children no longer living with the taxpayer, he was still liable for the HICBC charge. This would have been avoided if the taxpayer had ceased his claim for child benefit and his (now) ex-wife had claimed child benefit in her own name.

More recently, there have been several HICBC cases coming through the courts. Here is an overview of some which may be of interest:

The case of Stephen Lee v HMRC [2023] TC08872 concerned a taxpayer who lived with his partner and her two children. Mr Lee was the father of the youngest child, but the eldest child was from a previous relationship. Mr Lee's partner claimed child benefit for both children, although he maintains he was unaware of this as they operated separate finances. Although child benefit had been claimed for several years, Mr Lee's adjusted net income did not reach £50,000 until the 2016/17 tax year.

As HMRC were aware of the child benefit claim and both Mr Lee and his partner were within the PAYE system, they argued that the provisions of ESC A19 should apply as they believed that HMRC had not acted on information it had on its possession in a timely manner. The tribunal ruled that it did not have jurisdiction and the Mr Lee should complain to HMRC and, if that complaint was not accepted, he would have the right to appeal to the independent adjudicator.

For the purposes of the HICBC charge, the tribunal did not accept that Mr Lee could avoid the charge for his partner's eldest child from the previous relationship. But it did feel that Mr Lee had a reasonable excuse for not notifying his liability, and cancelled the penalties charged by HMRC.

The case of Richard Chattaway v HMRC [2023] TC08932 saw a taxpayer who was unaware that his benefits in kind were taken into account when considering adjusted net income for the purposes of HICBC. Mr Chattaway argued that a letter he was supposedly sent in 2013 did not mention adjusted net income, although a later letter supposedly sent in 2019 stated that benefits in kind were included. But as HMRC could not prove that the 2019 letter was sent, the First Tier Tribunal felt that Mr Chattaway had a reasonable excuse for not notifying his HICBC liability. Whilst the HICBC was still payable, this meant that Mr Chattaway was able to successfully appeal the penalties charged by HMRC.

The case of J Sharp v HMRC [2023] (TC08926) saw the taxpayer's agent declare HICBC on his 2013/14 even though his adjusted net income was less than £50,000. When his adjusted net income increased above £50,000 in the 2014/15 to 2017/18 tax years due to bonuses from his employer. Although no 'nudge' letter was sent by HMRC, the tribunal ruled that Mr Sharp should have been aware of the charge as he could reasonably have been expected to review his 2013/14 tax return before approving its submission. His appeal against the HICBC penalties was refused.

The Beesley case: a great illustration of how not to complete a CGT computation

The tax case of John and Janet Beesley v HMRC [2023] TC08871 illustrates the importance of a tax agent knowing the core basics of the Capital Gains Tax rules. Indeed, most qualified accountants or tax advisers would view the actions of the agent in this particular case with disbelief.

The background is that Mr and Mrs Beesley sold a property they held jointly in October 2015. Although this was before the requirement to report capital gains on UK residential property (initially within 30 days, but now within 60 days), Mr and Mrs Beesley should have declared the transaction on their 2015/16 self assessment tax returns but did not do so.

Having received information from the Valuation Office, HMRC wrote to Mr and Mrs Beesley and their agent to highlight that no Capital Gains Tax disposal had been included in their 2015/16 tax return. No information was provided so a notice was issued under paragraph 1, Schedule 36 of Finance Act 2008. The initial response from the agent to that notice was that the property had been "sold for the sole purpose of repaying a personal guarantee to National Westminster Bank" and no computation was offered.

Being dissatisfied with the response, HMRC pushed for the Capital Gains Tax computation. The computation provided by the agent was based on the sale price of £395,037, less deductions of £186,345 for "Redeem Mortgage", £152,016 for a "personal guarantee" and more regularly expected deductions for legal fees and agent's commission. The agent then went on to claim Entrepreneurs' Relief (now Business Asset Disposal Relief) in order that the Capital Gains Tax would be payable at a rate of 10%.

Furthermore, "personal guarantee" was actually paid in the 2016/17 tax year. Even though HMRC did not accept that the payment was deductible in the first place, the fact that it was made in a later tax year meant that Section 2 TCGA 1992 was in point. This states that it is not possible for a loss to be carried back to an earlier year of assessment.

The First Tier Tribunal drew attention to the fact that Section 38 TCGA 1992 makes clear the allowable deductions for acquisition and disposal costs. This includes the purchase price, the incidental costs of purchasing the property, enhancement expenditure during the ownership of the property and incidental costs of disposal.

It also considered whether relief on the "personal guarantee" would have been due under Section 253 TCGA 1992. But as the loan was not being used by the borrower for their trade, this was ruled out.

The tribunal also ruled that the mortgage redemption payment was not an allowable deduction for Capital Gains Tax. The lack of connection to a business meant that the claim for Entrepreneurs' Relief was not due and the rate of Capital Gains Tax should be based on the applicable Capital Gains Tax rates for residential property.

It is clear in this case that Mr and Mrs Beesley relied on inaccurate advice from their solicitor that the disposal was not subject to Capital Gains Tax. Whilst this was unfortunate, the agent made a catalogue of errors which proved a lack of understanding of the fundamental concepts of Capital Gains Tax. It's therefore very little surprise that the tribunal rejected the appeal against the Capital Gains Tax assessment and upheld HMRC's decision that the penalties (which were charged on the basis that the behaviour was careless but not deliberate) should be suspended.

Principal Private Residence relief: where the original house is demolished

The case of HMRC v Gerald Lee and Sarah Lee considered the application of the Principal Private Residence relief rules where a house is acquired and demolished, before a new house is built for occupation of a taxpayer's only or main residence.

In October 2010, Mr and Mrs Lee bought a plot of land. They demolished the existing house and built a new house, in which they stayed as their main residence from March 2013. On selling the plot in May 2014, they claimed Principal Private Residence relief on the basis that the dwelling house was their only or main residence throughout the period of ownership (Section 223(1) TCGA 1992) from October 2010 to May 2014.

HMRC had argued that relief should be restricted to the period where Mr and Mrs Lee actually stayed in the property (i.e. only the period March 2013 to May 2014). Under this argument, the proportion of the capital gain from October 2010 to March 2013 would be chargeable to Capital Gains Tax. The point was not specifically addressed in TCGA 1992, so is open to interpretation.

In the First Tier Tribunal, HMRC's argument was dismissed, and the tribunal ruled that the period of ownership per Section 223(1) TCGA 1992 should be interpreted as the period of ownership of the property that is being sold. HMRC appealed this decision.

On its review of the case, the Upper Tribunal explored the rationale of the apportionment provisions. This was in terms so that the rules "operate so as to relieve only part of the gain where a person does not use the house as their only or main residence, for instance because they live somewhere else."

The Upper Tribunal agreed with the decision of the First Tier Tribunal and HMRC's appeal was dismissed. There was no Capital Gains Tax payable as the entire gain was covered by Principal Private Residence relief.

Land remediation relief

This is perhaps one of the less common reliefs seen in practice, applying as it does to corporation tax only. Nevertheless, it is a valuable relief in that 150% of the qualifying expenditure incurred by a company on cleaning up contaminated or derelict land is available against trading profits, or the profits of a property business.

The reliefs are perhaps most useful to developers of typically brownfield sites, by house builders and purchasers of investment properties where certain remedial works need to be carried out.

The legislation is contained in part 14 of CTA 2009 and, the main aspects of the relief are summarised below.

Apart from the actual cost of the remediation work, a company can claim an additional amount of 50% of this. Where there is capital expenditure, an election can be made under Section 1147, CTA 2009 to treat this as an allowable deduction in computing the profits of the trade or property business.

Relief cannot however be claimed where the company itself, or a connected person, was responsible for the contamination.

Apart from a specific provision concerning Japanese Knotweed, the land must have been in a contaminated state when acquired by the company which incurs the qualifying remediation expenditure.

A company which has incurred a trading loss for the period, which includes an amount in respect of the 150% remediation relief, can claim a land remediation tax credit back from HMRC at a rate of 16%, with a consequential reduction in the amount of losses carried forward.

As with most reliefs, there is several conditions which must be met, including:

- The expenditure on the contaminated or derelict land must be expenditure which would not have been incurred had the land not been in that state.
- The expenditure must be on staffing costs, materials, amounts paid to unconnected sub-contractors or the actual costs incurred by a connected sub-contractor. The effect of this is that,

where the services of a connected sub-contractor are used, the qualifying costs do not include that sub contractor's profit.
- The expenditure must not be subsidised by way of grant or subsidy from another person.
- Landfill tax is not an allowable cost for the relief.

Land is contaminated where there is something on or under it causing relevant harm which could result in the death, significant injury or damage to living organisms, significant pollution of waters, adverse impact on ecosystems or structural damage to buildings and structures. This is helpfully covered by HMRC in their manuals at CIRD 61300.

Preparatory activities, as well as rectifying the contamination qualify for the relief. These activities include those in respect of dealing with:

- Post-tensioned concrete heavy weight construction
- Building foundations and machinery bases
- Reinforced concrete pilecaps
- Reinforced concrete basements
- Redundant underground services consisting of pipes, wiring, and tunnels in relation to the supply of gas, water, drainage, sewerage, electricity or telecommunications.

In most other cases, the expenditure will be in respect of the removal of contaminants from the ground, normally as a result of industrial activity. HMRC cover this in their manuals at CIRD 61250.

In many cases, restitution work will have been carried out on a lot of potentially contaminated land following the closure of, for example, a steel works or coal mine. In many other cases however, particularly with regards to smaller sites, there still may be work to be done to carry out remediation prior to, for example, the building of residential housing or letting out of a property.

FRC's periodic review of UK GAAP

The FRC has published a project update on its review of Financial Reporting Standard (FRS) 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and other FRSs. It now expects to publish periodic review amendments in the first six months of 2024. This means that the effective date for these amendments will be reporting periods beginning on or after 1 January 2026 at the earliest, rather than periods beginning on or after 1 January 2025 at the earliest, as mooted in Financial Reporting Exposure Draft (FRED) 82 'Draft amendments to FRS 102 and other FRSs – periodic review'. This will give entities an 18-month lead in time to prepare for the changes.

The major changes proposed in FRED 82 regarding the alignment of FRS 102 and FRS 105 'The Financial Reporting Standard applicable to the Micro-entities Regime' with International Financial Reporting Standard (IFSR) 15 'Revenue from contracts with customers' and the alignment of FRS 102 with IFRS 16 'Leases' are to be included in the revised FRSs. However, the FRC is considering changes to some of the detailed proposals set out in FRED 82, based on the consultation responses it received.

Revenue recognition

Consultation respondents generally supported the proposed amendments on revenue recognition, subject to some specific feedback which suggested that greater alignment with IFRS 15 was desirable. However, respondents also raised concerns about the proportionality of the corresponding amendments to FRS 105.

The FRC is continuing to work towards a five-step model of revenue recognition as contained in IFRS 15 for all FRS 102 and FRS 105 preparers. They are working on fine-tuning the FRS 102 amendments and monitoring the progress of the International Accounting Standards Board's (IASB's) IFRS for SMEs project, which includes similar proposals. They are also seeking further simplifications to ensure proportionality for micro-entities.

Lease accounting

Many respondents agreed that off-balance sheet operating lease accounting should be replaced, but some were concerned that the costs of aligning with IFRS 16 principles at this point would outweigh the benefits, particularly for smaller companies and charities.

The FRC is continuing to work towards a single lease accounting model for all FRS 102 preparers. They are reconsidering how to ensure that the model is proportionate and understandable for FRS 102 preparers of all sizes. This may include, for example, clarifying the scope of the recognition exemption for leases of low value assets.

New supplier finance disclosures to accompany the statement of cash flows

The FRC has published FRED 84 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Supplier finance arrangements, with a deadline for comments of 31 December 2023.

The amendments impact on Section 1 (Scope) and Section 7 (Statement of cash flows) of FRS 102 and arise from amendments to International Accounting Standard (IAS) 7 (Statement of cash flows) and IFRS 7 (Financial instruments: disclosures) issued by the International Accounting Standards Board (IASB) in May 2023. The amendments will require companies applying FRS 102 and preparing a statement of cash flows to make additional disclosures about any supplier finance arrangements they have alongside this statement. No changes to Section 11 (Basic financial instruments) or Section 12 (Other financial instruments issues) of FRS 102 are proposed.

The FRC's consultation stage impact assessment highlights that it anticipates the new disclosure requirements are most likely to impact large companies.

The UK Endorsement Board issued a related call for comments on its approach to adopting the related IASB amendments on supplier finance arrangements into UK-adopted IFRS. The comment period closed in October.

The FRC expects to finalise its proposed amendments in the first half of 2024, alongside the amendments arising from the periodic review. However, the proposed effective date of these amendments is 1 January 2025, which is before the implementation of the periodic review amendments.

Changes to company filing requirements

The recent enactment of the Economic Crime and Corporate Transparency Act 2023 will increase the amount of information that micro and small companies need to file with Companies House, once the effective dates of the legislation are determined.

Micro-entities

The revised filing obligations of micro-entities can be found in a new section, 443A of the Companies Act 2006. Directors will be required to deliver a copy of the company's annual accounts to Companies House although the option not to have to file the directors' report (if prepared) remains. Therefore, the major change is that the filed accounts will need to include the profit and loss account. If the company has chosen to have an audit then the auditor's report on those accounts will need to be filed and the directors' report (if prepared) must also be filed in such circumstances.

Small companies other than micro-entities

The filing requirements for small companies can be found in section 444 of the Companies Act 2006 but this has been subject to significant revision from the extant version. Directors will be required to file the company's annual accounts, and the directors' report. Therefore, small companies will be required to include their profit and loss account and directors' report in their filing with the registrar of companies. The option to file filleted accounts will also be removed. If the company has been audited the directors must also deliver to the registrar a copy of the auditor's report on those accounts.

The option to prepare and file abridged accounts will be removed.

Provision for not filing profit and loss accounts

The Act includes a provision granting the Secretary of State the power to make regulations requiring the Registrar to make the profit-and-loss accounts of small or micro-entities (or parts of them) unavailable for public inspection in certain circumstances.

Audit exemption

As well as identifying the exemption in question on the company's balance sheet, the directors' statement will also need to confirm that the company qualifies for the exemption (Companies Act 2006, revised section 475).

Integrity of documents

Companies House will also have broader powers to verify the integrity of documents lodged. The registrar may refuse to accept (and register) a document where it appears to them that it is inconsistent with other information held by or available to them; and in light of this they have reasonable grounds to doubt whether it complies with any requirement as to its contents.

Effective dates

The applicable dates of the above have still to be determined by secondary legislation.

icas

FRC issues revised ISA (UK) 505 'External Confirmations'

The Financial Reporting Council (FRC) has finalised its revision of International Standard on Auditing (ISA) (UK) 505 'External Confirmations' and the revised standard will take effect for audits of financial statements for periods beginning on or 15 December 2024, with early adoption permitted.

ISA (UK) 505 covers using external confirmations as a source of audit evidence. Since it was last revised, new digital means of obtaining confirmations have become prevalent and while the core requirements were still relevant, there was general recognition that it would be beneficial for the standard to better reflect today's digital environment. Additionally, recent enforcement findings have demonstrated that the work undertaken by auditors in relation to investigating exceptions, for example when confirmations do not contain the information expected, has sometimes been insufficient, and that some auditors have over-relied on negative confirmations when it was unlikely to provide sufficient evidence to support a conclusion.

The key revisions to the standard:

- Provide additional clarification on what constitutes an electronic external confirmation.
- Prohibit the use of negative confirmations.
- Require confirmations to be designed to provide evidence for relevant assertions.
- Provide enhanced requirements in relation to investigating exceptions.

The definition of an 'external confirmation' has been revised to better reflect the current digital environment as follows, including where the auditor has direct access to information held by third parties:

> "Audit evidence obtained as a direct written response to the auditor, or by the auditor directly, from a third party (the confirming party), in paper form, or by electronic or other medium. Electronic or other medium could include auditors directly accessing information held by third parties through web portals, software interfaces or other digital means."

This reflects that confirmations may be obtained thorough directly accessing information held by third parties through web portals or software interfaces. For example, auditors might make use of the provisions within open banking legislation to access client bank accounts for the purposes of confirming the accuracy of amounts held, though the ISA does not refer to any specific solution or means of access in order to ensure the ISA remains up to date.

Additional material has also been included in paragraph 7(c) of the revised ISA to ensure that auditors design confirmations in order to obtain sufficient appropriate audit evidence in relation to all assertions identified in respect of their response to identified risks (as per ISA (UK) 330.1). This is applicable to all means of confirmation but can be particularly relevant to certain forms of digital confirmation where the software interface or application may provide the auditor with evidence over some assertions, such as accuracy or valuation, but not completeness. In these instances, the auditor would have to ensure they have alternative evidence over other relevant assertions.

Negative confirmations are where the confirming party responds directly only if the confirming party disagrees with the information provided in the request. Their use has been prohibited to aid in improving the quality of audit evidence obtained when auditors make use of external confirmations.

A conforming amendment has also been made to ISA (UK) 600 (Revised September 2022) Group Audit to remind group auditors that they should communicate this prohibition to component auditors undertaking work in respect of the opinion on the group financial statements. However, the prohibition does not prevent the use of negative confirmations in agreeing intercompany loans and receivables. As such confirmations are provided by other group entities they are not considered external confirmations for the purposes of this prohibition and are thus permissible.

Enhanced requirements have been included in relation to auditor responsibilities when investigating exceptions. This is in response to enforcement findings that in some cases auditors are not appropriately considering risk when confirmations are not as expected. These direct auditors to consider if exceptions are indicative of fraud or a deficiency in the entity's system of internal control and how follow-up procedures will allow the auditor to obtain sufficient appropriate audit evidence.

The application material within paragraph A18 of the application material of the standard has been updated to reflect the fact that observing audited entity personnel accessing banking information may form part of alternative procedures but is not itself a confirmation procedure given it was not received directly by the auditor or accessed directly by them.

IFAC guide for SMEs on ISQM

The International Federation of Accountants (IFAC) has published two instalments of a three-part publication series to help small- and medium-sized practices implement the International Auditing and Assurance Standards Board (IAASB)'s quality management standards.

The series includes discussions and illustrative examples in "small firms" and focuses on the following possible scenarios:

- Sole practitioner with no staff
- Sole practitioner with staff
- Firm with 2-5 partners and staff.

Instalment one addresses the mindset change the quality management standards require and the shift in focus from quality control (ISQC 1) to quality management (ISQM 1). With the quality management standards, the focus moves from a more static set of documents to the process of managing quality which is an ongoing process. It also includes developing a project implementation plan, an introduction to quality objectives, the risk assessment process, and assigning roles and responsibilities. Helpful meeting agenda templates practitioners can use with their colleagues are also included.

Instalment two covers developing a detailed implementation plan. This involves identifying quality objectives; completing the quality risk assessment process; identifying existing, or creating new, responses to those quality risks; and implementing, documenting, and communicating the system of quality management. It also:

- Addresses the eight components of ISQM 1, which are (a) The firm's risk assessment process; (b) Governance and leadership; (c) Relevant ethical requirements; (d) Acceptance and continuance of client relationships and specific engagements; (e) Engagement performance; (f) Resources; (g) Information and communication; and (h) The monitoring and remediation process.
- Contains an example case study to illustrate the transition from ISQC 1 to ISQM 1.
- Includes multiple documentation aids covering independence, acceptance and continuance of clients and engagements, resources, and outside consultation, as well as a sample checklist for engagement quality reviews.

Instalment three will cover monitoring and remediation and is expected to be available later this year.

Reference should also be made to the recent article by Lesley Byrne, Director of Regulatory Monitoring that provides an update on what the quality management standards means for ICAS audit monitoring visits.

A reminder of key resources

Firms are reminded of the ISQM (UK) 1 resources available as follows:

Links to ICAS guidance and videos

- ISQM (UK)1 implementation guidance: Highlights certain key elements of ISQM (UK) 1 and provides tips on how to implement the standard, including useful examples.
- Video: 'ISQM (UK) 1 unwrapped': A short summary of the main changes from ISQC (UK) 1 and the main requirements in the new standard.
- Video 'ISQM (UK) 1: How to get started' shares practical tips on setting up a system of quality management and can be accessed.

Further videos and implementation guidance can be found on the quality management page of icas.com and an ICAS webinar sharing the tips from two ICAS firms on how to go about implementing ISQM (UK) 1.

We will be issuing a video in 2024 on the root cause analysis requirements of the standard.

Links to the new and revised UK quality management standards:

ISQM (UK) 1
ISQM (UK) 2
ISA (UK) 220 (Revised July 2021)
FRC Feedback Statement and Impact Assessment

IAASB resources

The IAASB has created a suite of resources and material to support audit firms in the transition to the new quality management approach.

- IFAC First time implementation guides:

  ISQM 1
  ISQM 2
  ISA 220 (revised)

- Webinar series
- Article by IAASB Chair, Tom Seidenstein
- Quality management videos

This series joins IFAC's collection of available resources that support quality management implementation, including webinars, articles and videos, as well as the IAASB first-time implementation guides, all of which are available here.

IFAC publishes Quality Management Toolkit for Small- and Medium-Sized Firms and Illustrative Risk Matrix

The International Federation of Accountants (IFAC) in association with Chartered Accountants Australia and New Zealand (CAANZ) has published a toolkit and accompanying matrix designed to assist small-and medium-sized practices (SMPs) implement the International Auditing and Assurance Standards Board (IAASB)'s suite of quality management standards (ISQM 1, ISQM 2 and ISA 220).

The publications include a suite of illustrative documents, policies, checklists, sample letters and forms to help SMPs establish their quality objectives, identify and assess quality risks, and design and implement responses to address their identified quality risks. The toolkit is designed for each SMP to adapt the content to its nature, circumstances, and engagements, a crucial element given each firm goes through its own unique process developing its quality management system. It should be noted that the guidance is based on the IAASB's versions of the quality management standards and not specifically the Financial Reporting Council's UK versions of those standards. However, subject to that caveat, the toolkit still contains useful information for small-and medium-sized practices in relation to implementing the suite of quality management standards.

Cyber risks in a world of AI

Written by David Fleming, Chief Technology Officer at Mitigo

AI is a hot topic. Many professional service firms are already using AI or exploring its potential to revolutionise the way they deliver their services. But it's not all good news. Cybercriminals are also interested in the benefits of AI and how it can make their activities more profitable. Here, we discuss the potential impact of AI from a cybercrime perspective and provide some tips on how to mitigate the risk AI presents.

The three aspects to consider are as follows:

Local unauthorised use of AI tools

Staff members may already be using ChatGPT and other AI to make their work more effective. In our cybersecurity assessments, we often see a significant footprint of AI tools that are being used locally on the employee's computer. This is largely invisible to the business and the person who is responsible for IT or cybersecurity.

The issues here are:

- Downloading of applications that aren't subject to the appropriate level of due diligence.
- Uploading business information and data into hosted AI engines where control is lost.
- Loss of effectiveness of existing controls e.g. Anti-Virus will be blind to these new processes.

Take away actions:

1. Start with a policy that defines legitimate use and make sure it is published and understood.
2. Create a process to assess and approve/decline existing use cases.
3. Ensure local admin rights and AV settings prevent the download of applications to devices.
4. Toughen browser and AV settings to flag use of AI websites or websites with low trust scores.

Poor development and implementation of AI

The core focus of development and implementation of AI will be the benefit it can bring to a business e.g. by

reducing costs or increasing efficiencies. Therefore, at the design stage, security elements can often be overlooked, which in turn can lead to vulnerabilities.

The issues here are:

- The development process will require you to experiment with different services and providers. This has an inherent risk as cybercriminals will move fast to insert malicious code into services (this is already happening).
- You are introducing a new supplier and processes into your supply chain and these need to be controlled.
- The attack surface of your organisation has changed and potentially grown. You need to ensure you design appropriate controls and security.

Take away actions:

1. A separate environment should be created for the development/experimentation process to reduce the risk of a malicious actor connecting to your business-as-usual network.
2. A due diligence process should be designed and carried out on new suppliers.
3. Any existing policy needs to be updated to include the new technology and processes. For example, how are software patches identified and updated.
4. Your control framework needs to be updated. What controls, monitoring and alerts need to be created to secure the new business process.

Increased sophistication of cyber-attacks powered by AI

The adoption of AI by cybercriminals to launch attacks and exploit vulnerabilities is arguably the biggest threat to a business. This includes enhanced ability to get round cyber training and control measures.

Some examples:

- Spotting flaws in emails and websites has long been a protection against cybercrime. AI will enable greater sophistication. Social engineering can be taken to a new level as multiple approaches can be coordinated to entrap a victim.
- Impersonation is often a key part of attacks. Imagine deep fakes of images and voices, and think about what the criminals could do with that.
- Speed of development will increase. Every time a control stops a malicious bit of code, AI will have the ability to instantly analyse and code a solution for the criminals.

Take away actions:

1. Simulated attacks on staff need to be more frequent and mimic the new approaches.
2. Authentication and conditional access need to be improved to make the stealing of credentials ever more difficult for the criminals.
3. Layers of defence will be essential. If a human gets duped, ensure that there is sufficient control and alerting to stop the progression of an attack.
4. Assessment and assurance will become increasingly important. Frequent assessment by experts will be required to keep you hardened against the increasing sophistication and scale of attack.

ICAS Evolve Partner

Mitigo is an ICAS Evolve partner who offer cyber security risk management services with exclusive discounts for members.

Find out more about Mitigo's cyber security services or contact them directly at:

T: 0131 5643131
E: icas@mitigogroup.com

PCRT helpsheets D and E

The PCRT helpsheets D and E are part of the suite of Professional Conduct in Relation to Taxation; the core PCRT is mandatory and the helpsheets offer guidance on the application of PCRT.

PCRT Helpsheet D: Request for data by HMRC

Have you, or some of your clients, been receiving 'nudge' letters from HMRC? Or had an informal request for information about a tax return? If so, to what extent should you reply to any request for data?

Clearly, there's a distinction between a request for data made informally ('informal requests') and those requests for data which are made in exercise of a power to require the provision of the data requested ('formal requests').

Similarly, requests addressed to a client and those addressed to a member require different handling.

PCRT Helpsheet D: Request for data by HMRC is designed to assist in such scenarios and it provides guidance on the application of the PCRT Fundamental Principles and Standards for Tax Planning in relation to requests for access to data by HMRC, including informal requests addressed to the client or to the member, formal requests to the client or to the member, Sch 36 FA 2008 statutory notices, and privileged data. ('Data' includes documents in whatever form (including electronic) and other information.)

The Helpsheet has two flow charts and commentary that address:

- Requests for data addressed to the member; and
- Requests for data addressed to the client.

The Helpsheet is designed to assist members; its use may also provide support should any queries or complaints arise from a client who questions how an HRMC data request was handled.

PCRT Helpsheet E – Members' Personal Tax Affairs

Last but not least, in the suite of PCRT helpsheets is a reminder about Members' personal tax affairs: these should be kept in order and on a timely basis. The Helpsheet notes that:

- A member should always act in a way that will not bring the member or their professional body into disrepute.
- A member's own tax affairs should be kept up to date. Neglect of a member's own affairs could raise doubts within HMRC as to the standard of the member's professional work and could bring the member or their professional body into disrepute.
- A member who is in dispute with HMRC regarding their own tax affairs may wish to consider engaging an agent to represent them.
- A member should consider whether any tax arrangements with which they might be associated on their own behalf might bring the member and the profession into disrepute. In this regard, members are referred to the guidance set out in Help Sheet B: tax advice.

Regulation news

Annual AML Supervision Report

ICAS has published its annual AML Supervision Report presenting progress and achievements made in 2022/23 and setting out future plans.

ICAS has implemented several important changes to AML supervision to improve the effectiveness of our approach. Find out more about the changes to the AML monitoring process and common failings to help identify areas for improvement.

ICAS urge caution to HM Treasury in AML review

ICAS has urged caution to HM Treasury in its review of the supervisory model for AML and counter-terrorism financing compliance, with three models listed in the consultation putting recent progress in improving compliance rates at risk.

Find out more about the suggested changes to the supervisory model and the risks ICAS have identified in its response to the consultation.

ICAS Regulation Cooperation helpsheet

Members are required to co-operate with ICAS in respect of regulatory matters, but sometimes considerable ICAS time and resourcing can be spent following up members who do not reply.

Each of the licenses issued by ICAS is governed by a set of ICAS Regulations which require members to co-operate with ICAS in respect of regulatory matters. Such co-operation is necessary to allow ICAS to carry its obligations as a regulatory body and to maintain public confidence.

Find out more about how firms should respond to ICAS regulatory requests, which should be completed in a timely basis, with this informative helpsheet.

Audit news

The changing regulatory landscape and why monitoring visits are getting tougher

Lesley Bryne, Director of Regulatory Monitoring, shares recent changes in the regulatory landscape and the impact they are having on audit monitoring visits.

The level of oversight that the FRC is exercising over the RSBs has been exponentially increasing over the last few years as well as the auditing standard requirements becoming more demanding. These tougher requirements inevitability result in a tougher monitoring experience for ICAS firms – find out more here.

Avoiding long association ethics breaches

Find out about the monitoring issues ICAS are finding in relation to long association and how to avoid them.

Remind yourself of the key technical requirements in relation to long association and what you need to do to comply, including a number of FAQs.

Where firms have failed to meet the requirements, the ethical issue will be considered by the Authorisation Committee since it is in breach of the Audit Regulation 3.02 Independence. The Committee will consider aggravating and mitigating factors in deciding whether regulatory action (e.g. penalty) or a referral for disciplinary action should be taken.

ISQM (UK) 1 monitoring and remediation

Find out more about the monitoring and remediation requirements of ISQM (UK) 1 which firms must complete for the first time by 14 December 2023 including a worked example.

Mandatory audit course update

ICAS intends to release mandatory training modules during the course of 2024, starting with the most prevalent issued ICAS are identifying on visits and then building out more modules over time.

Firms are expected to obtain sufficient audit-related continual professional development (CPD) to meet their CPD and competence requirements from other sources.

Hot file reviews

The committee is becoming increasingly aware of challenges firms are facing with regards to required hot file review processes.

Hot file reviews are generally required to address significant areas of audit risk therefore, given their importance it is worthwhile reminding yourself of the key requirements and risks that may arise.

HMRC and Companies House updates

Agent reference requirement on HMRC forms

As part of HMRC's work to introduce more controls over repayment agents, all paid agents making repayment claims are required to register with HMRC through an agent services account. This requirement has been in place since 2 August 2023.

To enforce the requirement, HMRC is now updating the P87 income tax relief claim for job expenses and marriage allowance claim forms to include a box to enter the agent reference number (ARN). There will be a separate box that can be ticked to indicate that the nomination is in favour of someone who is not a paid agent.

Where a form is submitted by a paid agent without an ARN, HMRC will treat the nomination as invalid and will make payment directly to the taxpayer.

The new versions of these forms will be uploaded to GOV.UK in early February 2024. Using the new versions of the P87 and marriage allowance claim forms is mandatory for all forms received by HMRC from 26 February 2024. From that date, HMRC will reject claims using the old forms and taxpayers will be sent a letter inviting them to complete the new form. The paper P87 form has been mandatory for some time. The requirement to use the marriage allowance claim form is new and applies from February 2024.

The new versions should not be submitted to HMRC until they are made available on GOV.UK. HMRC will provide a further update on the transition to using the new forms early in 2024.

Changes to SA repayment notifications

From 7 December 2023 HMRC is changing how they let clients know they've issued a SA Bacs electronic repayment. There is no change to the process itself so clients will receive any monies owed to them through their bank as normal.

However, HMRC will no longer send a letter informing you of a SA repayment since they often arrive after the repayment itself leading to confusion.

They are also making improvements to their IT systems in relation to SA repayments, so are temporarily pausing digital notifications from 7 December 2023 while they do this.

All transactions can be seen online wither through the HMRC online services for agents account or your clients can do this themselves through their HMRC online account.

Changes to SA helpline and ADL during SA peak

From 11 December, HMRC will be changing the way they support customers and agents through the Self Assessment (SA) helpline and Agent Dedicated Line (ADL), directing those with simple queries to existing online services, where they can resolve them more quickly and easily without waiting to speak to an adviser.

Between 11 December 2023 and 31 January 2024, HMRC resource is being prioritised to the ADL to support the SA peak. During this time ADL advisers will only take calls about SA filing, payments or repayments and will be redirecting agents to use online tools for simple queries wherever possible. This also means that agents with queries on other topics, including PAYE queries will need to use other channels for assistance.

Agents can continue to use the SA digital assistant for all SA queries throughout this period and our webchat advisers will ensure that you receive the right level of support and expertise for your query.

Help to check if work qualifies for R&D tax relief

HMRC has published Guidelines for Compliance (GfC) to help companies see if work qualifies as Research and Development (R&D) for tax purposes.

The guidelines are designed to help avoid common errors while identifying and submitting claims to R&D relief by aiding businesses to:

- find out if work may qualify as R&D for tax purposes;
- understand HMRC expectations of those making claims;
- understand HMRC's view of who is a competent professional, able to judge if a project is seeking an advance in science or technology;
- understand the meaning of 'scientific or technological advance' for tax purposes;
- decide where the project begins and ends for the purposes of an R&D claim; and
- understand the evidence of a qualifying project HMRC may want to see.

Electric charging of company cars and vans at residential properties

HMRC has published amended guidance in the Employment Income Manual (EIM23900) and introduced new guidance in the National Insurance Manual (NIM06440) about a change in home charging of electric vehicles.

S.239 of ITEPA 2 provides an exemption on payments and benefits provided in connection with company cars and vans. This legislative provision therefore exempts aspects such as vehicle repairs, insurance, and vehicle excise duty.

HMRC previously maintained that the reimbursement of costs in relation to charging a company car or van at a residential property was not caught by this exemption.

Following a review of their position, they now accept reimbursing part of a domestic energy bill, which is used to charge a company car or van, will fall within the exemption provided by s.239 of the ITEPA 2003.

This means that no separate charge to tax under the benefits code will arise where an employer reimburses the employee for the cost of electricity to charge their company car or van at home.

Second hand motor vehicle VAT-related payment scheme – update to deadline

In September 2023 HMRC advised that if businesses have second-hand motor vehicles in stock that they bought in Great Britain (England, Scotland and Wales), and moved to Northern Ireland before 1 May 2023, they can continue to use the VAT margin scheme if those vehicles are sold by 31 October 2023. If they were to be sold after 31 October 2023, the business would have to account for VAT on the full selling price of the vehicles.

Following feedback, HMRC has now extended the period so that businesses can now use the VAT margin scheme for eligible motor vehicles if they still had these vehicles in stock on 1 May 2023 and resell them on or before 30 April 2024.

For more information you can refer to motor vehicles you had in stock on 1 May 2023.

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