Technical Bulletin

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Pre year-end tax considerations

The end of the tax year always brings fresh opportunities to discuss pre year-end tax planning opportunities. But what opportunities are there ahead of 5 April 2025?

Factors like accelerating a pension contribution or maximising a Capital Allowances claim to bring down taxable profits is often seen as the best thing to achieve the most desirable tax outcome for clients. But, for many clients, there will be other tax year specific items to consider in the coming weeks.

Clients being brought into self-assessment

Recent fiscal events have seen a reduction in the Capital Gains Tax annual exempt amount as well as dividend allowance. This may mean that there will be a filing requirement to prepare a tax return and the client will need to be registered for self-assessment.

The end of the tax year is an ideal opportunity to ascertain the filing obligations of the client basis and attend to any necessary housekeeping. Where additional returns are required, it will be necessary to attend to the normal engagement procedures including engagement letter and being authorised as an agent with HMRC.

Changes to Capital Gains Tax

In the Autumn Budget, the Chancellor announced several changes to Capital Gains Tax. Whilst the increase in the main Capital Gains Tax to 18%/28% took immediate effect on 30 October 2024, the change to the rate for disposals covered by Business Asset Disposal Relief will not take effect until 6 April 2025. This will increase to 14% for disposals on or after 6 April 2025 and again to 18% for disposals on or after 6 April 2026.

The normal rules in Section 28 TCGA 1992 outline the timing of the timing of disposal. This is normally when an unconditional contract has been completed, rather than the completion date (if different). In the case of a property disposal in Scotland, the disposal would normally be treated on the date that the legal missives are concluded.

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However, anti-forestalling rules in the Finance Bill override Section 28 TCGA 1992 where an unconditional contract is made between 30 October 2024 and 5 April 2025 but the transaction does not complete until 6 April 2025 or later. It all depends on whether the transaction is an ‘excluded contract’ – this is one where the purpose of entering into the contract was not to take advantage of securing the lower tax rates before 5 April 2025 and the transaction was for commercial reasons (if the parties are connected). If the transaction is not an ‘excluded contract’ the date of completion of the transaction will take precedence to the usual rules.

Routine genuine commercial transactions with third parties may well be unaffected by the anti-forestalling rules. Where this is the case, the importance of timing will have an impact of the tax year (and therefore tax rate) applicable.

Salary payments before 6 April 2025

The Chancellor announced two changes in Employer’s Class 1 National Insurance from 6 April 2025: the increase in the rate of Employer’s Class 1 National Insurance to 15% and the reduction in the employer’s threshold to £5,000. This will significantly increase the scope and extent of National Insurance.

We are unaware of any anti-forestalling measures in this regard, therefore some businesses may well be looking at the timing of bonus and similar payments. Section 686 ITEPA 2003 outlines the rules on the timing of payments for PAYE purposes.

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 (FHL), which will cease in April 2025.

There was uncertainty over whether of the FHL rules would in itself constitute a cessation of the business for the purpose of capital taxes. The government has now confirmed that references in legislation to the cessation of business means an actual cessation of business activity. The policy paper highlighted that this is not to be confused with when bookings stop to be taken, but more when there are no longer any bookings or lettings and there is no intention to take further bookings in future. Subject to the anti-forestalling rule, for a taxpayer to qualify for the enhanced capital gains tax reliefs before the rules change in April 2025, the business has to cease before 1 April 2025 for corporation tax or before 6 April 2025 for income tax and capital gains tax purposes.

From 6 April 2025 (income tax) and 1 April 2025 (corporation tax), Section 13B CAA 2001 will no longer apply, meaning that expenditure on plant and machinery in a FHL property will not be eligible for capital allowances. In the future, expenditure on replacement furnishings may instead qualify for replacement of domestic items relief after the changes to that relief mentioned above.

Existing FHL businesses with an established capital allowances pool in relation to qualifying expenditure (before the change in capital allowances rules) can continue to claim writing down allowances as they would have previously. Only expenditure from April 2025 onwards will be treated under the property business rules that already applied to non-FHL properties.

The end of the tax year gives an opportunity to discuss with clients on whether they wish to continue their FHL business and, if they do, whether any expenditure eligible for capital allowances can be accelerated so that it takes place before the rules change.

Changes to voluntary National Insurance contributions

In Summer 2023, the government announced an extension to the rules for voluntary National Insurance contributions, where eligible, for men born after 5 April 1951 and women born after 5 April 1953. Individuals are currently able to pay voluntary contributions for tax years as far back as April 2006.

But they only have up to 5 April 2025 to be able to pay voluntary contributions from the original April 2006 to April 2016 period, as well as for the 2016/17 and the 2017/18 tax years. HMRC has confirmed that 2022/23 national insurance rates will apply for the voluntary contributions being made retrospectively for the 2006/07 to 2017/18 tax years.

From 6 April 2025 onwards, it will only be possible to backdate voluntary contributions for six tax years. The approach of the end of the tax year will give an opportunity to consider whether any action is needed before the rules change.

High Income Child Benefit Charge

The High Income Child Benefit Charge (HICBC) threshold increased to £60,000 from 6 April 2024. For taxpayers with adjusted net incomes between £60,000 and £80,000, HICBC is now charged at 1% for every

£200 of adjusted net income above £60,000 (as opposed to 1% for every £100 of adjusted net income above £50,000 previously). This means that Child Benefit is now only withdrawn in full once a taxpayer has adjusted net income of £80,000 (rather than the previous £60,000).

The higher threshold may mean that households who have previously opted to not receive Child Benefit but have income of below £80,000 should consider whether they now wish to claim Child Benefit. Whilst income may not be known until after the end of the tax year, it is only possible to backdate a claim for Child Benefit by three months so it may be worth having discussions with clients based on incomes in the 2023/24 tax returns submitted ahead of 31 January 2025.

Is it time to incorporate?

Following recent UK and Scottish Budgets, which have frozen tax thresholds and bands, many unincorporated businesses will be considering whether a company may be a more suitable structure for their business.

Whilst Corporation Tax rates are generally lower than Income Tax and Class 4 National Insurance, it is important to bear in mind that there is further tax payable on extraction from a company whereas the taxable profits of an unincorporated business are subject to Income Tax and Class 4 National Insurance. So it will not always be the most tax efficient structure, especially if all the profits are extracted from the business.

Where an unincorporated business makes the decision to incorporate, there will be several tax issues to consider.

End of accounting period for the unincorporated business

The incorporation of the business will give rise to the end of the final accounting period. Post basis period reform, this is more straight-forward in terms of the apportionment of taxable profits to a tax year.

Where there is a loss in the final period, there will be several options for this: there will be the usual options of Section 64 ITA 2007 against income and/or gains in the current tax year or income and/or capital gains in the previous tax year. This is in addition to terminal loss relief under Section 89 ITA 2007 to relief the loss against trading profits in the tax year of cessation and the previous three tax years.

In an incorporation context, there is a further option under Section 86 ITA 2007 to carry forward the loss and offset against income from the company.

Capital Allowances

On the transfer of the trade and assets, the default position on the transfer of the trade is that there is a deemed market value transfer. Whilst there may be a temptation to allocate a low value to plant and machinery, Section 562 CAA 2001 requires a 'just and reasonable' apportionment where property is sold with other assets.

No full expensing or annual investment allowance can be claimed by the company due to the connected party rules per Section 217 CAA 2001.

However, it is possible for the parties to sign an election under Section 266 CAA 2001 within two years of the succession taking place so that the transfer can take place at tax written down value. Where such an election is signed, it is important to be aware of the original cost of the assets in the Capital Allowances pool for reference for any future disposal.

Stock

The default position per Section 177 ITTOIA 2005 is that any stock transferred between connected parties should be treated as if sold at market value. However, it is possible for the parties to sign an election under Section 178 ITTOIA 2005 so that the transfer is treated as being for the higher of market value and the amount realised for the sale.

Capital Gains Tax

There are a few options to consider when it comes to the transfer of chargeable assets for Capital Gains Tax. This will often be land and buildings, but it is important to not forget to consider any value of goodwill that would need to be considered. Some businesses will wish to transfer all the assets to the company, others only some and this decision will impact on the tax treatment.

Section 18 TCGA 1992 provides that the transfers of chargeable assets between connected persons must be at market value and a company is connected with its shareholders per Section 286 TCGA 1992.

If all of the assets of the unincorporated business (with the possible exception of cash) are transferred to the company as a going concern, Incorporation Relief may be available under Section 162 TCGA 1992. This has the effect of reducing the capital gain that would otherwise arise and the gain deferred would be deducted from the base cost of the shares.

Another possibility would be to claim Holdover Relief under Section 165 TCGA 1992 for individual assets. The extent of relief available will depend on the consideration paid by the company. If consideration is paid, the gain deferred will be restricted to the excess over the asset cost.

The consideration paid for assets also needs to be explored and a credit to the director's loan account is a route which is often used. Where Business Asset Disposal Relief is available, this is an attractive route as whilst this crystalised a Capital Gains Tax liability, it then meant that there was no further tax on the extraction of the loan account balance at a later date as the company generated profits.

Section 169LA TCGA 1992 now prevents goodwill on the transfer to a connected company being eligible for Business Asset Disposal Relief and the Corporation Tax deductibility of goodwill on incorporation has not been possible since 2015.

In some cases, the assets are not transferred to the company and instead a rent is paid. This could impact on the availability of Business Asset Disposal Relief on a later 'associated disposal' and owning the property outwith the company could also affect the Inheritance Tax position (see below).

Inheritance Tax

If the ownership of the company and unincorporated business is different, consideration should be given to exposure to Inheritance Tax on transfers at undervalue. This is because transfers to companies are Chargeable Lifetime Transfers for Inheritance Tax and not Potentially Exempt Transfers.

Where ownership of assets is retained outwith the company, this could impact the Business Property Relief available. Assets owned by an individual and used by a company they control only qualify for 50% Business Property Relief. Whereas, subject to the changes announced in the Autumn Budget, shares in unquoted trading companies can qualify for 100% Business Property Relief, which would include the value of the property if within the company.

Stamp Taxes

If property is transferred to the company, there could be implications for Land and Buildings Transaction Tax (Scotland), Stamp Duty Land Tax (England and Northern Ireland) or Land Transaction Tax (Wales). There are special reliefs available where partnerships are incorporated, but these are unlikely to be an option where the property is transferred from an individual to a company.

Treatment of personal expenses post incorporation

Where a business has incorporated, this will complicate the tax position on the treatment of personal expenses. Whereas it may be an addback in the tax computation of an unincorporated business, the payment of a personal expenses by a company will either give rise to a benefit in kind or the use of a director's loan account will need to be considered.

Key aspects in the Scottish Budget 2024

The Budget announcement

Shona Robison MSP delivered her Scottish Budget, starting with the spending commitments before moving on to the tax raising part of the Budget speech. Alongside this, the Scottish Government produced its "Scotland's Tax Strategy: Building on our Tax Principles" document.

The Tax Strategy document

According to the Scottish Government, the strategy document "sets out the next steps in the Scottish Government's approach to tax, building on the 2021 Framework for Tax, to provide certainty and stability for taxpayers and businesses, and for the continued development of our evidence for tax policy into the future". However, it reads more like a factual compilation combined with short term forecasting rather than a strategic future positioning paper, and given that the Parliamentary term ends in Spring 2026, it can only really ever be a short-term optic, which is not what individuals and businesses need to bring certainty and stability into their day to day affairs.

The following documents were also published:

- 2025-26 Draft Scottish Budget
- Scottish tax ready reckoners
- Scottish Income Tax 2025 to 2026: factsheet
- Scottish Budget 2025-26: pre-budget engagement summary
- Climate Xchange: International evidence on fiscal levers to deliver reductions in greenhouse gas emissions

Income Tax – Key takeaways

- For 2025-26, the Starter rate band will increase by 22.6% and the Basic rate band will increase by 6.6%. The result is that the thresholds for paying both the Basic and Intermediate rates of tax will increase by 3.5%.
- The Higher, Advanced and Top rate thresholds will be frozen to the end of the current parliamentary term in Spring 2026.
- The Scottish Government has committed itself to:
    - not introduce any new bands or increase the rates of Scottish Income Tax until the end of the Parliamentary term other than as stated as above by a minimum of inflation.
    - maintain a commitment that over half of Scottish taxpayers will pay less Income Tax than they do in the rest of the UK.
    - uprate the Starter and Basic rate bands by a minimum of inflation.

The current draft Scottish Income Tax Policy Proposals 2025-26

The following table sets out the rates and bands which the Scottish Government are proposing:

Band	Income range	Rate
Starter rate	£12,571* - £15,397	19%
Basic rate	£15,398 - £27,491	20%
Intermediate	£27,492 - £43,662	21%
Higher	£43,663 - £75,000	42%
Advanced	£75,001 - £125,140	45%
Top rate**	Above £125,140	48%

*Assumes individuals are in receipt of the Standard UK Personal Allowance.

**Those earning more than £100,000 will see their Personal Allowance reduced by £1 for every £2 earned over £100,000.

LBTT – Key takeaways

- Existing residential and non-residential LBTT rates and bands will remain unchanged.
- The LBTT Additional Dwelling Supplement rate will increase to 8% from 6% for transactions with an effective date on or after 5 December 2024. Transitional arrangements mean that any increase will not apply where the contract for a transaction was entered into prior to 5 December 2024.
- The Scottish Government has undertaken to launch a review of some aspects of LBTT in Spring 2025, to inform decisions in the next Parliament relating to potential legislative changes.
- The Scottish Government has promised to introduce legislation to clarify claw back arrangements in sub-sale development relief and provide for the availability of LBTT group relief in instances of non-partition demergers.
- A consultation will commence in early 2025 on draft legislation to provide relief from LBTT on the exchange of units within Co-ownership Authorised Contractual Schemes (CoACS) investing in Scottish property.
- A consultation will also be run to seek views on the case for introducing a LBTT relief for the seeding of properties from existing unauthorised investment vehicles into Property Authorised Investment Funds (PAIFs) and CoACS.

The latter three have been discussed in many round tables since LBTT first began and the Law Society for Scotland have been instrumental in bringing about these changes, with the support of ICAS.

LBTT Rates and Bands for 2025-26

	LBTT Rates and Bands for Residential Conveyances*		LBTT Rates and Bands for Non-Residential Conveyances		LBTT Rates and Bands for Non-Residential Leases**	
Band	Relevant Consideration	Rate	Relevant Consideration	Rate	Net present value of rent payable	Rate
Nil rate band	Up to £145,000	0%	Up to £150,000	0%	Up to £150,000	0%
First tax band	Above £145,000 to £250,000	2%	Above £150,000 to £250,000	1%	Above £150,000 to £2m	1%
Second tax band	Above £250,000 to £325,000	5%	Above £250,000	5%	Above £2m	2%
Third Tax Band	Above £325,000 to £750,000	10%				
Fourth Tax Band	Above £750,000	12%				

*If the first-time buyer relief applies, the effect is to increase the nil rate band to £175,000

** LBTT on lease premiums is payable at the same rates and bands as non-residential conveyances

In addition, the ADS may apply to the total price of the property for all relevant transactions of £40,000 or more and will be charged in addition to the rates set out above. This will apply at a rate of 8% for transactions with an effective date from 5 December 2024, unless the transitional provisions apply.

Policy Intent review

The Scottish Government will be conducting a review of various aspects of residential and non-residential LBTT arrangements to ensure they continue to meet their policy intent, or - where potential amendments are identified - to inform decisions taken by the next Parliament.

ICAS expects to be included in these discussions.

Scottish Landfill Tax – Key Takeaways

The standard rate of tax will be increased to £126.15 per tonne and the lower rate to £4.05 per tonne from 1 April 2025, matching the UK Landfill Tax rates and taking account of actual inflation in recent years.

The Scottish Government will consult to inform decisions on the future of the Scottish Landfill Communities Fund. Arrangements for the Fund will not change in 2025-26.

Non-domestic rates – Key Takeaways

- The Basic Property Rate will be frozen at 49.8p (for properties with a rateable value up to and including £51,000) in 2025-26.
- The Small Business Bonus Scheme will be maintained in 2025-26 at the rates and thresholds introduced in 2023-24.
- There will be inflationary increases (1.7%) to the Intermediate Property Rate (55.4p) and Higher Property Rate (56.8p) in 2025-26.

- 100% relief will continue in 2025-26, capped at £110,000 per business, for hospitality premises located on islands and in prescribed remote areas.
- A new 40% relief will be introduced for 2025-26, capped at £110,000 per business, for hospitality premises (including music venues with a capacity up to 1,500) liable for the Basic Property Rate (those with a rateable value up to and including £51,000) in mainland Scotland (excluding specified remote areas).

Changes to the taxation of EOTs and EBTs

As part of the 2024 Budget measures the Chancellor announced some key changes affecting Employee Ownership Trust taxation which concluded a consultation (Taxation of Employee Ownership Trusts and Employee Benefit Trusts; published on 18 July 2023) in Summer 2024 with relevant stakeholders. The summary of responses and Government response was published alongside Budget 2024.

Background

Employee Ownership Trusts ('EOTs') were originally brought in a decade ago, in 2014. The relatively simple transition between an owner-managed business and an employee-owned business is facilitated by the shares held by the original owners being transferred on sale into a trust, the purpose of which is to benefit the company's employees.

On sale, the sellers receive a form of Capital Gains Tax relief subject to certain conditions being met. If the business is subsequently sold by the EOT, a CGT charge arises at that point on the trustees. The rise in CGT rates in the Budget therefore serve to make the CGT relief more attractive for those wishing to set up EOTs.

Policy objective

HMRC states that "The overall policy objective of the Employee Ownership Trust tax regime is to incentivise and support employee ownership as a viable and sustainable business model. Employee ownership gives employees a greater stake in the business in which they work, improving working conditions and driving productivity and growth in the economy.

This measure makes a range of targeted reforms to the Employee Ownership Trust tax reliefs to ensure that the reliefs remain focused on the intended purpose of encouraging and supporting employee ownership, whilst preventing opportunities for the reliefs to be abused to obtain tax advantages outside of these intended purposes.

The policy objective of exempting transfers of value to Employee Benefit Trusts from Inheritance Tax is to encourage businesses to reward and motivate a wide range of their employees. To qualify for the exemption, there are conditions that need to be met. These conditions ensure that Employee Benefit Trusts set up to only benefit a narrow class of employees do not receive preferential tax treatment. The changes made by this measure will help to ensure the tax treatment of Employee Benefit Trusts is consistent with the original policy intent."

Affected individuals

- Individuals and trustees who dispose of shares to the trustees of an Employee Ownership Trust.
- Individuals who settle property into Employee Benefit Trusts, or who are trustees or beneficiaries of such trusts.
- Employees of companies controlled by Employee Ownership Trusts, or employees of a company within a group controlled by an Employee Ownership Trust.

The Budget 2024 announcements

Some key areas which were considered to have been exploited have been changed – as follows:

The primary purpose of setting up an EOT must not be to allow the seller shareholders to obtain CGT relief only for the company to be sold on a short time later. There must, therefore, be a demonstrable, genuine desire for employees to take over the business with a view to its long-term sustainability as an employee-owned business. Current thinking is that if the business is sold within 4 years, the seller shareholders will be likely to have the CGT charge that was originally extinguished reinstated.

A concern expressed by some experts in relation to the changes is around ensuring how sellers ensure the company continues to meet the necessary EOT conditions without inadvertently triggering a claw back of the sellers' CGT relief. This existing problem looks to be exacerbated by the extended periods.

A common solution is for sellers to require EOT trustees to provide an indemnity to cover the CGT if the EOT CGT relief is withdrawn. This is likely to become more popular.

Other key changes

1. A Market Valuation must be obtained. This is to be set down in the legislative provisions.
2. Any corporate trustees cannot now be controlled by the sellers of the shares into the EOT.
3. Offshore corporate trustees are no longer permitted.

In the case of 2 and 3 above, it is not clear what transitional provisions will be brought in to cater for scenarios where this is happening (and has been accepted as such by HMRC)

In terms of contributions into the EOT by the company, the usual route for the employer was to obtain a non-statutory clearance prior to payment to ensure that the funds were not taxable on the trustees personally. The legislative provisions were silent on this, so the position was never clear. However, the UK Government has now confirmed that the contributions will be treated as distributions in the first instance unless the contribution being made is for the strict purpose of paying the sellers of the shares for the shares and any associated costs of the share sale plus stamp duty and interest where the payment is deferred.

Consideration vs. Market Value (MV) of the shares

Following the Budget, new legislative provisions require trustees to take reasonable steps to confirm that the consideration paid for the shares is not higher than the MV of those shares. At present it seems the detail of what “reasonable steps” means but it is important that trustees understand what the valuation reports contain and satisfy themselves that they are not unconsciously accruing tax liabilities if the payments are deemed not to qualify for relief.

From 6 April 2024, anyone selling shares into an EOT must now declare the consideration and relevant details (including the number of employees in the company at the date of disposal) on their SA return when making a claim for EOT CGT relief.

EOT Bonus Payments

A PAYE (but not NIC) free bonus worth up to £3,600 per annum can be paid to employees of companies owned by EOTs each year, on the basis that all employees receive the bonus on the same terms (with limited exceptions). From 30 October 2024, the bonuses cannot be paid to Directors.

Legislative Changes

The main Employee Ownership Trust Capital Gains Tax provisions are set out at sections 236H to 236U of the Taxation of Chargeable Gains Act 1992.

Provisions relating to the Income Tax annual bonus relief and other provisions relevant to Employee Ownership Trusts are set out at sections 312A to 312I of the Income Tax (Earnings and Pensions Act) 2003, that is, section 383 of the Income Tax (Trading and Other Income) Act 2005 and sections 464A and 1000 of the Corporation Tax Act 2010.

Provisions relating to the Inheritance Tax treatment of Employee Benefit Trusts and Employee Ownership Trusts are set out at sections 13, 13A 28, 28A, 72, 75 and 86 of the Inheritance Tax Act 1984.

In future, new legislation introduced in Finance Bill 2024-25 will amend sections 236H to 236U of the Taxation of Chargeable Gains Act 1992

Legislation introduced in Finance Bill 2024-25 will amend Chapter 3 of Part 4 of Income Tax (Trading and Other Income) Act 2005. This will serve to introduce a new relief from the Income Tax Distributions regime.

Legislation introduced in Finance Bill 2024-25 will amend section 312C of the Income Tax (Earnings and Pensions Act) 2003 to allow for the exclusions of directors from the ‘participation requirement’ for the purposes of determining whether Income Tax relief is available on annual bonus payments made to employees of Employee Ownership Trust owned companies.

What should ICAS members do?

Ideally ICAS members should review all cases where they have been implementing or discussing potential implementation of an EOT with clients, and ensure any clients are aware of the changes and are in a position to consider their options before proceeding.

Further reading

Changes to the taxation of Employee Ownership Trusts and Employee Benefit Trusts - GOV.UK

Policy paper: Taxation of Employee Ownership Trusts and Employee Benefit Trusts - GOV.UK

Making good use of your spouse

With the odd exception, such as the related property provisions in valuing shares for Inheritance Tax Purposes, the tax system generally favours couples who are married or in a civil partnership.

One consequence of the IHT nil rate band being transferable between a couple is that many wills provide for the entire estate to pass to the surviving spouse on the first death. This will generally defer the incidence of IHT until the second death. Following the budget however, clients who have assets qualifying for Business Property Relief (BPR) or Agricultural Property Relief (APR) may be well advised to review their wills, if the value of BPR or APR qualifying assets exceed £1 million.

If both spouses hold business or agricultural property then, on the first death, £1 million could pass to beneficiaries other than the surviving spouse, with the balance to the spouse. These other beneficiaries will typically be children but could be a trust.

In some cases, a Deed of Variation may be necessary.

Instead of £1 million of BPR or APR being available at 100% on the second death only, because of the spouse exemption applying on the first death, £1 million of relief at 100% may be utilised on both deaths.

Other consequential benefits may flow from this:

- The estate on the second death may fall below £2 million, allowing the IHT residence nil rate band of £175,000 to become available.
- Capital Gains Tax business asset disposal relief could be available to both spouses, on a sale, if both held the requisite interests in trading businesses.

Where shares in a company are to be acquired by a spouse, these should be gifted by the other spouse, rather than by way of subscription for a new issue of shares by the company. This should avoid any liability under the Employment Related Securities legislation as exemption under s421B(3) ITEPA 2003 should be available for a gift by one individual to another in respect of a domestic, family or personal relationship. See also HMRC manuals at ERSM20220 where HMRC say that they'll take a common sense view on the availability of this exemption.

Company size and audit threshold update

Update on changes to the company size thresholds and the audit threshold

The UK government has published The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024.

These regulations are aimed at reducing burdens on small and medium-sized companies. They adjust the monetary size thresholds for micro, small, and medium-sized companies. They also confirm that audit threshold will continue to be coupled with the small company threshold.

Changes to size thresholds and reporting requirements

The regulations, which will apply to financial years beginning on or after 6 April 2025, will:

- Lift the monetary thresholds that determine a company's size and the audit threshold by around 50%.
- Remove several low-value, obsolete or overlapping requirements from the directors' report.

The increases in the company size thresholds and the audit threshold will also apply to Limited Liability Partnerships (LLPs).

Additional measures to remove certain overlapping EU-origin reporting requirements from the Directors' Remuneration Report, as well as to address technical issues in the audit regulatory framework, will be detailed in a separate piece of secondary legislation, planned for early next year.

In total, these changes are estimated by the government to deliver a deregulatory saving of over £240 million per year.

The UK's Modern industrial strategy

In October 2024, several corporate reform announcements, including those set out above, were covered by a written ministerial statement to

Parliament by Jonathan Reynolds, Secretary of State for Business and Trade, on the UK's Modern Industrial Strategy.

Further updates on the Future of corporate reporting

The Department for Business and Trade (DBT) will also undertake a further consultation on the 'Future of corporate reporting', an initiative started by the previous government. This consultation will be launched in 2025, with the ambition of simplifying and modernising non-financial reporting so that it better meets business and investor needs.

To complement the ministerial statement, the UK government published research on the Value of non-financial reporting to investors, highlighting the potential value increases from improved non-financial reporting.

Also in October 2024, the UK government published its response to the consultation Non-financial reporting: simpler corporate reporting, conducted earlier in the year, which proposed:

- An uplift in the medium-sized company employee threshold from up to 250 employees to up to 500.
- An exemption for medium-sized companies from the requirement to produce a strategic report.

The proposals were made by the previous government, and a decision has been taken not to take these measures forward at this time. Any further proposals will be included as part of DBT's broader 'Future of corporate reporting' work.

Existing and revised size thresholds

Details of the existing and revised company and group size thresholds are set out in the tables below.

Existing company and group size thresholds (net)

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

Existing group size thresholds (gross)

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

Revised company and group size thresholds (net)

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

Revised group size thresholds (gross)

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

Charities SORP 2026 and changes to Scottish charity audit threshold

The Charities SORP-making body provided an update in December 2024 for charities and their accountancy advisers on the anticipated timeline for the next edition of the Charities SORP (SORP 2026). In addition, it has published a paper setting out some practical steps charities should be taking now to prepare for the implementation of changes to lease accounting and revenue from contracts with customers arising from the latest Periodic review to FRS 102.

This latest update was published on the homepage of the Charities SORP microsite and later updates are expected to be published here too.

A consultation draft of SORP 2026 is expected in March 2025, with a public consultation period of 12 weeks. The final version should be issued in Autumn 2025. SORP 2026 will apply to accounting periods beginning on or after 1 January 2026, in line with the implementation timetable for the revised edition of FRS 102 (issued in September 2024).

Anticipated changes to the Charities Accounts (Scotland) Regulations 2006

We are aware that the Scottish government plans to update the Charities Accounts (Scotland) Regulations 2006 to require charities to comply with SORP 2026. It is possible that this update to the 2006 Regulations will not permit compliance with the SORP 2026 until periods beginning on or after 1 January 2026. This would mean that early adoption of the Periodic review amendments to FRS 102 and SORP 2026 would not be possible.

This is unlikely to be an issue for most charities, but it does mean that any charity required to adopt the Charities SORP for the first time prior to this date, for example, due to no longer being eligible to prepare receipts and payments accounts, or due to being newly established and meeting the criteria for preparing SORP accounts, will need to comply with the version of the Charities SORP and FRS 102 applicable to periods beginning before 1 January 2026.

It is therefore important that Scottish charities and their advisers look out for any messaging from the Scottish Government or OSCR on this matter.

Scottish government to consult on raising the charity audit threshold

As the 2006 Accounting Regulations are being updated, the Scottish government also intends to take the opportunity to consult on revising the income criterion of the Scottish charity audit threshold during 2025. We envisage that a rise to gross annual income of £1,000,000 or more is the most likely outcome.

At the moment a charity must receive an audit by a registered auditor if in any financial year:

- It has gross income of £500,000 or more, or
- The aggregate value of its assets (before deduction of liabilities) at the end of the financial year exceeds £3,260,000, or
- It is required to do so by the constitution of the charity, any other enactment, or on the instruction of its trustees.

ICAS has been in regular dialogue with the Scottish government about the audit threshold to make the case for an increase. If the case for increasing the audit threshold is accepted by the Scottish government, we anticipate that this will coincide with the implementation of SORP 2026. However, the final outcome is yet to be determined.

Accounts preparation requirements in England and Wales

In England and Wales, the legislative basis for preparing the accounts is more complex, with the Charities (Accounts and Reports) Regulations 2008 applying to the preparation of the group and individual accounts of non-company charities and the group accounts of charitable companies below the Companies Act 2006 threshold for preparing group accounts.

The 2008 Regulations have not been updated since they were first issued meaning that they still refer to the Charities SORP issued in March 2005, which reflects old UK GAAP. We are not aware of any plans to amend the 2008 Regulations, but of course this is possible.

The current stated view of the Charity Commission for England and Wales is that the requirement to prepare accounts that are ‘true and fair’ takes precedence over compliance with the requirement to apply the Charities SORP 2005.

Therefore, we would expect that it will be acceptable for charities in England and Wales to prepare accounts in accordance with the 2008 Regulations where SORP 2026 is applied provided the approach taken is clearly advised in the notes to the accounts.

We recommend that charities follow any guidance issued by the Charity Commission for England and Wales (CCEW) on the adoption of SORP 2026, including whether the early adoption of the Periodic review amendments to FRS 102 and SORP 2026 is permissible for accounts prepared under the 2008 Regulations. This has been possible for previous editions of the Charities SORP issued after 2005.

The 2008 Regulations are now regulations under the Charities Act 2011.

Charitable companies, including charitable parent companies preparing group accounts, should always prepare true and fair accounts under the Companies Act 2006.

New and revised FRS 102 Factsheets

The Financial Reporting has published new and updated FRS 102 Factsheets to accompany the revised edition of FRS 102, effective for reporting periods beginning on or after 1 January 2026.

These should assist accounts preparers and auditors by highlighting certain FRS 102 requirements, but they do not form part of FRS 102. The FRC emphasises in each Factsheet that it should not be relied upon as a definitive statement on the application of the standard nor is it a substitute for reading the detailed requirements of FRS 102.

Nine Factsheets have been published in total, including three brand new Factsheets: 9, 10 and 11.

Factsheets 1 and 2 relating to the previous revision of FRS 102 have been withdrawn.

The full suite of Factsheets and a summary of their content, focusing on revisions relating to the latest Periodic review, are set out below.

Timing of Periodic review amendments and changes to the company size criteria

With the size criteria for UK companies and LLPs set to rise for financial years (reporting periods) beginning on or after 6 April 2025 and the Periodic review amendments applying to periods beginning on or after 1 January 2026, companies and LLPs will wish to consider if and when they may be eligible to take advantage of accounts concessions available as a result of falling into a different size category and which editions of FRS 102 or FRS 105 may apply at that point.

For example, a company which becomes small would be eligible to apply FRS 102, Section 1A rather than full FRS 102 or a small company which meets the criteria for preparing micro-entity accounts may wish to apply FRS 105 rather than FRS 102, Section 1A.

Therefore, the timing of both of these significant developments may mean that for some companies and LLPs, early adoption of one of the revised standards may be a consideration. Of course, full consideration needs to be given to the implications of any such change.

Factsheet 3 – Statement of cash flows

Section 20 of FRS 102 Leases was revised to eliminate the distinction between operating leases and finance leases for lessees, leading to the recognition of more leases on the balance sheet.

Cash flows from operating leases would previously have been included within operating activities, whereas cash flows from finance leases would have related to:

- The payment of interest (classified either as a financing cash flow or an operating cash flow).
- The repayment of capital (classified as a financing cash flow).

Impact of Periodic review changes on accounting for leases

Under the new requirements of Section 20, cash flows from leases where a recognition exemption has been taken are included within operating activities. However, cash flows from leases recognised on the balance sheet relate to payment of interest (classified either as a financing cash flow or an operating cash flow) and repayment of capital (classified as a financing cash flow).

While the changes to Section 20 did not require significant consequential changes to Section 7 of FRS

102 Statement of cash flows, the result is that cash flows for the payment of interest and the repayment of capital will be more prevalent in the statement of cash flows.

Supporting notes

Section 7 requires the preparation of three main supporting notes:

- A breakdown of the components that make up cash and cash equivalents.
- An analysis of changes in net debt.
- Disclosures about supplier finance arrangements.

It is important to note that disclosures about supplier finance arrangements are new disclosures which are required for reporting periods beginning on or after 1 January 2025. No comparative disclosures are required in the first year such disclosures are made.

Exemptions from presenting a statement of cash flows

Factsheet 3 highlights that certain entities applying FRS 102 can take an exemption from presenting a statement of cash flows and related notes:

- An entity that qualifies as small, with reference to the size criteria in the Companies Act 2006, can take an exemption unless an applicable Statement of Recommended Practice (SORP), law or other relevant regulation requires it to present a statement of cash flows.

  For example, the current edition of the Charities SORP (October 2019), requires charities with a gross income of more than £500,000 to prepare a statement of cash flows. The Charities SORP is being updated, and a consultation draft is expected in March 2025, so charities should familiarise themselves with any planned changes to this exemption as may be proposed.

  Also, due to the increase in the size criteria in the Companies Act 2006, for financial years commencing on or after 6 April 2025, some companies may find that they qualify for the statement of cash flows exemption for the first time.
- A qualifying entity, i.e. an entity included in publicly available consolidated financial statements which are intended to give a true and fair view, as set out in the Glossary to FRS 102, is permitted to take an exemption, provided that it complies with certain conditions set out in Section 1 of FRS 102 Scope (paragraph 1.11).
- Mutual life assurance companies, retirement benefit plans, and investment funds meeting certain conditions are permitted to take an exemption.

Factsheet 4 – Financial instruments

Factsheet 4 has been prepared on the basis that the reporting entity has chosen to apply the recognition and measurement requirements of Section 11 of FRS 102 Basic financial instruments, and Section 12 of FRS 102 Other financial instruments issues. This point is emphasised as FRS 102 permits entities to apply the recognition and measurement requirements of either:

- IAS 39 Financial instruments: Recognition and measurement; or
- IFRS 9 Financial instruments.

Impact of the Periodic review amendments on financial instruments

As part of the Periodic review amendments, the option to adopt the recognition and measurement requirements of IAS 39 for the first time has been restricted to situations where it’s necessary to achieve consistency with group financial statements. This restriction is effective from 1 January 2026 (or earlier if an entity early-adopts the Periodic review 2024 amendments). This amendment has been made in preparation for the expected eventual removal of the option to apply IAS 39. For the time being, entities who have adopted the IAS 39 option may continue to apply it.

Leases

While leases are outside the scope of Section 11 of FRS 102, the derecognition and impairment accounting requirements of Section 11 apply to receivables recognised by a lessor, and the derecognition accounting requirements of Section 11 apply to lease liabilities recognised by a lessee.

Factsheet 5 – Property – fair value measurement and company law

Factsheet 5 focuses on how to account for the remeasurement of investment property to fair value under Section 17 of FRS 102 and the remeasurement of property, plant and equipment to fair value under Section 16 of FRS 102. It does not address the basic accounting for these assets.

There are no significant changes to Factsheet 5, although references to the 2017 Triennial review amendments have been removed.

Factsheet 6 – Business combinations

Factsheet 6 has been prepared to provide a high-level overview to entities applying FRS 102 that undertake a business combination for the first time. It's therefore relevant to entities applying Section 19 of FRS 102 on Business combinations and goodwill.

Impact of periodic review amendments clarification on accounting guidance on liabilities

The Periodic review amendments have clarified the accounting guidance on liabilities and contingent liabilities that would be within the scope of Section 21 of FRS 102 Provisions and contingencies if they were incurred separately rather than assumed in a business combination.

In such cases, an acquirer shall apply paragraph 21.6 of FRS 102 to determine whether, at the acquisition date, a present obligation exists as a result of past events for a provision or contingent liability.

Paragraph 21.6 provides guidance on the 'present obligation' criterion which is the first of three criteria which must exist before a provision is recognised. The 'present obligation' criterion is as follows:

"An entity shall recognise a provision only when the entity has an obligation at the reporting date as a result of a past event" (FRS 102.21.4(a)).

The International Accounting Standards Board (IASB) is currently consulting on IAS 37 Provisions, contingent liabilities and contingent assets, and its proposals focus on updating the 'present obligation' criterion to align it with the IFRS – Conceptual framework for financial reporting. Therefore, any amendments to IAS 37 are likely to be considered in a future Periodic review by the FRC.

Factsheet 7 – Transition to FRS 102

Factsheet 7 applies to entities adopting FRS 102 for the first time rather than those solely adopting the latest Periodic review amendments to FRS 102.

Financial instruments

As amended by the Periodic review amendments, Section 11 of FRS 102 Basic financial instruments and Section 12 of FRS 102 Other financial instruments issues offer two accounting policy choices on transition to FRS 102:

- Apply the requirements of Sections 11 and 12 of FRS 102; or
- Apply the recognition and measurement requirements of IFRS 9 Financial Instruments and the presentation and disclosure requirements of Sections 11 and 12 of FRS 102.

Leases

Factsheet 7 includes new commentary on transition to FRS 102 following the adoption of the single lease accounting model, for periods beginning on or after 1 January 2026.

Revenue

Factsheet 7 also includes new commentary on transition to FRS 102 following the adoption of the five-step model for accounting for revenue from contracts with customers, for periods commencing on or after 1 January 2026. The new commentary focuses on the practical expedients that can be applied retrospectively on first time adoption set out in Section 1 of FRS 102 Scope.

Factsheet 8 – Climate-related matters

Factsheet 8 was first published in March 2024 and no changes have been made since it was first published. This Factsheet is not impacted by the Periodic review amendments.

Factsheet 9 – Initial application of Periodic review 2024 amendments

Along with Factsheets 10 and 11, Factsheet 9 is essential reading for anyone looking to understand and implement the Periodic review amendments to FRS 102.

The Factsheet's focus is on transitional matters in relation to the principal changes to FRS 102 on lease accounting and revenue accounting. But there is also commentary on some of the incremental improvements and clarifications introduced as a result of the Periodic review covering:

- The new version of Section 2 of FRC 102 Concepts and pervasive principles, updated to align to the latest international framework.
- The new Section 2A of FRS 102 Fair value measurement (replacing the previous appendix to Section 2 Fair value measurement), which differs from the previous material as it has been aligned to the latest international standard and provides additional guidance.
- New disclosure requirements about supplier finance arrangements added to Section 7 Statement of Cash Flows. These changes are not strictly speaking part of the Periodic review, and they apply, as mentioned previously, to periods beginning on or after 1 January 2025.

- Improvements to Section 19 of FRS 102 Business combinations and goodwill to clarify requirements and add guidance on identifying an acquirer.
- Additional guidance to aid application of the principles in Section 26 of FRS 102 Share-based payment in certain situations.
- Additional guidance on accounting for uncertain tax positions in Section 29 of FRS 102 Income tax.
- Various improvements and clarifications to Section 34 of FRS 102 Specialised activities to clarify existing requirements and make consequential changes to reflect other amendments. These include changes made to the requirements for public benefit entities, particularly in relation to incoming resources from non-exchange transactions.

Factsheet 10 – Revenue from contracts with customers

Section 23 of FRS 102 Revenue from contracts with customers has been rewritten (and renamed) to introduce a structured five-step model to be applied consistently to contracts with similar characteristics and similar circumstances.

The five-step model

Determining how much revenue should be recognised and when, is addressed through the following five steps:

- Step 1 – Identify the contract(s) with a customer.
- Step 2 – Identify the performance obligations in the contract.
- Step 3 – Determine the transaction price.
- Step 4 – Allocate the transaction price to the performance obligations in the contract.
- Step 5 – Recognise revenue when (or as) the entity satisfies a performance obligation.

Illustrative examples

Factsheet 10 provides an overview of the five-step model and key aspects of its application, including several helpful illustrative examples.

Factsheet 11 – Lease accounting for lessees

Section 20 of FRS 102 Leases has also been rewritten as part of the Periodic review.

The distinction between operating leases and finance leases for lessees has been removed, with the result that more leases will now require the recognition of a right-of-use asset and a lease liability on the balance sheet. This method of accounting is very similar to previous finance lease accounting.

The operating lease and finance lease distinction remains in place for lessors. While the lessor requirements have been rewritten, in many cases the accounting will not differ significantly from that under the previous requirements.

Factsheet 11 has been prepared to provide an overview of key aspects of the new lease accounting requirements from the perspective of lessees, covering:

Recognition exemptions:

- Identification of a lease
- Lease term
- Measurement

Illustrative examples dealing with various aspects of lease accounting are included throughout the Factsheet.

In this Factsheet, the FRC explicitly states that the recognition, measurement and presentation requirements of the revised Section 20 are applicable to all entities applying FRS 102, including those within scope of Section 1A Small Entities.

New ways to tackle non-compliance

On Budget Day, the government published the outcome of the 2024 call for evidence on enquiry and assessment powers, penalties and safeguards, including proposals to align powers and safeguards across direct and indirect taxes. This announced that there would be further consultation on three areas:

- Options for new approaches to tackle high volumes of low value non-compliance, including a model to offer taxpayers an opportunity to quickly resolve potential errors identified by HMRC and self-correct their returns.
- Behavioural penalties, including how the concepts of penalty alignment, simplification and escalation can be applied to existing ‘inaccuracy’ and ‘failure to notify’ penalties.
- How to improve access to alternative dispute resolution and statutory review to help resolve disputes before they reach tribunal.

Consultation on new ways to tackle non-compliance

The first of the three further consultations was also published on Budget Day. It explains that in recent years, there has been a significant increase in taxpayers making inaccurate claims for relief or having inaccuracies in their tax returns. This is challenging for HMRC because many of its powers are designed to address inaccuracies through one-to-one engagement with individual taxpayers. These processes can be time consuming, may be disproportionate and are not well suited to addressing issues that affect many taxpayers at the same time.

The consultation set out four proposals:

- Introducing requirements to submit additional information for other tax reliefs and allowances (a requirement to submit additional information with R&D claims has already been introduced).
- Reforming Revenue Correction Notices (RCN): aligning the conditions for issuing RCNs, requiring taxpayers to provide evidence to support a rejection of an RCN and potentially requiring HMRC to explain why they are issuing an RCN.
- Introducing a partial enquiry power to allow an enquiry into a specific issue.
- Introducing a new power for HMRC to require taxpayers to self-correct returns and claims.

The ICAS response

ICAS attended several stakeholder discussions with HMRC and submitted a detailed response to the consultation.

It is disappointing that instead of putting forward proposals for broader reform of the framework for enquiry and assessment powers this consultation continues the trend of introducing piecemeal changes to address problems arising, without fixing the fundamental underlying issues. The focus is solely on non-compliance (particularly of individuals and small businesses), not on improvement, modernisation or simplification of the system which would benefit all taxpayers.

Comprehensive reform should remove, or considerably reduce, the need for constant additions and adjustments to deal with problems, many of which are caused by an out-of-date underlying legislative structure, which is no longer fit for purpose.

Our response calls for the publication of a timetable for the development of (and consultation on) detailed proposal for broader reform of the enquiry and assessment regimes.

The remainder of our response discusses the detailed proposals, from the starting point that that any measures taken should not delay wider reform and should, where possible, use existing processes and powers as the starting point.

On that basis we can see some positive aspects to the proposals for supplying additional information, changes to RCNs and partial enquiry notices, subject to important conditions being met and adequate safeguards being in place. Our response includes suggestions for making these proposals work effectively in practice, without imposing additional unnecessary burdens on agents and taxpayers.

We do not support the proposal for the introduction of a new regime requiring taxpayers to self-correct. This would add a new layer of complexity, would be difficult for unrepresented taxpayers to navigate and would increase costs for compliant taxpayers and their agents.

Simplifying the taxation of offshore interest

ICAS responds to the HMRC consultation on simplifying the taxation of offshore interest

This consultation follows an earlier discussion document published in 2021: Helping taxpayers get offshore tax right. This explored how HMRC could help taxpayers get their offshore tax right. It considered what might be causing common errors and made some initial suggestions for addressing those issues. ICAS responded to the discussion document and supported some of the suggestions, particularly around HMRC sharing the overseas information it receives with agents and taxpayers.

The consultation looks in detail at an important problem area and proposes a possible solution.

Challenges with the current system

In the UK, individuals are currently taxed on their investment income arising in a UK tax year (ending 5 April). However, where the investment income is from a non-UK source the individual will often receive details of income for the calendar year. HMRC also generally receives details of income for the calendar year, through various international information sharing arrangements, such as the Common Reporting Standard (CRS) and the Foreign Account Tax Compliance Act (FATCA).

For taxpayers, this means that they will need to apportion the offshore income to UK tax years, when completing their UK return. For the period 1 January to 5 April, the information they need may only arrive shortly before (or even after) the return is due, so estimates may have to be used initially (and corrected later).

HMRC often finds it difficult to identify whether the taxpayer has accurately declared the income shown in the CRS or FATCA reports it receives, due to the mismatch. Taxpayers may then incur unnecessary costs dealing with HMRC queries, where all the income has been correctly disclosed. Without the problem of mismatches, HMRC might also be able to introduce new ways of helping taxpayers, for example, pre-population of returns, or coding out of offshore income.

Offshore interest is a key problem area, as reflected in the large number of disclosures of unpaid tax received by HMRC that arise from the incorrect treatment of offshore interest.

Possible solution

The consultation set out proposals for changing the rules so that individuals would be taxable on the offshore interest arising in the year ended 31 December, that ends in the tax year. For example, for the tax year ending 5 April 2023 the individual would be taxed on offshore interest arising in the year to 31 December 2022.

ICAS response

ICAS discussed the consultation with HMRC at a stakeholder meeting and submitted a response.

We broadly support the proposals in the consultation to permit the reporting of overseas investment income on the calendar year basis, but we believe this would need to cover other types of income in addition to overseas interest.

We understand that reports from wealth/investment managers, brokers and financial institutions to investors usually include interest, dividends and chargeable gains (or losses). If the rules are only amended to allow interest to be reported on a calendar year basis, this will limit the benefits for many taxpayers. It is also likely to be confusing for unrepresented taxpayers. It would be preferable to consider all types of offshore investment income typically reported together to investors.

There will need to be a transitional year if the new basis is implemented, and we agree with the approach proposed in the consultation. This is the simplest way to achieve the transition and would affect the minimum number of years. There are unlikely to be major changes or variations across this relatively short transitional period.

There would be scope for manipulation and abuse if individuals could switch between the new basis and the old basis from one year to the next. However, some taxpayers might prefer to continue to report using the current basis (ie reporting the income received in the UK tax year), particularly if the proposed new basis only applies to bank interest. This could be addressed by permitting an ‘opt in’ approach to the new basis. Taxpayers would be able to choose whether to opt in, but once they had chosen to do so, it would be irrevocable.

Regardless of whether the proposals in the consultation are implemented, we would like HMRC to share more of the information it receives through international information sharing agreements with taxpayers and agents. We supported this when it was proposed in the 2021 discussion document and welcomed a subsequent pilot, where information was shared with nudge letters. Unhelpfully vague nudge letters only prompt calls to HMRC to request more information and increase costs for taxpayers (often in cases where the returns are correct, but HMRC has been unable to match the data accurately).

Proposed legislation to tackle the threat of ransomware

The UK Government is consulting on proposals to introduce legislation that attempts to address the threat of cybercrime. The aim of the legislation is to reduce payments to criminals by all public sector bodies alongside increasing incident reporting.

The rationale behind the proposals is to make public sector and infrastructure organisations less appealing targets for ransomware attacks. However, these proposals may result in a redirection in criminals' efforts to the private sector including the accountancy profession.

Whilst ICAS supports tackling the increasing ransomware threat to organisations in the UK, any legislation needs to be fit for purpose and not have any unintended consequences impacting other sectors of the economy.

What is ransomware?

Ransomware is malicious software (malware) that infects a victim's computer system. It is a financially motivated crime that is largely committed by cyber criminals based overseas. A ransomware attack can:

- Prevent the victim from accessing IT systems or severely impair their use.
- Facilitate the theft of personal or other sensitive data held on the victim's networked systems of devices.

A ransom is demanded (usually payment of cryptocurrency) from the victim to regain access to the system, for the data to be restored or for confidential data not to be published on websites run by criminals.

The targets of ransomware can range from ordinary individuals using their own personal devices to major companies and public bodies whose entire systems and networks are put under attack.

The Government proposals and objectives

The consultation will consider three main proposals:

1. Targeted ban on ransomware payments for all public sector bodies and critical national infrastructure – expanding the existing ban on ransomware payments by government departments and making the essential services the country relies on the most unattractive targets for ransomware crime.
2. A new ransomware payment prevention regime – increasing the National Crime Agency's awareness of live attacks and criminal ransom demands, providing victims with advice and guidance before they decide how to respond, and enabling payments to known criminal groups and sanctioned entities to be blocked.
3. A mandatory reporting regime for ransomware incidents – bringing ransomware out of the shadows and maximising the intelligence used by UK law enforcement agencies to warn of emerging ransomware threats and target their investigations on the most prolific and damaging organised ransomware groups.

The legislation is intended to meet three main objectives:

- to reduce the amount of money flowing to ransomware criminals from the UK, thereby deterring criminals from attacking UK organisations
- to increase the ability of operational agencies to disrupt and investigate ransomware actors by increasing our intelligence around the ransomware payment landscape.
- to enhance the government's understanding of the threats in this area to inform future interventions, including through cooperation at international level.

Potential impact on the accountancy profession

The professional services sector is high-risk when it comes to cyber security. Criminals have found a variety of methods to be particularly profitable in a profession where data protection and client confidentiality are crucial. Failing to protect your firm and your clients may result in a breach of your legal and regulatory obligations, substantial fines in addition to business disruption and reputational damage.

The proposals should therefore be a reminder that prevention of a cyber breach in the first place is crucial.

Lindsay Hill, Chief Executive of Mitigo, ICAS' cybersecurity partner, said

"These proposals are a well intentioned attempt to tackle the rising frequency, cost and disruption to organisations of all shapes and sizes across the UK as a result of ransomware attacks by organised criminals, many of which are based in Russia. They follow on from the Government's draft Code of Practice on cyber security governance.

'However, a number of points should be born in mind.

'The proposal for a complete ban on the public sector and critical national infrastructure paying ransom demands, intended to deter these types of attacks against them, may result in the redirection of attacks against businesses in the private sector, with accountancy firms being a prime target.

'Although the headlines in the press feature the high profile attacks against public bodies, the reality is that the overwhelming majority of ransomware attacks are against businesses in the private sector.

'The proposals in relation to the private sector would make it mandatory to report ransomware incidents to the authorities, and also to notify an intention to pay the ransom before actually doing so. Law enforcement would then review the proposed payment to see if there is a reason to block it, for example if it breached sanctions. This would create an additional burden on the victim firm, on top of the stress of negotiating with the criminals over payment and trying to limit the damage and disruption to its business and client affairs.

'And what if the payment is blocked? It could be the difference between the firm surviving or not. Firms decide to pay ransom demands because commercially they feel forced to. Losing all client data and access to systems could leave the firm permanently crippled.

'The prevention of a payment will not itself prevent criminal gangs from capitalising on data theft, for example by selling it on to facilitate other serious crime, such as card not present fraud, identity theft, breaking passwords or user names to get into bank accounts etc.

'Also bear in mind that these proposals relate to ransomware attacks. Cyber crime and cyber disruption involve a much fuller range of attacks which these proposals do not touch. For accountancy firms, the most common form of attack is email account takeover, where the criminal gains access to the firm's email, frequently resulting in data and financial loss.

'The bottom line is that firms should prioritise prevention of a cyber breach in the first place. Cyber risk management should be right at the top of any firm's risk register and a board level responsibility."

The consultation can be accessed via GOV.UK and will close at 5pm on 8 April 2025.

Key changes in cyber essentials requirements for 2025

Written by Lugo, ICAS Evolve Partner

Navigating the future of cyber security

In today's rapidly evolving digital landscape, keeping up with cyber security standards is essential to protecting sensitive data and ensuring business continuity. The Cyber Essentials and Cyber Essentials Plus schemes, backed by the UK government, provide a clear framework to help organisations enhance their cyber security.

Cyber Essentials requirements are updated regularly, with the previous version, published in April 2023, and the latest, coming into effect on 24th April 2025. These updates ensure the scheme remains relevant in addressing new cyber threats and adapting to technological advancements. As the standard is reviewed annually, this update highlights the evolving landscape of cyber security and the importance of staying compliant to protect sensitive data and maintain client trust.

'Cyber Essentials: Requirements for IT Infrastructure Version 3.2' (CEv3.2) introduces updates aimed at addressing modern threats and work environments. Here's an overview of the changes and practical steps for preparing your firm.

Key Updates in Cyber Essentials Version 3.2

1. Modern work environments

To reflect today's varied work settings, 'Home Working' has been expanded to 'Home and Remote Working'. This update acknowledges work taking place in public spaces or coworking hubs, ensuring security measures apply to all scenarios.

2. Passwordless authentication

Passwords have long been a vulnerability in cyber security. The new guidance highlights the shift to passwordless authentication methods such as biometrics (e.g., fingerprints), physical security keys, one-time codes, and push notifications. These methods reduce risks associated with stolen or weak passwords while improving user convenience.

3. Expanded vulnerability management

The term 'patches and updates' has been broadened to include 'vulnerability fixes'. This change recognises additional methods for addressing security issues, such as registry adjustments, configuration changes, and scripts provided by vendors.

4. Refinements in Cyber Essentials Plus

Cyber Essentials Plus introduces stricter requirements to improve assessment consistency. Key updates include:

- Scope alignment: the scope defined during self-assessment must now match the Plus assessment scope.
- Partial assessments: assessors must verify proper segregation for subsets of an organisation's IT infrastructure.
- Device sampling: assessors will confirm that device samples align with guidelines for thorough testing.
- Evidence retention: certification bodies must keep evidence supporting assessments for the validity period of the certificate.

How to prepare in 6 key steps

Adapting to these changes requires a proactive approach. Here are six key steps:

1. Review policies and procedures

Review and update your policies to align with the latest requirements, focusing on areas like remote working and passwordless authentication. For example, ensure your remote working policy requires the use of up-to-date devices and introduce passwordless methods like fingerprint or facial recognition for secure access.

2. Train your people

Ensure your team understand the new standards. Training should include vulnerability management techniques and the use of advanced authentication methods. Implementing regular, engaging training sessions helps maintain a high level of awareness and better equips individuals to respond to evolving cyber threats.

3. Implement passwordless authentication

Start moving away from traditional passwords by using passwordless methods, such as fingerprints or facial recognition. For example, business-grade laptops like Dell Latitude 5550 models include fingerprint readers that allow your computer to recognise your fingerprints as a password. Similarly, Windows Hello facial recognition can add another layer of security.

However, simply adopting these technologies isn't enough without the right policies in place. Conditional access policies, which allow users to log in only on approved, secure corporate devices, are a critical part of the zero-trust architecture approach. This ensures that only compliant devices meeting your organisation's security standards can access sensitive systems and data.

Without taking steps like these, you risk leaving gaps in your defences that could expose your organisation to cyber threats. Educating your team on these risks is key to staying ahead in today's evolving cyber security landscape.

4. Broaden vulnerability management

Incorporate a wider range of fixes, including vendor-provided scripts and configuration changes, to address vulnerabilities. Regularly restarting your computer can help ensure that updates and fixes are fully applied, as some updates only take effect after a reboot. It's not a direct fix for vulnerabilities, but it supports the process by allowing changes, such as software updates or configuration tweaks, to properly install and take effect. Restarting also helps clear temporary files and can improve your computer's performance and stability.

5. Prepare for cyber essentials plus

Get ready for Cyber Essentials Plus by checking that what you included in your initial self-assessment matches what will be checked during the Plus certification process. Make sure you have clear processes in place to separate parts of your IT system where needed and to select devices for testing in a way that meets the certification rules.

6. Keep comprehensive records

Document all cyber security measures and retain evidence for the certificate's duration to streamline the verification process. Keep clear records of all your cyber security measures, such as software updates, staff training, and steps taken to fix vulnerabilities. This documentation is essential for maintaining your Cyber Essentials certification and showing your commitment to security.

Partnering with an IT managed service and security provider like Lugo can simplify this process, as every change is tracked and recorded, ensuring your organisation stays compliant and prepared for verification checks.

Benefits of adherence

By implementing these updates, organisations can stay ahead of evolving threats while demonstrating their commitment to security. For accountants who handle sensitive financial data, compliance with Cyber Essentials not only ensures protection against cyber attacks but also reassures clients and stakeholders.

Additionally, many cyber insurance policies now require organisations to be Cyber Essentials certified, which could influence premiums and coverage. You can verify certifications through this website.

Final thoughts

The changes introduced in CEv3.2 reflect a forward-looking approach to cyber security, addressing both technical and practical challenges. By embracing these updates and preparing strategically, organisations can strengthen their defences, safeguard data, and build client trust.

Whether you're renewing your Cyber Essentials Certification or going through the process for the first time, detailed guidance on preparing for Cyber Essentials certification in 2025, can be found on Lugo' website.

If you have any questions, please email cyber@LugoIT.co.uk or call 03300 242 242 and Lugo will be happy to assist

Events & webinars

In person event

Embracing AI in the Workplace: the next step forward

Date: Wednesday 26 February

Time: 10:00 – 16:00 GMT

Location: Abertay cyberQuarter, Dundee

Artificial Intelligence (AI) is no longer a futuristic concept; it is a present-day reality reshaping workplaces globally. According to Microsoft's 2024 Work Trend Index, AI adoption has surged, with 80% of employees within SMEs using BYOAI (Bring your own AI). This increases the threat that shadow IT can bring to your sensitive data. Shadow IT is when employees use unauthorised technology posing several threats to your firm's security and resources.

This rapid uptake is driven by AI's ability to save time, enhance creativity, and allow employees to focus on their most critical work.

However, the journey from AI experimentation to full-scale business transformation is challenging. Many leaders recognise AI's potential but struggle with implementing it effectively to drive growth and manage costs.

This is where events like the upcoming AI and Cyber Security Strategies with Microsoft Copilot come into play.

Hosted by Lugo, this CyberScotland Week event offers a unique opportunity to delve into the practical applications of AI and cyber security. Attendees will gain insights from industry experts on building resilient cyber strategies and leveraging AI to enhance productivity and security.

Jeremy Clarke CA, ICAS Assistant Director of Practice will speak about understanding the evolving threat landscape for Accountancy Firms in Scotland and the potential of AI for practice efficiency and client management. There will be practical demonstrations of Microsoft 365 Copilot, and discussions on how AI can transform business operations. This is an invaluable chance for decision-makers within firms to understand how harnessing the power of AI will help you to stay competitive and secure in an increasingly digital world

Don't miss out on this opportunity to future-proof your firm. Places are limited so register here and take the next step in your firm's AI journey.

Webinar

CyberScotland Week: Understanding responsibility for cyber security governance

Date: Tuesday 25 February

Time: 14:00 – 15:00 GMT

Location: Online

Key themes and topics:

- Cyber security governance
- Risk management
- Incident planning & response
- Assurance & oversight

As part of CyberScotland week we hear from ICAS cyber security partner, Mitigo, who will help you to understand the liability issues in the context of regulation and enforcement.

The webinar will consider the UK governments proposed cyber governance code of practice, regulatory considerations and key factors taken into consideration by the ICO for non-compliance.

The session will also allow senior leaders to understand the role they need to play in their company's cyber security strategy.

There will be the opportunity to ask questions which will be answered by the speakers at the end of the webinar.

Sign up here.

HMRC and Companies House updates

Classification for double cab pickups (DCPUs)

Following the government's Autumn Budget 2024 announcements, HMRC has published new guidance regarding a change in the interpretation of how double-cab pickup (DCPU) vehicles should be classified for car benefit, capital allowances and some deductions from business profits purposes.

The current treatment of DCPU vehicles as outlined in Employment Income Manual EIM23150 was adopted from 2002 and is based on payload. This finely balanced test is inconsistent with the Court of Appeal's decision in Payne and Ors (Coca-Cola) v R and C Commrs (2020) (BTC19) which established that a narrow margin of suitability is not sufficient to determine that a vehicle is primarily suited for a particular purpose, and that in cases where a vehicle cannot clearly be identified as being predominantly suited for carrying goods the default should be that the vehicles are cars.

New guidance for car benefits, part of the Employment Income Tax Manual EIM23151, explains that from 6 April 2025, HMRC will no longer be applying this payload test to determine whether a DCPU is primarily suited for the conveyance of goods or burden. From that date, a vehicle must be assessed as a whole at the point that it is made available to determine whether the vehicle construction has a primary suitability. The guidance also provides information on the transitional arrangements for DCPUs leased, purchased or ordered before 6 April 2025.

New guidance is available on GOV.UK for capital allowances CA23511. This explains the change in treatment for expenditure incurred on or after 1 April 2025 for Corporation Tax and 6 April 2025 for Income Tax. It also includes transitional arrangements in place for contracts entered into before 1 April 2025 and 6 April 2025 relating to expenditure incurred before 1 October 2025.

Follow updated guidance on deductions from business profits and cash basis expenses BIM70035.

Making Tax Digital for Income Tax - events

HMRC is hosting a series of Making Tax Digital (MTD) for Income Tax events at HMRC offices across the UK this year. The sessions will help you prepare for when MTD for Income Tax becomes a legal requirement in April 2026.

By attending these MTD events, you will:

- Learn more about taking part in the testing phase and the additional support you will get.
- Receive hands-on guidance to sign up for testing.
- Understand which clients will fall under MTD for Income Tax.
- Gain clarity on MTD obligations and compatible software.
- Discuss managing clients using the Agent Services Account.
- Have the opportunity to ask HMRC your MTD-related questions.

Registration is now open for the following events, which will each take place from 11am to 3pm:

- Monday 24 February 2025 — Leeds
- Tuesday 4 March 2025 — Belfast
- Thursday 27 March 2025 — Edinburgh

Spaces are limited, so if you are interested in attending, email mailboxmakingtaxdigital@hmrc.gov.uk and tell them which event you would like to attend. By emailing HMRC, you consent to being contacted before, during, and after the event.

Making Tax Digital for Income Tax – agent toolkit

To help agents and clients prepare for Making Tax Digital (MTD) for Income Tax, HMRC have published a new MTD toolkit for agents. This includes:

- An overview of what is changing, who is affected and how to prepare
- Links to MTD for Income Tax guidance
- Frequently asked questions and answers
- Communication resources such as an agent checklist, videos and printable posters

From 6 April 2026, sole traders and landlords with gross income (before expenses and tax are deducted) from self-employment and property over £50,000 will need to keep digital records and send quarterly updates to HMRC, using compatible software. Those with a gross income from these sources over £30,000 will need to do this from 6 April 2027.

Editorial Board

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