Technical Bulletin

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Contents

Furnished holiday lettings changes – latest developments

Since the spring Budget announcement of the proposed abolition of the furnished holiday lettings (FHL) rules, many of our members have raised concerns with us about the impact of the changes and the absence of any transitional rules. This was particularly the case on the application of the anti-forestalling rule for capital gains tax, which will take effect from 6 March 2024.

Further details were announced alongside the first speech by the new Chancellor, Rachel Reeves, to parliament on 29 July 2024. This included a policy paper and draft legislation on how the FHL rules will be abolished.

What's changing in the draft legislation?

Taxpayers owning properties that meet the FHL criteria have historically been able to qualify for additional tax advantages over other rented properties. This includes the ability to claim capital allowances on furniture and equipment additions, a reduced capital gains tax rate of 10% where business asset disposal relief (BADR) is available, as well as the ability to claim business asset rollover relief or holdover relief. FHL properties were unaffected by the restriction on the tax deduction available for finance costs, plus FHL profits were treated as earnings for pension purposes.

Loss of trade benefits

The references to FHL being a trade will be removed in the tax legislation. Section 127 ITA 2007 (UK properties) and Section 127ZA ITA 2007 (EEA properties) will be updated from 6 April 2025 and Section 65 CTA 2010 (UK properties) and Section 67A CTA 2010 (EEA properties) will be updated for accounting periods beginning on or after 1 April 2025.

Changes to relevant UK earnings for pension purposes

Section 189 Finance Act 2004 will also be changed to remove the references to FHL properties in the UK and European Economic Area from the definition of relevant UK earnings for pension purposes.

Changes to previous exclusions given to FHL properties

The Income Tax (Trading and Other Income) Act 2005 will also be updated to ensure that FHL properties are no longer excluded from the restriction on finance costs, from claiming replacement of domestic items relief and from claiming a tax deduction on energy-saving item expenditure. Similar provisions to the income tax changes will apply when it comes to ensuring that FHL properties owned by companies are excluded from the restrictions on claiming replacement of domestic items relief or a tax deduction on energy-saving item expenditure.

Removal of ability to claim capital allowances

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 won't 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. This is a particularly welcome development, as our members raised concerns about the potential imposition of a balance charge based on the market value of the asset in April 2025. Only expenditure from April 2025 onwards will be treated under the property business rules that already applied to non-FHL properties.

Capital gains tax changes

In a welcome clarification, the main capital gains tax changes will now take effect from 6 April 2025.

For BADR purposes, if the FHL conditions are satisfied in respect of a business that ceased before 6 April 2025, relief may still be available on a disposal within the normal three-year period for cessation. This will be relevant for properties owned by individuals who cease their FHL business, as well as the disposal of shares in companies carrying out a FHL business (subject to other criteria).

Where a FHL property has been gifted, the reference to Section 241(3) TCGA 1992 has been removed from Section 165A TCGA 1992 for holdover relief purposes. This means that the gift of a FHL property by an individual will be subject to capital gains tax going forward. To avoid capital gains tax being payable on gifts in future years, consideration of the use of a trust as an intermediary (and claiming holdover relief under Section 260 TCGA 1992 instead) would be a possibility - although there are much wider considerations to be explored before entering into a trust.

A FHL property owned by an individual or company will be treated as a qualifying asset for rollover relief under Section 152 TCGA 1992 before 6 April 2025 (individuals) or 1 April 2025 (companies).

In respect of all the capital gains tax changes, the timing of transactions is vitally important. If a transaction happens on or after 6 April 2025 (individuals) or 1 April 2025 (companies), this will either mean that capital gains tax is payable or that an existing capital gains tax liability increases due to BADR not being available.

Where arrangements have been made to create a tax advantage through securing FHL capital gains relief, there are anti-forestalling rules which apply in respect of transactions on or after 6 March 2024 to prevent relief being available. However, it is pleasing to see that these rules shouldn't apply to genuine commercial transactions or transactions that aren't between connected parties (provided that the contract was entered into for commercial reasons). This should give those FHL owners who are carrying out routine transactions the comfort and clarity that wasn't provided at the spring Budget.

Loss relief

At present, FHL losses can only be offset against future profits from the same FHL business (UK FHL businesses being treated separately from overseas FHL businesses). From 6 April 2025 (income tax) and 1 April 2025 (corporation tax), FHL losses will be amalgamated with regular property losses. This means that, going forward, losses will be categorised between UK property losses and overseas property losses. In some cases, this may enable relief to be given against other property income when it wouldn't have been previously.

Areas included in the ICAS response to the technical consultation on the proposed changes

In our response to the HMRC consultation, we drew attention to how the proposed changes to the definition of 'relevant earnings' for pension purposes in Section 189 Finance Act 2004 would impact taxpayers who operate a furnished holiday lettings portfolio as a full-time occupation, in comparison with the less onerous time commitment associated with a portfolio of properties let out for longer-term rental. We explained how this would limit their personal contributions to the £3,600 'basic amount' under Section 190 Finance Act 2004, a threshold which hasn't increased since the legislation was introduced.

We highlighted how the exclusion of FHL income from the definition of relevant earnings would create a distinction between those who operate a FHL business as an individual, compared to operating through a company. A director/shareholder of a company carrying out a FHL business would have relevant earnings from any employment income they receive from the company. The company could also make employer pension contributions without any net relevant earnings being necessary to match against the pension contributions being made.

We described how a taxpayer is currently able to pay Class 2 National Insurance contributions when they run a FHL business but don't have any other sources of employment or self-employment income. If FHL will no longer be classed as a trade from April 2025, this may impact their ability to maintain their National Insurance contributions record in a cost-effective manner.

We also noted how removing exception for FHLs from the rules in Section 272B ITTOIA 2005 (restricting the tax deductibility of finance costs on dwelling-related loans to the UK basic rate) would create a 'cliff edge'. We suggested that the changes be phased in as per the original rules, over four tax years.

Areas where ICAS believes additional clarity would be helpful

Most of the areas of continued uncertainty are in respect of capital gains tax. Whilst we welcomed the confirmation that genuine commercial transactions during the 2024/25 tax year should be unaffected by the anti-forestalling rule (particularly where these are between unconnected third parties), we think HMRC needs to publish more details about how the mechanics of making a claim where the anti-forestalling rule doesn't apply will operate in practice.

We feel there needs to be guidance on the evidence required to support any claim that the anti-forestalling rule doesn't apply, and on what constitutes a genuine commercial reason. At our recent webinar, our members flagged a situation where a FHL business may no longer be commercially viable due to the proposed changes (for instance, due to the change in tax relief available for finance costs). It's unclear whether HMRC would accept that such a scenario would be caught by the anti-forestalling rule for transactions, i.e. where the taxpayer has decided to sell a property that is no longer commercially viable as a FHL but would have continued as a FHL if the tax rules hadn't changed.

HMRC has confirmed that FHL businesses that cease before 5 April 2025 should still qualify for BADR for the usual three years post cessation, subject to meeting the qualifying criteria and the taxpayer not having already used their lifetime limit. However, the legislation doesn't currently make clear whether the abolition of the FHL rules will itself be treated as a deemed cessation of a trade for the purpose of BADR. We also feel that it's important for HMRC to confirm that any transactions before budget day on 30 October 2024 would be unaffected by any potential changes to the scope or application of BADR announced in the forthcoming budget.

We have also commented on the need for HMRC to confirm the treatment of existing provisional claims to rollover relief. For example, a taxpayer may have sold a FHL property in a previous tax year and made a claim for provisional rollover relief in anticipation of purchasing a further property to be used in a FHL business. Similarly, we received feedback that our members would appreciate confirmation that gains previously held over on FHL properties gifted or transferred at under value will not be subject to a claw back of relief received before the rules are changed.

Form 17 – a particular Scottish dimension

Anecdotal feedback from our members suggests that couples who own FHL properties are more likely to allocate the profits from that business in a ratio other than 50:50, compared with longer term lettings. Removal of the exception will withdraw the current flexibility of FHL owners to split profits unequally, regardless of the ownership. For instance, where one spouse or civil partner may give up their full-time employment to run the business but would be unable to receive a greater proportion of the profits in future tax years, despite devoting a more significant time commitment than the other spouse or civil partner.

The removal of the exception for FHLs in Section 836 ITA 2007 will therefore have an impact on jointly owned property owned by couples who are married or in a civil partnership and don't wish for profits/losses to be shared 50:50. Given the proximity of the proposed changes taking effect, we feel that the government should give consideration to extending the time period under which an election can be made under Section 837 ITA 2007. This extension would be particularly relevant in the context of those taxpayers who will be required to complete Form 17 as a result of the proposed changes to the FHL rules.

We also drew attention to the application of the term ‘beneficial interest’ throughout the different UK jurisdictions. Feedback from our members has highlighted that under Scottish law this is a term not applicable in Scotland in the same way as elsewhere in the UK. We highlighted how this has already presented some practical challenges for longer term rented properties where Form 17 is appropriate. Including FHL properties in the rules will increase the number of Scottish taxpayers who may be affected.

Finally, we suggested that HMRC look into the different legal definitions across the UK and issue some guidance. Alternatively, a simpler solution may be to remove the requirement to complete Form 17 for couples who are married and in a civil partnership to align the treatment with unmarried couples owning rental properties in similar circumstances.

We await further developments and anticipate that the government will publish further details in the Budget on 30 October.

Watch the recording – Tax changes to furnished holiday lettings: what you need to know

To find our more on the issues you need to be aware of on the abolition of the FHL rules – rewatch this webinar from 27 August, including session slides and Q&A responses to the many questions asked during the live session.

VAT on private school fees

ICAS responds to the technical consultation on applying VAT to private school fees

The King’s Speech on 17 July included the expected confirmation that the government will impose VAT on private school fees. Subsequently, on 29 July, a technical consultation was published giving details of how the policy will be implemented.

Broad outline of the new rules

From 1 January 2025, the fees charged for all education services and vocational training provided by a private school (or a ‘connected person’), will be subject to VAT at the standard rate of 20%, as will any fees for closely related boarding services. The provision of other services closely related to education, such as school meals, transport, and books and stationery will remain exempt from VAT, but the consultation makes clear that HMRC will challenge any schools that try to use ‘value shifting’ (i.e. artificially assigning greater value to the exempt fees, rather than education and boarding fees) to avoid VAT.

Nurseries (both standalone nurseries and those attached to a private school) will remain exempt from VAT, as will non-maintained special schools (approved under section 342 of the Education Act 1996).

The five consultation questions dealt with the definitions of ‘private schools’ and ‘connected persons’ set out in the draft legislation (also published on 29 July), and whether the proposed approach would achieve the intended policy aims (outlined in the first chapter of the consultation) across all four UK nations.

There is a more detailed article about the technical consultation on the ICAS website.

The ICAS response

We did not have any detailed comments on the five specific consultation questions. Instead, our response concentrated on queries and practical issues raised with us relating to implementation and the application of the VAT rules.

The consultation (and the related Revenue and Customs Brief) included a welcome commitment that HMRC will produce bespoke guidance. This is a significant change to the VAT system, affecting one sector. We understand that there will be little experience or knowledge of VAT in many schools because of the current exemption from VAT – although some will have had trading subsidiaries registered for VAT.

Suggestions for guidance

We identified several areas where it would be helpful for HMRC to provide tailored guidance:

- Operation of the Capital Goods Scheme.

- Closely related services.
- Partial exemption.
- Bursaries, discounted fees, and other forms of support with fees (provided by schools themselves or by others).

Practical issues

We also welcomed the commitment to ensuring a smooth registration process for schools from 30 October. However, HMRC service levels are already the key concern raised with us by members, so we stressed the need for HMRC to be given adequate resources to enable it to cope with the increased volume of registrations. This is vital to avoid a negative impact on schools trying to register – or on other taxpayers, if resources had to be diverted from other services.

We also commented that it would be useful for HMRC to email private schools with details of (and links to) any bespoke guidance it publishes, as well as any existing guidance that would be relevant and helpful.

Elective Deduction Model – what you need to know

Written by Meredith McCammond, Low Incomes Reform Group (LIRG)

The Elective Deduction Model or EDM (also known as the hybrid model) is a particular model of engagement aimed at low paid agency workers in the temporary labour market. It exploits the fault line between employment law status and tax law status and creates a situation where a worker is treated as self-employed for employment law purposes and employed for tax law purposes.

To give effect to this, workers will probably be engaged on 'contract for services' terms with some kind of 'opt in' to PAYE. While it is technically possible to have a different employment status for tax law and employment law, we know the law looks behind labels and paperwork to the facts of the arrangement.

Genuinely self-employed people do not have many employment law rights and protections. But in reality, it would be extremely unlikely for an agency worker to be genuinely self-employed for employment law purposes, as no matter what their contract says or which way you dress it up, they are working for someone else and not in business on their own account. This is, therefore, arguably an example of bogus self-employment – it denies workers employment law rights and protections they are entitled to, to save the engager concerned money.

Indeed, depending which way you look at it, they are being incorrectly denied holiday pay - or they are being underpaid the NMW. These 'savings' are then used to prop up supply chains in job driven markets (basically where there are more candidates than jobs). These are markets where end clients have leverage and where there is simply not enough money flowing through the supply chain to allow everyone involved to cover costs and make their margin.

In a recent blog on the LITRG website, I explain more about the model, how prevalent it is (based on insight shared with us by payroll auditing software provider and umbrella company certifier SafeRec,) and set out what I think HMRC – yes HMRC (even though it is not a prima facie tax issue!) - should do about it. We strongly recommend that HMRC respond soon, before the problem grows even more - which it may well do given the recent Low Pay Commission announcement on how they will respond to their new remit.

Let LIRG know your views

Meredith would love to hear your views on this subject. Have you come across EDM in your work? Are you aware of any other risk factors? Are there any other possible actions that could be taken against EDM? Are you aware of any other concerning models of engagement in the temporary labour market?

Please get in touch at mmccammond@litrg.org.uk

Adrian Chiles loses IR35 case

The latest television presenter's case relating to IR35 reached a conclusion in the Upper Tribunal (UT), when a decision was issued on 7 June 2024. The case in question is between Basic Broadcasting Ltd, a personal service company owned by Adrian Chiles, and HMRC. It concerns whether the work carried out by Mr Chiles over a five-year period under two ITV and three BBC contracts (as well as some other work elsewhere) was within the boundaries of the intermediaries legislation provisions at Chapter 8 of ITEPA 2003.

Somewhat frustratingly, the UT didn't feel able to decide the case as part of its judgment, but instead, passed it back to the First Tier Tribunal (FTT). This gives the FTT the opportunity to reconsider its original decision, which the UT deemed to err in law when considering to what extent Mr Chiles had been working independently of his various engagers. Assuming the FTT's final decision aligns with the UT, Mr Chiles faces a tax and NICs bill of around £1.7m.

Methodology

The Court of Appeal decision in the 2022 Kickabout case sets out the requirement to apply the 'three stage' process to the hypothetical contract between the worker and engager when determining if a contact of employment exists. It's vital that agents understand this process if they are to successfully defend clients against HMRC.

First, determine the actual contractual arrangements between the parties (these may be different to those on paper);

Second, determine the actual terms of the hypothetical (constructed by the court) contract between the parties, based on the fact pattern;

Third, determine what the hypothetical contract tell us. Is the individual working under an employment contract, or a contract for services (self-employed)?

Back to Ready Mixed Concrete, Atholl House and PGMOL

Upon reaching the third stage, the judiciary must turn back to the Ready Mixed Concrete case to look at the three-stage test in that case. This test is the accepted method of working out whether mutuality of obligation exists, how much control there was and how extensively the individual could be said to be in business "of their own account". These two latter principles are now largely governed by the approach taken in the Atholl House case, while the long-awaited Supreme Court decision in the case of Professional Game Match Officials Ltd (PGMOL) holds up other decisions about exactly to decipher whether Mutuality of Obligation (a difficult concept for many taxpayers and agents to understand), is in play. Hopefully the decision, once issued, will not be vague on this and will assist tax advisers and HMRC in a clearer way forward.

The human cost

It is evident that Mr Chiles has suffered a great deal of stress over the years that this case has been ongoing. The UT clearly recognised this in their decision: "…Presented with this moving target, taxpayers and their advisers must nevertheless grapple with whether the legislation applies to any particular engagement, and the courts and tribunals must do the same. However, it should not be forgotten that behind every personal service company is a person, and, as we have seen in this case, the uncertainty and financial exposures generated by the difficulty in establishing a clear and stable legal position continue to produce a very real human cost."

Conclusion

It's becoming increasingly clear that the issue of employment status needs to be revisited, and that the large volume of case law on the subject is doing nothing to simplify the process of deciding whether a person is employed or self-employed for tax purposes. It seems now may be the right time to put matters on a statutory footing and start again.

ICAS is working with other professional and representative bodies to try and effect this change. It is not going to be a quick or an easy process, but it's definitely time to start searching for the right answers to this long-standing, complex issue.

A construction industry scheme – a material decision

Unless a subcontractor has gross payment status, a contractor must deduct tax from all payments made to the subcontractor, with the exception of the cost of the following (this is provided for in section 61 (1) FA 2004):

1. Materials
2. Consumable stores
3. Fuel other than fuel used for travelling
4. Plant hire
5. Cost of manufacture or prefabrication of materials

The contractor should ask the subcontractor for evidence of the cost of materials. If the subcontractor does not provide this information, then the contractor must make a fair estimate of the actual cost. In any event, the contractor should always check that the materials element of a payment is not overstated as HMRC may otherwise seek any under deduction from the contractor.

The cost of the materials must be those directly incurred by the subcontractor and not include the cost of materials incurred in the costs of any subcontractor whose services have been used by the subcontractor.

Regulation 9 of SI 2005/2045 allows HMRC to direct that a contractor is not liable to pay an under deduction arising from the amount deducted exceeding the actual cost, where one of the two conditions below are met:

- Condition A is met where the contractor took reasonable care to comply with the CIS rules and the failure to deduct was due to an error made in good faith or arose from a genuine belief that the deduction was correct.
- Condition B is met where HMRC are satisfied that the subcontractor was not chargeable to income tax or corporation tax in respect of the payments, or has made income tax or corporation tax returns, which include the payments, and has paid the tax. The contractor should request HMRC to make a direction.

As well as ensuring the gross payment status of subcontractors, a contractor also needs to ensure that subcontractors, who are not able to be paid gross, are not inflating the actual cost of materials. HMRC have powers to collect any under deduction from the contractor.

Many contracts provide for stage payments to be made to subcontractors. Where materials are required early in the contract, stage payments may substantially consist of the materials element while later stage payments may include little by way of materials.

FRC issues revised editions of UK and Ireland accounting standards

The Financial Reporting Council (FRC) has issued revised editions of UK and Ireland financial reporting standards.

These encompass all amendments issued to date, including the Periodic review 2024 amendments. For further details on the key changes following the Periodic review 2024, the FRC previously produced a summary podcast, webinar recording and overview document for stakeholders.

The documents issued are:

- Overview of the financial reporting framework
- FRS 100 Application of financial reporting requirements
- FRS 101 Reduced disclosure framework
- FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland
- FRS 103 Insurance contracts
- Implementation guidance to accompany FRS 103 Insurance contracts
- FRS 104 Interim reporting

- FRS 105 The Financial Reporting Standard applicable to the Micro-entities regime

The revised edition of the 'Overview of the financial reporting framework' reflects developments in accounting standards, legislation and regulation. The Foreword to accounting standards is unchanged.

The editions issued in September 2024 incorporate the following amendments made since the last editions were issued:

- Amendments to basis for conclusions FRS 101 Reduced disclosure framework – 2021/22 cycle issued in May 2022.
- Amendments to Basis for conclusions FRS 101 Reduced disclosure framework – 2022/23 cycle issued in May 2023.
- Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 101 Reduced disclosure framework – International tax reform – Pillar Two model rules issued in July 2023.
- Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic review 2024 issued in March 2024.
- Amendments to FRS 101 Reduced disclosure framework – 2023/24 cycle issued in August 2024.
- Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime – Irish company size thresholds', which reflect changes in Irish company law and were issued in August 2024.
- Editorial corrections.

Some previously issued amendments are not mandatory until future reporting periods. Earlier editions, and separate details of each amendment, continue to be available on the FRC's website. Editorial corrections are not intended to change requirements but may improve readability or update external references.

In addition to the September 2024 editions of UK and Ireland accounting standards, the FRC will also be publishing updated staff factsheets to support preparers implementing the Periodic review amendments.

Find out more - webinar

Watch the recording of our 5 September webinar the 'Periodic review amendments to UK GAAP: What do these mean for me?'.

The webinar was hosted by James Barbour CA our Director, Policy Leadership joined by the FRC's Jenny Carter, Director, Accounting and Reporting Policy, and Stephen Maloney, Senior Project Director.

Amendments to FRS 101 Reduced Disclosure Framework

FRS 101 *Reduced Disclosure Framework* sets out the disclosure exemptions available to qualifying entities for their individual financial statements.

A qualifying entity is a member of a group (a subsidiary, including an intermediate parent, and an ultimate parent):

- That otherwise applies the recognition, measurement and disclosure requirements of UK adopted International Financial Report Standards (IFRS Accounting Standards);
- Where the parent of that group prepares publicly available consolidated financial statements which are intended to give a trues and fair view (of the assets, liabilities, financial position and profit or loss); and
- That member is included in the consolidated accounts of its parent.

FRS 101 cannot be applied in the preparation of consolidated financial statements.

Following its 2023/24 annual review cycle, the Financial Reporting Council (FRC) has published minor amendments to FRS 101.

These amendments:

- Provide a disclosure exemption from presenting certain comparative information about right-of-use assets.
- Accommodate a conditional exemption for qualifying entities in respect of certain disclosures about supplier finance arrangements required by IAS 7 Statement of cash flows.

Amendments have also been made to Appendix II of FRS 101 'Note on legal requirements' for consistency with IAS 1 Presentation of financial statements.

The Basis for Conclusions has amended to reflect the decisions taken about these amendments and to reflect the current adoption and endorsement status of publications by the International Accounting Standards Board.

The exemptions provided by these amendments are available from whenever the relevant IFRS Accounting Standard is applied.

Supplier finance arrangements

FRS 102 has been amended to introduce new disclosure requirements to be made alongside the statement of cash flows in relation to supplier finance arrangements. The amendments have been made to reflect changes to IFRS accounting standards.

Disclosures to be made about supplier finance arrangements include:

- The terms and conditions of supplier finance arrangements; and
- The carrying amounts and associated line items presented in the balance sheet of the financial liabilities that are part of supplier finance arrangements at the beginning and end of the reporting period, including the carrying amounts, and associated line items, for which suppliers have already received payment from the finance providers.

Comparative information does not need to be provided in the first year of making these disclosures.

These amendments were published alongside the periodic review amendments in March 2024 but must be implemented earlier than the periodic review amendments. The disclosures apply to periods beginning on or after 1 January 2025, with early adoption permitted.

For the avoidance of doubt, entities preparing their accounts under FRS 102 that do not prepare a statement of cash flows are not required to make these disclosures.

Implications for charities currently preparing a statement of cash flows

Charities with supplier finance arrangements preparing a statement of cash flows will also need to comply with these new disclosure requirements for periods commencing on or after 1 January 2025.

Under the Charities SORP (FRS 102) (second edition – October 2019), charities with an income of £500,000 or more are required to prepare a statement of cash flows.

The Charities SORP (FRS 102) will be revised to reflect these new disclosure requirements as well as the periodic review amendments. However, charities must comply with the latest version of FRS 102 applicable to the reporting period, even if the Charities SORP has not been updated.

But it's a complex password!

Written by Mitigo, ICAS Evolve Partner

A task we regularly perform when doing a penetration test is a password audit. For this we extract the password hashes (essentially an irreversibly obfuscated version of the password) from your Domain Controller and, using nothing more complex than brute-force password guessing, try and obtain as many plaintext passwords as we can. (Into the technical details for a moment here: as the password hash is irreversibly obfuscated what we do is take a candidate password and generate its hash, then compare that against the list of hashes we extracted. If we get a match, we know the candidate password was correct.)

On an average engagement this will yield about 30-35% of the passwords in the domain. And we didn't even have to try that hard.

But we've enabled the password complexity settings for our systems!

Sorry, that's not always going to help. Mostly because people are predictable.

In our experience, if you tell people they need to have a symbol in their password, a reasonable number just add "!" to the end (go on, admit it, we won't tell anyone!). Or, if you make people add a number, they'll either add a 4-digit number (often the current year, or the birth year of their first child, or the last time their favourite sports team won a trophy!) or do something like replacing an "e" with a 3 or "s" with a 5.

But guess what? We know that's what people do, so we do it too.

When we're generating our big list of candidate passwords, we'll apply a set of manipulation rules. These will add an "!" to the end of every password, add all the numbers between 0 and 9999, replace "e" with 3 and "s" with 5 (and "s" with "$" - don't think you're getting away with that one!) and hundreds of other changes based on what we expect people to do. Of course, this gives us a huge list of candidate passwords, but we don't mind that, because we can hash our candidates and compare them against the list of extracted passwords at the rate of 50 *trillion* password guesses per hour using our hash-cracking server. So, whilst you’re watching EastEnders, we’ve stolen access to about a third of your user accounts.

So, where do the candidate password lists come from?

Usually, we'll create a candidate password list by combining two sources - firstly a database of passwords that have been leaked in previous password breaches. There are many such lists readily available online and they'll feature the common words people like to base passwords on (names, sports teams, variants of "password" and "secure" and "letmein", the text you get from drawing a pattern on the keyboard etc.).

Secondly, we'll generate a password list based on what we know about you as a company - what your main services are, where your offices are located, the names of the key staff (you'd be surprised how many people use their password to make a comment about their boss!) On average this will give us a list of between 25 trillion and 50 trillion passwords. Are you 100% confident your password isn't on that list?

OK, so what should we do?

The UK National Cyber Security Centre have some advice on this; they suggest training your staff to create passwords based on three randomly chosen unrelated words - this will make the password relatively long and also, if you've really picked the words randomly, unlikely to be in any breach databases.

And we'd agree with that, but we'd take it even further - take your three random words and then do something random to them: deliberately mis-spell something, add a random character or two, throw in a word from another language, choose a non-dictionary word (obscure place names are often good, just maybe don't choose Llanfairpwllgwyngyllgogerychwyrndrobwllllantysiliogogogoch in Wales or you'll still be trying to login at lunchtime!) Be unpredictable.

To make sure your users are following the advice you give them, we would also recommend running password audits regularly, and contacting users whose passwords you can guess. These are relatively easy to do internally or, of course, we'd be happy to run one for you.

And finally, consider asking your IT team to integrate weak password checks into your systems - these can be used to stop users from picking predictable passwords in the first place.

Let's try and drive that average guess rate down.

Mitigo - Evolve partner

ICAS have partnered with Mitigo to offer cybersecurity management services with exclusive discounts for Evolve members.

To book a free no-obligation consultation or for more information, visit the Mitigo website, or you can contact them on 0131 564 3131 or email icas@mitigogroup.com

HMRC and Companies House updates

Reminder: important change to how you should notify HMRC of changes to VAT details from 5 August 2024

In the past, if you needed to notify HMRC of changes to VAT details you could usually do this either online, or by using the paper VAT 484 form. Changes that could be reported using the form include business contact details, bank details and VAT return dates.

Earlier this year HMRC became aware of a small number of cases where the paper VAT 484 had been used in fraudulent attempts to access businesses' VAT repayments.

From 5 August 2024, as part of wider measures to address this fraud, use of the VAT 484 paper form has been restricted to those who are digitally excluded and anyone HMRC instructs to use the form for a specific reason.

Key points:

- For agents, from 5 August, requests to change clients' VAT registration details should be made using the Agent Services Account, not by using the VAT484 form or any other postal or electronic means. However, agents should note that changes to bank account details and client email addresses can only be made by the client (the registered person).
- For customers, from 5 August, any request to change VAT registration details should be made using the VAT online account, not by using the VAT484 form or any other postal or electronic means.
- Digitally excluded customers will still be able to use a VAT 484 form sent by post to change their details. It will also be possible to use the VAT 484, for example, when notifying HMRC of taking over someone else's VAT responsibilities. However, customers need to contact HMRC to request a form.

Guidance on GOV.UK was updated in August to reflect the changes: Change your VAT registration details.

P1000 – dealing with estate when someone dies

HMRC has now published form P1000 on GOV.UK. This form allows personal representatives of a deceased person's estate to proactively engage with HMRC to tell us their details and also details of any agents. HMRC's Bereavement team will contact the person(s) noted on the P1000 form in dealing with the tax affairs of an individual up to the date of death, and for Income Tax and capital gains of 'informal' administration periods.

Form P1000 this does not replace any other means of notifying HMRC, in particular for Inheritance Tax or any 'agent handshakes' required by online services.

If the personal representative cannot use the form, they should usually receive a letter within 40 days of using the Tell Us Once service.

Otherwise, they should call the Bereavement Helpline and clearly say they want the Bereavement Helpline.

Agents should use this helpline for deceased estates in preference to the Agent Dedicated Line (ADL) to speak to the right advisers first time.

Changes to Corporation Tax reminders, statements and receipts

HMRC will stop sending some paper non-statutory Corporation Tax letters where customers can access the information in their HMRC online accounts or GOV.UK guidance. Agents can access the information in HMRC's Corporation Tax for Agents online service.

The Corporation Tax process is not changing. This is part of HMRC's wider drive to help the environment and bring down costs by reducing its use of paper to communicate with customers.

From September the following Corporation Tax letters will no longer be issued:

- CT205/A return reminder
- CT608 instalment payment reminder
- CT207 interest statement
- CT209 payment receipt

From October HMRC will also stop sending the CT603A agent list of issued notices to deliver Company Tax return. They will also trial not sending CT208 reminders before they are stopped permanently (CT208 PR1, CT208 PR2 and CT208A PR2).

ICAS Regulatory Updates

ICAS issues report on 2023 regulatory functions

The Regulation Board has released the 2023 Regulatory Functions report, highlighting key achievements in authorisations, monitoring and enforcement. Explore the exciting new initiatives which are underway to improve our regulatory functions in the future.

Do you need a practising certificate?

ICAS introduced updated guidance on 1 September 2024 to clarify who needs a practising certificate ('PC').

ICAS Rules & Regulations require members to hold a PC if they satisfy one of two conditions:

1. They are being paid to provide accountant or related services to someone other than their employer
2. They are a principal (partner, director etc.) in a firm providing accountancy or related services (or are being held out as a principal).

While it is usually straightforward to identify whether a PC is required, there are grey areas where the requirements may not be clear.

To help understand these requirements and find out what's changed, read the guidance to make sure you're compliant.

Council approves changes to PII regulations

ICAS has updated our Professional Indemnity Insurance Regulations from 1 September 2024.

ICAS members with practising certificates must hold professional indemnity ('PI') insurance which satisfies the terms of ICAS' PII Regulations. Learn how these changes impact you and your firm.

Comprehensive review of charity regulations needed

Discover why ICAS believes that a future review of Scottish charity regulation should be both comprehensive and forward-looking in our response to the Scottish Government's recent consultation.

ICAS Cares – new vision for charity that supports CAs in need

SCABA, the charity that supports CAs in times of need has had a refresh. The name and look may be new, but their purpose remains as relevant as it has been for the past 100 years.

Find out more about how they have helped ICAS members, students and their families to overcome life's many challenges.

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