

# TAX BRIEFING SUMMER 2024



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## CASH BASIS BY DEFAULT

**From 6 April 2024 the cash basis has replaced accruals as the default method for preparing sole trader and partnership accounts for tax purposes.**

Previously, only unincorporated businesses with total receipts below £150,000 were entitled to opt out of accruals and file their accounts with HMRC using the cash basis. That restriction has now been lifted so that the cash basis is available to unincorporated businesses of any size and they now need to opt out of the cash basis if they want to continue filing using accruals.

The accruals basis will remain the most appropriate method for most businesses. Those choosing to continue to file their accounts in this way need to opt out of the cash basis for 2024-25 and this preference will be automatically carried forwards for future years.

Some businesses may benefit from the simplicity of filing accounts under the cash basis as this will remove the need to calculate and post accruals adjustments. This could reduce the quarterly

reporting burden when making tax digital for income tax is mandated.

Switching to the cash basis may also present tax planning opportunities for some businesses, for example tweaking the timing of certain receipts or payments to keep taxable profits within a particular tax band each year. The potential tax benefits of these should be balanced against other business needs.

**Switching to the cash basis may present tax planning opportunities**

Where a business that was reporting under the accruals basis does not opt out of the cash basis, adjustments will be required for the tax year 2024-25 to ensure income and expenses are not double counted.

We can help you decide whether switching to the cash basis or sticking with accruals is the best option for your business.

## BASIS PERIOD REFORM: ADDITIONAL PROFITS

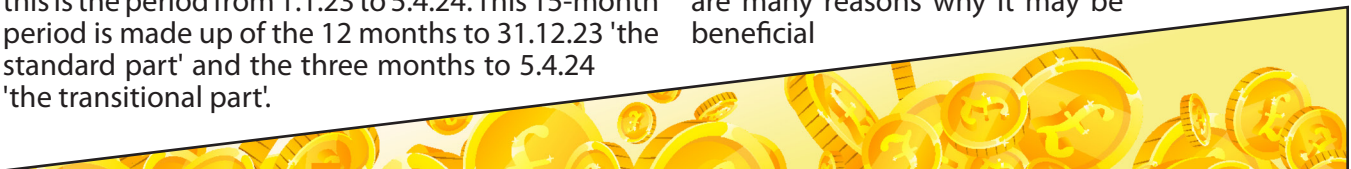
**From 6 April 2024 all unincorporated businesses (sole traders and partners in a partnership) are required to report profits or losses in line with the tax year.**

Businesses with an accounting period end other than 5 April or 31 March will need to report pro-rated results from two accounting periods for tax purposes, unless the accounting period is changed to align with the tax year.

For the 2023-24 tax year, dubbed the 'transitional year' by HMRC, businesses must report their profits from the start of the accounting period ending in 2023-24 to 5 April 2024. For a 31 December year end this is the period from 1.1.23 to 5.4.24. This 15-month period is made up of the 12 months to 31.12.23 'the standard part' and the three months to 5.4.24 'the transitional part'.

As this will result in extra taxable profits for many businesses, HMRC is allowing the profits from the 'transitional part' to be spread over five tax years. Any unused overlap profits can be deducted from the transitional part.

By default, transitional profits will be spread evenly over the five years to 2027-28. It is also possible to accelerate the recognition of these, by bringing more of the extra profits into earlier tax years. There are many reasons why it may be beneficial





to recognise more than the minimum amount of transitional profits in a particular year.

For example a sole trader whose business is growing might decide to recognise more of their transitional profits in 2023-24 and 2024-25, while ensuring they stay under the higher rate threshold. This would leave less extra profit to be recognised in 2025-26 onwards when the business is expected to make higher profits and potentially taxed at a higher rate. Contact us to discuss whether your business could benefit from this.

Where overlap profits exceed transitional profits, resulting in a loss, this is not spread over five years. Instead it is deducted from the profit or loss in the standard part in 2023-24.

Where a business chooses to change its year end to align with the tax year end, it will still be possible to spread any transitional profits over five years.

We have been preparing for basis period reform for several years and can help you manage the transition.

## MAJOR R&D SCHEME OVERHAUL

**A new merged research and development (R&D) scheme has come into effect for periods beginning on or after 1 April 2024.**

The new scheme unifies the old R&D expenditure credit (RDEC) for large companies and the small and medium entity (SME) relief schemes.

In line with the RDEC, the merged scheme offers a taxable credit of 20% of qualifying R&D expenditure. This is a net benefit of 15% of qualifying expenditure for claimants paying the 25% main rate of corporation tax, or 16.2% for companies paying the 19% small companies rate and loss-making companies.

Under the previous RDEC scheme, services contracted out to another individual or company did not attract relief except in very limited circumstances. Under the new scheme the approach to subcontracting is more generous, closer to the previous SME relief rules.

### Enhanced R&D intensive support (ERIS)

A separate more generous regime is available for loss-making 'R&D intensive' SMEs. To qualify for the

ERIS an SME must have a trading loss before R&D expenditure and qualifying R&D expenditure must be 30% or more of its total expenditure (reduced from 40% from 1 April 2024).

The existing subsidised expenditure rules for SMEs have been removed so expenditure will now qualify for the relief even if the R&D project is subsidised. This is good news for innovative start-up companies and claimants in industries where grant funding is common.

Third parties can no longer be nominated to receive R&D tax credits on behalf of claimant companies for claims submitted after 31 March 2024.

These changes are likely to have a significant impact on most if not all businesses involved in R&D. Contact us to discuss what this might mean for your business.

## CONSIDER RESTARTING CHILD BENEFIT

**The clawback threshold for the high-income child benefit charge (HICBC) was increased to £60,000 from 6 April 2024.**

If you are entitled to child benefit and your or your higher-earning partner's adjusted net income (ANI) is above £60,000 it is possible that you will have chosen not to receive your child benefit payments as the full amount would previously have been clawed back via the HICBC.

**Taxpayers whose ANI is between £60,000 and £80,000 should consider re-starting child benefit payments**

has been increased from £50,000 to £60,000. The rate of the charge has been reduced so that 1% of child benefit is repayable for every £200 of ANI over the threshold (previously 1% per every £100). This means child benefit is paid back in full when ANI reaches £80,000 (previously £60,000).

As announced in Spring Budget 2024, the point at which that charge kicks in





Taxpayers who have chosen not to sign up for child benefits, or opted out of receiving the payments, whose ANI is between £60,000 and £80,000 should consider restarting, or signing up for, child benefit payments.

Where the higher earning parent or guardian has adjusted net income above £80,000 there will be no benefit to receiving payments. However it is often advisable to sign up for child benefit and opt out of payments as this will protect your entitlement to state benefits.

Where the higher earner's ANI is between £50,000 and £60,000 they will now keep 100% of their child benefit and are no longer required to deal with the HICBC. Individuals with ANI between £60,000 and £80,000 who decide to opt back into receiving (or sign up for) child benefit will need to notify HMRC of their liability to the HICBC via self assessment.

If your or your partner's adjusted net income is between £60,000 and £80,000 contact us to discuss the most efficient next steps for you.

## COMMUTING COSTS GUIDANCE UPDATED

**H**MRC has updated its guidance to clarify the tax position of reimbursed travel costs for hybrid workers.

As many employees are now working from home at least part of the time, some employers are offering to repay certain travel expenses. HMRC's updated guidance includes new examples to illustrate when those costs are deductible and when they are not.

Reimbursed travel expenses can be deducted if the employee is obliged to incur and pay them and the expenses are attributable to the employee's necessary attendance at any place in the performance of the duties of the employment.

**T** **Travel to work on office days will still be regarded as normal commuting**

workplace; or a place that is not a workplace and a permanent workplace. Introducing a hybrid working arrangement may result in a change to an employee's permanent workplace for tax purposes.

This is not necessarily the case and where employees are still required to spend some days in the office the permanent workplace is unlikely to change to the home. Travel to work on office days will still be regarded as normal commuting with any reimbursed costs subject to tax and NIC.

This does not apply where the expenses are incurred in ordinary commuting, defined as travel between the employee's home and a permanent

workplace. Where there is no longer an office to travel to or the employee is 100% home-based the home may be treated as the permanent workplace.

## VOLUNTARY CLASS 2 NIC WRONGLY REFUNDED

**I**f you made voluntary Class 2 national insurance contributions (NIC) for the 2022-23 tax year, check whether this payment has been refunded in error by HMRC.

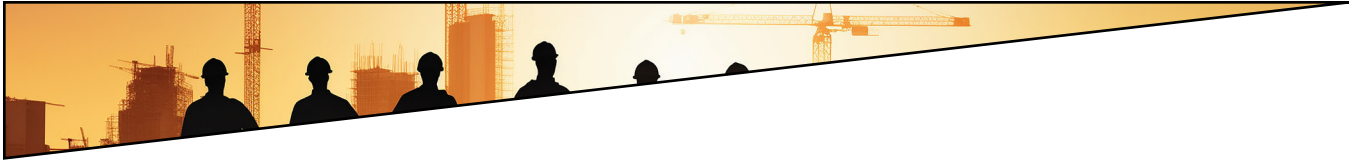
Some self-employed taxpayers who made voluntary Class 2 payments by 31 January 2024 may have an unexpected gap in their national insurance (NI) record due to an HMRC processing error. This is important as it may reduce the individual's entitlement to certain contributory benefits such as the state pension, maternity allowance and employment support allowance.

The HMRC process that moves these voluntary payments from the self assessment computers to the taxpayer's NI record was run late following the 31 January 2024 deadline, resulting in the Class 2 payment being rejected and subsequently refunded by HMRC.

The requirement to make voluntary contributions was changed from 6 April 2024. For the tax year 2022-23, self-employed individuals with profits below the small profits threshold of £6,725 could make voluntary payments of Class 2 NIC to secure their entitlement to contributory benefits.

To reinstate the payment and ensure the 2022-23 tax year is counted towards your qualifying contribution years you will need to phone the NI contributions office, obtain a payment reference and make a special payment. We can help you with this.





## NEW VAT COMPLIANCE TEST FOR CIS

**H**MRC has issued guidance on various changes to the existing construction industry scheme (CIS) rules.

If you are a sub-contractor, obtaining gross payment status (GPS) allows you to receive full payments from your customers without tax deducted. To achieve GPS you need to prove that you or your business:

- have filed and paid taxes on time in the previous twelve months (the compliance test);
- fall under the CIS regime and have a bank account (the business test); and
- have net construction turnover for the past twelve months of at least £30k.

From 6 April 2024 new and existing GPS applicants will also need to meet a VAT compliance test. To pass this test contractors will need to prove that they have filed all VAT returns and paid their VAT on time for the previous twelve months.

The new test offers some flexibility for late VAT returns and payments. Contractors can submit

**If you are aware of potential issues with your VAT compliance in the last twelve months, contact us**

up to three late VAT returns as long as they are no more than 28 days late. Payment can be made up to fourteen days late but only where the VAT liability is less than £100.

If you are aware of potential issues with your VAT compliance in the last twelve months, contact us without delay and we can help you to remedy these before HMRC withdraws your GPS status.

HMRC verifies GPS holders' compliance history on a twelve-month basis. The guidance indicates that the first review for new applicants will be brought forward to six months after the application, reverting to twelve months thereafter.

If you regularly engage the same suppliers or contractors you should re-verify their GPS on the HMRC website with these changes in mind.

## REPORTING RULES FOR DIGITAL PLATFORMS

**F**rom 1 January 2024 online platforms such as websites, online marketplaces and apps that allow individuals and businesses to sell items and services are required to collect and report seller information and income to HMRC.

If you sell items through eBay, Etsy, Facebook or another online marketplace, or rent out your property using Airbnb, Vrbo, Booking.com or a similar platform, HMRC will cross-reference the data it receives with other records it holds to ensure you are reporting your income accurately.

Freelancers who operate through an online platform such as Deliveroo or Uber will also come under the reporting requirements.

Websites and digital platforms must report information about sellers to HMRC including:

- name;
- address;
- date of birth;
- taxpayer identification number;
- earnings from selling via the platform;

- fees paid to the platform;
- business registration numbers;
- where property has been rented out, the address of the property; and
- bank account details for the accounts the income was paid into.

The first reporting deadline for these digital platforms is 31 January 2025. They will be required to keep a copy of any data that they send to HMRC about you and provide this information to you.

The new reporting requirements have been brought in to help sellers get their tax right and to enable HMRC to detect and tackle non-compliance. They do not change the tax rules for online selling.