Fairhurst
Accounting for your potential

Newsletter

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Identity verification rolls out

All company directors and people with significant control (PSCs) of companies will soon have to verify their identity with Companies House. You can now do so voluntarily if you want to prepare for the change.

Early participants will be able to identify any difficulties with their data and have plenty of time to deal with them. From autumn 2025, only company officers who have verified will be able to file a company confirmation statement and certain other documents.

Preventing illegal activity

The new requirement is designed to deter people who wish to use companies for illegal purposes and to improve the accuracy and transparency of the information held by Companies House. From autumn 2025, all company directors and PSCs will have to verify their identity on appointment or incorporation.

> *From autumn 2025, all company directors and PSCs will have to verify their identity on appointment or incorporation. Exisiting directors and PSCs will then have a year to comply.*

Existing directors and PSCs will then have a year to comply with the new rules. Continuing as a director or PSC without verifying will become an offence and a director may be disqualified.

To verify your identity directly you must first set up a GOV.UK One Login. This is a new form of access to government services and is not the same as a Government Gateway account or a Companies House webcheck login. At the moment, it only has a few uses, but in future it will let you access all services on GOV.UK. Typically, you will need a biometric passport or UK driving licence and a mobile phone to scan your face. However, you can also verify in person at a post office and there are some other alternatives.

Another method is to use an authorised corporate service provider (ACSP), also known as a Companies House authorised agent. These are usually accountants or solicitors who must themselves be registered with Companies House for this purpose. You will then need to provide the agent with suitable identity documents.

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TAX

Start-ups seed funding grows

The amount that companies raised under the seed enterprise investment scheme (SEIS) increased by over 50% to £242 million for 2023/24, with the number of investors also increasing by nearly 2,000 to just over 10,000.

The company's perspective

Under the SEIS, start-ups can secure £250,000 of share capital funding to help them grow. A number of trades are excluded, but there is still plenty of scope for investment with music, production and app development popular.

Employees cannot invest in their employer company, but directors might be able to do so if they do not have a substantial interest in the company; although it's unlikely that directors of a family-owned company will qualify.

It's very important that investors appreciate the high risk of a SEIS investment. The tax reliefs will not be sufficient compensation if the SEIS company fails completely.

The investor's perspective

The annual investment limit for investors is £200,000, although half of investors claiming relief only invest £10,000 or less. The risk can be mitigated somewhat by investing through a fund or portfolio.

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- For most taxpayers, the main attraction of SEIS investment is the 50% income tax relief. Should the current year's tax liability be insufficient, some (or even all) of the relief can be carried back to the previous tax year.
- The ability to carry back relief means an investment made by 5 April 2026 can be used to reduce the investor's tax liability for 2024/25.

Another advantage for some investors is that 50% of the SEIS investment can be set against chargeable gains made during the tax year, saving capital gains tax (CGT). Given a CGT higher rate of 24%, this means potentially another 12% of tax relief, making 62% of relief in total.

Exit strategy

SEIS shares have no recognised market, but disposals are not subject to CGT, offering the potential for tax-free growth.

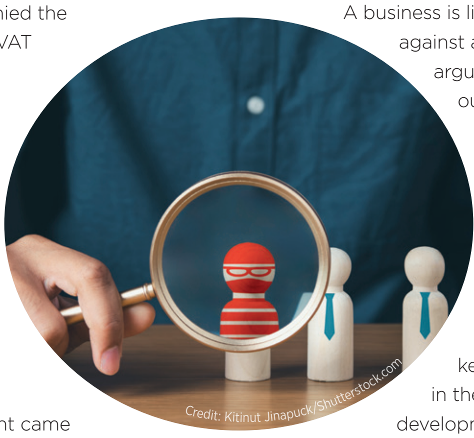
If the SEIS investment becomes worthless, the resulting capital loss (reduced by the 50% income tax relief) can be deducted when calculating the investor's taxable income. So, in theory, the maximum net loss can be less than a fifth of the amount invested.

TAX

Navigating VAT issues

You would never commit VAT fraud, right? But your business could suffer because of the fraudulent actions of others.

A business can be denied the right to deduct input VAT on its purchases, or even deregistered, if it knew or should have known that those transactions were connected with the fraudulent evasion of VAT.



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Fraud connections

The question of precisely whose knowledge was in point came up in a recent case that went to the First-tier Tax Tribunal (FTT). One of the company's salesmen had knowingly bought and sold goods from businesses connected to VAT fraud. Although he was neither a director nor an employee, the FTT said his knowledge could be attributed to the company because he was acting as its agent.

Another company lost its appeal against HMRC's decision to deregister it because, although it had not itself fraudulently evaded VAT, the company should have known that its suppliers were connected to VAT fraud.

A business is likely to have a defence against a 'should have known' argument if it has carried out reasonable checks to establish the credibility and legitimacy of its customers and suppliers.

New rules on virtual services

Traders must also keep up with changes in the rules. One recent development concerns virtual services supplied to private individuals in the EU, such as remote training, entertainment and conferences. The EU changed its place of supply rules on 1 January 2025 so that VAT is no longer due where the supplier is based but in the member state in which the customer receives the service. The supplier therefore has to establish where the customer is and account for the VAT due in that state.

However, the UK VAT rules have not changed, so UK businesses supplying virtual services to the EU also have to account for UK VAT on the same transactions – facing double taxation.

TAX

Late payment interest hits new high

A record amount of late payment interest was paid to HMRC during 2024, with the total of £409 million more than triple what it was three years ago.

The interest rate charged by HMRC was 2.6% at the beginning of 2022, but increased to an average of 7.6% for 2024. The late payment interest rate is currently a punitive 8.25%.

Address funding difficulties

With the cost for late payment so high, it makes sense to use savings to pay off overdue tax liabilities. Simply burying your head in the sand on the issue will just see the debt spiral. You should therefore engage with HMRC and try to agree a payment arrangement, even though this will not prevent interest being charged.

Consider setting up a budget payment plan with HMRC to make weekly or monthly payments towards the next self-assessment tax bill.

PENSIONS

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Pension schemes shake-up on the horizon

The Pension Schemes Bill now making its way through Parliament will bring the biggest pension reforms since auto-enrolment and pensions freedoms. Its core aim is to achieve higher returns for savers and greater investment in the British economy.

The Bill's progress follows publication of the final report of the year-long Pensions Investment Review, which identified fragmentation of the pensions market as a major barrier to efficient investment.

The plan is for multi-employer defined contribution schemes, or 'master trusts', to achieve at least £25 billion of assets under management by 2030, a size identified as necessary for greater efficiency, as well as to enable fund managers to draw on greater expertise and diversify investments. Only three of the current 33 master trusts are currently operating at that size. Schemes that think they can meet that target must have a business plan to achieve that scale. Those unlikely to get to that size will have to consolidate and it is envisaged that the number of master trusts will fall to below ten.

Value for money

An important element of the Bill is its value-for-money framework. Money purchase occupational schemes will have to publish more data, such as: performance assessments, quality of service provided to members, classes of assets invested in, investment performance, costs incurred and charges on members or employers.

Trustees or pension scheme managers will have to give a value-for-money rating of 'fully delivering', 'intermediate' or 'not delivering'. Anyone receiving an intermediate or not delivering rating will have to prepare an action plan for improving the scheme's performance, send it to the Pensions Regulator and inform participating employers of the rating. They will also be prevented from bringing new employers into their scheme.

If the Pensions Regulator considers that an under-delivering scheme cannot improve sufficiently, members' accrued rights may have to be transferred to another scheme. Much of the detail will come in regulations after Parliament has passed the Bill.

The many single-employer schemes are expected to transfer members into the master trusts because they will not want to take on the new burdens of the value for money framework. Very small pension pots – £1,000 or less – will have to be transferred to consolidator schemes.

> *Multi-employer defined contribution schemes, or 'master trusts' must achieve at least £25 billion of assets under management by 2030.*

Defined benefit schemes will have more flexibility to release surpluses, collectively worth £160 billion, to support employers' investment plans and benefit scheme members.

Reliable pension benefit requirement

Another significant area that the Bill addresses is how members withdraw their benefits on retirement. Trustees or managers will have to make available one or more default pension benefit solutions to provide members with regular income for life. At present if a member reaching retirement wants to go into pension drawdown, they have to find that solution themselves and are exposed to the risk of picking a poor product. The default product is likely to be a combination of drawdown first, followed after some years by an annuity.

Alongside the Bill the government has published a roadmap setting out a timeline for implementation of reforms over the next five years. Once this is under way, Phase Two of the Pensions Review will focus on the adequacy of retirement incomes and inequalities within the pensions system. Although automatic enrolment has resulted in most working people saving for their retirement, millions are under-saving.

TAX

Dividends data change for directors

For self-assessment tax returns from 2025/26 onwards, directors of close companies will be required to split out the amount of dividend income received from their companies.

In very broad terms, a close company is one that is under the control of its directors or five or fewer shareholders. Most owner-managed companies are therefore close companies.

Reporting

Currently, a director only has to report a total dividend income figure on their tax return, so HMRC is not able to distinguish between dividends a director receives from their own company and dividends from other sources. With dividends separated out, HMRC will be able to see the total remuneration package received by an owner-manager, helping them to focus their compliance activities.

Disclosure

The existing voluntary tax return question asking whether an individual is a director of a close company will be made mandatory. In addition, directors of close companies will need to disclose:

- the name of the company and its registration number;
- the percentage shareholding in the company; and
- the amount of dividend income received from the company for the tax year.

In regard to the percentage shareholding, this will be the highest percentage held during the tax year. For some directors, providing this information will not be straightforward – for example, where a company has different classes of shares.

The government estimates that the dividend data change will impact around 900,000 directors.

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PLANNING

Winter fuel payments return

Pensioners in England and Wales with taxable income of £35,000 or less will now receive the winter fuel payment of £200. Making some small changes may mean you become eligible.

The winter fuel payment will be paid to all pensioners this November or December, but the two million pensioners with income over £35,000 will have the payment automatically recovered via PAYE or self-assessment.

Planning

The relevant income is that for the current 2025/26 tax year, so any planning to keep income within the £35,000 threshold needs to start straight away. Many pensioners will, of course, have a relatively fixed amount of income so planning is not an option.

- Those taking pension drawdown are probably in the best position to manage income. Even if income is well over the threshold, planning across tax years might be possible.
- More pensioners are now generating self-employment income beyond retirement age; there may also be scope here for planning.

A single pensioner with pension income of £30,000 and self-employed income of £5,250, could buy a new phone, tablet or printer costing £250 – effectively for free; the tax saving will be £50 (£250 at 20%), plus the £200 payment will be retained.

If savings income will take a pensioner just over the threshold, maybe savings could be transferred to a partner or invested in an ISA instead.

Those who do not wish to receive the winter fuel payment can opt out by contacting the Winter Fuel Payment Centre before 15 September 2025.

Couples and older pensioners

Each partner in a pensioner couple usually shares the payment, both receiving £100. The £35,000 threshold is applied individually, so a couple with income of £70,000 and £30,000 respectively will still receive one £100 payment.

A higher winter fuel payment of £300 is paid if a household includes a pensioner aged 80 or over.

TAX

Tax freedom day gets later

Did you know you that for 2025, you only started earning your own income on 12 June? Until that 'tax freedom day' the average taxpayer essentially worked the previous 162 days for HMRC.

Although based on average figures, tax freedom day provides a good indication of how the overall tax burden is increasing. Tax freedom day is now more than three weeks later than before the pandemic, and it's possible that by 2030 it could fall more than half way through the year.

The averaged figures hide the fact that the wealthiest 1% of taxpayers are paying over 28% of the UK's total tax take.

Tax burden

The tax burden is rising across the board due to frozen thresholds (fiscal drag) along with increased rates of tax. However, business owners in particular have been targeted in recent years:

- The rate of corporation tax has increased considerably where a company's profits exceed £50,000; and
- The tax rates on dividends have increased while the dividend allowance has been cut.

Since April 2025, business owners have also felt the impact of much higher employer national insurance costs.

Moving the dial

Tax freedom day for a particular taxpayer will be pushed further forward as various tax thresholds are crossed.

One of the costliest thresholds is when income hits £100,000, because the taxpayer will then face a marginal tax rate of 60%. However, tax planning measures will usually be an option at this level of income, and they can move the dial back to earlier in the year.

For example, most taxpayers can make additional pension contributions, and employees could enter into salary sacrifice arrangements or trade a salary increase for shorter working hours or increased holiday entitlement. For the self-employed, restricting the amount of work they do, and so their earnings, may be an option.

NEWS IN BRIEF

News round up

Mandatory payrolling of benefits

The deadline for employers to mandatorily report most taxable benefits through their payroll software has been postponed by one year to 6 April 2027. Employers therefore have the option of reporting benefits using form P11D for a further year.

Class 2 NICs errors

Although self-employed taxpayers no longer pay class 2 NICs where profits are above the small profits threshold, there are reports that HMRC is incorrectly including these NICs in tax calculations for 2024/25. The incorrect charge is either £179.40 or £358.80.

Parental leave set for overhaul

The government has opened a consultation into maternity, paternity and adoption leave as part of an 18-month review. The aim is to simplify the current complex system which has been called out-of-date with the realities of working parents, as well as potentially increase pay while balancing the needs of businesses. The consultation is open until 25 August.

Trying the HMRC app?

HMRC has recently run an advertising campaign encouraging use of their app. Although popular, many millions of taxpayers still need to be converted. The HMRC app is a quick and easy way to get information about tax, NICs and benefits.