Broadcast

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FACTSHEET: HMRC SPRING UPDATE

SPECIAL ISSUE

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HMRC has recently announced several significant changes to the UK tax system, aimed at simplifying tax administration and reducing burdens on businesses. These reforms, detailed in the Spring 2025 update, are set to impact small businesses across various sectors. Below, we outline the most pertinent changes that may affect your operations.

Expansion of the Cash Basis for Income Tax
What's Changing?
Starting from the 2024–25 tax year, the cash basis will become the default method for calculating trading profits for self-employed individuals and partnerships. Previously, businesses had to opt into this scheme, and it was limited to those with turnovers below £150,000. The new rules remove these restrictions, allowing more businesses to benefit.

Implications for Your Business:

- **Simplified Accounting:** Under the cash basis, you'll report income and expenses when they are actually received or paid, rather than when they are invoiced or incurred.
- **Interest Deductions:** The previous £500 cap on interest deductions has been removed, allowing full deductions for interest expenses incurred wholly and exclusively for the business.
- **Loss Relief:** Restrictions on loss relief have been lifted, enabling losses to be set against other income or carried back, similar to the accruals basis.

Action Required: Review your current accounting method and assess whether the cash basis is more suitable for your business operations.

Increase in Trading Income Reporting Threshold
What's Changing?
The threshold for reporting trading income under the Income Tax Self-Assessment (ITSA) has increased from £1,000 to £3,000. Please note, trading income is sales not profit.

Implications for Your Business:
- **Reduced Administrative Burden:** If your annual trading income is below £3,000, you may no longer be required to file a Self-Assessment tax return.
- **Focus on Core Activities:** This change allows small-scale traders to concentrate more on their business activities rather than tax compliance.

Action Required:
Determine if your trading income falls below the new threshold and adjust your tax reporting obligations accordingly.

Changes to Off-Payroll Working Rules
What's Changing?
From 6 April 2025, the criteria for determining whether a company is classified as 'small' for off-payroll working purposes will change. The new thresholds are Turnover: Not more than £15 million (up from £10.2 million)
- Balance Sheet Total: Not more than £7.5 million (up from £5.1 million)
- Employees: No more than 50 (unchanged)

Implications for Your Business:
Reclassification: Some businesses previously considered 'medium' may now fall under the 'small' category, affecting their responsibilities under the off-payroll working rules.
IR35 Obligations: Small companies are exempt from certain IR35 obligations, potentially reducing compliance requirements.

Action Required: Evaluate your company's size against the new thresholds to understand your obligations under the off-payroll working rules.

Mandating Payrolling of Benefits in Kind
What's Changing?
The government has announced that from 6 April 2027, it will be mandatory for employers to report and pay Income Tax and Class 1A National Insurance contributions on benefits in kind through payroll software.

Implications for Your Business:
- Streamlined Reporting: Integrating benefits in kind into payroll simplifies the reporting process and ensures real-time tax deductions.
- System Updates: Businesses will need to ensure their payroll systems are capable of managing these changes by the implementation date.

Action Required: Begin assessing your current payroll systems and processes to accommodate this future requirement.

Simplification of the Capital Goods Scheme

What's Changing?

The Capital Goods Scheme (CGS) will be simplified by:

- Removing Computers: Computers will no longer be considered capital items under the CGS.
- Increasing Thresholds: The capital expenditure value for land, buildings, and civil engineering work will increase to £600,000 (exclusive of VAT).

Implications for Your Business:

- Reduced Complexity: Fewer assets will fall under the CGS, simplifying VAT adjustments and record-keeping.
- Administrative Efficiency: These changes aim to lessen the compliance burden on small businesses.

Action Required: Review your capital asset purchases to understand how these changes may affect your VAT reporting.

Reversal of Detailed Employee Hours Reporting Requirement

What's Changing?

The government has decided not to proceed with the draft Income Tax (Pay As You Earn) (Amendment) Regulations 2025, which would have required employers to report more detailed employee hours data to HMRC from 6 April 2026.

Implications for Your Business:

- Maintained Status Quo: Employers will continue with the current reporting requirements, avoiding additional administrative tasks.

Action Required: No immediate action is needed but stay informed about any future changes to PAYE reporting requirements.

Conclusion

These updates reflect HMRC's ongoing efforts to simplify tax processes and reduce the administrative burden on small businesses. It's crucial to stay informed and adapt your business practices accordingly to remain compliant and take advantage of any benefits these changes may offer.

Should you have any questions or need assistance in understanding how these changes affect your specific circumstances, please do not hesitate to contact us, call us on **01753 888 211** or email **info@nhllp.com**