

BUSINESS



Company accounts thresholds rise

New company turnover and balance sheet thresholds in annual accounts will reduce the reporting burden for over 130,000 companies.

The changes, which come into effect from 6 April 2025, increase by around 50% the turnover and balance sheet criteria that help determine whether a company is a micro-entity, small, medium-sized or large for the purpose of reporting and audit requirements under the Companies Act 2006. Groups of companies are subject to similar thresholds except that a group cannot be a micro-entity. The new thresholds will also apply to limited liability partnerships (LLPs).

Micro-entities and small companies are not required to have a statutory audit of their annual accounts and do not have to produce a strategic report. They can also adopt simpler accounting requirements. Micro-entities are not required to prepare a directors' report.

From 6 April 2025 a company or LLP will be a micro-entity if it has turnover of not more than £1 million and a balance sheet total of not more than £500,000. The thresholds for being small will be £15 million turnover and £7.5 million balance sheet total, and for medium-sized, £54 million turnover and £27 million balance sheet total.

A transitional provision will let a company qualify as a particular size by reference to its turnover and balance sheet total of a previous financial year. This will allow companies and LLPs to benefit from the new thresholds as quickly as possible.

The increases account for inflation since 2013 when the thresholds were last set. The government estimates that around 113,000 small companies and LLPs will become micro-entities, 14,000 medium-sized companies will become small and 6,000 large companies will qualify as medium-sized. The changes also remove several reporting requirements from the directors' report that overlap with other reporting requirements or provide little material value to investors and other users of company reporting.

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TAX

Non-dom tax change on foreign income and gains

From 6 April 2025, UK residents, irrespective of their domicile status, will be taxed on their global income and gains, whether or not remitted to the UK.

New arrivals, however, will benefit from 100% tax relief on foreign income and gains during their first four years of UK residence and will be able to bring overseas income and gains to the UK at any time without a tax charge. This is provided they have not been UK resident in any of the 10 years before their arrival. After the first four years of UK residence, an individual will be fully taxable on their worldwide income and gains.

Temporary repatriation option

Non-domiciled individuals who are not new arrivals and have been taxed on the remittance basis should check whether they can benefit from transitional rules. Their foreign income and gains will continue to be taxed if remitted but, under a new temporary repatriation facility, they will be able to designate foreign income and gains that arose before 6 April 2025 as chargeable to UK tax. However Chancellor Rachel Reeves has indicated that this facility will be made more generous.

Amounts designated in 2025/26 or 2026/27 will be taxed at 12%, and 15% if designated in 2027/28. These amounts can then be remitted to the UK without further tax charge. So if you expect to have to bring pre-6 April 2025 income or gains to the UK in the next few years, it is worth making such a designation.



Plan ahead for further capital gains tax changes

Changes announced for business asset disposal relief (BADR) and investors' relief in the Autumn Budget will not be enacted until the new financial year, meaning some planning is possible for business owners and investors.

Business assets

The rate of capital gains tax (CGT) where gains qualify for BADR remains at 10% for the current tax year – until 5 April 2025. Relief is available against the first £1 million of qualifying gains realised during a taxpayer's lifetime.

- The 10% rate is now more advantageous than ever given the increase to the main rates of CGT. For example, on £1 million of gains, the tax saving is £140,000 if the 24% rate of CGT would otherwise apply.
- From 6 April 2025, the rate of BADR will increase by 4% to 14%. The amount of tax saving on £1 million of gains will fall back to £100,000.
- There will be a further 4% increase from 6 April 2026 so that the rate of BADR is equalised with the 18% main lower rate. The tax saving will be a relatively modest £60,000.



Given the reduced tax saving and the complexity of the qualifying conditions, BADR is likely to be of less importance in the future.

Investors' relief

Before the Autumn Budget, investors' relief came with a separate lifetime limit of £10 million, but the limit has been reduced to £1 million for disposals made on or after 30 October 2024. The rates of CGT on gains qualifying for investors' relief are the same as those for BADR.

Planning

There is a tax planning opportunity for anyone intending to make a qualifying disposal in the near future. The 5 April 2025 deadline might be too tight for the disposal of a business or investment, but any disposals made during 2025/26 will save 4% in CGT compared to if the disposal doesn't happen until after 5 April 2026.

One potential issue could be the required holding period. For investors' relief, shares must have been held for three years prior to their disposal.

Savers due tax refund

Taxpayers need to carefully check simplified assessments they receive from HMRC because their personal allowance may not have been allocated on the most favourable basis.

The personal savings allowance is not an allowance as such, but instead a nil rate tax band, so automation doesn't always allocate it correctly. It's £1,000 for basic rate taxpayers and £500 for those paying at the higher rate; additional rate taxpayers are not entitled to the allowance.

If the personal allowance is allocated against savings income otherwise covered by the personal savings allowance, then the nil-rate element is wasted. But this is what can sometimes happen with simplified assessments. The amounts involved are fairly small, but it shows the importance of checking what HMRC claims is due.

Although HMRC says a taxpayer only has 60 days to deal with an incorrect simplified assessment, there is in fact no time limit where an overpayment is due to HMRC error.



Basis period reform: changing your accounting date

Businesses that do not draw up their accounts to 31 March or 5 April will experience ongoing additional administrative burdens following the new tax year basis introduced in April 2024.

One way to avoid this is to change year end for 2023/24, although there are some things to think about before making the move. While the end of January 2025 is the due date for your 2023/24 tax return, it can be amended up to a year afterwards.

From April 2024, business profits of a tax year are the profits actually arising in the tax year regardless of the period for which you draw up your accounts. If your accounts run to a date other than 5 April, or 31 March (treated as equivalent to 5 April), you have to calculate the profit each tax year by apportioning the two accounting periods covering that tax year.

However the profits of the later period might not be known in time for the 31 January return submission deadline. Completing future returns using estimated profits and amending them

later is an option. It would be simpler, however, to match your accounting period to the tax year.



Transition is ending

The year 2023/24 is a transitional year from the old system of taxing the profits of the accounting period ending in the tax year. Unless your accounting date was already 5 April or 31 March, you will be taxed in 2023/24 on more than 12 months' profits.

You can deduct any brought forward overlap relief from your 'transition profits' (those for the period after the first 12 months) and then spread any remaining transition profits over a period of up to five years. This is a good time to change your accounting date to 31 March and you can amend your 2023/24 return to achieve this. How you do it may affect use of any overlap relief and how much profit you can spread over five years.