

BUSINESS



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.

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.

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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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.



- 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.

Navigating VAT issues

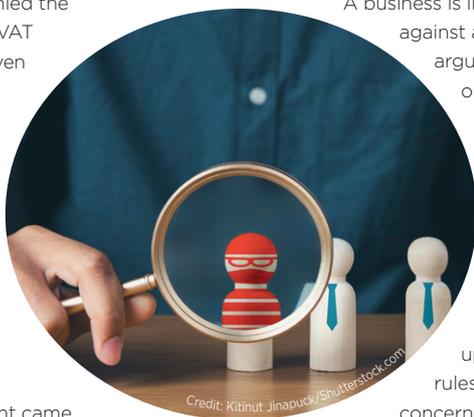
You would never commit VAT fraud, right? But your business could suffer because of the fraudulent actions of others.

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.

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.

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.