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CHARTERED ACCOUNTANTS

NEWS UPDATE - 10 March 2025

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New reporting requirements for dividend data

Starting with the 2025/26 tax year, directors of close companies (owner-managed companies) will need to separate the dividend income received from their companies. This change will have an impact on almost 900,000 directors.

In very broad terms, a close company is a company that is under the control of its directors or five or fewer shareholders.

At present, directors report just the total dividend income figure, which means HMRC can't tell which dividends a director receives from their own company or from other sources. By separating out dividends, HMRC will be able to see the total remuneration package received by an owner-manager. This helps them to focus their compliance activities.

Disclosure

From 6 April 2025, directors of close companies will have to disclose:

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

The question on the tax return about whether an individual is a director of a close company will be changed from voluntary to mandatory.

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 share.

Employee hours data

On a more positive note, the proposal that employers would have to report the actual hours worked by each employee has been shelved. The implementation date had already been put back from April 2025 to April 2026.

The Government has recognised that requesting this information as part of the real-time reporting process would have been unduly complex, costly and burdensome for businesses. The cost of the initial implementation alone was forecast to be nearly £60 million.

The starting point for determining whether a company is close or not can be found from the link below:

https://www.gov.uk/hmrc-internal-manuals/company-taxation-manual/ctm60060

Late payment interest warning

A warning for the 1.1 million taxpayers who missed the 31 January filing deadline. It isn't just penalties you will be incurring for subsequent late payment, but also late payment interest.

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

Why the increase?

The interest rate charged by HMRC was 2.6% at the start of 2022 but increased to an average of 7.6% for 2024. The rate has been 7.0% since 25 February 2025:

- With tax allowances and thresholds frozen since 2021 – and with no increases on the cards until 2028 – more taxpayers are either being drawn into the tax net or facing higher rates of tax.
- The reductions to the capital gains tax (CGT) exemption have also contributed.

If that were not bad enough, things are only going to get worse from 6 April 2025, from when HMRC will be adding a 1.5% surcharge to the late payment interest rate. So, if nothing changes, the current rate will jump to 8.5%.

Preventative measures

With the rate of late payment interest so high, it will almost certainly make sense to use savings to pay off any overdue tax liabilities.

With another tax year ending, get your self-assessment tax return in as early as possible. You will then know what your tax liability is well in advance of the due date and can plan accordingly.

Regular saving into a separate bank account is a good approach. Or set up a budget payment plan with HMRC to make weekly or monthly payments towards your next self-assessment tax bill.

Simply burying your head in the sand over an overdue tax liability will only see the debt spiral. You should engage with HMRC and try to agree a payment arrangement even though this will not prevent interest being charged.

Details about setting up a budget payment plan with HMRC can be found from the link below:

https://www.gov.uk/pay-self-assessment-tax-bill/pay-weekly-monthly

Side hustles and tax obligations

HMRC has recently launched their *Help for Hustles* campaign to help people earning extra income to understand their tax obligations.

Online platforms, such as eBay, are now required to report users' income to HMRC. Anyone who is selling goods or services online therefore needs to be aware of their tax reporting requirements. Many regular activities that might have been considered a lucrative hobby now fall into the 'trading' category:

- **Buying or making things to sell:** Activities such as selling things that you have made, upcycling furniture to sell, or buying items with the aim of reselling them at a profit. All count as trading.
- **Side gigs:** Even if carried out in your spare time, a side gig such as tutoring or gardening counts as trading. Using an App to pick up work will almost certainly mean trading.
- **Multiple jobs:** Working many different side hustles, without having a main source of income, means you are trading.
- **Content creators and influencers:** It is likely to be trading if you are paid to make sponsored social media posts for a brand or are earning income from advertisements on your online videos or blog.
- **Property income:** This might be from renting out a spare room in your home, a holiday letting, or renting out property using an App such as Airbnb.

You will not normally be treated as trading if you are just selling off some unwanted personal possessions online after clearing out your loft or garage.

Exemptions

If you are trading, no tax will be due if your income is £1,000 or less for the tax year:

- If income exceeds £1,000, you will need to inform HMRC and complete a self-assessment tax return.
- Although everyone with income of less than £100,000 is entitled to a personal allowance of £12,570, this allowance is particularly relevant for those with multiple jobs, but no main source of income.

Those renting out a spare room can benefit from a tax-break of up to £7,500 a year. Other property income doesn't need to be zzreported to HMRC if less than £1,000 for the tax year.

Details of HMRC's side hustles campaign can be found from the link below:

https://taxhelpforhustles.campaign.gov.uk/

Small employers' relief

Statutory payments can be problematic to administer for smaller employers, but in a rare instance of generosity HMRC compensates for this. Also, from 6 April 2025, the rate of compensation will almost triple from the current 3% to 8.5%.

Employers can usually reclaim 92% of statutory payments for maternity, paternity, adoption, shared parental and parental bereavement (statutory sick pay is no longer recoverable). However, smaller employers can recover 100% of the cost as well as the compensation. So, the total rate of recovery will be 108.5% from 6 April 2025.

Statutory neonatal care pay is being introduced from 6 April 2025, which will be recoverable on the same basis. It will be paid to a parent when their newborn is sick in hospital.

Smaller employers

You are a smaller employer if your total class 1 NIC payments were £45,000 or less for the tax year before the employee's qualifying week:

- Both employee and employer contributions are included, but not class 1A or 1B NICs.
- The employment allowance reduction is ignored.
- The qualifying week will vary depending on the type of leave. For example, for maternity pay, the qualifying week is the fifteenth week before the baby's due date.

The main rate of employee class 1 NIC is lower for 2024/25 than it was for 2023/24, so an employer who was previously just outside of the £45,000 threshold might qualify from 6 April 2025.

An employer can apply to HMRC to be paid in advance if they cannot afford to make statutory payments.

Recovery

Relief, whether at the normal rate or at the smaller employer rate, is claimed on a monthly basis through payroll software using the employer payment summary. Payroll software should do everything automatically, although you may need to select that you are a small employer.

HMRC's guide to getting financial help with statutory pay can be found from the link below:

https://www.gov.uk/recover-statutory-payments

New tax year planning

The start of the new tax year warrants as much planning as the end of the old tax year.

While the end of the tax year on 5 April is a major focus of tax planning, it doesn't end there. The following day may require much less immediate attention, but there is an argument for considering it to be just as important. For example:

- **Personal allowances** The personal allowance for 2025/26, the new tax year, remains at £12,570, the same as it has been since 2021/22. Above that level, income tax will normally enter the equation. If you (or your spouse/civil partner) do not have enough income to cover the personal allowance, then you could consider transferring investments between yourselves so that the income generated escapes tax. You should also consider whether or not to claim the marriage allowance if your partner pays no tax and you pay no more than the basic rate (or vice versa).

- At the opposite end of the income scale, once your income (after certain deductions) exceeds £100,000, you start losing your personal allowance at the rate of £1 for each £2 of excess. In those circumstances, a transfer of investments and the income generated can also make sense – this time by reducing your taxable income.

- **Other tax allowances and bands** Similar principles apply to other allowances, such as the personal savings allowance (up to £1,000), the dividend allowance (£500) and the thresholds of tax bands. It is much easier to shuffle around future income at the start of the tax year than attempt to do so as 5 April looms near.

- **High income child benefit charge (HICBC)** If you or your partner (marriage is irrelevant) have income (after certain allowances) of over £60,000 and both claim and receive payments of child benefit, then whichever of you has the higher income is taxed on that benefit. The tax charge is 1% of the child benefit for each £200 of income over the £60,000 threshold, meaning the tax matches the benefit at £80,000. If you have two children, this is equivalent to an extra 11.26% added to your marginal tax rate. Shifting your investment income could therefore save tax, even if you both pay the same marginal rate of tax.

For more details on these and other new tax year opportunities, please talk to us – as with year-end planning, the sooner, the better.

Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk

Disclaimer: This information provides an overview of the issues considered and is for general information only. It is not intended to provide advice and should not be relied upon in any specific transaction.