

# BUSINESS UPDATE



Issue 3 2025

## PAYE for High Income Child Benefit Charge

As announced at the Spring Statement 2025, HMRC will be providing a new service to allow employees to pay High Income Child Benefit Charge (HICBC) through their PAYE tax code. The service is expected to go live from summer 2025.

Details are yet to be released, but what it's likely to mean is that you will report Child Benefit payment received — either by you or your partner — to HMRC via a new digital service: and where liability to HICBC occurs, it will be factored into your PAYE code and processed like any other deduction from pay.

At the moment, the system is cumbersome. If you are liable to HICBC, there is an obligation to register for self assessment and complete an annual tax return — even if all other income is taxed under PAYE. The new service will therefore take some people out of self assessment and all the deadlines involved.

The HICBC applies where one of a couple claims Child Benefit payments and either one of the couple has what is called adjusted net income over £60,000. Adjusted net income is broadly income after pension contributions, payments under Gift Aid, and some other deductions. It is the higher earner who is responsible for paying the Charge, even if they are not the one claiming Child Benefit.

Do please contact us for more information.

## PAYROLLING BENEFITS IN KIND: NEW TIMELINE

More time has been given for businesses to get ready for the change to compulsory payrolling of benefits in kind. Payrolling will now be mandatory from April 2027, not April 2026.

From an employer's perspective, the change means most benefits in kind must be reported under Real Time Information (RTI) from April 2027. Income Tax and Class 1A National Insurance contributions (NICs) will also be paid during the tax year. To make the system work, the number of RTI data fields will be increased to accommodate data currently reported in forms P11D and P11D(b).

Employment-related loans and accommodation are not yet brought within mandatory payrolling. The P11D and P11D(b) process will continue temporarily for these benefits, though it will be possible to payroll them on a voluntary basis. Employers need to register in advance to do this, and to payroll for the tax year starting 6 April 2027, you would need to register between November 2026 and 5 April 2027.

The taxable value of a benefit in kind will be calculated by taking the annual cash equivalent of the benefits, and dividing by the number of relevant pay periods for each employee. The resulting figure for each pay period is liable to Income Tax and Class 1A NICs each pay period, and must be reported alongside employee earnings in each period. A reasonable estimate must be used where the benefit in kind value is not known at the start of the year.

Other areas that HMRC has specifically commented on include:

- Globally mobile employees that are part of modified PAYE arrangements. Here HMRC is considering keeping the P11D and P11D(b) processes.

- Employees and directors receiving no income. Here the employer will still need to provide details of benefits in kind and expenses via an FPS, paying Class 1A NICs due in the same way as for employees receiving income. The FPS will show no payments of earnings and no tax paid. Any uncollected tax will be recovered through the P800 end of year reconciliation process, simple assessment or self assessment as applicable.



From the employee's perspective, payment of tax moves into real time, and it will be important for employers to communicate this effectively to staff. In the first year of mandation, there could be an additional cash flow impact for any employees already having tax deducted in respect of a previous year.

Further information is expected from Autumn 2025 onwards, but in the meanwhile, you might want to consider payrolling benefits voluntarily in 2026/27, to see how the system works. To do this, advance registration is needed, and we are happy to advise on this, or any other steps required to prepare for the change.

# Right to work checks on the way for gig economy

The government clampdown on illegal working will see right to work checks extended to workers in the gig economy and zero-hours workers as part of the Border Security, Asylum and Immigration Bill.

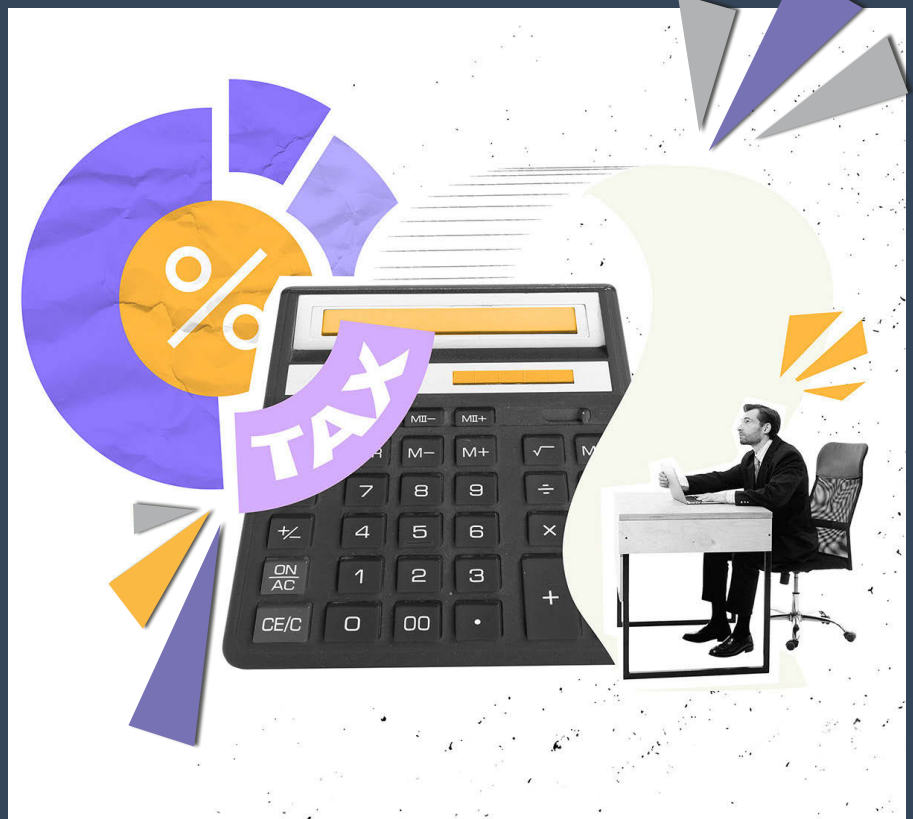
Whilst the Bill has yet to become law, it is important that businesses are aware that the change is on the near horizon, and are ready for their new responsibilities. The introduction of right to work checks for these workers represents major change, and government figures suggest the new rules could bring between 2.5 million and five million additional working arrangements within scope.

Until now, checks have been used for employment situations where there is a traditional contract of employment in place, but not for these more flexible working arrangements. The change will particularly impact sectors like construction, food delivery, beauty salons and courier services, which rely heavily on a flexible workforce engaged on non-traditional lines. Some companies, like Deliveroo, already operate right to work checks, alongside a range of other verification procedures.

Right to work checks are carried out by employers, and are the means of proving someone's immigration status, allowing them to work legally in the UK. As such, they have become part of the government's planning 'to strengthen the entire immigration system, restoring tough enforcement of the rules and undermine people smugglers using the false promise of jobs for migrants'.

The rules are backed up by tough penalties. In addition to reputational damage, a business that doesn't comply could face civil penalties, including fines of up to £60,000 per worker. There is also the potential for business closures, director disqualifications and even prison sentences of up to five years for employing someone you know or have reasonable cause to believe doesn't have the right to work in the UK.

Keeping on top of employment legislation is already a challenge. A recent Home Office survey into employer understanding of right to work checks found that most employers (80%) answered at least one question wrong, and with this latest change, there is yet another layer of compliance for businesses to get to grips with. We are always on hand to help. Please contact us with any questions you may have.



## WHY IT PAYS TO PAY TAX ON TIME

**Late payment interest is charged automatically when tax isn't paid on time, running from the date payment was due until the date payment is made. The rate of interest charged by HMRC has increased significantly since 6 April 2025.**

**How and when interest is decided:** HMRC charges interest at the Bank of England (BOE) base rate plus a set percentage. For most taxes, interest has jumped from BOE base rate plus 2.5%, to BOE plus 4%, with effect from 6 April 2025. The rate also increased where quarterly instalments of Corporation Tax are paid late, rising from BOE base rate plus 1%, to BOE base rate plus 2.5%. From 28 May 2025, the current late payment interest rate for taxes such as Income Tax, Capital Gains Tax and National Insurance contributions is 8.25%.

The Bank of England makes a decision on interest rate every six weeks, with the next decisions expected on 7 August 2025 and 18 September 2025. If it decides to increase or decrease the rate at these meetings, this will then also impact the rate charged by HMRC.

**Other issues:** If tax is paid late, interest isn't the only problem. HMRC also charges penalties for late payment. Under the rules for Income Tax self assessment, there are penalties of 5% of the tax unpaid at 30 days, six months and 12 months. Late payment penalties are different for VAT and Making Tax Digital for Income Tax, and penalties here were increased at the Spring Statement 2025.

**Tip:** If you are having difficulty paying tax on time, check if you are eligible to set up a Time to Pay (TTP) arrangement with HMRC. If you meet the conditions, TTP should allow you to pay in instalments based on your own individual circumstances. Though late payment interest will still be due, you should avoid late payment penalties if TTP is arranged before the date that the first late payment penalty would have been charged. Take early action if there's a tax bill you don't think you can settle in full.

Changes to the interest rate mean that the days when businesses could think of late payment of the tax bill as an informal source of cheap, short-term credit are very much in the past. The government is keen to close the tax gap, and is using the new late payment interest rate as a way to drive up prompt payment. Paying tax on time is no longer just a case of doing the right thing: it makes good commercial sense as well.



# Umbrella companies: what they are and why you need to know

Umbrella companies that don't comply with their tax obligations have been in the government's sights for some years. Worst case scenarios have seen fraudulent companies defaulting on HMRC, and workers landed with large, unexpected bills as a result of payment structures contrived to avoid tax.

## Umbrellas explained

Umbrella company is not a term defined in statute, but it's generally taken to mean a company employing temporary workers who work at different end clients' premises, and HMRC recently described them as employment intermediaries employing workers on behalf of agencies and end clients. The government plans to bring umbrella companies within scope of the legal definition of an employment business through the Employment Rights Bill.

Typically, umbrella companies are used by recruitment agencies to pay temporary workers. The recruitment agency does the business of matching clients with suitable workers, but it may then outsource the employment and payment side of things to an umbrella company. This means the umbrella company acts as the actual employer, and should provide a contract of employment setting out working terms and conditions. Under current legislation, it is also responsible for paying the worker.

## Preventing bad operators

It's thought umbrella companies were used to engage at least 700,000 workers in 2022/23, with non-compliant umbrella companies responsible for engaging a third of this total — and probably more. The government is therefore introducing new rules to drive up tax compliance from April 2026. Broadly, where an umbrella company is used in a labour supply chain to engage a worker, the responsibility to account for PAYE will change.

Rather than the umbrella company employing the worker being legally responsible for operating PAYE, this will fall to the recruitment agency supplying the worker to the end client. They will have the legal responsibility for operating PAYE on the worker's pay, and will be liable for any shortfall, regardless of whether they operate payroll themselves, or use an umbrella company to run payroll for them. Where there is no agency in the labour supply chain, legal responsibility passes to the end client.

## Safe to deal?

As a worker, recruitment agency, or any other person in the labour supply chain, how do you know whether an umbrella company is a reputable and compliant organisation to do business with? HMRC has recently published a guide to good practice for umbrella companies, suggesting the type of behaviours to look for. Safeguarding your position by using guidance like this to carry out due diligence checks is highly recommended. We should be pleased to help if you have any concerns.

# Official rate of interest could impact your benefits in kind

The Official Rate of Interest (ORI) increased from 2.25% to 3.75% on 6 April 2025. What sounds like a minimal adjustment is, in fact, likely to make a difference to the cost of providing — and receiving — certain benefits in kind.

It may also bring some employees within scope of tax on their benefits in kind for the first time. And for the record, one professional body considers the increase the 'most significant jump in over thirty years'.

In addition, where the ORI used to be set for a year at a time, it will now be reviewed every quarter. This means the rate could now change in-year, on 6 April, 6 July, 6 October and 6 January, adding further complexity for employers to factor into their calculations.

The ORI is the rate used to work out the taxable benefit of some employment-related living accommodation, and the Income Tax charge when someone has what's known as a beneficial loan from their employer.

**Beneficial loans:** Where the employer lends money above a certain amount to an employee either interest free, or at a rate of interest below the ORI, a taxable benefit arises on the difference between any interest paid by the employee and the ORI. Where a tax charge arises, Class 1A National Insurance contributions (NICs) are also paid by the employer on the taxable benefit.

From an employer's perspective, an ORI of 3.75% is likely to mean an increased cost to the Class 1A NICs bill for 2025/26. This, of course, comes on top of the new 15% rate applying to Class 1A NICs from 6 April 2025, leaving employers with an increased NICs rate to apply to a higher benefit in kind value.

## Planning ahead

As a result of the changes, you might want to review whether the remuneration package you are offering as an employer — or the benefits you are receiving as a director or other employee — are as tax efficient as you would like. Where outstanding loans have a total value of less than £10,000 for the entire tax year, no benefit in kind arises, and in the light of the changes outlined here, you may want to keep loans below this level.

We are always happy to advise on the best way to arrange remuneration. Please get in touch to discuss this further.







# MAKING TAX DIGITAL FOR INCOME TAX: A LOOK AT THE DETAIL

It's been called the biggest change since the introduction of self assessment in the 1990s - and for the first taxpayers impacted, Making Tax Digital for Income Tax (MTD IT) is now less than a year away.

## Quick view

MTD IT is a new online system to report income and expenses to HMRC, which will be mandatory for sole traders and landlords with income over a particular threshold. Partnerships are expected to join later.

## Biggest changes

MTD IT means reporting income and expenses to HMRC every three months, rather than just once a year. Quarterly reporting must be digital, using HMRC-approved software which is authorised to communicate with HMRC's systems. At the end of the year, there is then a finalisation process, which is also digital. The regime is backed up by a new points-based penalty regime.

**Action now: You may need to think now about using software for the first time, or checking your existing product is compliant. We can help you with these decisions.**

## Stays the same

Processes to pay tax don't change. Income Tax will still be paid once or twice a year, as at present. Dates for payment also stay the same.

## Start dates

- Sole traders and landlords with qualifying income over £50,000 for the tax year 2024/25 are in MTD IT from 6 April 2026.
- Sole traders and landlords with qualifying income over £30,000 for the 2025/26 tax year are in MTD IT from 6 April 2027.
- Sole traders and landlords with qualifying income over £20,000 for the 2026/27 tax year, are expected to be in MTD IT from 6 April 2028, but legislation is still awaited on this point.

## More detail on: the quarterly routine

Every three months, your MTD-compatible software will create totals for each income and expense category, and prompt you to submit this information to HMRC. A quarterly update is required for each trade or source of property income, so someone with more than one trade, for example, or with both property and self-employment income, must submit a quarterly update for each. No tax or accounting adjustments to the figures are needed. These can be done at the year end.

Quarterly updates work cumulatively, and are based on the tax year, rather than a business' accounting year end. They cover the following periods:

- 6 April to 5 July (due by 7 August)
- 6 April to 5 October (due by 7 November)
- 6 April to 5 January (due by 7 February)
- 6 April to 5 April (due by 7 May).

There is also the option to use calendar quarters instead, though filing deadlines are the same, whichever method is chosen.

The figures submitted quarterly are not final. If you make a mistake, it can be corrected, for example in the next quarter. It will also be important to make sure that the underlying digital records are also adjusted. Note, too, quarterly updates are needed even if you have no income or expenses to report for that period. Landlords who jointly let properties can either include both property income and expenses or just the income for those properties. Expenses will then be reported at the end of the tax year.

Once an update is submitted, HMRC will generate an estimate of your tax bill in your software, or your HMRC online services account. This is only a rough guide, and will change through the year, especially when end of year adjustments are made.

## We can help

MTD IT is likely to feel like a considerable learning curve to begin with, and we have only been able to scratch the surface in this article. Please do contact us with any queries: we will be happy to help you prepare.

# No need to file a tax return: not the same as no tax bill

The government announced earlier this year that up to 300,000 people would no longer need to file a tax return.

It was billed as particularly good news if you have a side hustle, like making extra money through sales on eBay, dog walking, or creating content online. 'We are changing the way HMRC works to make it easier for Brits to make the very most of their entrepreneurial spirit', the government said.

But tax wouldn't be tax if there wasn't some small print. Not needing to file a tax return is not the same as there being no tax to pay on money received. There are two allowances of £1,000 each, which can be set against trading and property income, but income from a side hustle above this level is likely to be taxable.

What the government is going to do — and it hasn't happened yet — is put up the Income Tax self assessment reporting threshold for trading income from £1,000 to £3,000. HMRC expects that though 300,000 people may not need to file a return, 210,000 of them may still need to pay tax, and the plan is that they will be able to do so through a new online HMRC service yet to be unveiled.

