BUSINESS NEWSLETTER

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We hope you enjoy reading this newsletter and find it useful. Please contact us if you would like to discuss any matters further.

Jan 2025

For the self-employed, tax is charged on the taxable profit, once the allowable expenses have been deducted. The final part of this newsletter explains the various types of expenses, including the allowable expense.

As we look ahead to 2025, business owners, accountants and financial advisors face a rapidly shifting tax landscape. With significant changes on the horizon, from adjustments to business asset disposal relief (BADR) to the phased implementation of Making Tax Digital (MTD) for income tax and increases to employer National Insurance contributions (NICs), proactive planning is essential.

In the longer term, from April 2026 onwards, relevant taxpayers will need to contend with the substantial changes to inheritance tax (IHT) reliefs – whilst these rules aren't yet in play, early discussions with a professional advisor on the impact of changes are recommended to adapt to this new environment.

Here are the key updates and actionable steps accountants to help clients prepare.

Business asset disposal relief (BADR)

One of the more pressing concerns for business owners this year is the increase in the tax rate for BADR. Currently, business owners pay 10% on the first £1m of qualifying gains.

However, from April 6, 2025, this rate will rise to 14%, translating to a potential increase of £40,000 in tax liability for those disposing of a business worth £1m or more after this date.

To compound this, anti-forestalling rules introduced by the government will limit potential planning in this area.

For instance, when a business is sold, you might receive different types of consideration: cash, shares and/or deferred consideration, such as a loan note (an IOU).

Ordinarily, a loan note is taxed only when paid down, i.e., when the money is received. However, it is often advisable – especially in the context of BADR – to elect to treat the tax as arising when the IOU is first received.

To benefit from this treatment, the election must be made before the 12-month anniversary of the self-assessment deadline for the year in which the loan note is received.

However, the new anti-forestalling rules will apply the BADR rate in application at the time the section 169Q Taxation of Chargeable Gains Act 1992 (TCGA) election is made, not when the loan note was received.

Employment tax changes

From April 2025, employers will encounter higher tax obligations tied to workforce size and salaries (i.e., NIC rate increases, and threshold reductions).

Although the specifics are still unfolding, these actions signify the largest tax increasing effort declared in recent Budget announcements.

The effect on companies, particularly small to medium sized enterprises (SMEs), is going to be significant.

As worries about an economic slowdown hover over us, companies must begin evaluating their approaches to hiring and prepare accordingly as the new year begins.

This should include a review of current workforce structure, salary bands and staffing levels.

Hiring strategies may require evaluation and a consideration of more adaptable staffing methods, like part-time positions or outsourcing, to lessen taxable liability.

Businesses should also start calculating the potential impact of these changes on their financials so that they can adjust budgets and forecast any cost cutting measures that may be necessary.

Consulting with tax professionals to explore tax-efficient strategies and ensure compliance will help mitigate the effect of the increased tax responsibilities.

Making Tax Digital (MTD) for income tax

The rollout of Making Tax Digital (MTD) continues with significant milestones approaching.

By 2026, landlords and sole traders with turnover above £50,000 will need to comply. By 2027, this threshold will drop to £30,000. This shift will require real-time information-sharing to HMRC.

This transition requires significant upgrades in record-keeping.

Impacted clients should consider consulting their professional advisor regarding software options and digital record keeping processes to ensure compliance.

Inheritance taxes

Finally, the recent Budget saw one of the biggest shake ups to inheritance tax (IHT) in decades. This includes a £1m limit to business property relief (BPR) and agricultural property relief (APR) 100% tax relief (with relief 50% thereafter), from 6 April 2026.

It also includes the bringing of pension pots into the charge to IHT from 6 April 2027.

These changes represent seismic shifts in the IHT and broader succession planning landscape. Whilst they are not changes that will take effect in 2025, we nonetheless recommend that impacted clients remain abreast of these rules so that they can adapt to these significant changes in the coming years.

How the self-employed can claim tax relief on expenses

Given this being one of the most common queries accountants receive in in the run-up to the January Personal Tax return filing deadline, this newsletter addresses some of the common queries in this area.

The self-employed have numerous business expenses — however, some of the expenses are deductible to calculate the taxable profit on which tax is payable. These expenses are called allowable expenses.

Example:

Sales	£75,000
Allowable Expenses	£21,000
Taxable profit	£54,000

Tax is charged on the taxable profit.

The following explains what an allowable expense is for the self-employed. Different rules apply to a limited company.

Non-allowable expenses

Private expenditure is not an allowable expense.

Items that are used for both business and private purposes are only allowable to the extent that the item is used for business purposes. For example, if a mobile phone is used 50% for business purposes, 50% of the cost is an allowable expense.

You cannot claim expenses or capital allowances if you use the £1000 tax-free trading allowance. The £1000 allowance is a tax-free allowance for property and trading income. If you have both property and trading income, the £1000 allowance can be claimed for both income streams. The £1000 allowance will be discussed in a following feature.

A deduction is not allowable where traditional accounting is used (that is not simplified expenses nor the £1000 trading allowance) and a capital item is purchased. Capital items include equipment, machinery and vehicles.

Simplified expenses

The simplified expenses option avoids the need to make complicated calculations for deductions. Simplified expenses provide flat rates for vehicles, working from home and living on business premises.

Capital allowances

Where a capital item is purchased, a capital allowance is claimed rather than the full cost of the capital item. This is to spread the expense over a period of years, to reflect the use of capital item in the business.

For items that cost up to £1 million, a full deduction can be claimed as an Annual Investment Allowance (AIA). The AIA cannot be claimed on business cars, items owned for another reason before being used in the business or items given to the business. Writing down allowances should be claimed instead on these items. Writing down allowances are complex — professional advice should be sought to ensure these are claimed correctly.

Essentially, items that are purchased are grouped into "pools". There are three types of pool:

- the main pool where a deduction of 18% can be claimed each year
- a special pool where a deduction of 6% can be claimed
- a single asset pool with a rate of 6% or 18%.

Most items of plant or machinery are placed in the 18% pool. The 6% pool is used for parts of buildings, items with a long life (over 25 years) and cars with CO_2 emissions over a certain threshold.

A 100% allowance can be claimed for certain specified items. This includes electric cars and cars and goods vehicles with zero CO_2 emissions, gas refuelling stations, equipment for electric charging points and plant and machinery in Freeports or Investment Zones.

However, a sole trader or partnership with an income of £150,000 or less can use a simpler system — the cash basis. Where a cash basis is used, income and expenses are only accounted for when income is received and where expenses are paid. It may not be suitable for complex businesses or where finance is needed and the bank or finance company wants to see traditional accounts. Allowable expenses include the day-to-day costs of the business, the goods purchased for resale and capital items such as machinery, computers and vans. Only £500 of finance charges and interest can be claimed in tax years up to 2024. Also, losses cannot be offset against other trading income.

Changes have been introduced for the 2024/25 tax year (and onwards). From this year, the cash basis has become the default method for sole traders and partnerships, unless an election is made to use traditional accounting, or the cash basis cannot be used. The £150,000 threshold no longer applies and the £500 restriction on interest deductions has been removed. Furthermore, any losses can now be offset against any other trading income.

Allowable expenses

Allowable expenses include office costs, travel, clothing, staff, goods for resale, financial costs, property expenses, advertising and training.

Office costs

Items such as stationery, rent, computer software, power and insurance, that are bought with an expected life of less than two years, are allowable in full. Longer life items are allowable if cash accounting is available and used, otherwise capital allowances can be claimed.

Car, van and travel expenses

Allowable expenses include vehicle insurance, repairs and servicing, fuel, parking, hire costs, breakdown cover, bus, air and train fares, hotel costs and subsistence on business trips. Fines, non-business driving expenses and travel between home and work are not allowable. A capital allowance should be claimed where a car or other business vehicle is purchased.

Clothing

The cost of everyday clothing cannot be claimed, even if worn in the course of the business. Uniforms, protective clothing and costumes for entertainers are allowable.

Staff costs

Staff costs are allowable but carers or domestic help is not allowable.

Goods for resale

Goods bought for resale, raw materials and the cost of producing goods are allowable. Goods and materials bought for private use are not allowable. Depreciation of equipment is not allowable, but the cost may be allowable as a capital allowance and the cost may be deductible under the cash accounting scheme.

Legal and financial expenses

Costs for legal, accountancy, architects or surveyors' fees and professional indemnity insurance premiums are allowable. Finance costs and interest are allowable deductions. The legal costs for buying property or machinery are claimable as capital allowances if traditional accounting is used but claimable if cash accounting is used. Fines are not claimable.

Marketing and subscription costs

Allowable expenses include advertising costs, free samples, website expenditure, the cost of trade and professional journals and trade or professional body membership fees if related to the business. Non-allowable expenses include payments to political parties, gym memberships, donations to charities (but sponsorship is allowable), event hospitality and entertaining clients or suppliers.

Training costs

Allowable expenditure includes training to improve skills, updates of knowledge, improving skills to support the business. Non-allowable are expenses to start a new business or to expand into new areas of business.

Claiming allowable expenses

Records, receipts and invoices need to be maintained to support any claim for allowable expenses. The total of allowable expenses can be claimed on a self-assessment tax return. Whilst proof of expenditure does not need to be submitted with the return, it should be retained in case of a query from HMRC.