Finance Directors Update Course

February 2025

Now, for tomorrow

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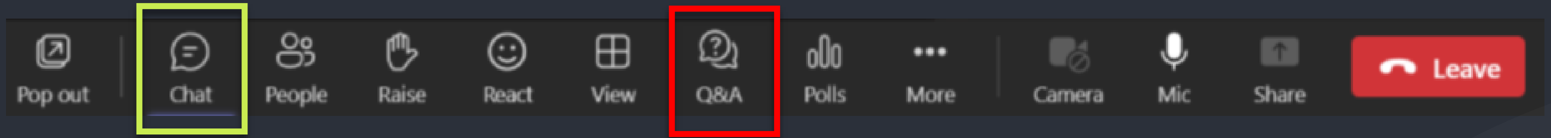


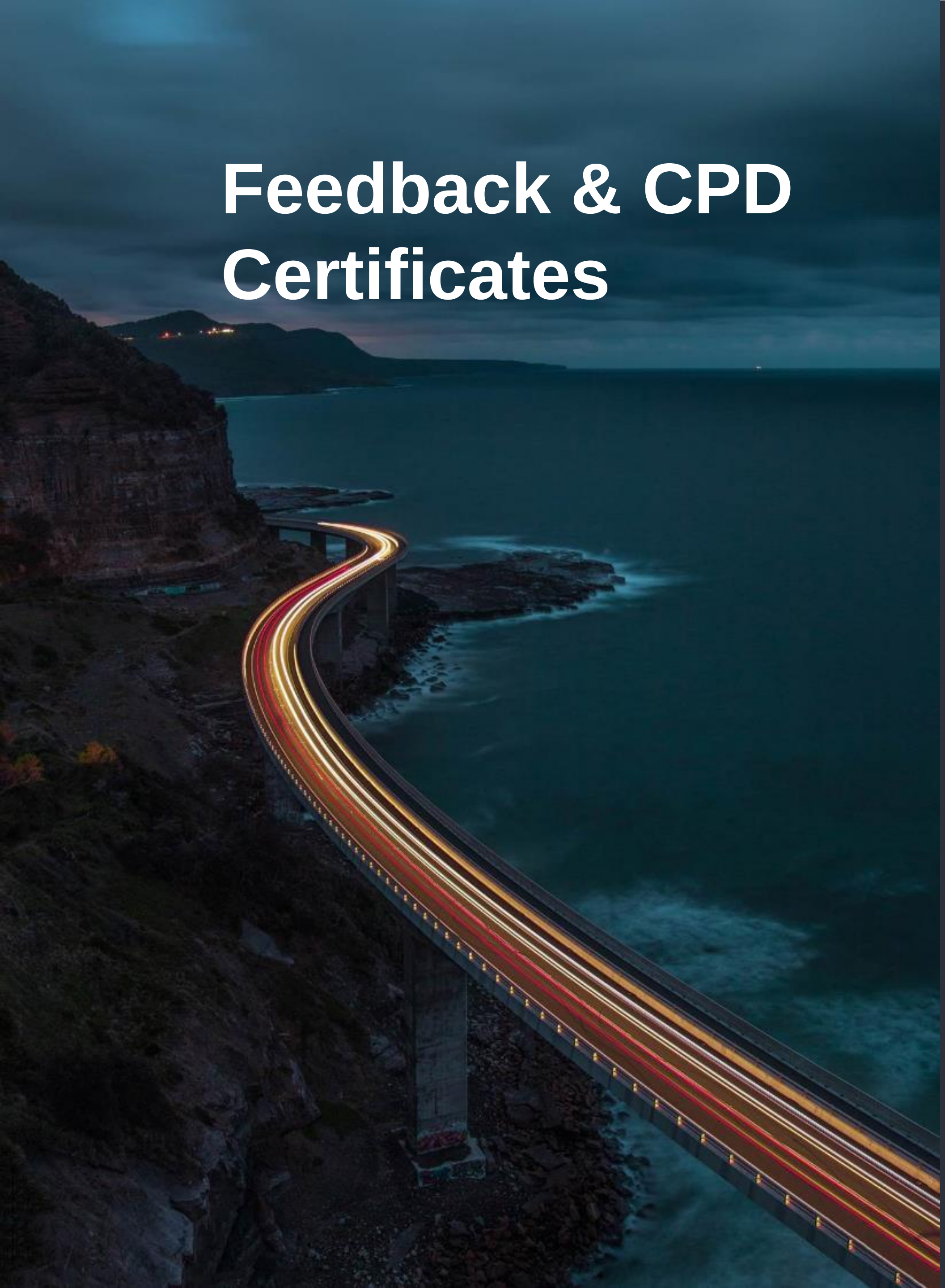
A copy of the slides has been sent to you this morning, are available to download from our website, via the QR code here, or via the link in the Chat, where you will also find other useful information.

Please use the Q&A to ask any questions. We will do our best to answer them during the webinar or will raise it on your behalf during the Q&A at the end with all of our presenters – so don't go away!

Any outstanding questions (not asked anonymously) will be responded to directly.

Please keep your microphone muted & camera off.

Feedback & CPD Certificates



This is a CPD Course and provides 3 hours of relevant CPD.

Please use our feedback form to request your certificate for attending. Certificates **will be sent out by the end of April**, once your attendance has been verified.

We appreciate all feedback, which helps us to plan future events to ensure they meet your needs.

The recording from today’s webinar will also be available in the next couple of weeks.

www.surveymonkey.co.uk/r/FDupdateFeb25

Our Speakers

Chris Danes
Tax Partner &
Chairperson

Richard Maitland
Employment Tax
Partner

Beverley Scott
Corporate Tax
Partner

Jonathan Dowding
Tax
Director

Chris Liu
Transfer Pricing
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Robin Prince
VAT & Indirect Tax
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Neil Parsons
Head of Financial
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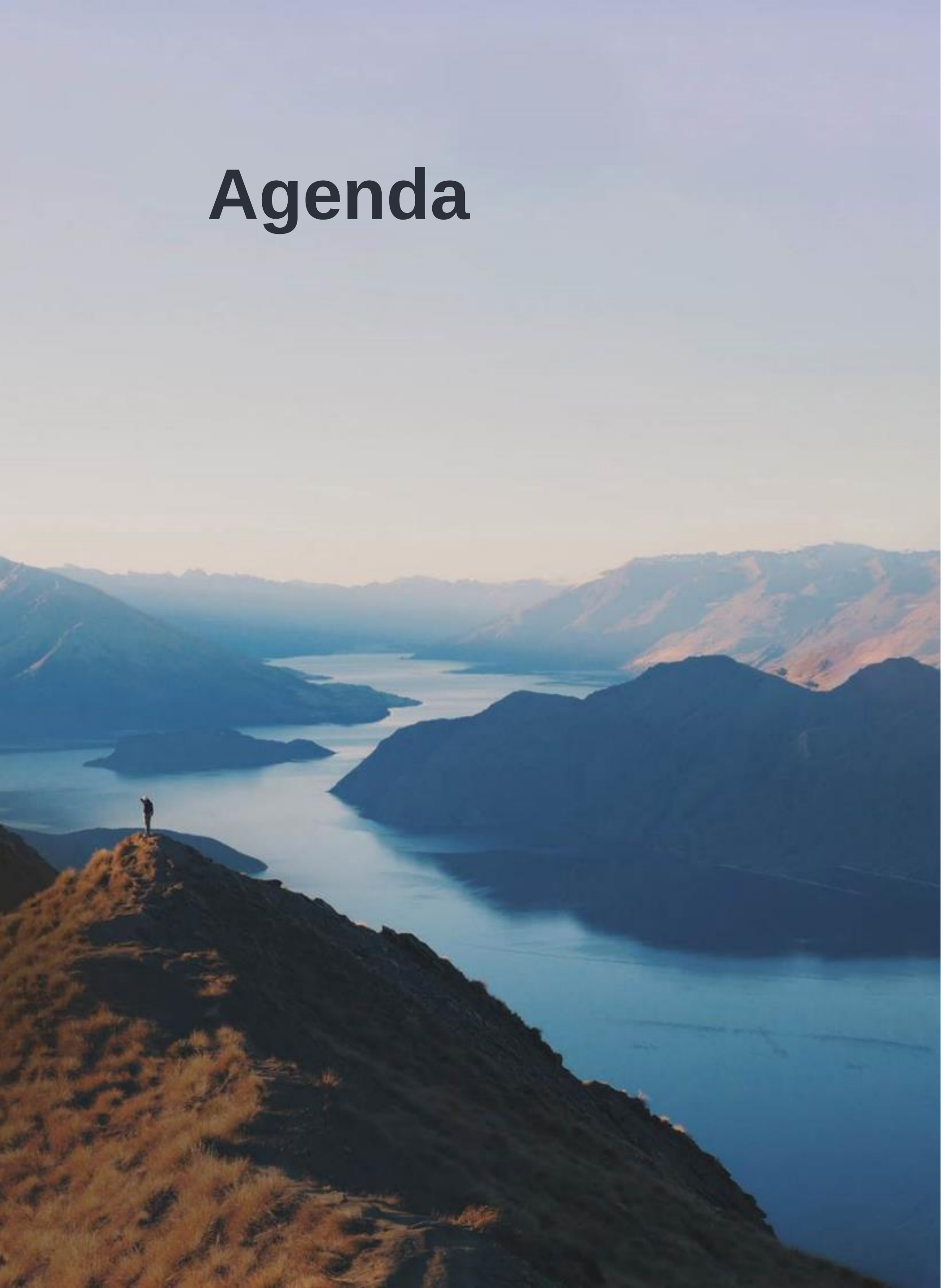
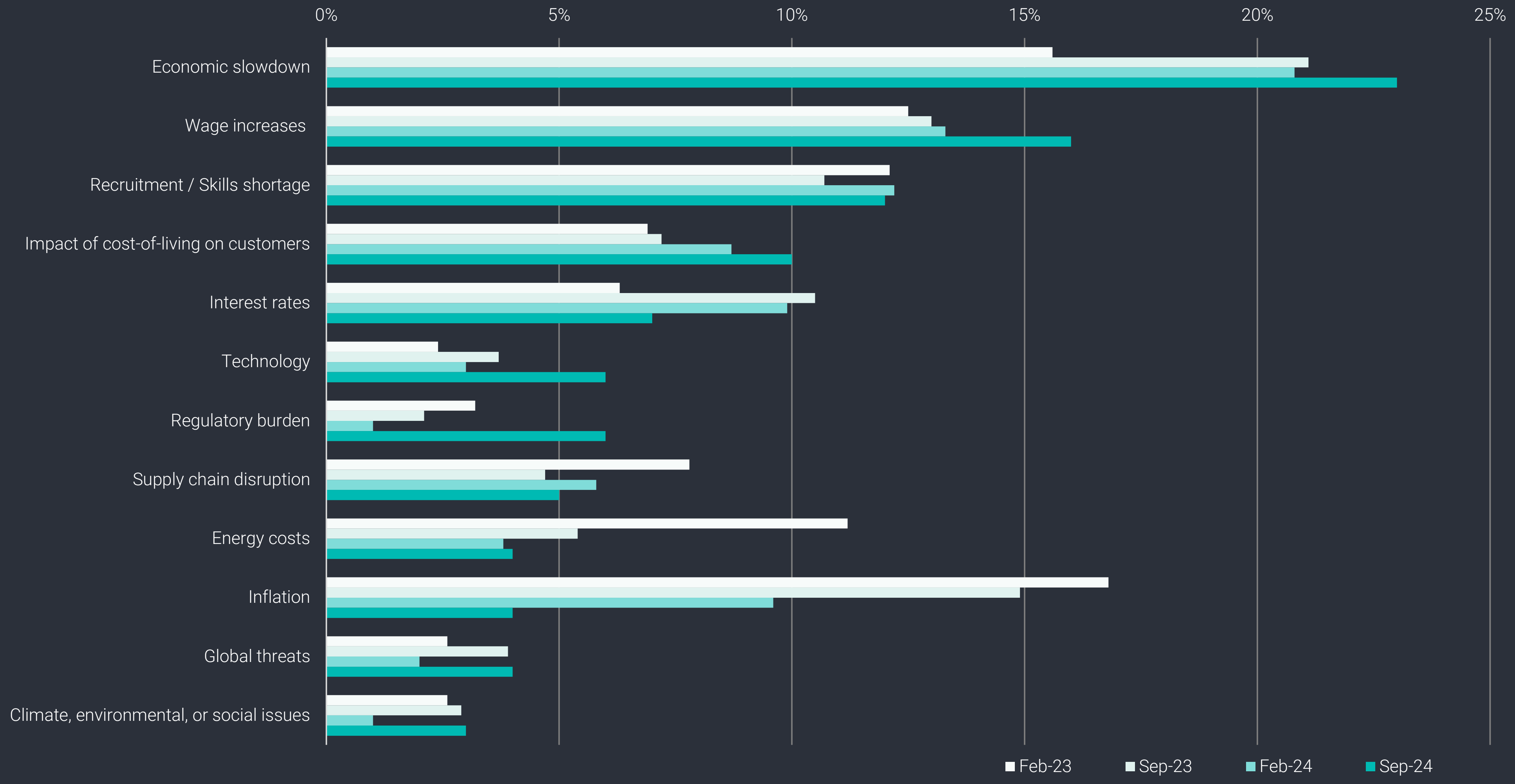
Senior Research and
Development Manager



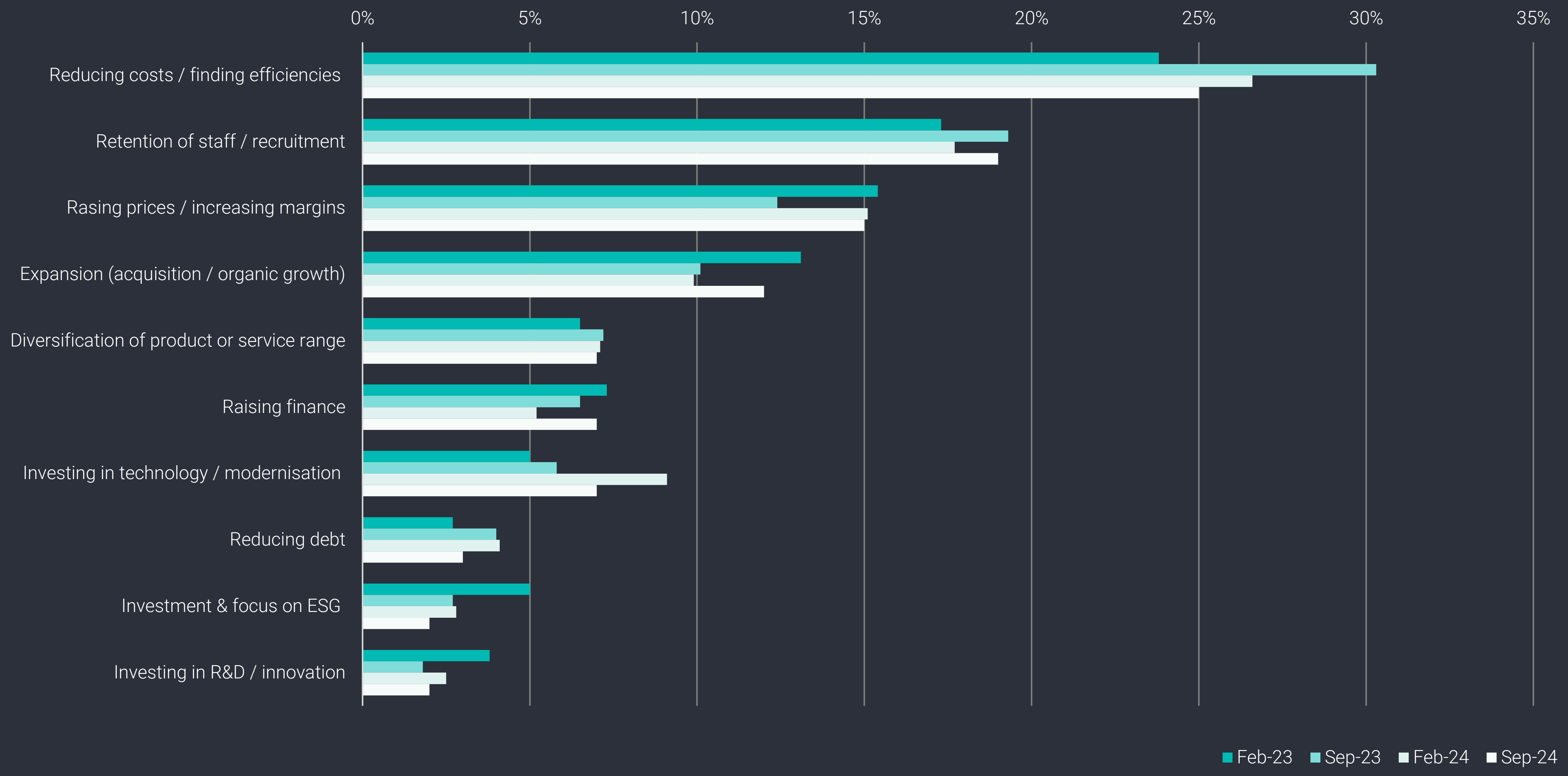
Agenda

08.30 – 08.45	**Chris Danes** Partner	Introduction and insights on the current market conditions
08.45 – 09.00	**Richard Maitland** Employment Tax Partner	Employment Tax update
09.00 – 09.30	**Beverley Scott** Tax Partner	Corporate Tax update
09.30 – 09.50	**Jonathan Dowding** Tax Director	International Tax update
09.50 – 10.10	**Chris Liu** Transfer Pricing Partner	Transfer Pricing
10.10 – 10.25	Comfort Break	
10.25 – 10.55	**Robin Prince** VAT Partner	VAT & Tax Governance update
10.55 – 11.15	**Jay Desai** Senior Research & Development Manager	Research & Development Tax Credits and compliance issues
11.15 – 12.00	**Neil Parsons** Financial Reporting	Audit, Accounts and Financial Reporting Standards update
12.00 – 12.30	**Full panel**	Q&A

Poll Results – Top 3 challenge for businesses over the next 12 months



Poll Results – What is the highest priority for your business over the next 12 months?



Update on the UK Economy

Chris Danes
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Global Economy Update

‘Global growth is expected to remain stable yet underwhelming’ (IMF)

- Predicted growth of 3.3% in 2025 and 2026.
- Medium-term growth prospects are at their lowest in decades – and uneven across regions.
- Concerns about global inflation due to Trump threat to impose new tariffs on US imports from Canada, Mexico and China.
- Scale of US debt and persistent inflation has pushed up government borrowing costs…with global impact.
- Risks to growth outlook from geo-political conflicts, increasing trade protectionism, financial market turbulence, weaker investment spending.

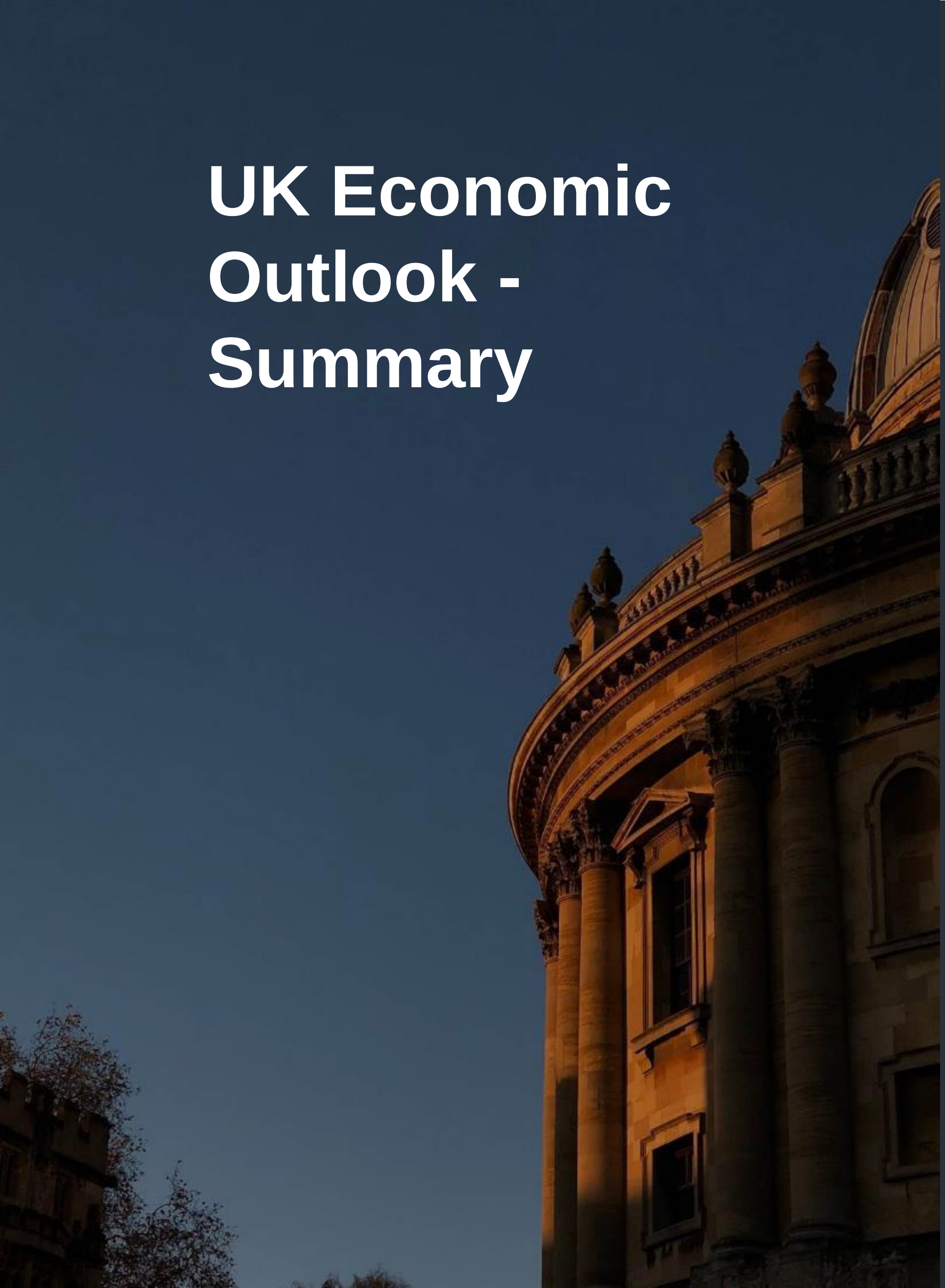
State of the UK Economy

- GDP growth showed signs of a rebound in first half of 2024
  - But recovery came to a halt with zero growth in second half
- Increased government and consumer spending will help stimulate growth in 2025 and 2026 – but only modest growth expected (0.75%)
- Stronger recovery expected in 2027 and 2028 (1.5% each year)
- October Budget equates to extra £70bn of government spending per year
  - Funded by tax increases and extra borrowing
- Stronger pay growth
- But concerns about persistent inflationary pressures
- Inflation expected to rise in coming months

The Budget & Business Confidence

Latest BCC Survey (5 January 2025)

- 63% of businesses say tax, including NI, is now a concern, following the Chancellor's Budget on 30 October – the highest level since 2017
- Business confidence has slipped to its lowest level since the aftermath of the mini-Budget in Autumn 2022
- Majority of firms (55%) now expect prices to go up in the next three months, with labour costs the biggest driver
- Only 20% of businesses have increased investment in the past three months – 24% have decreased
- Business conditions are weak, with only 24% of firms reporting increased cashflow and 30% a decrease



UK Economic Outlook - Summary

- Slow recovery in 2025 & 2026 – driven mainly by significant increase in government spending
- More positive outlook for 2027 and 2028
- ‘Sticky’ inflationary pressures in the service sectors
- Stagflation is a threat (rising inflation with rising unemployment)
- Can further rises in Government spending & borrowing be avoided?
    - More tax rises v spending squeeze to meet fiscal rules?
    - Pressure on Government borrowing costs?
    - Implications for corporate investment?
    - Implications for much-needed productivity and growth?

Employment Tax

Richard Maitland
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Employment Tax – key recent developments

Key developments impacting tax and payroll compliance

- Autumn Budget:
  - Increase in the rate of Employer National Insurance Contributions and lower threshold
  - Increase in Employment Allowance
  - 'Tackling non-compliance in the umbrella company market'
- April 2025 - increases in minimum wage rates
- April 2026 - mandatory payrolling of benefits

Employment Tax – risk and opportunity areas

- Maximising salary sacrifice – pension contributions and EVs
- National Insurance on Car Allowances – potential refund opportunity
- Tronc arrangements in hospitality
- Key risk areas:
    - Employee expenses – permanent vs. temporary workplaces; home to work travel
    - Construction Industry Scheme – mixed contracts and the scope of CIS

Corporate Tax

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Partner

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Corporate Tax update - agenda

- Autumn Statement – 30 October 2024
  - What was announced?
  - What was announced but not enacted?
  - Lets look into the future...
- Case Law update

Autumn Statements 2024 – what was announced?

Corporation tax – no major changes
- Confirmation of tax treatment on double cab pick up following case
- Extend 100% FYA to Zero emission cars to 31 March 2026
- Cryptoasset Reporting Framework (CARF) introduced from 1 January 2026

Income Taxes – no major changes
- Thresholds remain frozen
- Abolition of remittance basis for non UK Doms from 6 April 2025
- Overseas workday relief retained and reformed

Capital Gains Tax – no surprise...
- Increase in rates for disposals after 30 October 2024
- Immediate increase to 18% and 24%
- Business Asset Disposal Relief ('BADR') maintained at £1m but rate increase to 14% (from 6 April 2025) and 18% (from 6 April 2026)
- CGT rebasing to 5 April 2017
- Package of reforms to EOT's

Inheritance Tax
- New residence based system from 6 April 2025
- IHT Bands frozen until 2030

Autumn Statement 2024 – what was announced but not enacted?

Inheritance Tax

- Unused pension funds and death benefits will form part of an Estate from 6 April 2027
- Reform of Agricultural Property Relief ('APR') & Business Property Relief ('BPR') - 100% for the first £1m and 50% thereafter
- ISA limits held until 2030

Income Tax / Payroll

- Mandatory payroll of BIKs (except employment related loans and accommodation from April 2026)
- Tax Administration
- Increase the late payment interest rate by 1.5% from 6 April 2025

Making Tax Digital ('MTD')

- Extend to Sole Traders and Landlords with income over £20k by the end of the Parliament but when?
- Income over £50 - April 2026
- Income over £30k - April 2027

Autumn Statement 2024 – consultations

- Technical consultation on APR & BPR (Early 2025)
- Explore the treatment of pre development costs (Early 2025)
- Land Remediation Relief: is it still meeting its objectives and evaluating its value for money (Spring 2025)
- Technical consultation on draft legislation to modernise and simplify: transfer pricing / permanent establishments / Diverted Profits Tax
- TP: bringing medium sized businesses within the scope but maintain small exemption
- TP: Introduce a new filing obligation to report cross border related party transactions
- TP: review the transfer pricing treatment of cost contribution arrangements where costs and benefits of developing intellectual property are shared
- Consultation to tackle the promoters of schemes (Early 2025)
- Enhancing HMRC powers to tackle the non compliance on tax advisers (Early 2025)
- Modernising how HMRC acquire and use 3rd party data (Spring 2025)
- Expanding tax conditionality to new sectors
- Reforming HMRC's correction powers (Ongoing consultation)
- Simplifying the taxation of offshore interest (Ongoing consultation)

Autumn Statement 2024 – lets look into the future...

Corporation Tax Roadmap

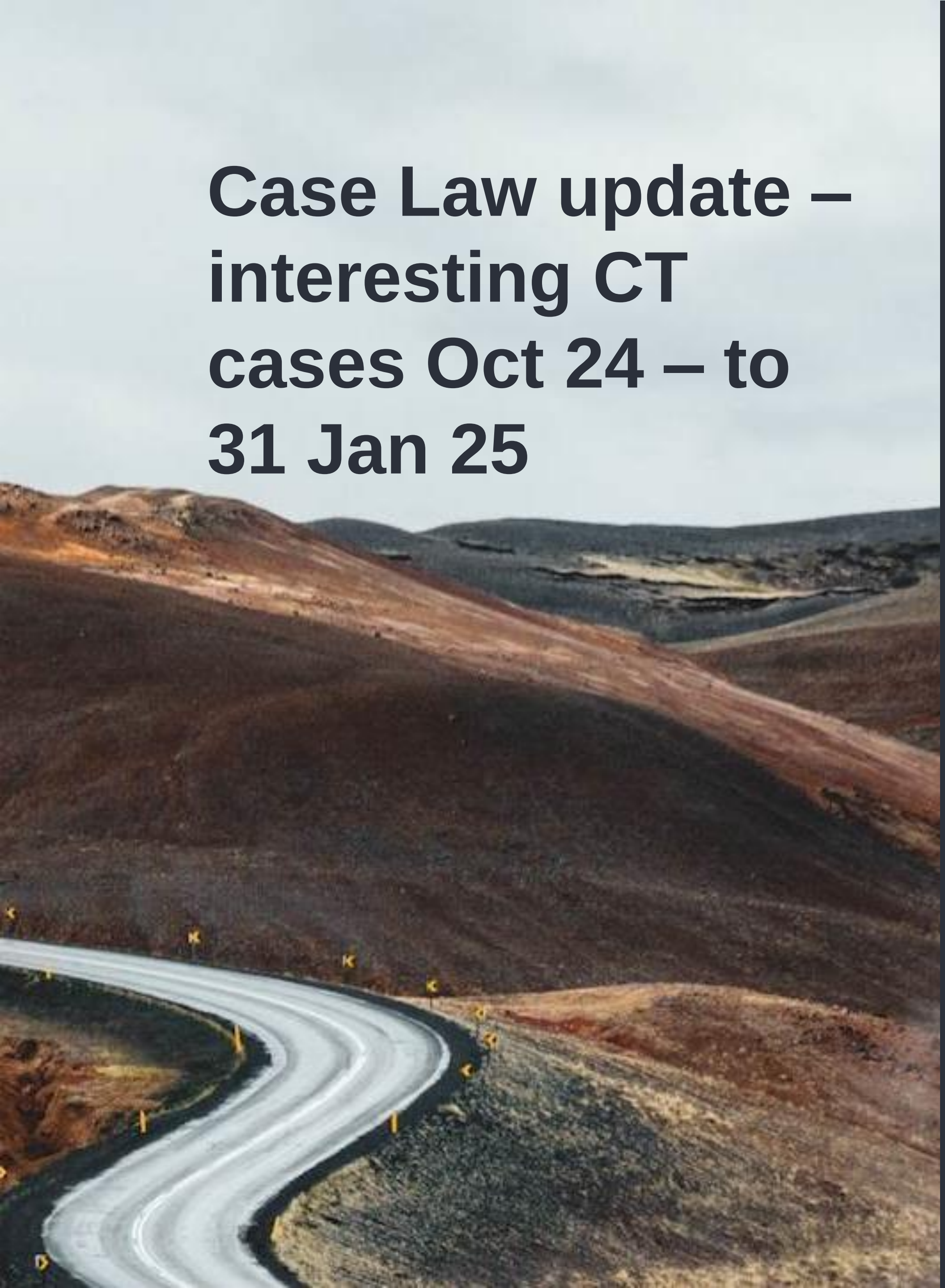
- Roadmap published 30 October 2024
- Current summary of where we are
- Additional consultations:
  - Modernisation of CT;
  - R&D advance clearances
- Interesting points / indicators:
  - Devolution of CT rate in Northern Ireland
  - Creative Industries sector plan
  - Abolition of Digital Services Tax... once Pillar 1 global solution in place

Modernising CT

- Industrial Strategy
- When will this be published?
- Build on Green Paper 'Invest 2035: The UK's modern industrial strategy'

Tax Technology

- What does the future hold
- IXBRL introduced in 2012



Case Law update – interesting CT cases Oct 24 – to 31 Jan 25

Lloyds Asset Leasing Ltd
- First Tier Tribunal 20 January 2025
- Use of cross border losses
- Inference of tax motivation

Scottishpower (SCPL) Ltd and other companies
- Court of Appeal 17 January 2025
- Fines and penalties are not always fines and penalties!

Mersey Docks and Harbour Company Limited
- First Tier Tribunal 23 December 2024
- Classic Capital Allowances case

Blackfriars Hotel (UK) Holdings Limited
- First Tier Tribunal 6 December 2024
- Restriction on use of brought forward losses

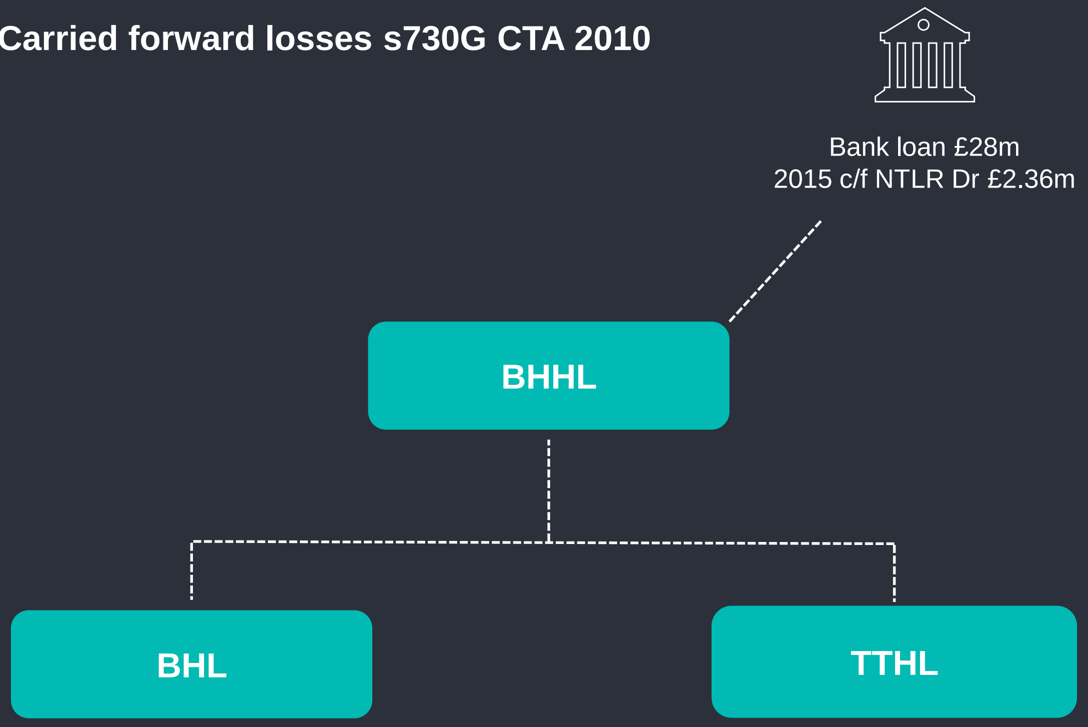
Syngenta Holdings Limited
- First Tier Tribunal 1 November 2024
- Unallowable purpose test for interest deductibility

Pitney Power Limited and another
- First Tier Tribunal 26 September 2024
- EIS but interesting commentary on commencement of trade

Blackfriars Hotel (UK) Holdings Ltd v Revenue and Customs Commissioners

[2024] UKFTT 1095 (TC)

Carried forward losses s730G CTA 2010



Blackfriars Hotel (UK) Holdings Ltd v Revenue and Customs Commissioners

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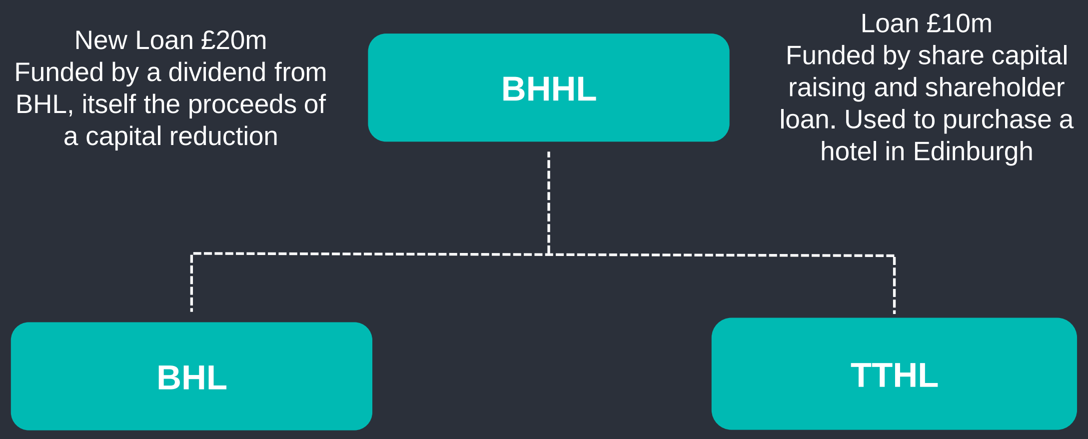


FTT Taxpayer’s Position

S730G CTA 2010 sets out a motive based test:

- A **‘Relevant Profits’ exist as a result of an arrangement**
- B Deductible expenses are brought into account because of the arrangement
- C The main purpose of the arrangement is a tax advantage
- D Reasonable to assume the tax advantage of the arrangement outweighs other financial benefits
- E Not a banking arrangement

The taxpayer made 2 arguments:

*“relevant profits” is a defined term in condition A and it refers to all the profits for an accounting period. So, unless **<u>all</u>** BHHL's profits arise as a result of tax arrangements, condition A is not satisfied.*

They argued (and HMRC accepted) that the loan to TTHL and a long existing (old) loan to BHL were of a genuine commercial nature.

Therefore, either condition A was not met at all or that profits should be apportioned to allow offset against the NTLR not arising as a result of the arrangement

FTT – HMRC's Position

HMRC' Argument

1. If the BHL new loan did not exist BHHL would have made a loss. The taxpayer's interpretation leads to an absurd and improbable application of S730G which makes the section 'comically unlikely to apply' e.g. create a tax arrangement which makes a 'profit' overall then pick any genuine commercial credits you want to offset losses against.
2. The taxpayer has confused 'credits' with profits, credits and debits are aggregated to arrive at profits
3. The proposed approach takes to narrow a view of 'causation' e.g. the reason for profits arising and puts a taxpayer who has engaged in an avoidance scheme in a better position than one who has not and so runs contrary to the purpose of the legislation

Interest paid to bank	(935,165)
BHL Old Loan Interest	105,974
BHL New Loan Interest	1,320,000
TTHL Loan Interest	409,167
Profit	**£899,976**

FTT Decision

“The two Supreme Court cases cited by Mr Fell [for HMRC] make it clear that the approach we should take to construing section 730G is a purposive one.”

“It is hard to see why Parliament would want a company which engaged in arrangements within the scope of section 730G to be able to improve its position in any way at all.”

- The Tribunal agreed with HMRC that it was contrary to the purpose of the law to require all relevant profits to arise from a ‘tax arrangement’ so threw out the taxpayer’s first argument.
- They also refuted the suggestion that the NTLR Dr could be used agains non-tax arrangement NTLR Cr in isolation

They did, however, agree that the profits arising as a result of the arrangement could be removed to arrive at ‘untainted profits’ against which the NTLR Dr could be offset.

FTT Decision

They did, however, agree that the profits arising as a result of the arrangement could be removed to arrive at 'untainted profits' against which the NTLR Dr could be offset

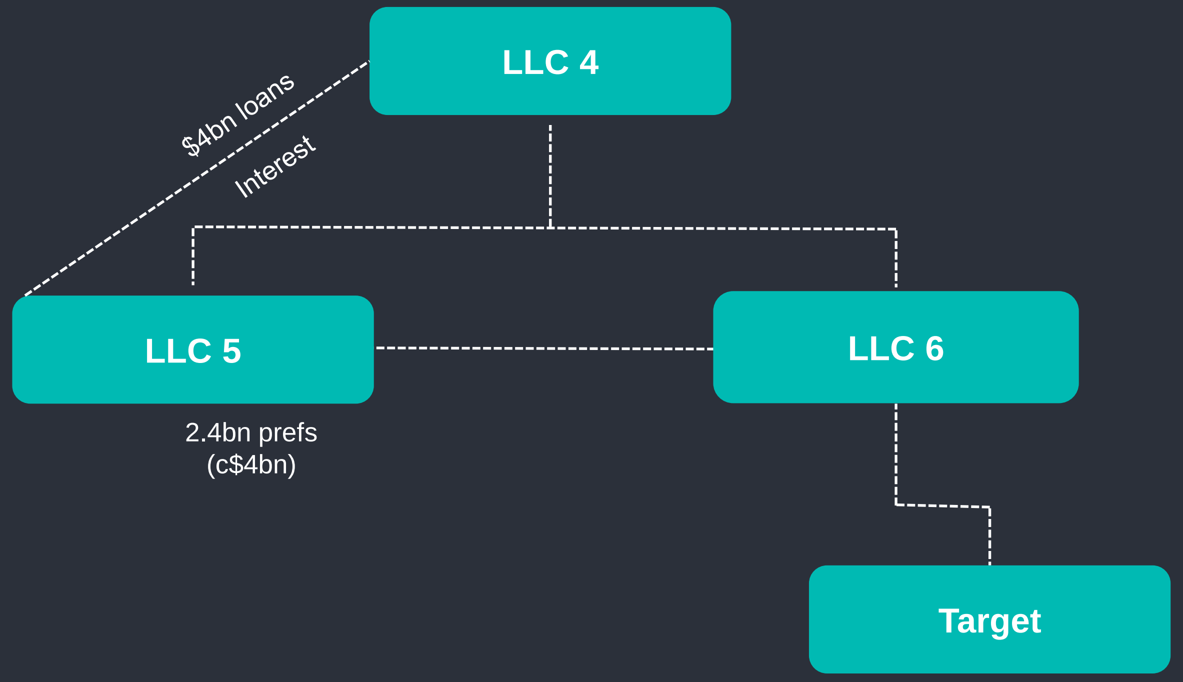
"Subsection (10) clearly contemplates the existence of "untainted" profits to which the prohibition in section 730G will not apply. If the presence of tax arrangements meant that the prohibition in section 730G applied to all profits, subsection (10) would be unnecessary and the effect of section 730G would be to punish a company for engaging in tax arrangements, as it could end up in a worse position than if it had not done so, and we cannot see anything in the wording of section 730G or elsewhere which suggests that section 730G is intended to have such an effect."

Interest paid to bank	(935,165)
BHL Old Loan Interest	105,974
TTHL Loan Interest	409,167
Profit	**£(402,024)**

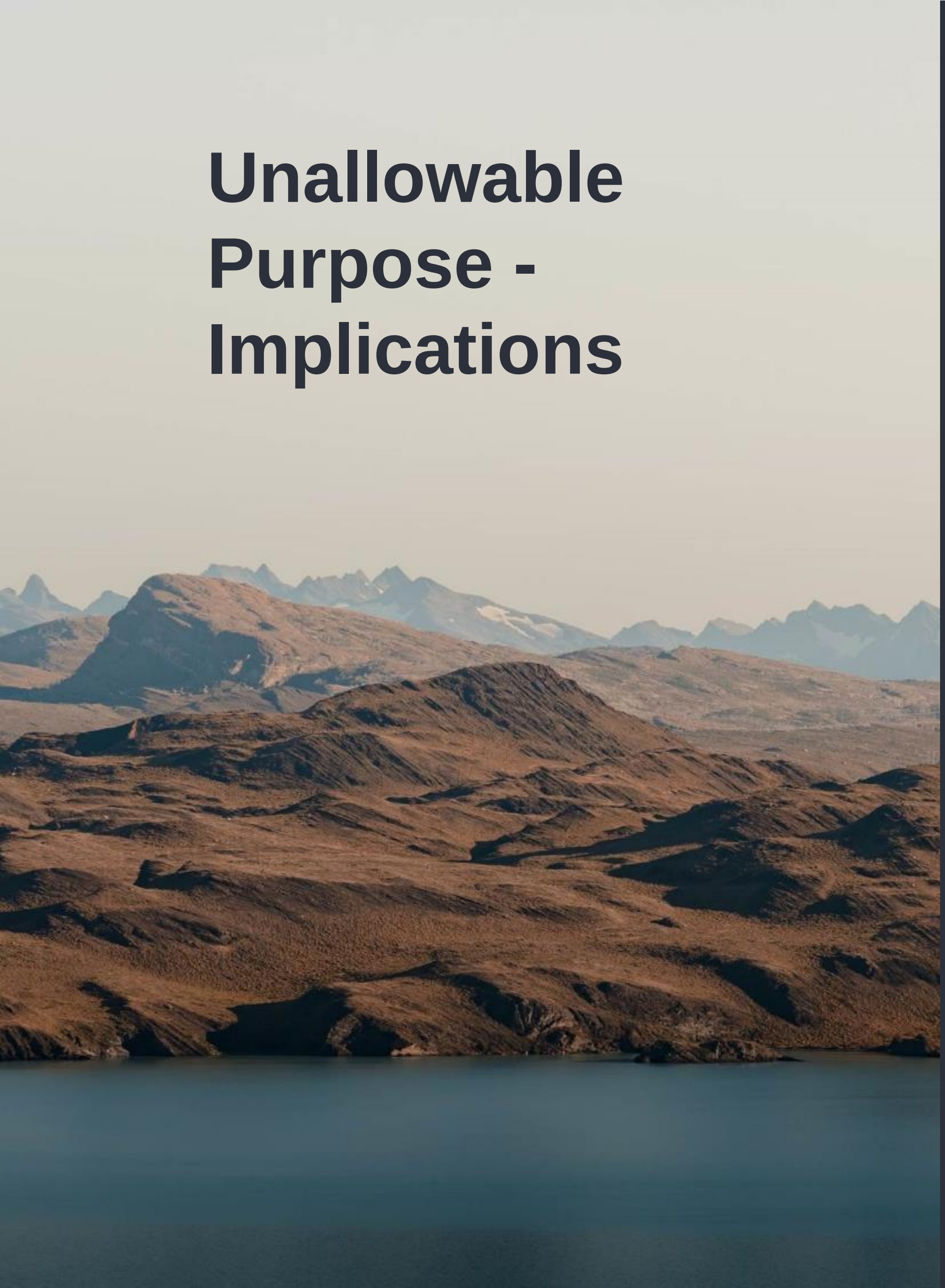
Unallowable Purpose

Blackrock, Kwik-Fit and JTI were all refused permission to appeal against the Court of Appeal decision on their 'unallowable purpose' (s441 CTA 2009) cases.

Blackrock:



Unallowable Purpose - Implications



Some uncomfortable reading from Syngenta:

“We do not find Mr Kuntschen's explanation plausible. …. In general tax professionals are highly commercial individuals, in addition to being knowledgeable about tax. This is all the more so for tax advisors who work in-house. We do not believe that such individuals would only discuss tax and disregard other commercial considerations, if there were any. Mr Kuntschen's suggestion is fanciful.”

Sygenta commentary in Tax Journal - An interesting read!

1. Courts are prepared to enforce the ‘unallowable purpose test’ and take their own view (a concession is not required)
2. The test is annual so arrangements must be reviewed regularly
3. Clear commercial rationale required for intra-group lending at both the transaction and structural level
4. Who is the ultimate decision maker? No longer the directors at company level (JTI)
5. From a TP perspective no formal covenants and guarantees required to meet the ALP.

International Tax

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Topical International Tax News

1. Donald Trump’s inauguration in the US on 20 January this year was followed closely by a wave of various global and domestic tax and tariff announcements.

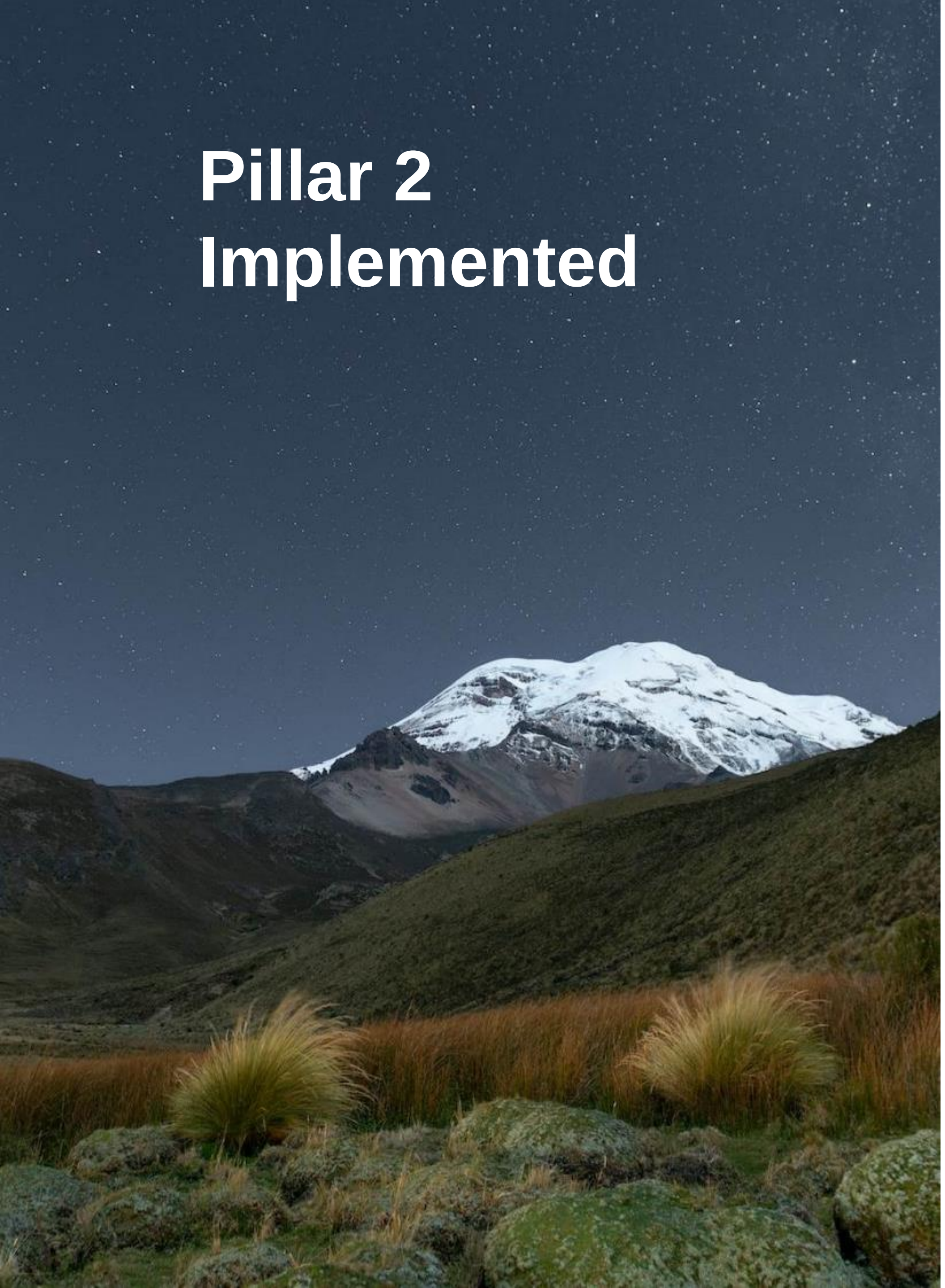
2. These included the withdrawal by the US from the Pillar 1 and 2 discussions and a stated commitment to oppose any final agreement and the outcomes of these initiatives.

3. The US also threatened other countries with a doubling of US taxes and other retaliatory measures, if they attempt to enforce any international agreement the US hasn’t agreed to.

Pillar 2 Update

1. Reminder: 15% Global Minimum Tax and applies to all Multinational Groups with EUR 750m consolidated turnover.
2. More Pillar 2 notification / registration deadlines have been announced in recent months. Some initial registration deadlines have now passed, with others fast approaching.
3. Before their stated withdrawal from Pillar 2, the US were already set to apply a much higher threshold, but could we now see more retaliatory measures where US MNEs are being caught by the UTPR?
4. Pillar 2 still expected to proceed in the other 140+ countries that have voted in support of the UN Inclusive Framework.
5. Inconsistent approach to notification and reporting requirements and dates, with penalties for non-compliance similarly unpredictable.
6. HMRC recently released their initial draft top up tax guidance manuals for consultation (166 pages in this first draft).

Pillar 2 Implemented



EU Direct Tax Legislative Initiatives

- UNSHELL
- BEFIT
- HOT
- DAC 9
- SAFE
- DEBRA
- FASTER

Transfer Pricing

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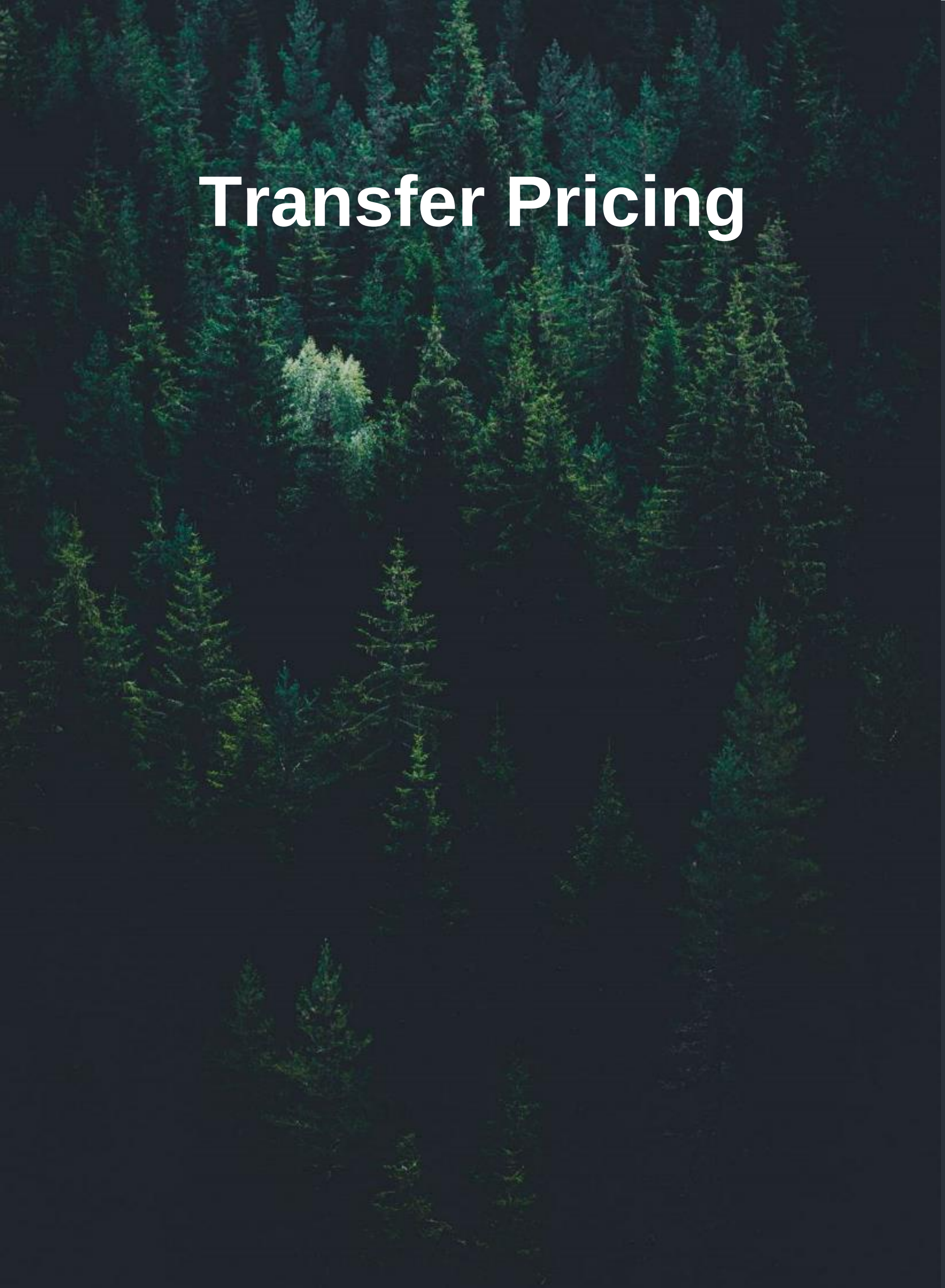


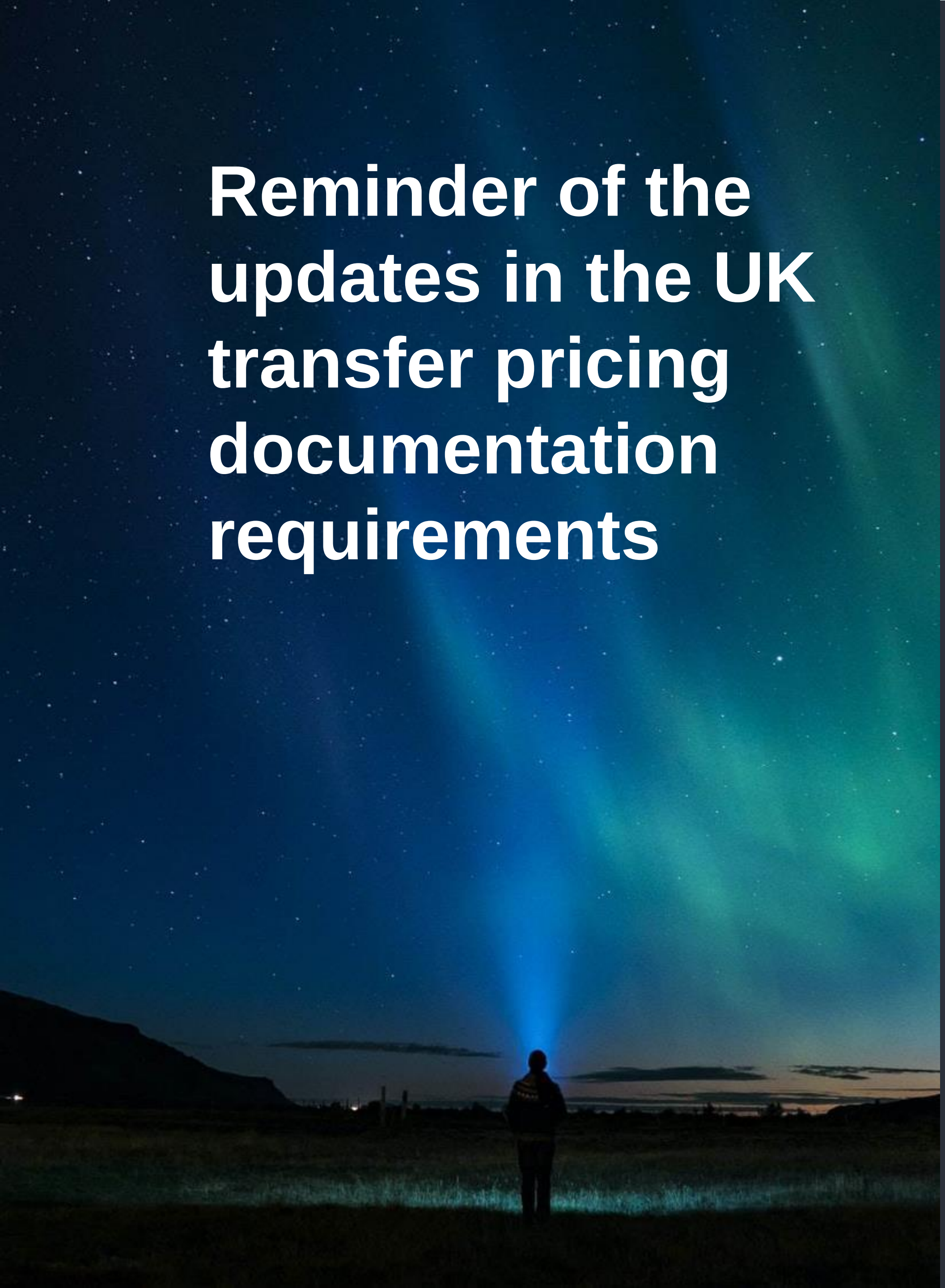
Transfer Pricing

- HMRC Guidelines for Compliance for Transfer Pricing (GfC7)
- Reminder of the updates in the UK transfer pricing documentation requirements
- Recent experience of dealing with HMRC enquiries

HMRC Guidelines for Compliance for Transfer Pricing (GfC7)

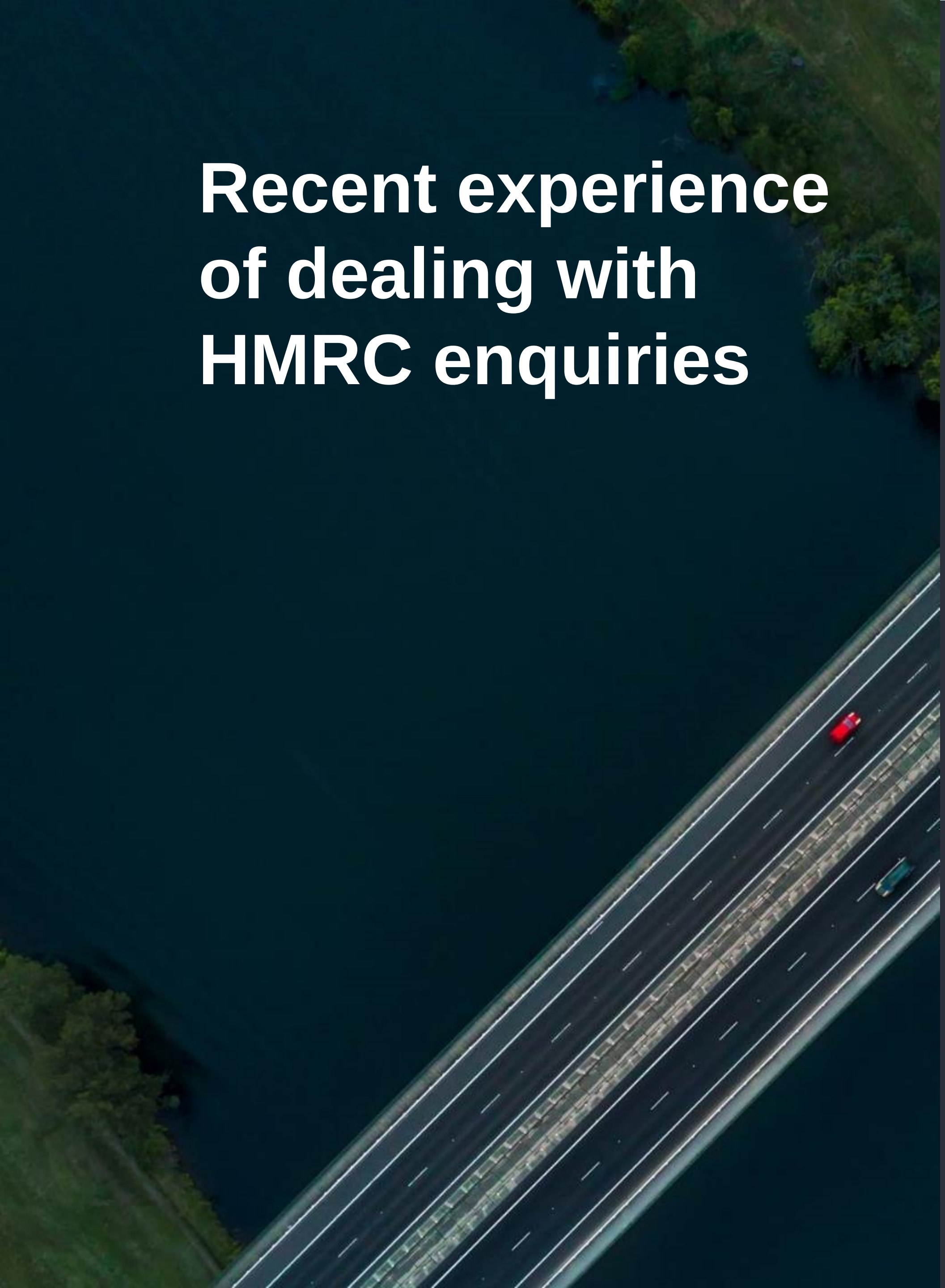
- HMRC correspondence
- Objective of the Guidelines
- Key takeaways

Reminder of the updates in the UK transfer pricing documentation requirements



- For accounting period starting on or after 1 April 2023, multinational groups with a consolidated group revenue over €750M are required to prepare a transfer pricing Master File and a Local File in the UK. The format of the Master File and the Local File is consistent with that set out by the OECD Guidelines.

- However, transfer pricing documentation preparation is always required by the UK tax legislation unless a Group is qualified as a small or medium enterprise. The new requirement is only to align the format of the transfer pricing documentation with the OECD prescribed format. Therefore, if there were transfer pricing enquiries/audits undertaken by HMRC in relation to the historic period (e.g., year ended 31 December 2023), it would be expected that the Group should have transfer pricing documentation in place.



Recent experience of dealing with HMRC enquiries

- Quality of the transfer pricing documentation
- Selection of transfer pricing methods
- Type of transactions – IP related transactions and financial transactions

VAT & Tax Governance

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HMRC Guidelines for VAT Compliance

- HMRC has recently published guidelines for VAT compliance (“GfC8”).
- These guidelines outline HMRC's recommended approach to VAT compliance processes.
- They apply to all VAT-registered businesses that operate under invoice accounting.
- While primarily aimed at larger businesses, many aspects remain relevant for small and medium-sized enterprises.

General Approach to VAT compliance

The guidelines cover systems and governance, with the expectation that even smaller businesses should implement well-documented processes and controls.

People

- Appropriately trained
- Roles & responsibilities
- Escalation process
- Key staff cover

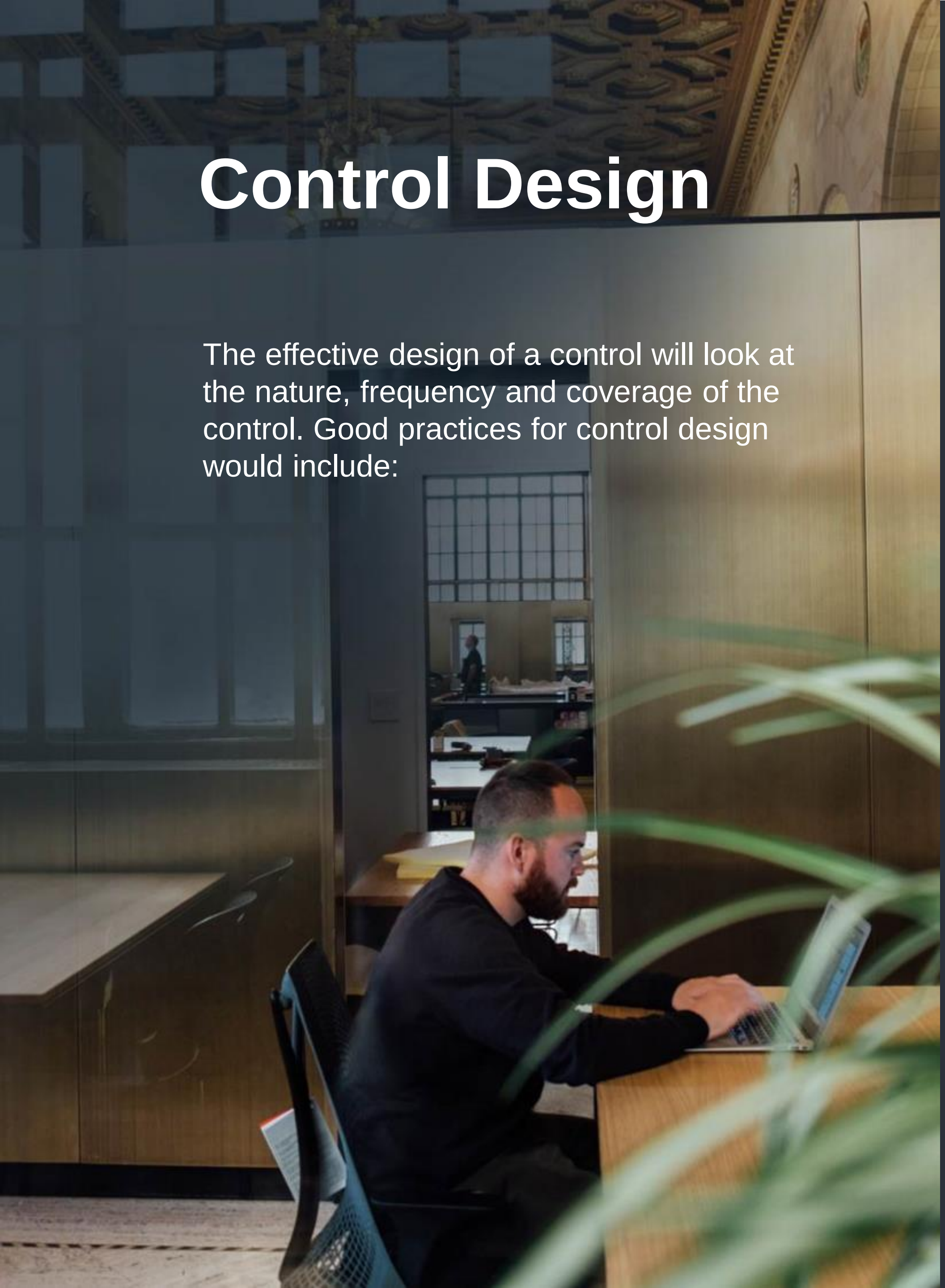
Process

- Document controls
- Process documentation
- New customer due diligence
- SLAs and KPIs for outsourced processes

Technology

- System interface controls
- Tax configuration should be documented
- AI tools are monitored

Control Design



The effective design of a control will look at the nature, frequency and coverage of the control. Good practices for control design would include:

Manual	→	Automated
Complex	→	Simple
Detective	→	Preventative
High Level	→	Transactional
Sampling	→	100%
Retrospective	→	Real Time

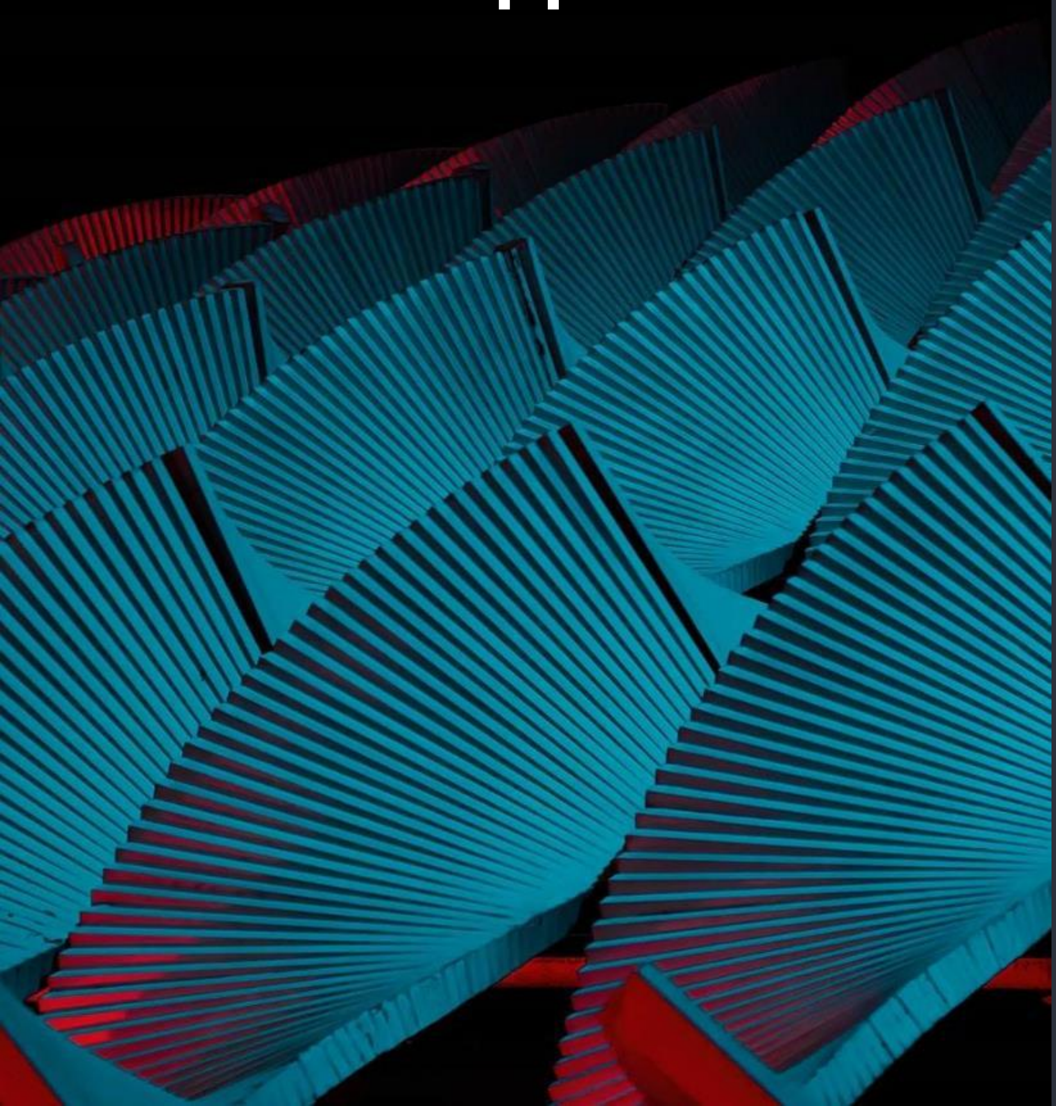
Cladding Remediation Work

- No specific VAT relief on cladding remediation work

- HMRC have previously stated that works must be undertaken under the ‘responsible Actors Scheme’ to be eligible for deduction.

- In December 24, HMRC issued Revenue & Customs Brief 3/24, in which they set out their revised policy to allow VAT deduction for:
  - Snagging work
  - Cost components of future taxable supplies

EU Updates – ViDA Approval



On 5 November 2024, ECOFIN (the European Council on Economic and Financial Affairs) adopted the proposal VAT in the Digital Age (“ViDA).

The ViDA proposal is comprised of 3 pillars:

1 **E-invoicing**

2025 – Member states are able to introduce e-invoicing without needing approval
July 2030 – e-invoices required for cross border B2B and B2G supplies
Jan 2035 – harmonisation of domestic e-invoicing in all member states

2 **Platform Economy**

Jan 2030 – Travel and accommodation sharing platforms become deemed supplier for VAT

3 **Single VAT registration**

Jan 2028 – One Stop Shop extended to include movement of own goods prior to B2C sale

EU Update – Virtual Events

Previously, both the UK and the EU treated streamed events supplied to individual consumers as taxed where the supplier is established.

Virtual events include:

- Online conferences/ webinar
- Distance learning courses

From 1 Jan 2025

The EU changed the B2C place of supply rules for virtual event to be taxed where the customer is located.

The UK has not made a similar change and HMRC have not provided guidance on the possible double/no taxation that could arise.

Break

We will resume shortly

Research & Development

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R&D Compliance: Recent FTT Decisions

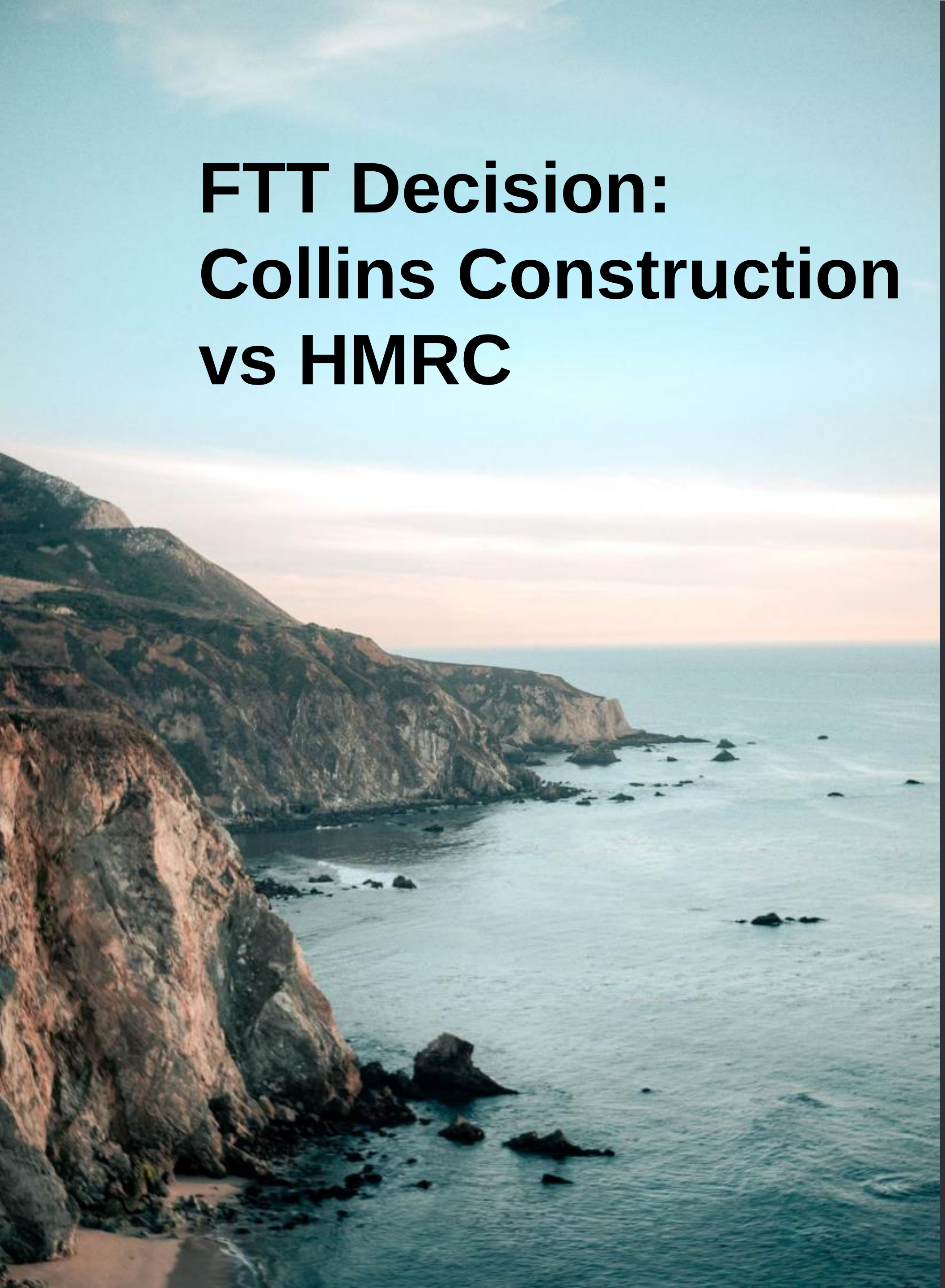
- Recent cases, including Collins Construction Ltd v HMRC and Get Onbord Ltd v HMRC, have clarified key aspects of R&D tax relief, such as subsidised expenditure, contracted-out activities, and the use of existing technologies.

- These rulings, although not binding, provide important guidance on eligibility criteria and the burden of proof, offering businesses valuable insights to navigate HMRC’s interpretation of the rules across various sectors.

- Following several FTT decisions favouring claimants on subsidised and subcontracted R&D, HMRC has temporarily paused related compliance checks until February/March 2025 to review its position. This represents a shift from HMRC's earlier stance, which opposed the original FTT ruling in the Quinn (London) vs. HMRC case.

- The cases highlight the importance of maintaining records to evidence the R&D activity and reviewing contracts and agreements to ensure R&D expenditure is being correctly claimed.

FTT Decision: Collins Construction vs HMRC



Background

- Collins Construction Ltd appealed HMRC's decision to deny SME relief because its R&D expenditure was subsidised.
- HMRC contended that payments received from clients for completed projects should be considered subsidised, arguing that these payments indirectly funded the R&D activities.

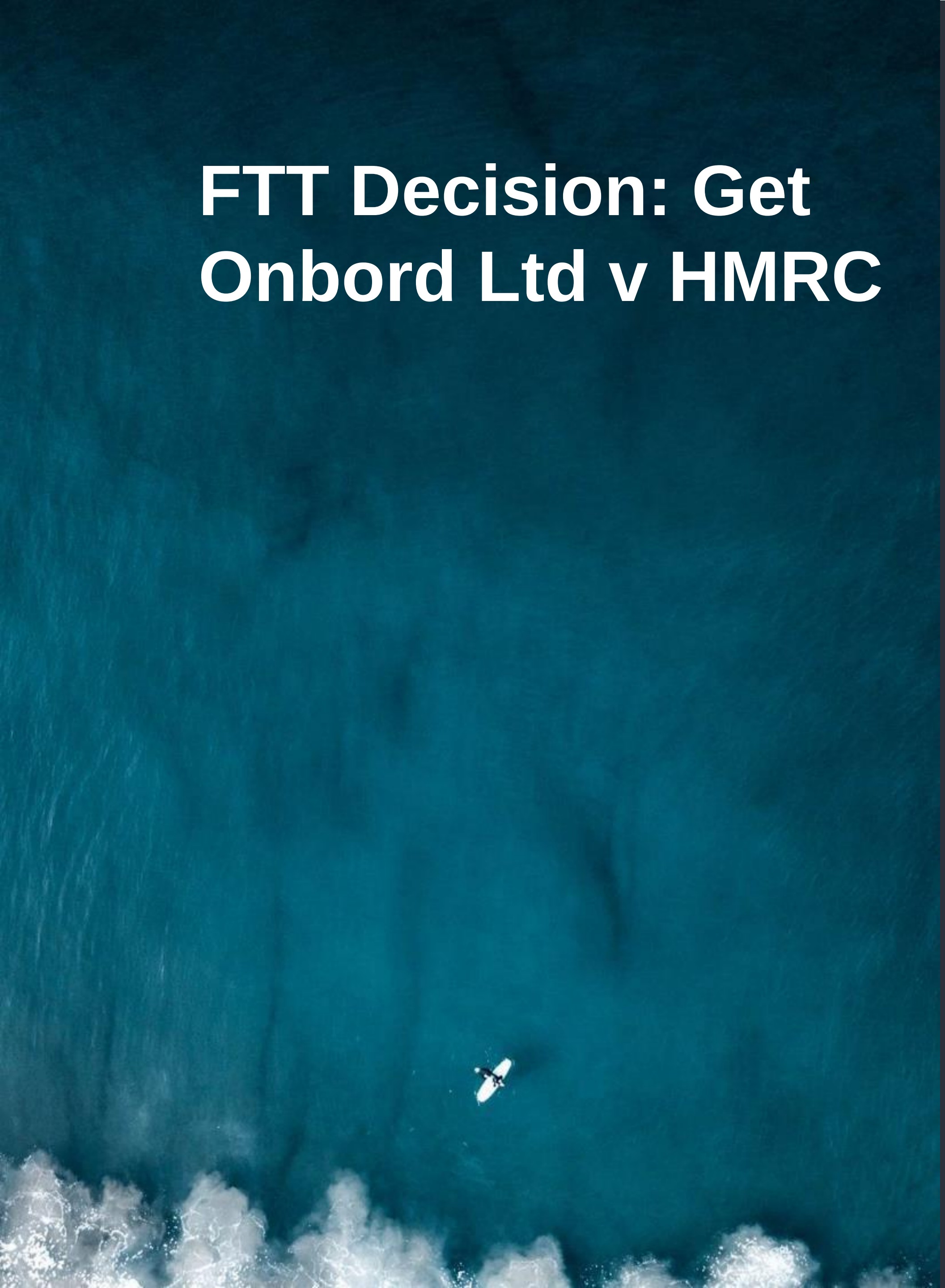
Tribunal Decision

- The FTT ruled in favour of Collins, determining that the expenditure was not subsidised.
- The Tribunal clarified that a client paying for a construction or project-based service does not automatically mean that the R&D activities are subsidised, as there was no clear connection between client payments and the R&D costs incurred.

Key Points

- Subsidised Expenditure: The decision reinforced that payments from clients do not automatically result in subsidies unless there is a direct link between the client's payment and the R&D work. A general contract for commercial services does not qualify as a subsidy under the R&D tax relief scheme.
- Commercial Contracts: R&D tax relief can apply to businesses with standard commercial contracts, even if clients fund aspects of the project.

FTT Decision: Get Onbord Ltd v HMRC



Background

- Get Onbord Ltd, a software development company, claimed enhanced R&D tax relief for its work (automating verification and risk profiling).
- HMRC denied the claim, arguing that the project did not involve genuine scientific or technological uncertainties and merely used existing tools like open-source software.

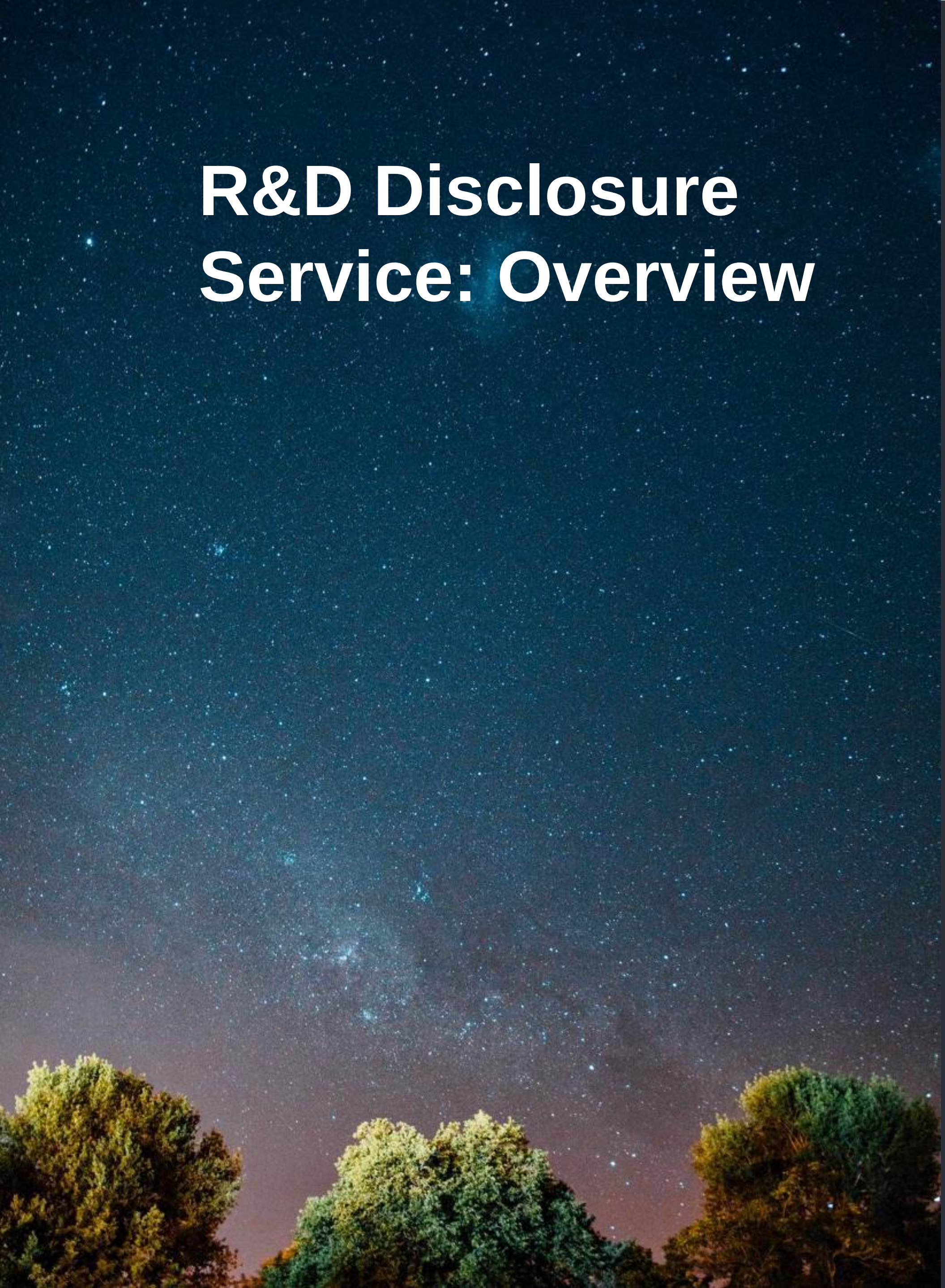
Tribunal Decision

- The FTT ruled in favour of Get Onbord, recognising that even though the company used existing tools, the project involved significant advancements in how those tools were applied.
- The Tribunal accepted that innovation in the application of existing technology could meet the requirements for R&D tax relief.
- The Tribunal also emphasised the importance of expert testimony and relevant experience in assessing the nature of R&D activities.

Key Points

- Use of Existing Technology: The decision made it clear that utilising existing technologies does not exclude a project from R&D status as long as the project represents an advance in scientific/technological knowledge.
- Burden of Proof: The ruling highlighted the importance of presenting sufficient evidence to substantiate R&D claims, with the burden shifting to HMRC if proper evidence is provided.
- Competent Professional (CP): The Tribunal noted that a competent professional does not necessarily need formal qualifications but must have relevant experience and expertise to substantiate the claim.

R&D Disclosure Service: Overview



HMRC launched the service on 31 December 2024.

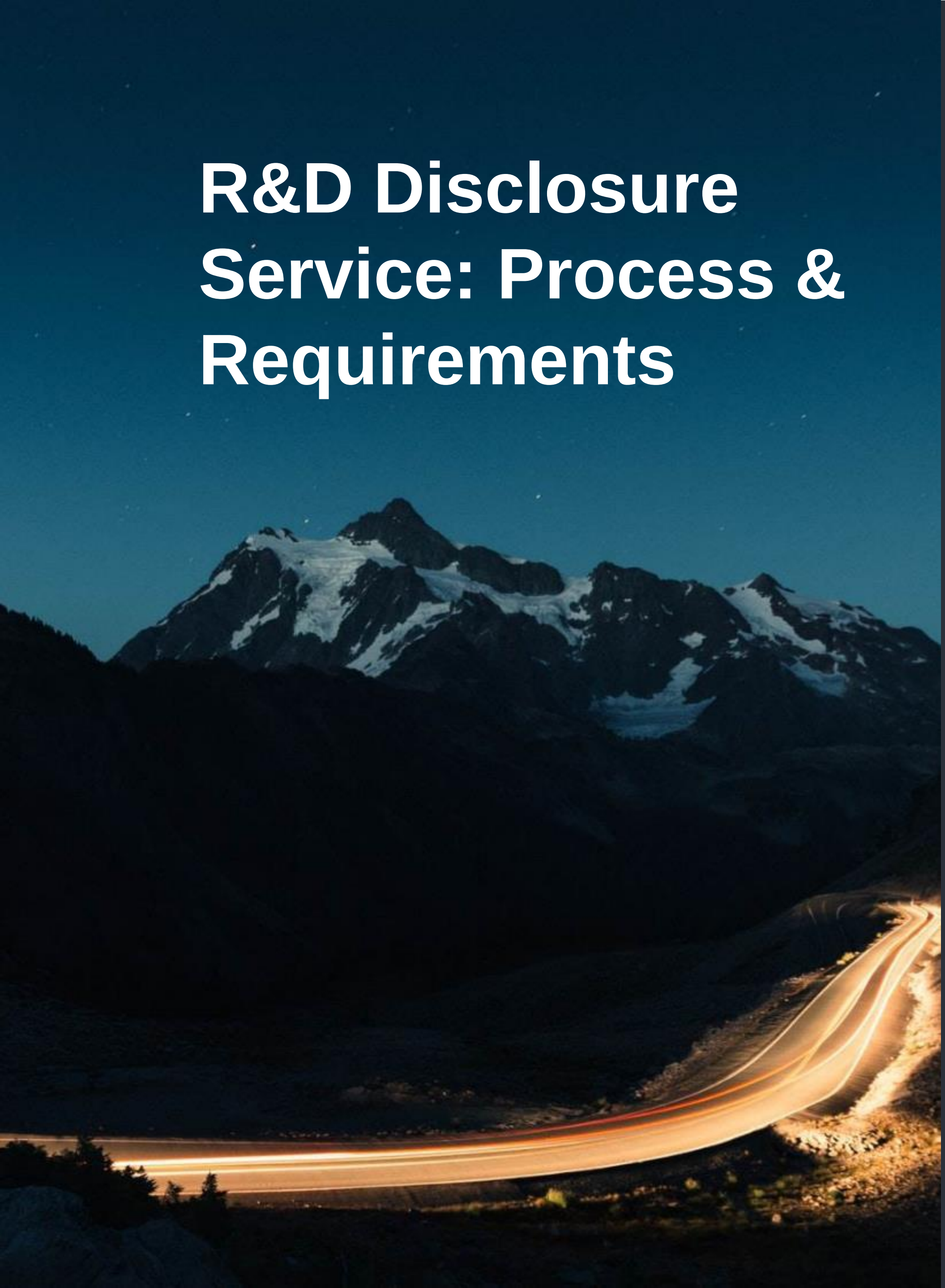
The service allows companies to voluntarily disclose errors in R&D claims that are no longer within the time frame to amend their CT returns and repay any amounts owed due to inaccuracies.

While it does not offer any particular concessions, voluntary disclosure may help reduce penalties and provide future assurance.

When to Notify HMRC:
- A company has overclaimed R&D tax relief
- Time limit to amend the CT Return has expired
- Company owes CT or needs to repay tax credit

When NOT to use the Service:
- Claims still within amendment time limits.
- Deliberate errors - use the Contractual Disclosure Facility (CDF).
- No tax to pay or credit to repay - contact HMRC via email.

The service can be used by a company director, secretary, or an advisors acting on behalf of the business.



R&D Disclosure Service: Process & Requirements

How the Service Works

Submission Process

- Submit the online form with supporting calculations.
- Include a signed letter of offer for contract settlement.
- HMRC will then either accept or request more information

Prepare Your Disclosure

- Key information needed:
- Company name, UTR, registered address, and SIC code.
- Reasons for inaccuracy and detailed calculations.
- Additional forms (COMP1a authorisation form) if you’re an agent

Calculations

- The company will need to determine the full amount it owes which includes:
- R&D amount (RDEC or SME) that is overclaims
- CT underpaid or credit amount to repay
- Penalties and interest

After submitting your disclosure, where accepted, a payment reference number will be received within 15 days for payment.

Financial Reporting and Company Law Update

Neil Parsons
Financial Reporting
Director
neil.parsons@mha.co.uk

Changes to Company Law affecting financial reporting

Changes to the UK Listing Rules

In July 2024, the FCA published Policy Statement PS 24/6, setting out significant changes to the UK's listing regime and a major overhaul of the Listing Rules. The changes include:

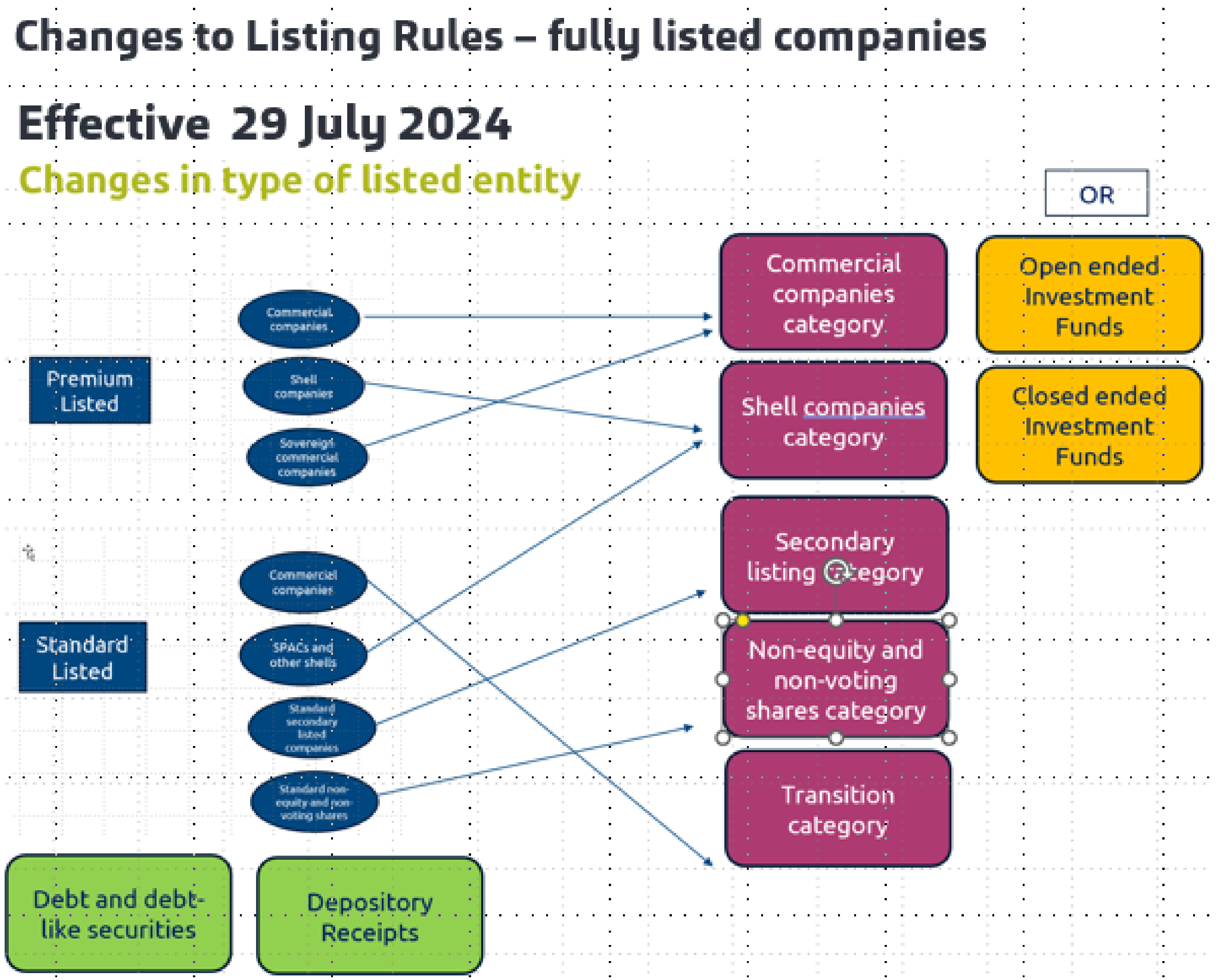
- The current 'premium' and 'standard' listing segments are being replaced with a new 'commercial companies' category for equity share listings. For this category, there will in future be no requirement for votes on significant and related party transactions and a more permissive approach to companies listing with dual class share structures or weighted voting rights .The changes came into effect from 29 July 2024 and the FCA wrote to companies to notify them of how their entry on the revised Official List would be shown.

- The main reporting requirements for commercial companies' category is the same as for the previous premium listed category.

- There are 4 new categories of listing, to which the previous standard listings of equity will be mapped (including a return to having a secondary listing category available to international commercial companies).

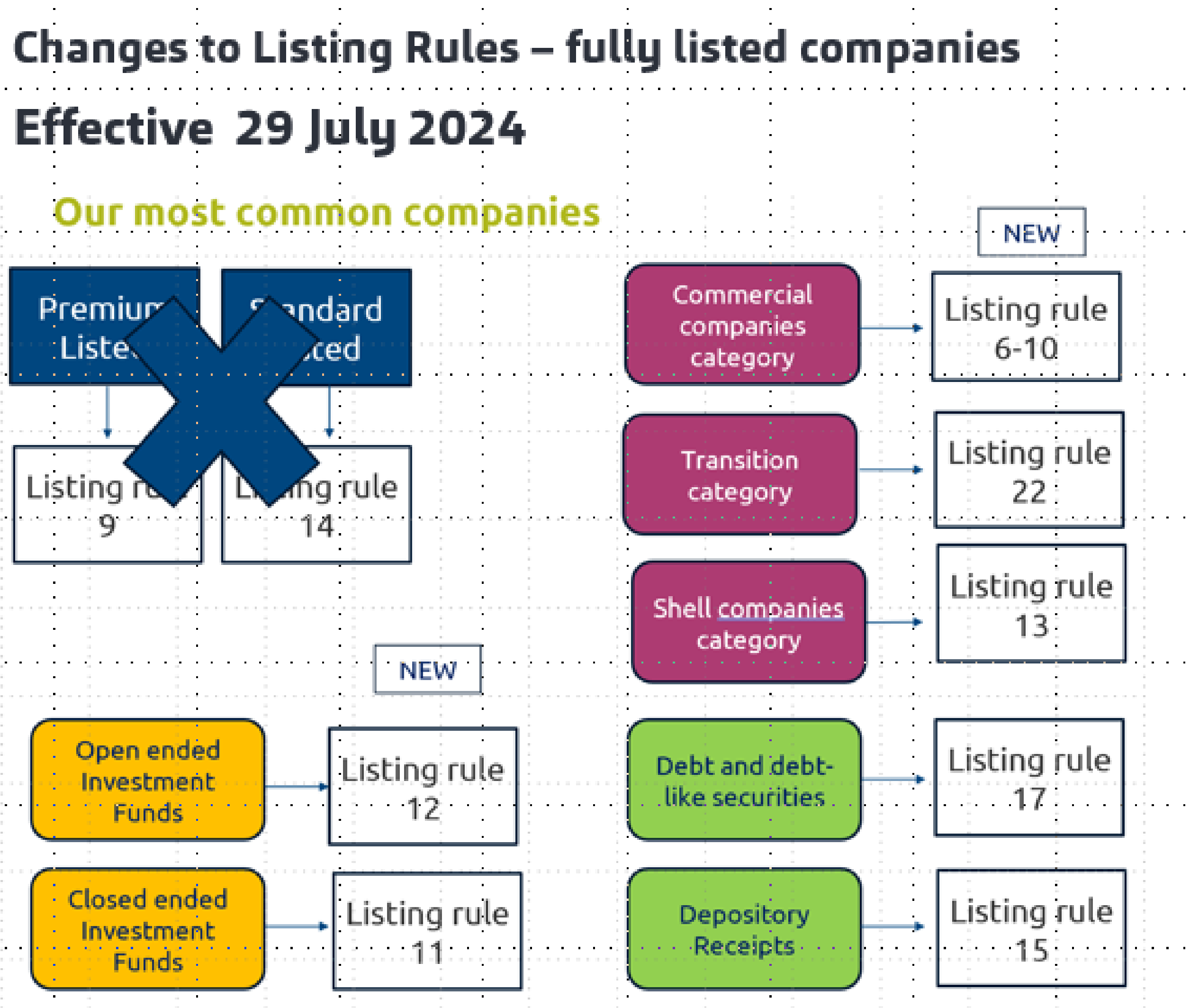
- The existing corporate reporting requirements for companies with standard listings of equity relating to corporate governance, climate change (TCFD) and diversity will continue to apply to these new categories.

Changes to Company Law affecting financial reporting



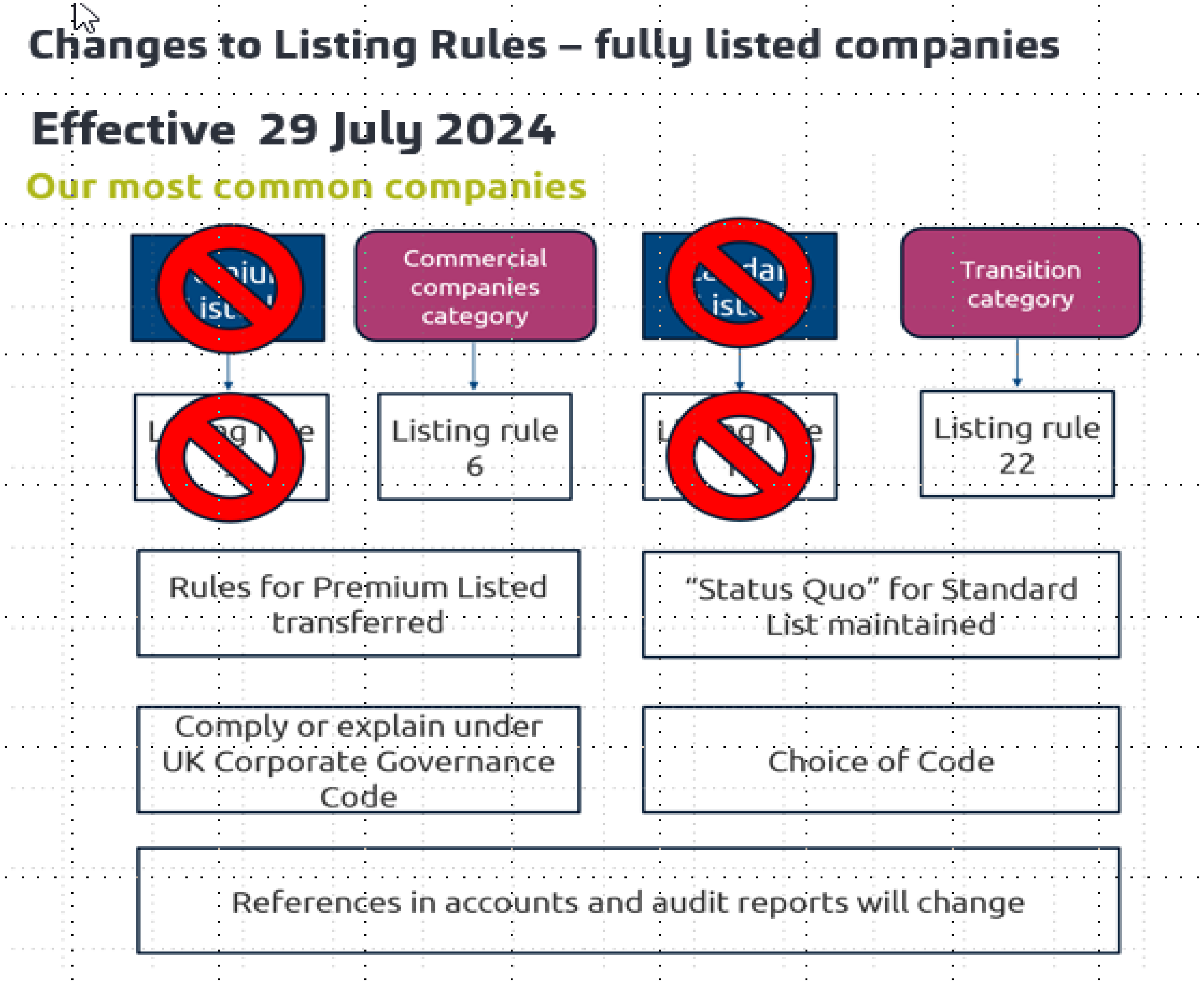
* Graph is from Financial Reporting Council

Changes to Company Law affecting financial reporting



* Graph is from Financial Reporting Council

Changes to Company Law affecting financial reporting



* Graph is from Financial Reporting Council

Changes to Company Law affecting financial reporting

Companies (Accounts and Reports) Amendment and Transitional Provision) Regulations 2024

Before Christmas 2024 the long-awaited statutory instrument was published by the government amending the qualifying conditions for companies and LLPs that determine the size of the company or LLP as micro-entity, small, medium or otherwise large were issued.

The statutory instrument also repeals certain disclosures that are required in the directors' report of medium-sized companies.

- All changes take effect for accounting periods commencing on or after 6 April 2025 with no early adoption permitted

- Amendments affect SI2008/409, SI 2008/410 and Part 15 of the Companies Act 2006

- The definitions of ineligible groups and the law determining which companies are ineligible apply the small companies or medium-sized regimes remain unaltered.

Changes to Company Law affecting financial reporting

Changes to the directors' report – periods on or after 6 April 2025

Small companies (SI 2008/410)

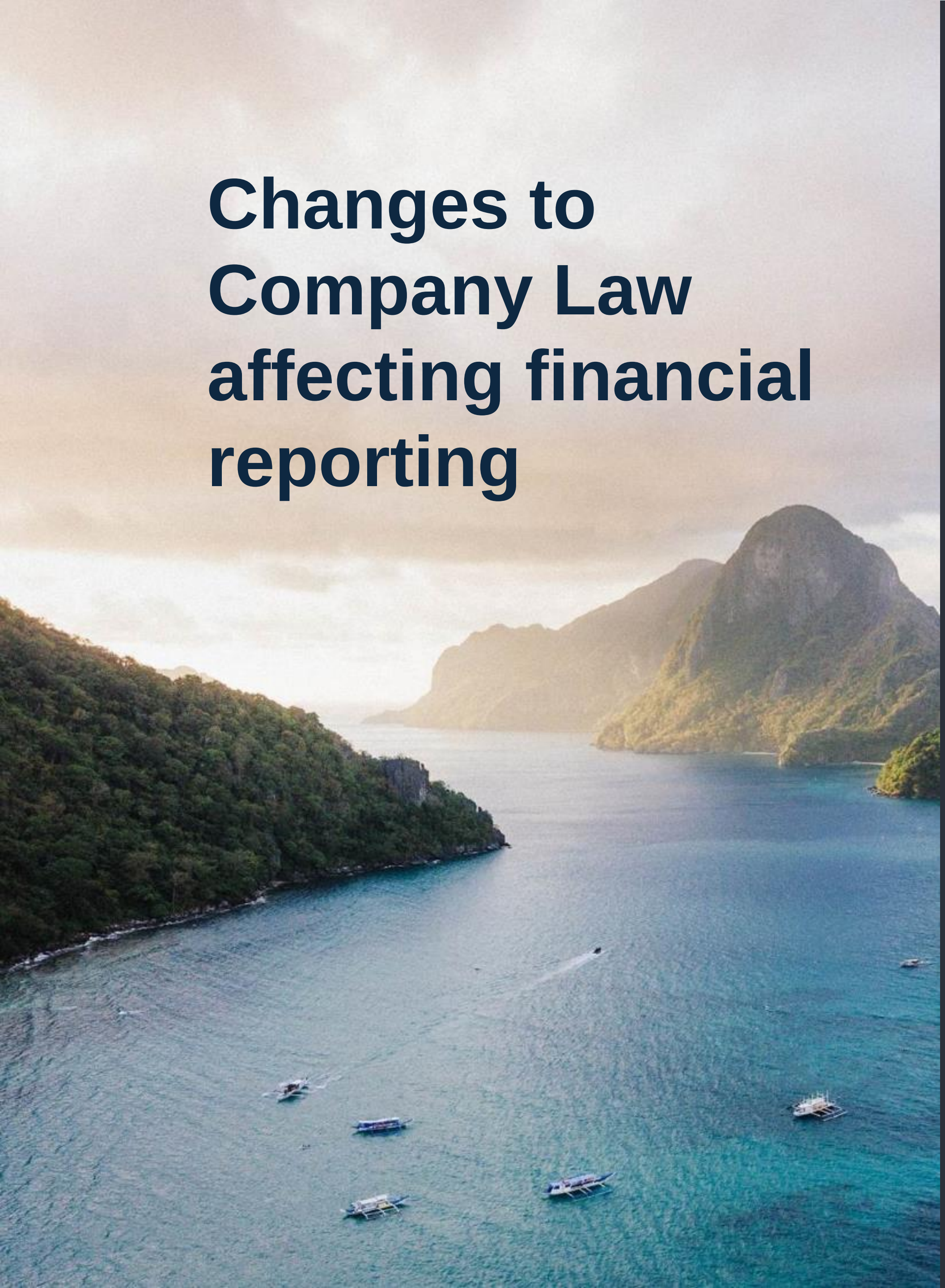
- Statement regarding full and fair consideration to applications for employment by company by disabled persons
- Appropriate training of employees who are disabled persons
- Training, career development and promotion opportunities for disabled persons employed by the company.

Changes to Company Law affecting financial reporting

Changes to the directors' report – periods on or after 6 April 2025

Medium and large companies (SI 2008/410)

- Statement regarding full and fair consideration to applications for employment by company by disabled persons
- Appropriate training of employees who are disabled persons
- Training, career development and promotion opportunities for disabled persons employed by the company
- Disclosures in respect of financial instruments risk management objectives of company, including hedging
- Exposure to credit risk, liquidity risk and cash flow risk
- Important events which have occurred since end of financial year
- Indication of likely future developments
- Activities in field of research and development
- Existence of branches outside of the UK
- Statement in respect of engagement with employees
- Statement in respect of engagement with suppliers, customers and others in a business relationship with the company.



Changes to Company Law affecting financial reporting

Changes to the qualifying conditions for companies for periods on or after 6 April 2025

Benefits for reporters are some way off

Accounting periods commencing before 6 April 2025

Must apply old rules

Cannot adopt new qualifying conditions early

6 April 2025

Accounting periods commencing on or after 6 April 2025

Must apply new rules

Must apply new rules to the comparative period for the accounting period commencing on or after 6 April 2025

Changes to Company Law affecting financial reporting

Changes to the qualifying conditions for companies for periods on or after 6 April 2025

Benefits for reporters are some way off

Standalone companies

Qualifying conditions periods on or after 6 April 2025

New thresholds for accounting periods beginning on or after 6 April 2025 will be as follows:

	Micro-entity	Small company	Medium company
Annual turnover	**Not more than £1m** (currently not more than £632,000)	**Not more than £15m** (currently not more than £10.2 million)	**Not more than £54m** (currently £36 not more than million)
Balance sheet total	**Not more than £500,000** (currently not more than £316,000)	**Not more than £7.5m** (currently not more than £5.1 million)	**Not more than £27m** (currently not more than £18 million)
Average no. of employees	Not more than 10	Not more than 50	Not more than 250

Changes to Company Law affecting financial reporting

Changes to the qualifying conditions for companies for periods on or after 6 April 2025

Benefits for reporters are some way off

Parent companies

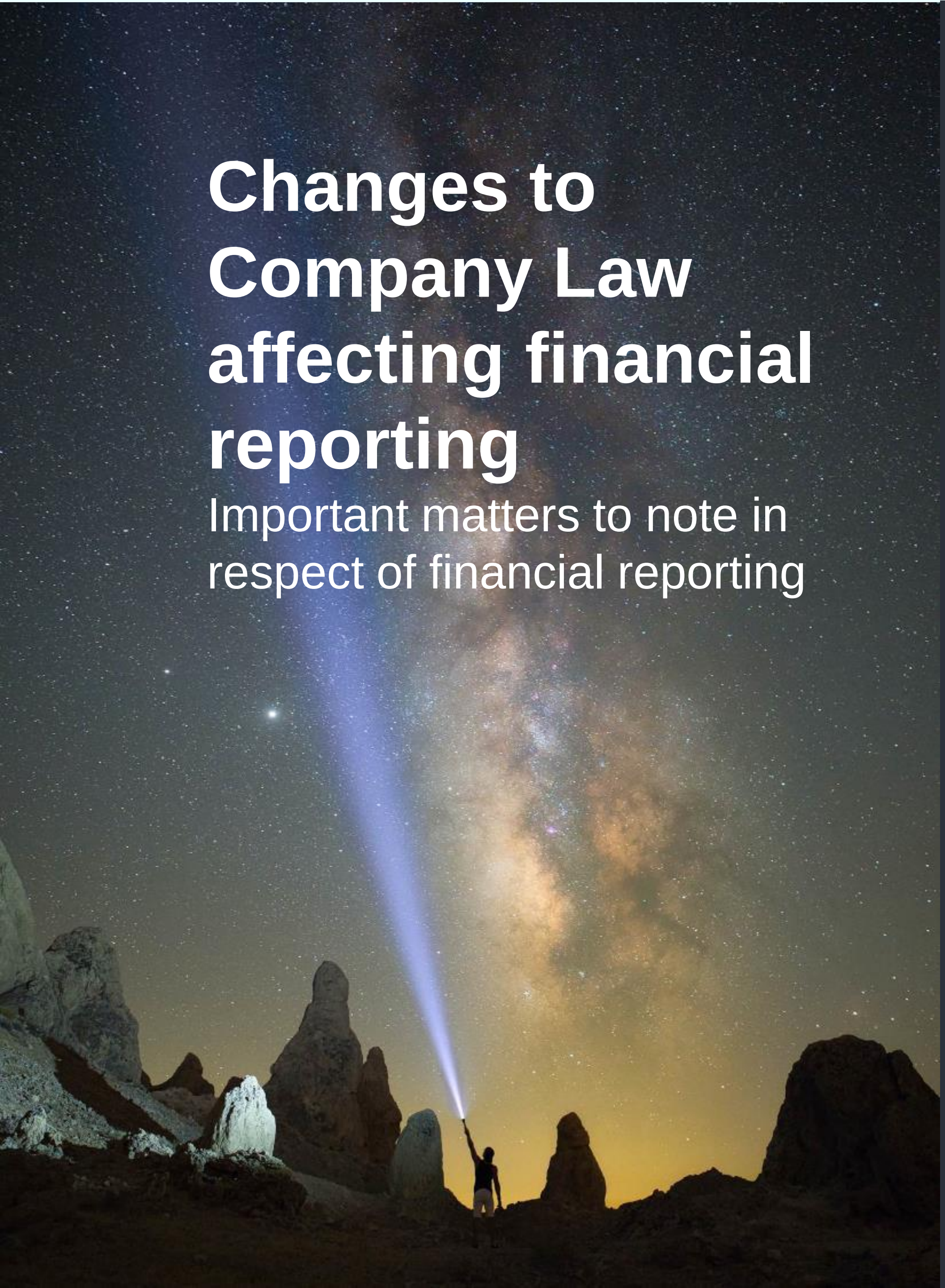
Qualifying conditions periods on or after 6 April 2025

New thresholds for accounting periods beginning on or after 6 April 2025 will be as follows:

		Small company	Medium company
Annual turnover		**Not more than £15m net (or £18 million gross** (currently not more than £10.2 million net or £12.2 million gross)	**Not more than £54m net or £64 million gross** (currently not more than £36 million net or £43.2 million gross)
Balance sheet total		**Not more than £7.5m net or £9 milion gross** (currently not more than £5.1 million or £6.1 million gross)	**Not more than £27m net or £32 million gross** (currently not more than £18 million net or £21.6 million gross)
Average no. of employees		Not more than 50	Not more than 250

Changes to Company Law affecting financial reporting

Important matters to note in respect of financial reporting



There are some matters to consider in respect of changes to company sizes and the future of financial reporting:

- The legislation discussed here does not alter the £36m reporting criterial for greenhouse gas and energy reporting (presumably this will follow at a later date)

- The size criteria for small companies is to be amended to increase the employee from 50 to 250 employees has been muted (but no certainty of timing)

- Legislation to amend filing regime for micro-entities and small companies to remove abridged accounts options and require additional filings of directors' reports and profit and loss account information to be issued towards end of 2025

- Government are to consult on the future direction of financial reporting to make further simplifications and to pursue audit reform.

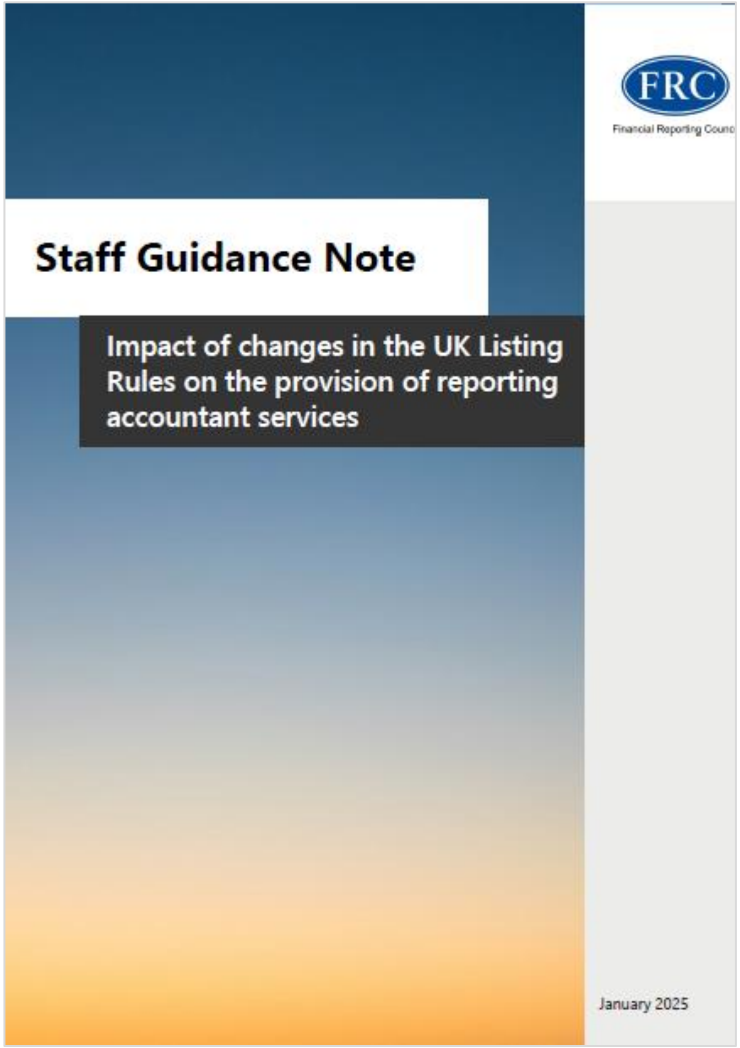

Financial
Reporting
Council

Financial Reporting Council

FRC Staff Guidance on Changes to Listing Rules in July 2024

Staff Guidance focuses on matters related to:

1. Impact of changes
2. Ethical considerations for reporting accountants
3. Impact on Standards for Investment Reporting (SIRs).


FRC

Staff Guidance Note

Impact of changes in the UK Listing Rules on the provision of reporting accountant services

January 2025

Financial Reporting Council

FRC Market Study into SME audit and reporting challenges

The Financial Reporting Council (FRC) has today launched a market study examining how effectively the audit market serves small and medium-sized enterprises (SMEs) and exploring opportunities to reduce their reporting burden where possible.

Comment period ends on 25 April 2025


FRC
Financial Reporting Council

Small and medium-sized enterprises market study

Invitation to comment

February 2025

Financial Reporting Council

FRC Commentary on accounting areas often missed in the accounts

- Liabilities for financial guarantees especially in parent entities
- Impact of covenant breach on loan classification
- Provisions for onerous contracts
- Dilapidation provisions
- Contingent Liabilities
- Liabilities for share repurchases
- Incorrect offsetting or netting in the financial statements
- Implied leases
- Share based payment charges in subsidiary financial statements

Financial Reporting Council

FRC's Top Ten Reporting Topics

Ranking 23/24		Ranking 22/23	Topic		Percentage of cases opened 23/24	Percentage of cases opened 22/23
1	=	1	Impairment of assets		12%	10%
2	▲	3	Cash flow statements	± !	11%	8%
3	▲	5	Financial instruments	±	10%	8%
4	▲	6=	Revenue		9%	6%
5	▲	9	Presentation of financial statements	± !	6%	4%
6	▼	4	Strategic report and Companies Act 2006		5%	8%
7=	▼	2	Judgements and estimates		5%	9%
7=	▼	6=	Income taxes	!	5%	6%
9=	▲	10	Fair value measurement		4%	3%
9=	▲	-	TCFD and climate-related narrative reporting		4%	2%

Our headline expectations for the coming reporting season, and how to avoid these most common areas of challenge, are summarised in section 4.

A full description of the nature of the top ten issues we identified, including our detailed expectations for future reporting periods, is included in the section Our findings in greater depth.

Indicates issues considered in our retail sector focus in section 6.5.

± Includes matters discussed in our 2024 thematic review of offsetting in the financial statements.

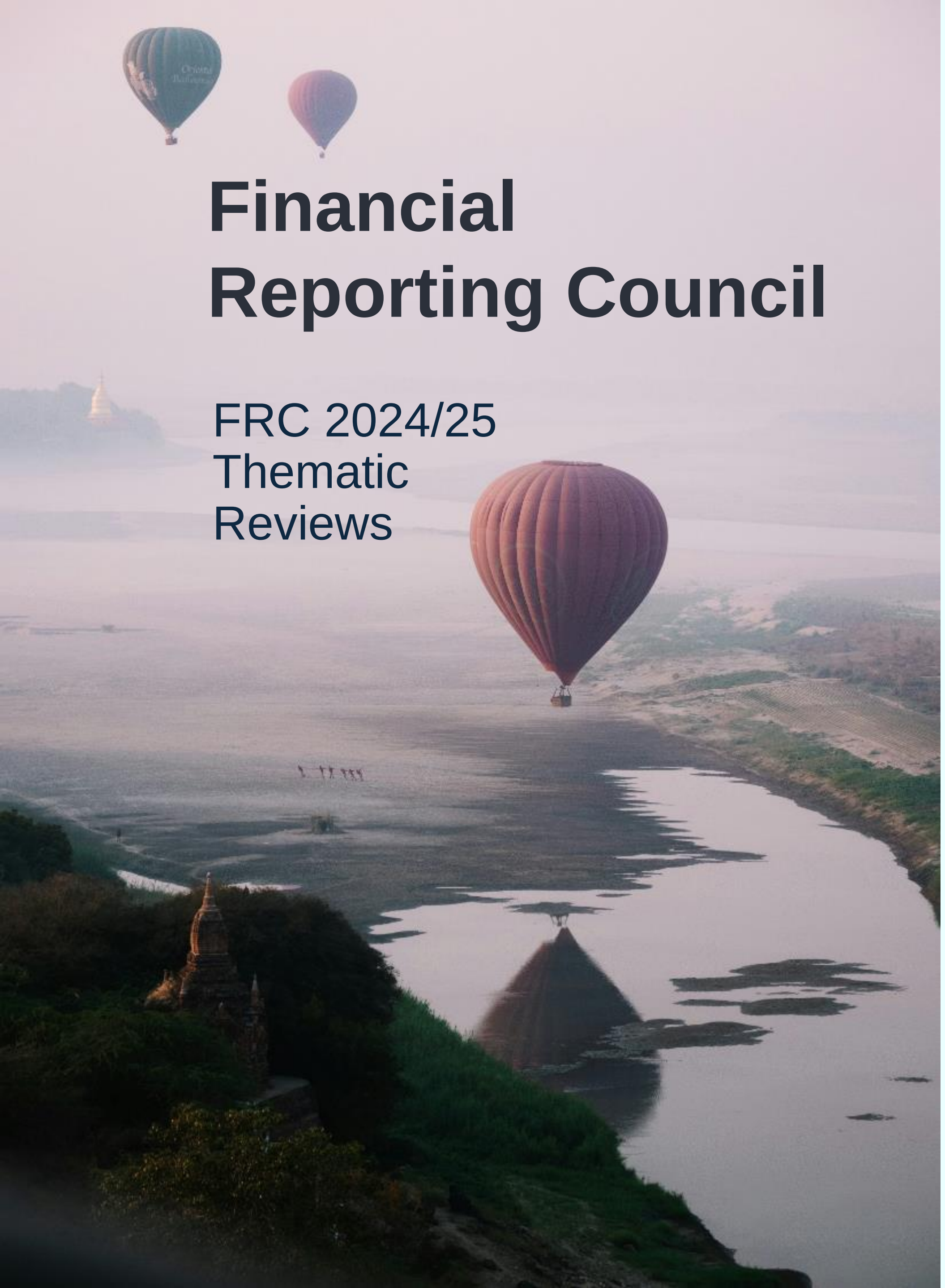
! Restatements of a company's financial statements and a reference to our review were required in these topic areas. Appendix 1 includes a complete list of such references.

9 Substantive questions raised

- Graph is from Financial Reporting Council

Financial Reporting Council

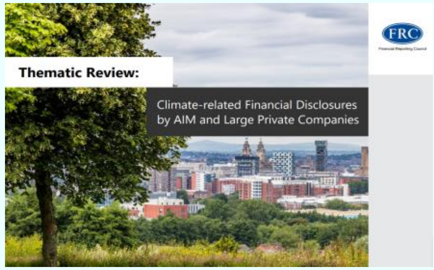
FRC 2024/25 Thematic Reviews



Offsetting in the financial statements

Reporting by the UK's largest private companies

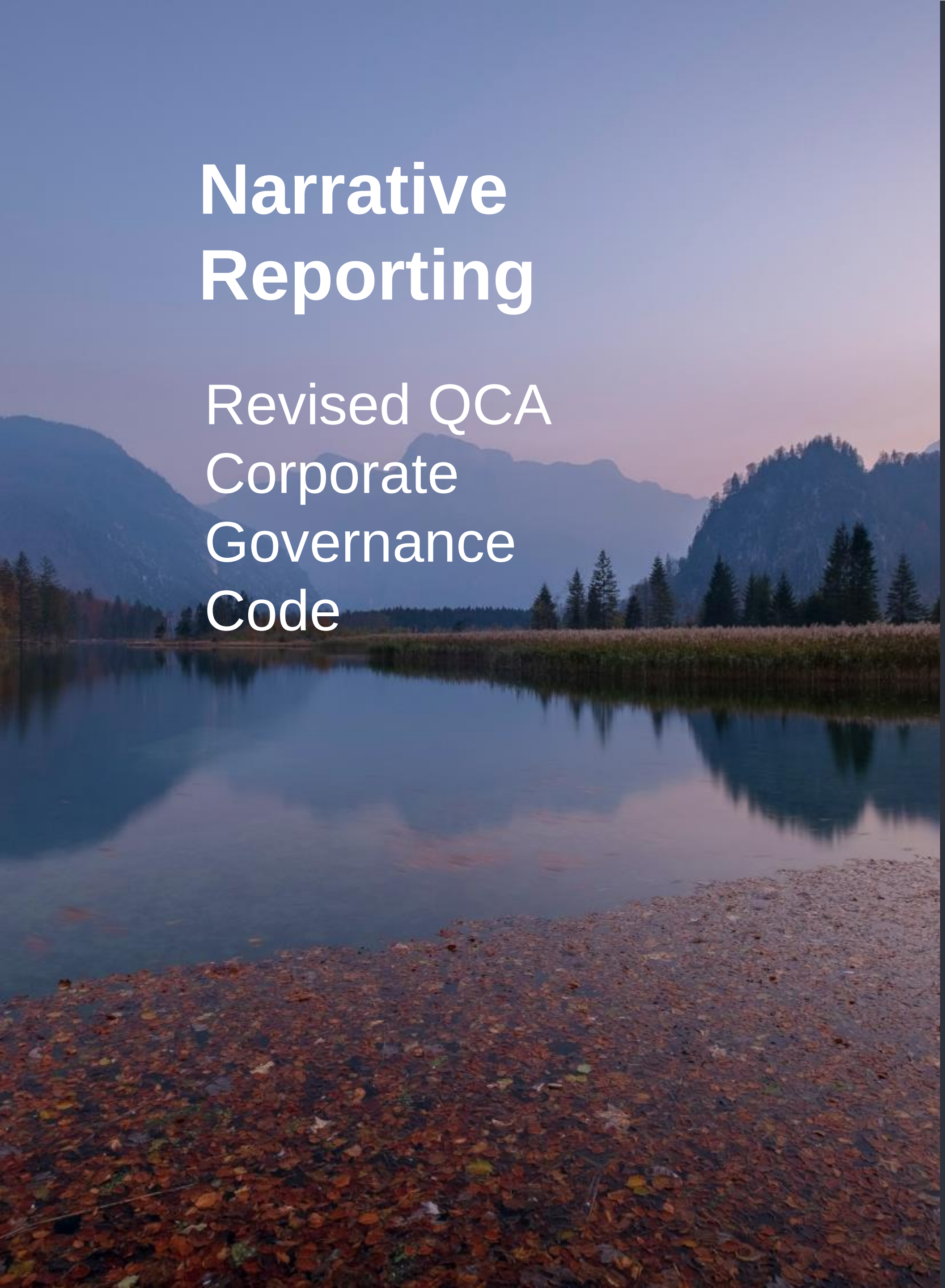
IFRS 17 Insurance Contracts Disclosures in the First Year of Application



Climate- Related Financial Disclosures (AIM and Large Private Companies)

- From Financial Reporting Council


Narrative
Reporting



Narrative Reporting

Revised QCA Corporate Governance Code

Quoted Companies Alliance (QCA) Code - There is a new 2023 QCA code applying for periods commencing on or after 1 April 2024, with a transition period of 12 months, and will be particularly relevant for AIM companies as, according to the QCA, over 90% of them use it. Some of the main updates relate to:

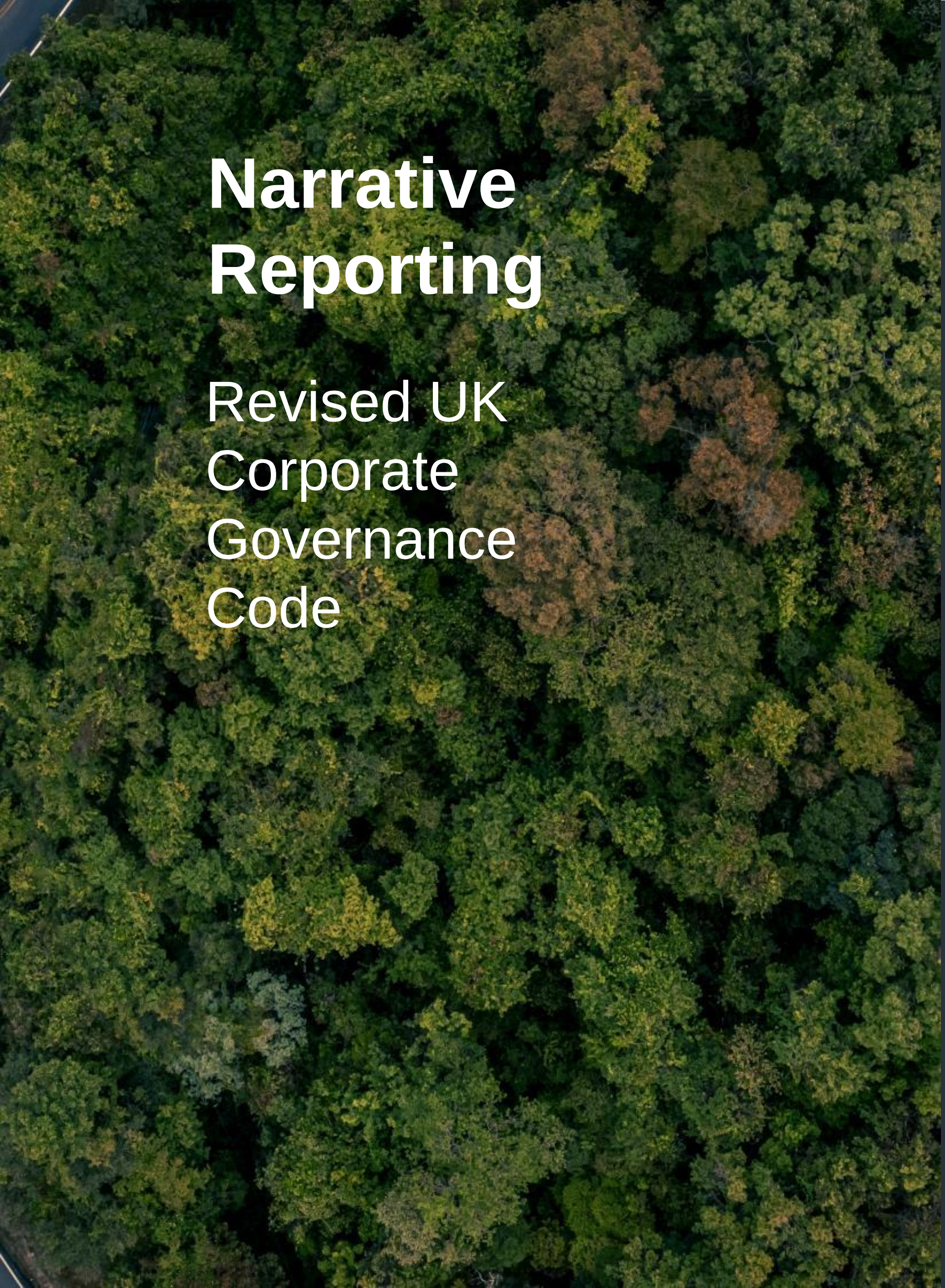
- **Stakeholders** (including environmental and social issues and climate change): the QCA has acknowledged the demands of investors and stakeholders in respect of environmental and social matters throughout their amends to the 2023 Code.

- **Succession planning**: the amendments to Principle 8 require companies to consider contingency planning for key staff absences.

- **Workforce:** updates to Principle 4 require companies to take into account wider stakeholder interests, including its workforce.

- **Board representation:** the 2023 Code includes a lot more detail on board effectiveness, although this mostly reflects information that was in the guidance section of the 2018 Code (updates to Principles 6).

- **Renumeration:** a new Principle 9 has been included in the new Code which largely mirrors the previous QCA's remuneration committee guidance.



Narrative Reporting

Revised UK Corporate Governance Code

In January 2024, The 2018 Corporate Governance Code (the Code) was updated following a limited consultation which concentrated on a limited number of changes. However, in relation to risk and internal control, the <u>Code now includes an annual declaration by the board on the effectiveness of material controls as at the balance sheet date (in Provision 29).</u>

The revised Code will apply for periods beginning on or **after 1 January 2025,** with the exception of the most high-profile change, the board declaration on the effectiveness of internal control, which becomes effective for periods beginning on **or after 1 January 2026.**

Other updates to the Code include:

- The addition of a new principle (Principle C) requiring governance reporting to focus on outcomes
- Changes to wording of the responsibilities and reporting requirements for audit committees which cross refers to the Audit Committees and the External Audit: Minimum Standard (Provisions 25 and 26).


International
Financial Reporting
Standards

International Financial Reporting Standards

Summary of Recent IFRS Standards and Changes

Periods on or after 1 January 2024
- Amendments to IFRS 16 – Lease liability in a sale and leaseback transaction
- Amendments to IAS 1 – Classification of Liabilities as current or non-current
- Amendments to IAS 1 – Non-current liabilities with covenants
- Amendments to IAS 7 and IFRS 7 – Supplier finance arrangements

Periods on or after 1 January 2025
- Amendments to IAS 21 – Lack of Exchangeability

Periods on or after 1 January 2026
- Amendments to classification and measurement requirements for financial instruments (Amendments to IFRS 9 and IFRS 7)
- Contracts referencing Nature dependent Electricity (Amendments to IFRS 9 and IFRS 7)

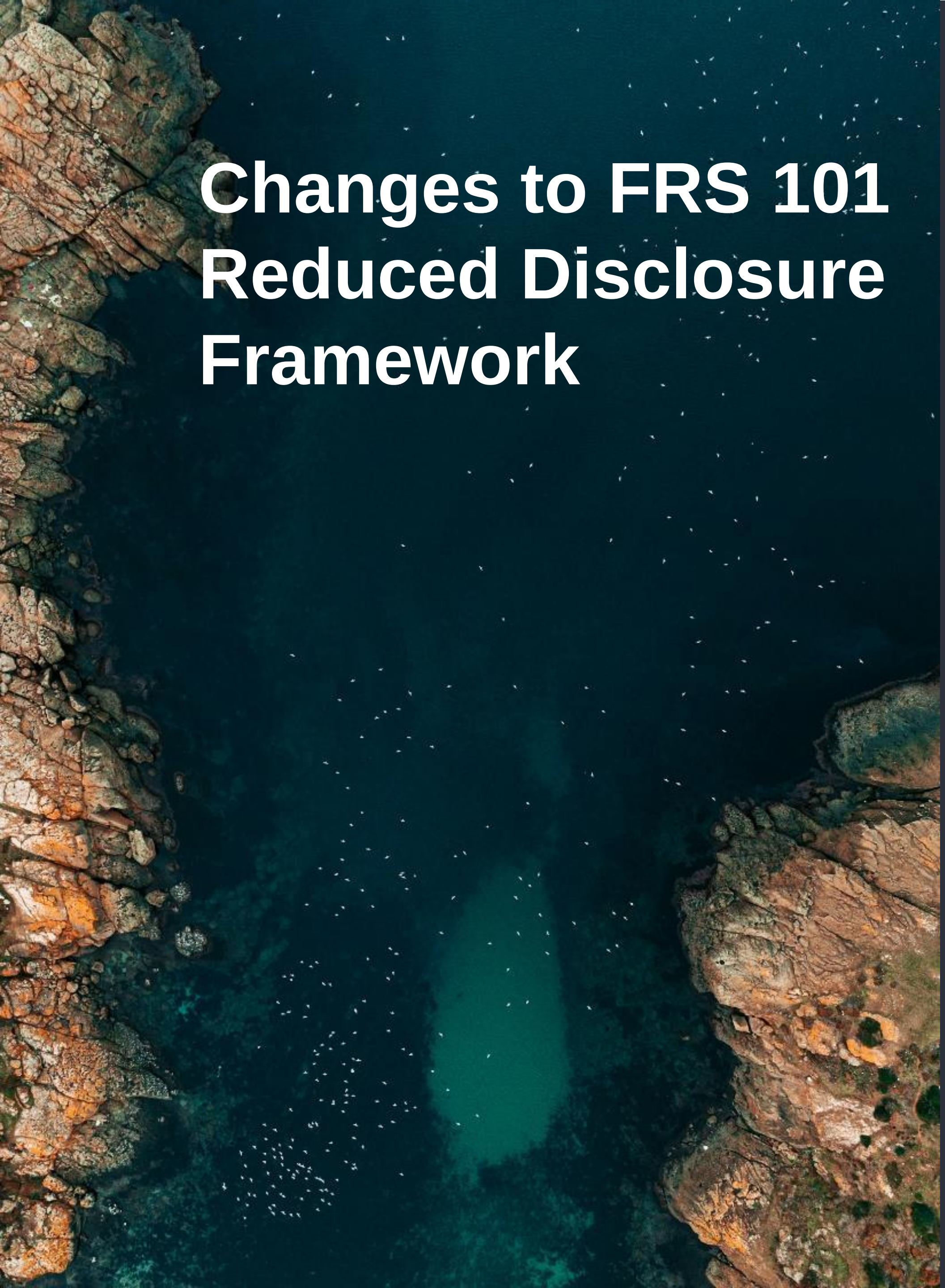
Periods on or after 1 January 2027
- Presentation and Disclosure in Financial Statements (IFRS 18)
- Subsidiaries without Public Accountability: Disclosures (IFRS 19)

Summary of Recent IASB Exposure Drafts

Exposure Drafts

- Business Combinations – Disclosures, Goodwill and Impairment
- Translation to a Hyperinflationary Presentation Currency
- Amendments to IAS 1 – Non-current liabilities with covenants
- Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures
- Climate Related and Other Uncertainties in Financial Statements – Amendments to various standards
- Amendments to IAS 28 - Equity Method of Accounting
- Provisions – Targeted Improvements.

UK GAAP



Changes to FRS 101 Reduced Disclosure Framework

Consultation on changes to FRS 101 Reduced Disclosure Framework

On 14 December 2024, the FRC issued an exposure draft of amendments to FRS 101 Reduced Disclosure Framework (2024/2025 cycle) (“FRED 86”) which essentially updates FRS 101 for the issuance of both IFRS 18 and IFRS 19.

Consultation open until 7 March 2025

Proposals include:

- Exempting an entity from detailed disclosures in IFRS 18.83(b) requiring a disclosure of a disaggregation of specific expenses by nature
- Maintaining existing disclosure exemptions in FRS 101 for the presentation and disclosure matters under IAS 1 that are retained in IFRS 18
- Clarifying that entities applying FRS 101 (being Companies Act accounts) will not be permitted to apply IFRS 19 when reporting under FRS 101
- IFRS 19 (if adopted in the UK) would therefore become an additional reduced disclosure framework (being IAS accounts).

Changes to FRS 102 for periods commencing on or after 1 January 2025 and 1 January 2026

Forthcoming Changes to FRS 102

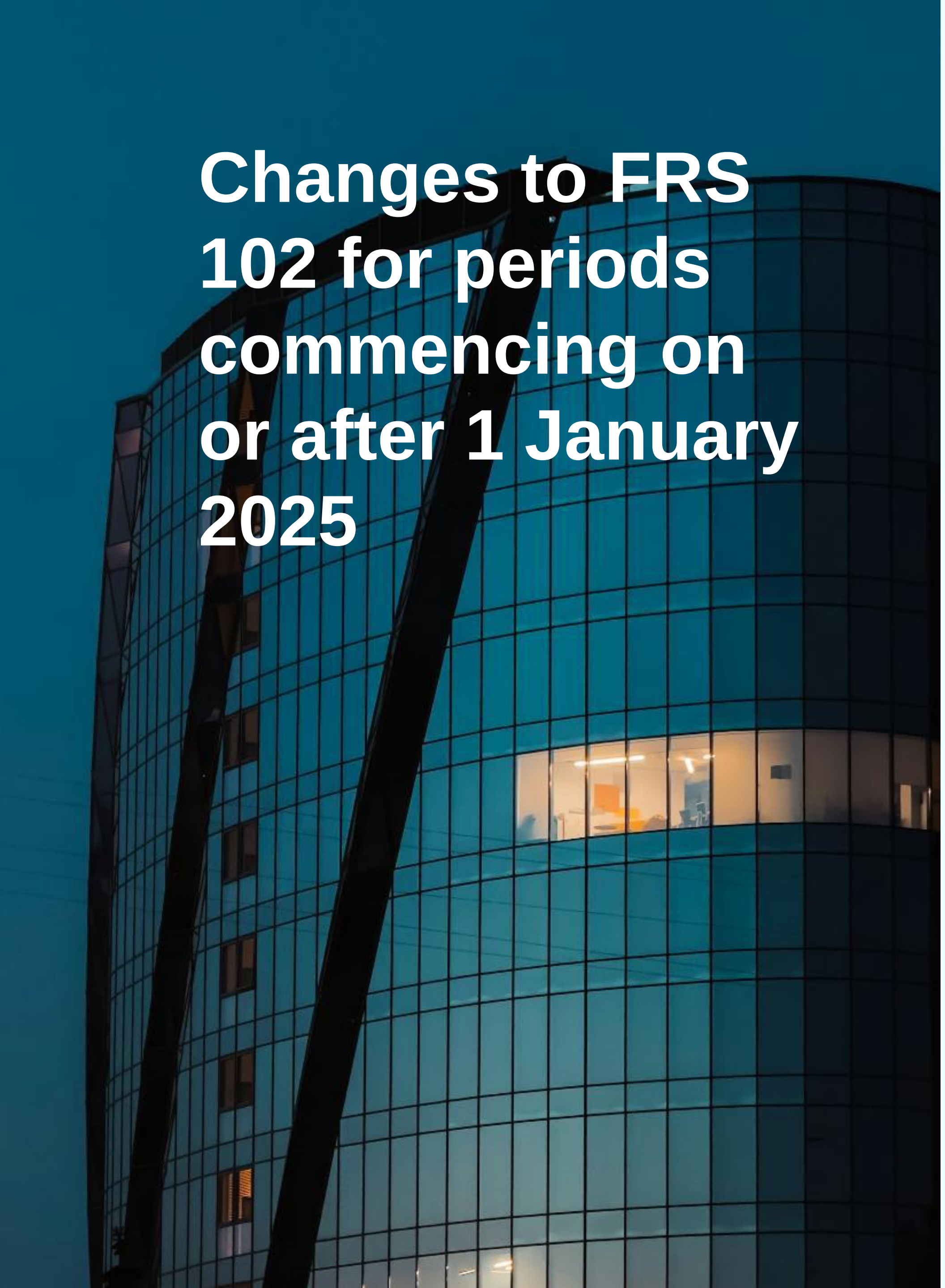
On 27 March 2024, the FRC issued amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024. The effective date for most amendments is periods beginning on or after 1 January 2026*, with early adoption permitted.

These amendments seek to provide greater consistency and alignment to international accounting standards including:

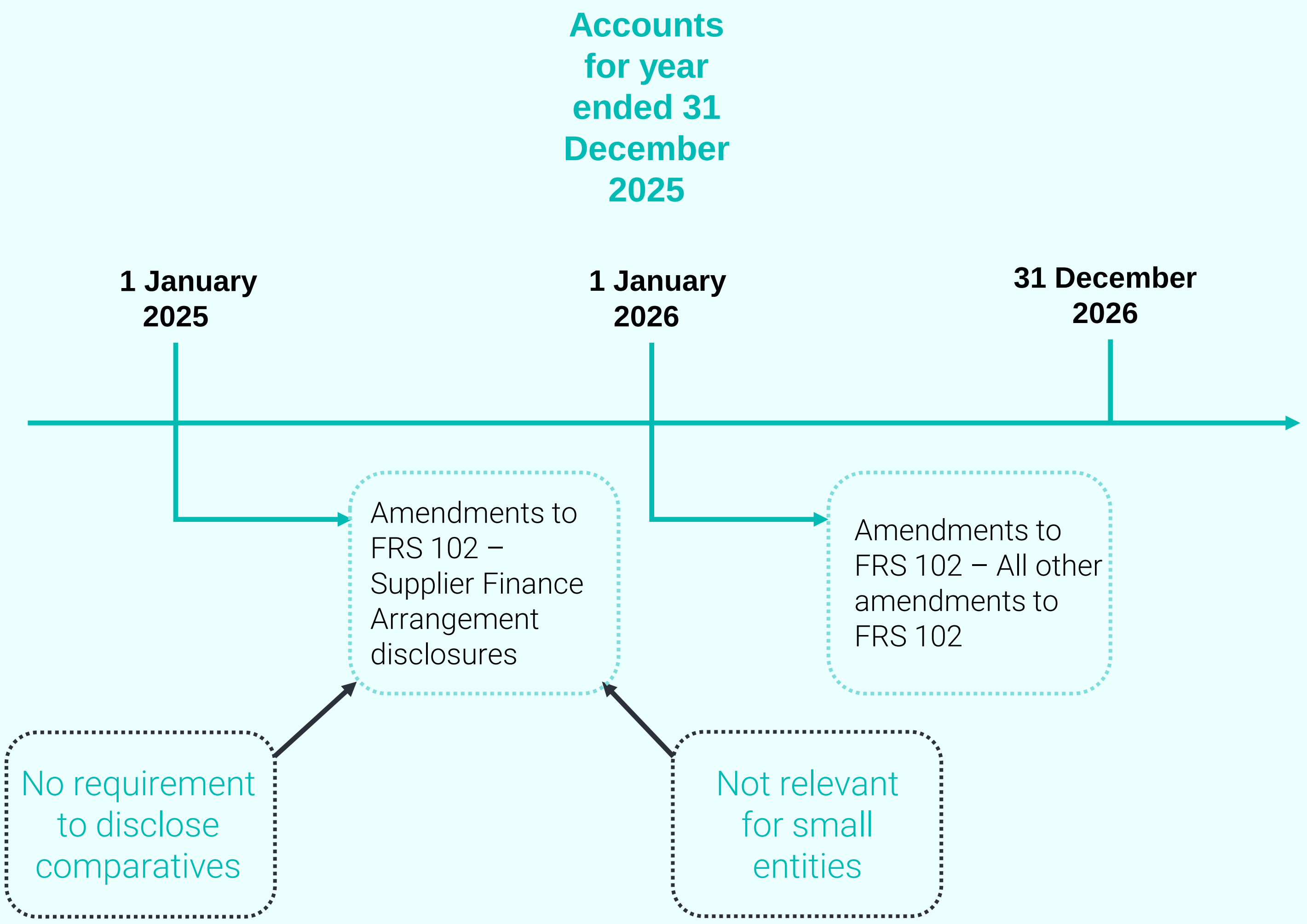
- A new model for revenue recognition, aligned to IFRS 15: Revenue from Contracts with Customers, but with some simplifications;
- On balance sheet lease accounting for lessees, aligned to IFRS 16: Leases, but with certain practical exemptions; and
- Other modifications to fair value measurement, uncertain tax positions, business combinations, and a revised Section 2 aligned with IASB's Conceptual Framework.

Don't forget amendments relating to supplier finance arrangements will be effective from 1 January 2025.

Changes to FRS 102 for periods commencing on or after 1 January 2025



Timeline for transitioning to amendments to FRS 102 (2025)



Changes to FRS 102 for periods commencing on or after 1 January 2026

Timeline for transitioning to amendments to FRS 102 (2026)

Must **NOT** restate comparatives for leases.
Catch up adjustment made on first day of current period.

Comparative period

1 January 2025

1 January 2026

Accounts for year ended 31 December 2026

MAY restate comparatives for revenue or make catch up adjustment on first day of current period.

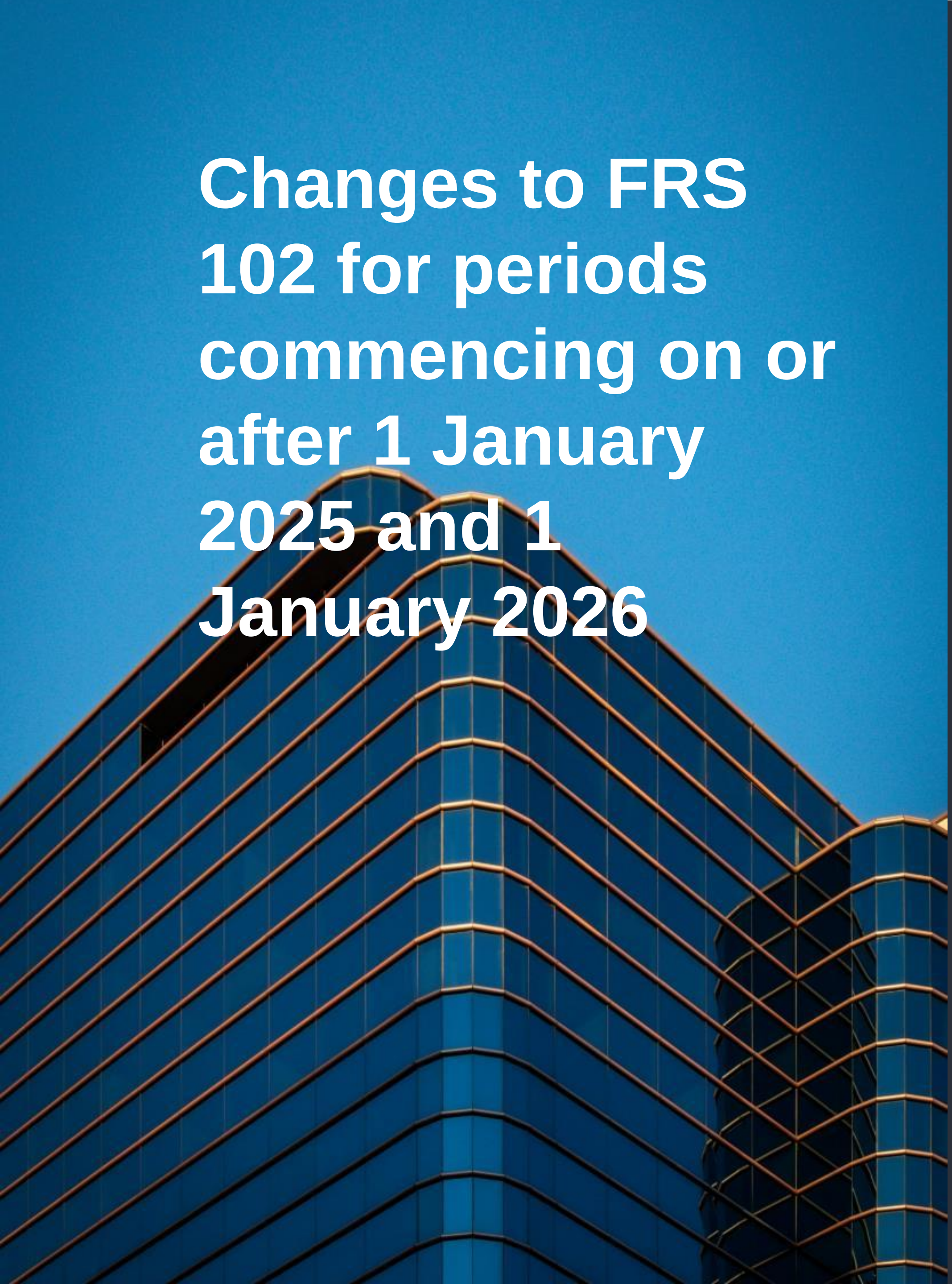
Uncertain tax treatments – fully retrospective unless hindsight involved

Fair value amendments – prospectively from 1.1.2026

Other amendments – retrospectively

Amendments to FRS 102 – All other amendments to FRS 102

Changes to FRS 102 for periods commencing on or after 1 January 2025 and 1 January 2026



Forthcoming Changes to FRS 102

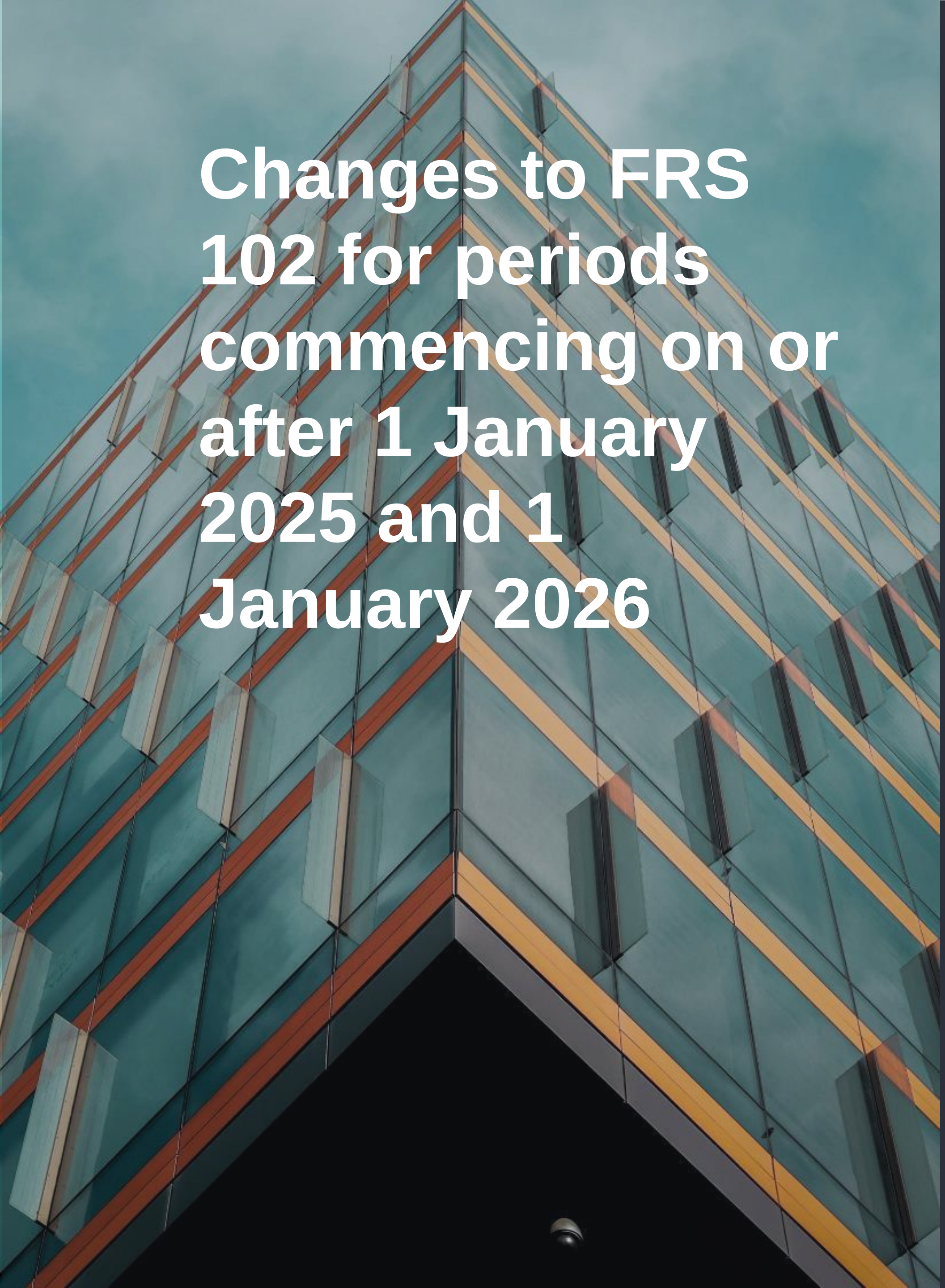
Discounting lease payments

Given that lease payments should be recognised at their present value, they should be discounted using one of the following rates:

- The interest rate implicit in the lease (if it can be readily determinable);
- The lessee's incremental borrowing rate; or
- The lessee's obtainable borrowing rate

The incremental borrowing rate
The rate the lessee would have to pay to borrow over a similar term, and with a similar security, the funds needed to obtain a similar asset of a similar value to the right of use asset in a similar economic environment.

The obtainable borrowing rate
The rate a lessee would have to pay to borrow, over a similar term, an amount similar to the total undiscounted value of the lease payments included in the measurement of the lease liability.



Changes to FRS 102 for periods commencing on or after 1 January 2025 and 1 January 2026

Forthcoming Changes to FRS 102

Lease exemptions

Where exemptions are taken, lease payments should be recognised on a straight-line basis over the lease term or other systematic basis that is representative of the pattern of the benefit obtained.

Short-term leases
Those leases where, at the commencement date, there is a term of less than 12 months. The exemption is made by class of the underlying asset.

Low-value leases
This exemption is done on an absolute basis so an entity will qualify even if the asset would be material to the lessee. The lessee needs to be able to benefit from the use of the asset on its own or with other readily available resources and it should not be highly dependent on/interrelated with other assets.

The Standard provides a list of underlying assets that would not be considered low value.

Changes to FRS 102 for periods commencing on or after 1 January 2025 and 1 January 2026

Section 23 –
Revenue from Contracts with Customers

Step 1

Identify the contract(s) with a customer

Step 2

Identify the performance obligations in the contract

Step 3

Determine the transaction price

Step 4

Allocate the transaction price to the performance obligations

Step 5

Recognise revenue when (or as) the entity satisfies a performance obligation

Don’t trip up

Questions

Chris Danes
Tax Partner &
Chairperson

Richard Maitland
Employment Tax
Partner

Beverley Scott
Corporate Tax
Partner

Jonathan Dowding
Tax
Director

Chris Liu
Transfer Pricing
Partner

Robin Prince
VAT & Indirect Tax
Partner

Neil Parsons
Head of Financial
Reporting Advisory
and Company Law

Jay Desai
Senior Research and
Development Manager

Save the date

Finance Directors Update Course

Date: Thursday 18th September 2025
Time: 8.30am – 12.30pm
CPD: 3 hours

Now, for tomorrow

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