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Tighter Rules for Company Loans: Understanding the New Landscape

The recent Budget introduced significant changes to the tax rules governing loans and advances made by companies to their shareholders. If you're a director or shareholder with an overdrawn **Director's Loan Account (DLA)**, these changes—and the opportunities to manage your liabilities—should be on your radar.

Understanding the S.455 Tax Charge

The **s.455 tax charge** applies to close companies (those owned by five or fewer individuals) when a participator (e.g., a shareholder or director) owes money to the company and doesn't repay it within nine months after the company's accounting year-end.

- **Tax Rate:** A charge of 33.75% is levied on the outstanding loan balance.

- **Repayment and Refund:** HMRC refunds the tax after the loan is repaid, but no earlier than **nine months** after the accounting period in which the repayment occurred.

New Anti-Avoidance Rules

Previous Loophole:

Earlier anti-avoidance measures targeted bed and breakfasting (B&B), where directors borrowed new funds to repay existing debts just before the nine-month deadline, then borrowed again shortly after. However, some companies exploited a loophole using multiple businesses to reset the nine-month deadline indefinitely.

Budget Change:

Effective **30 October 2024**, the Budget introduced stricter anti-avoidance rules to close the "chain" strategy loophole. These changes ensure the s.455 charge applies as intended, preventing manipulation of repayment timelines.

Who Is Affected?

If your company hasn't engaged in such avoidance, the new rules will not directly affect you. However, the changes signal HMRC's tightening approach, emphasising the need for compliance and accurate record-keeping.

Legitimate Ways to Prevent the S.455 Charge

If repaying your DLA from personal funds isn't feasible, there are several legitimate strategies to manage the loan:

1. **Repay Within Nine Months:**

Repaying the loan within nine months after the company's accounting year-end avoids the s.455 charge entirely.

2. **Declare a Dividend:**

The most tax-efficient option in many cases. Instead of paying the dividend in cash, it can be credited directly to your DLA to offset the debt. Ensure the company has sufficient accumulated profits to cover the dividend.

3. **Increase Salary or Pay a Bonus:**

While this option allows the loan to be cleared, it incurs **PAYE tax** and **National Insurance Contributions (NICs)**, making it more expensive than dividends.

4. **Write Off the Loan:**

Writing off the loan is another option, though it isn't deductible for corporation tax and may result in NIC charges for both the director and the company. Ensure the write-off is formalised with a legal deed to avoid disputes.

5. **Utilise Exceptions:**

Certain exceptions may allow you to avoid the s.455 charge entirely:

- **Small Loans:** If the loan is under £15,000 and you're a full-time working director with no more than 5% shareholding, the charge doesn't apply.
- **Business-Related Loans:** Loans for legitimate business purposes may also be exempt.
- **Temporary Advances:** Short-term loans reconciled promptly may avoid the s.455 charge.

Key Considerations for Directors and Shareholders

- **Keep Detailed Records:** Proper documentation of all loans, repayments, and their purposes is critical to defending your position with HMRC.
- **Plan Strategically:** Work with your accountant or tax advisor to determine the most tax-efficient method for managing overdrawn DLAs.
- **Monitor Compliance:** With HMRC's tightening rules, staying compliant and avoiding even unintentional breaches is essential to prevent penalties.

The Bottom Line

The updated rules reflect HMRC's ongoing efforts to close loopholes and ensure compliance. By understanding these changes and planning proactively, directors and shareholders can manage their DLAs effectively while avoiding unnecessary tax liabilities.

Tip: *Declaring a dividend and crediting it to your DLA often remains the most efficient strategy, provided the company has sufficient profits. For tailored advice, consult your accountant or tax professional.*

Annual Tax on Enveloped Dwellings (ATED) Updates

Understanding ATED: What You Need to Know

The Annual Tax on Enveloped Dwellings (ATED) is an annual tax levied on non-natural persons (e.g., companies, partnerships including corporate members, and certain collective investment vehicles) that own UK residential properties valued over £500,000. While ATED generally applies to high-value residential properties, exemptions exist for certain types of entities, such as UK charitable companies using the property for charitable purposes.

Even if there is no tax liability—such as when claiming relief—an ATED return must still be submitted. Examples of exempt property uses include hotels, care homes, student accommodation, and military housing. It is worth noting that if a property has both residential and non-residential uses, the tax applies only to the residential portion.

2025/26 Updates: What's Changed?

Following the Autumn Budget, new ATED charge rates for 2025/26 have been announced. The revised rates, applicable from 1 April 2025, are as follows:

Property Value	2024/25 Charge (£)	2025/26 Charge (£)
£500,001–£1 million	4,400	4,450
£1 million–£2 million	9,000	9,150
£2 million–£5 million	30,550	31,050
£5 million–£10 million	71,500	72,700
£10 million–£20 million	143,550	145,950
Over £20 million	287,500	292,350

These updates reflect incremental increases across all value bands. For properties owned for only part of the year, the charge is calculated on a pro-rata basis, ensuring fairness based on actual ownership duration.

Valuation Requirements: Stay Compliant

Properties subject to ATED must be revalued every five years, with the 2024/25 charge based on the value as of 1 April 2022. The next mandatory revaluation date is 1 April 2027. Valuations are self-assessed, often based on an open-market, willing-buyer, willing-seller basis. To avoid penalties, it is critical to ensure the property is placed in the correct valuation band.

For properties near the band thresholds, HMRC offers pre-return banding checks. This service helps property owners ensure their valuation aligns with the appropriate tax band, reducing the risk of future disputes.

Planning for Multiple Dwellings

For entities owning multiple properties, additional rules may apply. For example, if two self-contained flats in adjoining buildings have internal access between them, they may be treated as a single dwelling for ATED purposes. Similarly, when multiple interests in a property are owned by connected parties, these interests are aggregated when calculating ATED.

Understanding these nuances is essential for ensuring accurate reporting and managing potential liabilities. Professional advice can help clarify these complexities and offer potential tax planning opportunities.

What This Means for You

Whether you own a single property or a portfolio of high-value dwellings, staying informed about ATED is crucial to avoiding compliance issues and unnecessary penalties. As rates adjust annually and exemptions evolve, ensuring you meet reporting deadlines and valuations is critical.

If you're unsure about your ATED obligations or need support preparing your return, our team is here to help. Reach out today to discuss your situation and explore how we can assist with your compliance needs.

HMRC Tightens Rules on Job Expenses Claims

What's Changing?

HMRC has introduced stricter requirements for claiming tax relief on job-related expenses. Starting **14 October 2024**, all claims must be submitted by post using a **Form P87**, accompanied by supporting evidence such as receipts or mileage logs. This marks a significant shift from the previous system, where smaller claims (under £2,500) could be made online or by phone without additional documentation.

For those claiming flat-rate expenses, limited online options will be reintroduced from **31 October 2024**, but all other claims must adhere to the new process until **April 2025** when HMRC plans to restore full digital submission.

How It Used to Work

Previously, employees or directors who incurred necessary expenses for their job could claim tax relief directly, provided their employer didn't reimburse them. Claims under £2,500 could be submitted by phone or online, while larger claims required completing a self-assessment form. This streamlined approach no longer applies.

The New Process

To claim a tax refund for job expenses:

1. **Complete Form P87**: This must be submitted by post.

2. **Provide Evidence**: Supporting documentation must show the amount, date, and reason for the expense. For example:

- Receipts for purchases.
- Mileage logs for business journeys.
- Details of any reimbursements from your employer.

Key Traps to Avoid

1. **Retroactive Evidence**: If you made a claim after **10 June 2024**, HMRC will contact you requesting additional documentation before processing the claim.

2. **Work-from-Home Expenses**: To claim the £6-per-week allowance or actual costs, employees must provide a clause in their employment contract proving they are obligated to work from home.

Tips for a Successful Claim

- **Check Eligibility**: Use HMRC's online **Eligibility Checker** [Weblink] to confirm the correct claim method. While this tool doesn't guarantee tax relief, it clarifies whether Form P87 is required.
- **Prepare Your Evidence**: Ensure all receipts and documentation are accurate and complete. Missing evidence could result in delays or rejection of your claim.

Looking Ahead

Although HMRC has tightened its rules, the move towards a fully digital claim process is in progress. From **April 2025**, employees and directors can expect a more user-friendly, online submission system for all types of claims. For now, staying organised and following the revised procedures will ensure your claims are processed smoothly.

For more information or assistance with your job expense claims, feel free to reach out to us. We're here to help!

Avoid the Tax Trap for Jointly Owned Property

Jointly Owned Property and Tax Efficiency

Owning a buy-to-let property with your spouse can lead to unexpected tax challenges, especially when you're in different tax brackets. If your spouse is a basic rate taxpayer and you're in the higher rate band, you might be paying more tax than necessary on your rental income. Fortunately, there are steps you can take to improve your joint tax position while staying compliant with HMRC rules.

Why Ownership Type Matters?

The first step to optimising your tax efficiency is understanding how you own the property. Most married couples hold property as "joint tenants." This means you both own the entire property equally, including the income it generates. However, switching to a "tenants in common" arrangement allows you to allocate ownership shares differently, enabling better tax planning.

Three Steps to Improve Tax Efficiency

Step 1: Change Ownership Type

To switch from joint tenancy to tenants in common, one spouse simply needs to notify the other in writing of their intention to "sever" the joint tenancy. This change must also be registered with the Land Registry. Once completed, each spouse owns 50% of the property as tenants in common.

Tip: *Before severing the joint tenancy, notify any person or entity with a charge on the property, such as a bank or building society.*

Resource: GOV.UK provides guidance and the necessary forms for this process (see The Next Step).

Step 2: Transfer Ownership Shares

As tenants in common, you can reallocate ownership shares to your spouse through a **deed of trust**. For example, you could transfer 45% of your share to your spouse, making them the owner of 95% of the property. This share allocation affects the income they receive from the property.

Tip: *While this step changes the ownership structure, the default 50/50 income tax rule still applies unless the third step is completed.*

Step 3: Submit a Form 17 Election

To ensure HMRC taxes you and your spouse based on the new ownership shares, you must jointly complete and submit Form 17. This overrides the default 50/50 rule and aligns your taxable income with the deed of trust.

Trap: *Form 17 must be submitted within 60 days of being signed. Late submissions will not be accepted.*

The changes take effect from the date Form 17 is signed and remain in force until permanent separation, death, or another ownership change. If ownership changes again, a new Form 17 must be submitted to maintain the income allocation.

Other Considerations

- **Capital Gains Tax (CGT) and Inheritance Tax (IHT)**: No immediate concerns typically arise, but it's wise to consider potential long-term implications.
- **Stamp Duty Land Tax (SDLT):** If the property is mortgaged, transferring ownership shares could trigger SDLT liabilities, particularly for high-value mortgages.

Have questions or need guidance? Contact us for tailored support!

Interesting Reads

- **Taxes and Crowdfunding: Everything You Need to Know**

  Most campaign creators concentrate on their pitch and marketing plan but generally forget the very important aspects.
- **Capital Gains Tax Planning Strategies for 2025 and Beyond**

  The recent rise in capital gains tax (CGT) rates has sparked considerable discussions about how to effectively manage tax liabilities and identify the best investment strategy.
- **The UK Patent Box Explained for Reduced Corporation Tax**

  The Patent Box Scheme was designed for UK companies to pay less corporation tax while protecting their intellectual property or IP.
