

TAXANGLES

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ACCOUNTANTS

A newsletter for proactive planning...



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Claiming mileage relief

Employees may pay for the fuel that they use for business journeys undertaken in their own car or in a company car. Often, an employer will reimburse this cost by paying a mileage allowance. However, where employees meet the costs themselves, they are able to claim tax relief. The relief available depends on whether the employee is using their own car or a company car. Employees are also able to claim relief if their employer pays a mileage allowance which is less than the tax-free rates set by HMRC.

Employees using their own car for business travel

Where an employee uses their own vehicle for business travel, they are able to claim tax relief using the approved mileage rates set by HMRC. A claim is not limited to cars – relief can also be claimed if an employee uses their van, motorbike or bicycle for business travel. The amount that they can claim is the amount at the approved rates less any amount received from their employer towards the costs. The approved rates, which are set out in the table below, include an element for depreciation, insurance and maintenance, as well as the cost of the fuel. For cars and vans, a higher rate applies to the first 10,000 business miles in the tax year.

Type of vehicle	Rate per mile
Cars and Vans	First 10,000 business miles in the tax year: 45p Subsequent business miles: 25p
Motorcycles	24p
Bicycles	20p

Example

Wendy uses her own car for business travel, driving 2,100 miles in the tax year. Her employer pays a mileage rate of 30p per mile. The approved amount is £945 (2,100 miles @ 45p per mile). Wendy receives mileage payments of £630 from her employer (2,100 miles @ 30p per mile). Wendy is able to claim tax relief for the shortfall of £315.

Company car drivers

Company car drivers can claim tax relief for the cost of fuel or electricity used for business journeys in a company car to the extent that this is not reimbursed by their employer. They will need to keep records of the actual fuel or electricity costs. The approved mileage rates do not apply to company car drivers.



Making a claim

A claim can be made using HMRC's online service or, where the employee needs to complete a Self Assessment tax return, in the employment pages of their tax return. A claim can also be made by post on form P87. The employee will need to provide evidence in support of their claim in the form of a mileage log. This must show:

- the reason for every journey;
- the postcode for the start point; and
- the postcode for the end point.

Where a claim is made for more than one employment, a copy of the mileage log must be provided for each claim.

New thresholds for off-payroll working

The off-payroll working rules apply where a worker provides their services to a medium or large private sector company or to a public sector body through an intermediary, such as a personal service company. To comply with the rules, the end client must undertake a status assessment. If this reveals that the worker would be an employee if they provided their services direct to the end client, rather than through the intermediary, the end client (or the fee payer if different) must deduct tax and National Insurance from payments made to the worker's intermediary and pass them over to HMRC. The worker will receive credit for this against the tax and National Insurance due on payments made by their intermediary to them personally.

Where the end client is a small private sector organisation, the off-payroll working rules do not apply. Instead, the worker's intermediary is responsible for assessing whether the engagement falls within the IR35 rules. This will be the case if the worker would be an employee if they provided their services directly to the end client. Where this applies, the worker's intermediary must calculate the deemed payment under the IR35 rules at the end of the tax year and account for tax and National Insurance on that deemed payment.

HMRC produce a check employment status for tax (CEST) tool which can be used to determine a worker's status. This can be found on the Gov.uk website www.gov.uk/guidance/check-employment-status-for-tax.

Thresholds

Companies Act thresholds are used to determine whether a company is 'small' for the purposes of the off-payroll working rules. These have been updated recently and the revised thresholds apply from 6 April 2025 for the purposes of the off-payroll working rules. A company will be 'small' if at least two of the following apply:

- turnover of not more than £15 million (previously £10.2 million);
- balance sheet total of not more than £7.5 million (previously £5.1 million); and
- monthly average employees of 50 or fewer.

Implications

The change in the threshold will shift the compliance burden from the end client to the worker's intermediary where the end client was not small under the former thresholds but meets the definition of 'small' under the revised thresholds. Workers providing their services through an intermediary after 5 April 2025 will need to check whether the end client is now small. End clients that are now 'small' will no longer need to comply with the IR35 rules.

However, where the end client has become 'small', the worker's intermediary will now need to check whether the IR35 rules apply, and comply with them where they do.

Reporting 2024/25 benefits and expenses

Employers who provided taxable benefits and expenses to employees in the 2024/25 tax year need to meet compliance obligations in respect of those benefits. The obligations will vary depending on whether the benefits and expenses have been payrolled or not or included in a PAYE Settlement Agreement (PSA).

Payrolled benefits

Where an employer payrolled benefits in 2024/25, those benefits were taxed through the payroll and reported to HMRC under Real Time Information (RTI) on the Full Payment Submission (FPS).

Consequently, they do not need to be reported to HMRC after the end of the tax year on the employee's P11D. However, the employer will need to file a P11D(b) and include payrolled benefits when working out their Class 1A National Insurance liability for the year.

Employers must also provide employees with details of their 2024/25 payrolled benefits before 1 June 2025. This can be done on the employee's payslip, by email or by letter.

P11D and P11D(b)

Taxable benefits and expenses which have not been payrolled or included in a PSA must be reported to HMRC on form P11D by 6 July 2025. The employer must also file a P11D(b) by the same date. This is the employer's declaration that all required P11Ds have been filed. It is also the Class 1A National Insurance return.

Forms P11D and P11D(b) must be filed online – HMRC no longer accept paper forms. Employers can use either HMRC's PAYE Online Service (employers with 500 or fewer P11Ds to file only) or a commercial software package. Penalties may be charged if the forms are filed later or are incorrect.

Employers must also provide employees with a copy



of their P11D or details of the information contained therein by 6 July 2025.

PAYE Settlement Agreements

An employer can use a PSA to settle the tax due on a taxable benefit on an employee's behalf. However, a PSA can only be used for items that are minor, which are provided irregularly or on which it is not practicable to operate PAYE.

Once made, a PSA is an enduring agreement and remains in place until cancelled by HMRC or by the employer. Where an employer already has a PSA, they should check that it is still valid. If they need to amend it or cancel it, this must be done no later than 5 July 2025. Employers who need to set up a new PSA for 2024/25 must do so by 5 July 2025.

Benefits included within the PSA do not need to be reported to HMRC on form P11D or included in the Class 1A calculation on the P11D(b).

Class 1A National Insurance

Employers must pay their Class 1A National Insurance bill by 22 July if they make the payment electronically. Where payment is made by cheque, it must reach HMRC by Friday 18 July 2025. Interest is charged on payments made late.



10 benefits of filing your 2024/25 tax return early

As the 2024/25 tax year has now come to an end, individuals who need to file a Self Assessment tax return for that year can now do so. Although the return does not have to be filed online until 31 January 2026, there are benefits of filing early.

1. Get it out of the way

There is something very satisfying about ticking an item off a 'to do' list. Filing your 2024/25 tax return sooner rather than later will get it out of the way and mean that it is no longer hanging over you. This will give you peace of mind.

2. Certainty as to your tax bill

Once you have filed your 2024/25 tax return you will know how much tax you need to pay. This will give you plenty of time to set funds aside to pay the January 2026 bill, and also to set up a Time to Pay arrangement if you will need to pay in instalments.

3. Code out underpayments

If you are a PAYE taxpayer and you owe £3,000 or less, as long as you file your 2024/25 tax return by 30 December 2025, you can opt to have the tax that you owe collected through your 2026/27 tax code. This delays the payment date and effectively gives you an interest-free instalment plan.

4. Get a repayment sooner

If you have overpaid tax for 2024/25, the sooner you file your tax return, the sooner you will be able to receive a refund of the overpaid tax.

5. Review your payments on account

The final payment on account for the 2024/25 tax year is due by 31 July 2025. If you already know your 2024/25 liability, you can review your payments on account and reduce them to the correct level if they are too high, so you do not pay more than you need to in July.

6. Ascertain whether you are within MTD for ITSA from April 2026

Making Tax Digital for Income Tax Self Assessment (MTD for ITSA) applies from 6 April 2026 onwards to individuals running unincorporated trading and/or property businesses with trading and/or property income of

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£50,000 or more. The relevant income is that for 2024/25. Once the 2024/25 tax return has been filed, traders and landlords will be able to determine whether they must comply with MTD for ITSA from April 2026. The earlier they know, the longer they have to prepare.

7. Assess transitional profits

Self-employed earners with an accounting date other than one between 31 March and 5 April may have transition profits in 2023/24. These profits are normally spread over five years (2023/24 to 2027/28 inclusive) unless the trader elects for these to be assessed earlier. Once the 2024/25 return has been filed, you will know your profits and marginal rate of tax for this year and can assess whether it would be beneficial to bring forward some transition profits to 2024/25. This will be advantageous if they will be taxed at a lower rate in 2024/25 than in later years, or if the personal allowance has not been fully used.

8. Proof of income

Your tax return calculation provides you with proof of income which may be needed if you want to apply for a mortgage or a loan.

9. Assist with tax planning

Filing your 2024/25 tax return will provide you with information to enable you to review your tax affairs and take advantage of planning opportunities to save tax going forward.

10. Earn brownie points with your tax adviser

The run up to the 31 January deadline is a very busy time for accountants and tax advisers. They are likely to look favourably on clients who provide their tax return information early in the following tax year, allowing them to file the return ahead of the January rush.



Extension to MTD for ITSA

Making Tax Digital for Income Tax Self Assessment (MTD for ITSA) is introduced progressively from 6 April 2026. It will require unincorporated traders and landlords whose income is over the trigger threshold to keep digital records and make quarterly returns and a final declaration to HMRC using MTD-compatible software.

The start dates for traders and landlords with trading and/or property income in excess of £30,000 have been known for some time (albeit they are now later than originally announced). At the time of the Autumn 2024 Budget, the Government stated that MTD for ITSA would be extended to apply to traders and landlord with trading and/or property income of £20,000 or more before the end of the current Parliament. At the time of the 2025 Spring Statement, it was announced that it will apply to them from 6 April 2028.

Start dates

The first start date is 6 April 2026. This is for individuals with income from an unincorporated trading and/or property business of at least £50,000.

The second start date is 6 April 2027. This is for individuals not already within MTD for ITSA with income from an unincorporated trading and/or property business of at least £30,000.

The final start date is 6 April 2028. This is for individuals not already within MTD for ITSA with income from an unincorporated trading and/or property business of at least £20,000.

As of yet, no date has been announced from which individuals with combined trading and property income of less than £20,000 will be brought within MTD for ITSA.

The income is the combined trading and property income from all sources before the deduction of expenses. An individual will be within MTD for ITSA if their total trading and property income exceeds the



trigger threshold even if the income from each individual business is below it. The relevant income for assessing whether an individual is within the scope of MTD for ITSA from 6 April 2026 is that for 2024/25. Once within MTD for ITSA, an individual must remain within it unless their income is below the prevailing threshold for three consecutive tax years.

Case studies

Abigail is a sole trader with trading income of £45,000 in 2024/25. She also receives rental income from a buy-to-let of £12,000. Although individually neither her trading nor her property income is more than £50,000, as her combined trading and property income at £57,000 is more than the threshold, she will be within MTD for ITSA from April 2026.

Billy has trading income of £35,000. As long as he remains at this level, he will be within MTD for ITSA from April 2027

Caitlin runs two small sole trader businesses. Her income from one is £15,000 a year and her income from the other is £7,000 a year. If her income remains at this level, she will be within MTD for ITSA from 6 April 2028.

It is important that traders and landlords are aware of their start date and plan ahead so that they are ready to comply from that date.



TAX DIARY

MAY

- 1st May - For companies with July year ends Corporation Tax is due
- 7th May - Electronic Payments of VAT must have reached HMRC
- 7th May - Electronic Submission of VAT returns deadline
- 19th May - Postal payments of April's PAYE and Class 1 NICs to reach HMRC
- 22nd May - April's PAYE and Class 1 NIC Electronic Payment must be cleared to HMRC
- 31st May - For companies with May year ends Corporation Tax Returns are due
- 31st May - Each relevant employee must be given a form P60 by this date.

For further information on any of the stories in this month's newsletter, or for any other matter that Compass Accountants can assist you with, please contact us on 01329 844145 or contact@compassaccountants.co.uk

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