TAXANGLES from COMPASS ACCOUNTANTS

A newsletter for proactive planning...

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December 2025 Issue

www.compassaccountants.co.uk

Utilising the tax exemption for Christmas parties

Many employers have a social event for employees around the Christmas period. This may take the form of a Christmas party or dinner or another social event, such as wreath-making and cocktails. When planning the event, it is important to consider the tax and National Insurance implications up front. Although there is a specific tax exemption for annual parties and other functions, there are conditions that must be met for the exemption to apply. Ensuring that your Christmas event meets these conditions at the planning stage will prevent employees being hit with a tax charge on the associated benefit.

Conditions

To qualify for the exemption, the party or function must be:

· an annual party or function; and

· available to the employer’s employees generally or to those at a particular location.

Where there is a single annual party or function in the tax year, the cost per head must not exceed £150. Where there is more than one annual party or function in the tax year, the combined cost must not exceed £150 for all events to fall within the scope of the exemption. The cost per head is found by dividing the total cost of the party or function plus the cost of any transport incidentally provided by the total number of attendees (employees plus guests).

Watchpoints

Only annual events qualify for the exemption. As the name suggests, these are events that are held every year, such as an annual staff Christmas party. If the event is a one-off event, the exemption will not apply. This is the case regardless of whether the event is open to all employees and the cost per head is not more than £150.

To fall within the exemption, the event must also be

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open to all employees or all those at a particular location. HMRC have confirmed that departmental events qualify. However, an event for senior staff only would not fall within the scope of the exemption.

When calculating the cost per head, VAT is included even if this is subsequently recovered. It is also important to include guests as well as employees when performing the calculation. However, if the cost per head is more than £150, the full amount is taxable, not just the excess over £150. Where an employee brings a guest and the cost per head exceeds £150, the employee will be taxed on their attendance and that of their guest.

If there is more than one annual function in the tax year, the functions will be exempt as long as the combined cost per head is not more than £150. Where this limit is exceeded, the employer can choose how best to use the exemption. When allocating the exemption, remember to consider the impact of guests – it is better to leave an event costing £100 per head attended only by employees in charge than one costing £80 per head which is attended by employees and their partners as here the taxable amount will be £160 (2 x £80).

Consider a PSA

If a tax charge does arise in respect of a Christmas event, as will be the case, for example, if the event is not an annual event, the employee will suffer a benefit in kind tax charge. The taxable amount will be the cost per head for the employee and any associated guests. The employer will also suffer a Class 1A National Insurance charge.
To maintain the goodwill element of the event, the employer may wish to include the benefit within a PAYE Settlement Agreement and meet the associated tax liability on the employee's behalf.

Correcting errors in VAT returns

It used to be possible to report errors in a VAT return to HMRC on form VAT652. This is no longer the case; form VAT652 was withdrawn from 5 September 2025. This means that now, where an error has been made in a VAT return, the error must be corrected in one of the following ways:
·updating the next VAT return;
·making the correction online; or
·writing to HMRC to notify them of the correction.

Updating the next VAT return

An error can be corrected by making an adjustment in the next VAT return if the value of the error is £10,000 or less or if the error is between £10,000 and £50,000 and does not exceed 1% of the box 6 figure (net outputs) in the VAT return for the period in which the error was discovered. A correction can only be made by updating the next VAT return if the error was made carelessly. The net value of the error is the difference between the additional amount owed to HMRC as a result of the error and the additional refund due from HMRC as a result of the error.

Correcting the error online

If the value of the error is more than £50,000, is between £10,000 and £50,000 and more than 1% of the box 6 figure in the VAT return for the period in which the error was discovered or was made deliberately, it must be notified to HMRC rather than being corrected in the next VAT return. The default route for doing this is to make the correction online. The trader will need to sign into their Government Gateway account.

When reporting the error online, the following information must be provided:
·how each error arose;
·the VAT accounting period in which it occurred;
·whether it was an input tax error or an output tax error;
·the VAT underdeclared or overdeclared in each VAT period;
·how the VAT over or under declaration was calculated;
·whether any of the errors resulted in the payment of an amount to HMRC that was not due; and
·the total amount to be adjusted.

Notifying in writing

If the trader is unable to use the online service, they will need to notify HMRC in writing of the errors if they are of a type that cannot be corrected in the next VAT return. The letter must include the trader's VAT registration number and the information listed above. It should be sent by post to:
BT VAT
HMRC
BX9 1WR

Time limit

Errors should be corrected as soon as possible, but time limits do apply.The time limit for correcting errors in a VAT return is four years from the end of the prescribed period in which the error occurred where the error related to output tax or over-claimed input tax, and four years from the due date of the return for the prescribed accounting period where the error related to under-claimed input tax. The four-year time limit does not apply to deliberate errors.

Overdrawn directors' loan accounts and section 455 tax

A director's loan account is simply a means of keeping track of transactions between the director and the company of which they are a director. Where the company is a personal or family company, the director may borrow from the company or lend money to the company. Similarly, the director may meet expenses of the company, or the company may pay the director's personal bills. These transactions are recorded in the director's loan account. Dividend or salary payments may also be credited to the account.

If the director's account is overdrawn at the end of the company's accounting period or at any point during the tax year, there may be tax implications to address.

Close companies

If the company is close, as personal companies and most family companies are, there will be tax consequences for the company if the director's account is overdrawn at the company's year end. Broadly, a close company is one that is under the control of five or fewer participators or any number of participators if those participators are directors. A participator is someone who has an interest in the capital or income of the company.

The action that the company needs to take in respect of an overdrawn director's loan account depends on whether the account is still overdrawn at the corporation tax due date, which is nine months and one day after the end of the accounting period. If the loan has been repaid within this time frame, the company must disclose the loan on form CT600A when they prepare their corporation tax return, notifying HMRC of the amount that was outstanding at the end of the accounting period and the date(s) on which the repayments were made. If the account remains overdrawn at the corporation tax due date, the company must pay section 455 tax on the outstanding loan balance along with their corporation tax. Anti-avoidance provisions exist to prevent the loan being repaid and then reborrowed in a bid to avoid the section 455 charge.

Section 455 tax

The company must pay section 455 tax on the amount by which the director's account remains overdrawn nine months and one day after the company year end. The rate of section 455 tax is aligned with the upper dividend rate (currently 33.75%). The tax is paid with the corporation tax but crucially is not corporation tax. Section 455 tax is a temporary tax in that it is repayable nine months and one day after the end of the accounting period in which the loan is repaid.

Clearing the loan, whether by an injection of cash, declaring a dividend or by paying a bonus, will prevent a section 455 liability from arising. However, this will not always be the best option. If the loan is cleared by a dividend or a bonus, this will trigger tax and (in the case of a bonus) National Insurance liabilities which may be greater than the section 455 tax. It may be cheaper to pay the section 455 tax and to clear the loan at a later date when it can be done more tax efficiently.

Benefit in kind charge

If the loan balance exceeds £10,000 at any time in the tax year, a tax charge will arise under the benefit in kind provisions by reference to the difference between interest on the loan at the official rate and that paid by the director (if any). The employer will also pay Class 1A National Insurance on the taxable amount.

Using the advisory fuel rates

HMRC publish fuel-only rates which are only of relevance where an employee has a company car. The rates, which are updated quarterly, can only be used in two situations:

·to make tax-free reimbursements to employees who meet the cost of business travel in their company car; and

·to repay the cost of fuel provided or paid for by their employer and used for private journeys in a company car.

The rate depends on the fuel type and, where relevant, the engine size. From 1 September 2025 onwards, the rate for electric cars also depends on whether the car was charged at the employee's home or using a public charger, with a higher rate applying to miles on a public charge.

The rates, which are updated quarterly on 1 March, 1 June, 1 September and 1 December, are available on the Gov.uk website at www.gov.uk/guidance/advisory-fuel-rates.

Reimbursing the cost of business journeys

Where an employee meets the cost of fuel for a business journey in a company car, they will usually be able to reclaim this from their employer. The reimbursement is generally made in the form of a mileage allowance. Where the employer reimburses the employee using the advisory fuel rates, the reimbursement can be made free of tax and National Insurance. HMRC will allow higher amounts to be paid tax-free where the actual cost exceeds the advisory rate, and the employer can substantiate this. In the absence of such evidence, if the amount paid exceeds the amount payable at the advisory rate, the excess is earnings for both tax and National Insurance.

From 1 September 2025 onwards, where the car is an electric car, the tax-free amount depends on whether the car was charged at home or using a public charger. Where a business journey involves both types of charge,

an apportionment is necessary as shown in the example below.

Example

Laura has an electric company car. She visits a customer on 27 November 2025 undertaking a business journey of 154 miles. She charged her car at home the previous Sunday. En route to the customer, she stops at a service station 65 miles from home and charges her car. She completes the journey to the customer and home without needing a further charge.
Her employer uses the advisory fuel rates to reimburse Laura, paying her 8 pence per mile for the 65 miles on the home charger and 14 pence per mile for the remaining 89 miles on the public charger, a total reimbursement of £17.66.

Repaying fuel for private mileage

A fuel benefit charge applies if the employer meets the cost of fuel for private journeys in a company car unless the car in question is an electric car. The charge can be significant. However, the tax charge can be avoided if the employee makes good the cost of all fuel used for private journeys.

The repayment can be made using the advisory fuel rates. To be effective at cancelling the charge, the employee must 'make good' before 1 June following the end of the tax year if car and fuel benefits are payrolled and by 6 July following the end of the tax year if the employer would report the benefit via the P11D process.

It should be noted that the charge is only eradicated if the employee makes good the cost of all fuel for private journeys; there is no reduction in the charge for a partial reimbursement.

Are you exempt from MTD for ITSA?

Making Tax Digital for Income Tax Self Assessment (MTD for ITSA) is mandatory from 6 April 2026 for self-employed traders and landlords whose combined gross trading and business income in 2024/25 is £50,000 or more. Those within MTD for ITSA must maintain digital records and submit quarterly updates and a final declaration to HMRC electronically using software compatible with MTD for ITSA.

As the name suggests, MTD for ITSA relies on digital record-keeping and communication. HMRC recognise that not everyone is able to operate in a digital world and those who they accept as being ‘digitally excluded’ can apply for an exemption from MTD for ITSA.

Meaning of ‘digitally excluded’

HMRC acknowledge that there are various reasons why a person may consider themselves digitally excluded. For example, a person may be digitally excluded because:

·their age, a health condition or a disability prevents them from using a tablet, computer or smartphone to keep digital records and to submit returns to HMRC;

·they are a practising member of a religious society or order whose beliefs are incompatible with using digital communications or keeping digital records and they do not use a computer, tablet or smartphone for business or personal use; or

·they cannot get internet access at their home or business because of their location, and they are unable to get access at a suitable alternative location.

However, HMRC will not accept an application for exemption from MTD for ITSA if the only reason for the application is one of the following:

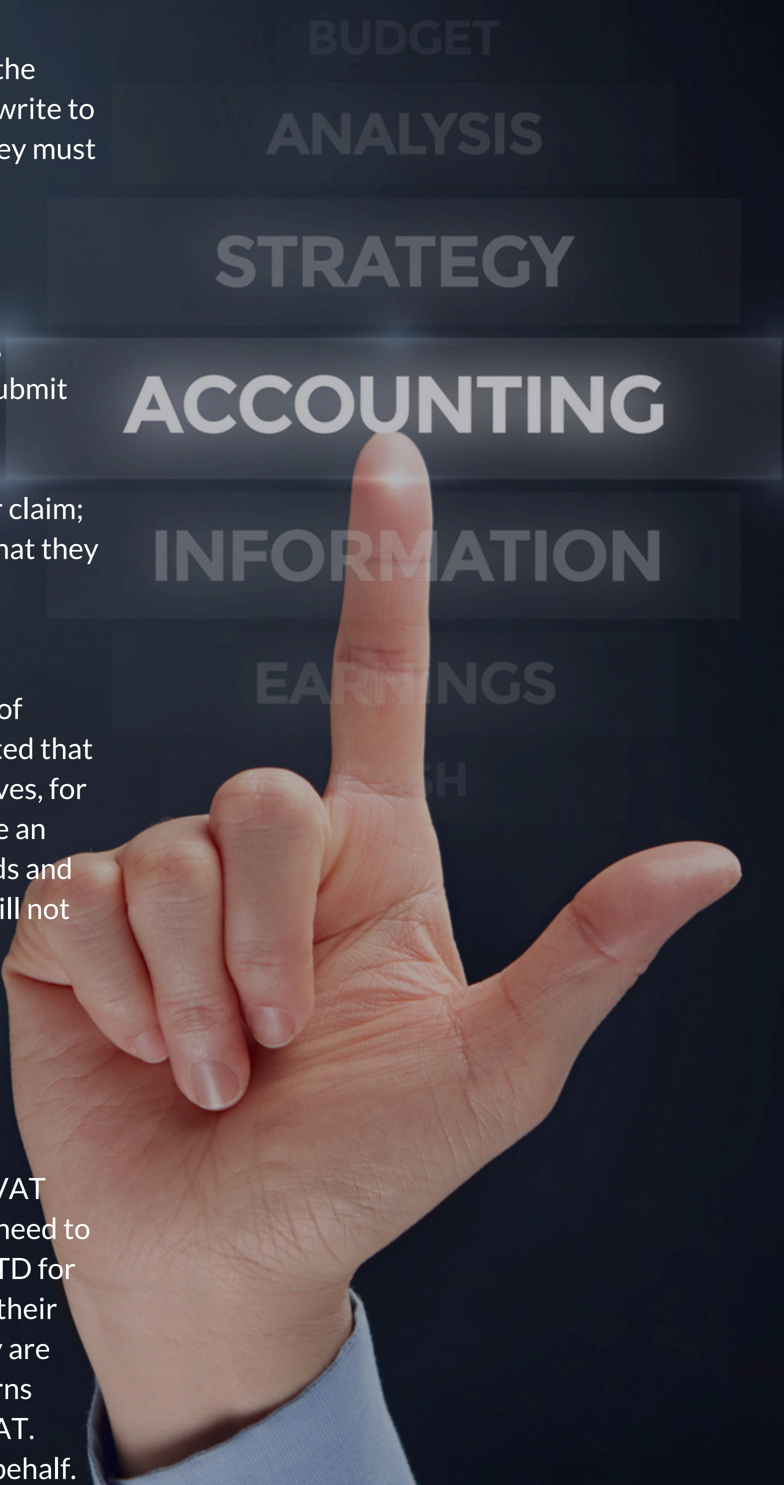
·the person previously filed a paper tax return;

·the person is unfamiliar with accounting software;

·the person only has a small number of records to create each year; or

·the person will spend extra time or incur additional costs as a result of complying with MTD for ITSA.

Where a person has an existing exemption from MTD for VAT because they are digitally excluded, providing that the person’s circumstances have not changed, HMRC will accept that they are also exempt from MTD for ITSA.



Applying for an exemption

To apply for an exemption from MTD for ITSA on the grounds of digital exclusion, a person will need to write to HMRC ahead of their MTD for ITSA start date. They must provide the following information:

·their National Insurance number;
·their name and address;
·details of how they currently submit their returns (including the use of an agent or other person to submit them on their behalf);
·the reason that they think that they are digitally excluded, including information in support of their claim;
·whether they have an accountant or agent and what they do for them; and
·any additional needs that they have.

An application can be made by an agent on behalf of someone who is digitally excluded.It should be noted that if a person is unable to use digital returns themselves, for example because of age or disability, but they have an agent or someone else who can keep digital records and file digital returns on their behalf, an exemption will not be forthcoming.
The application should be sent to:
Self Assessment
HM Revenue and Customs
BX9 1AS

Where a person is already exempt from MTD for VAT because they are digitally excluded, they will also need to write to HMRC to apply for an exemption from MTD for ITSA, providing their National Insurance number, their VAT registration number and the reason that they are digitally excluded from submitting their VAT returns using software that is compatible with MTD for VAT.
An agent can apply for an exemption on a client's behalf.

Other exemptions

The following are automatically exempt from MTD for ITSA and are unable to sign up voluntarily:
·those completing a tax return as a trustee, including a trustee of a charitable trust or a non-registered pension scheme;
·a person who does not have a National Insurance number on 31 January before the start of the tax year;
·a person completing a tax return as the personal representative of someone who has died;
·a Lloyd's underwriters in respect of their underwriting activity; and
·a non-resident company.
Anyone in the above groups does not need to apply for an exemption as it is automatic.

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CLIENT FOCUS

Pinnacle Sound

In this Client Focus, we catch up with Compass client and the Administration Director of Pinnacle Sound, Julie Griffiths.

Established in 2018, Pinnacle Sound is a specialist company that tackles every angle of soundproofing and acoustics. Based in Fareham, the business provides tailored solutions to address noise issues in residential, commercial and institutional settings. From loud offices and bespoke home cinemas to noisy neighbours and large-scale projects on wind farms, there's very little Pinnacle hasn't been involved in. They've also assisted with a number of varied sound issues in environments including schools, halls, restaurants, cafés and bars.

"Noise is a big issue, particularly in the workplace, as we know how much it impacts staff performance." comments Julie Griffiths, the company's Administration Director. "Unfortunately, a lot of modern offices often have glass walls, concrete floors and minimal soft furnishings. So, when people move in, they realise how noisy they really are. There's a lot of crosstalk and very little privacy. At Pinnacle, we're seeing huge growth in this area as more and more offices are coming to us for help,"

Before founding the company, Julie's husband worked in general construction. After taking on a large soundproofing project, the business naturally evolved into the niche it occupies today. Pinnacle Sound now consists of four staff members, three of which are family.

The impact of noise

Whether it's overheard conversations across the office, loud footsteps from the flat above, or reverberation in a social setting, sound issues can significantly affect a person's wellbeing, productivity and enjoyment.
Since the pandemic changes in how we work have also highlighted the need for Pinnacle Sound's services. Many people discovered just how noisy their home-working environments were once they began using them as a regular

workspace. At the same time, Julie notes that new-build homes are often some of the worst offenders for poor sound insulation, and Pinnacle Sound now works on more new properties than old.
As well as providing practical solutions to sound issues, Pinnacle Sound is increasingly involved in consultancy work too, helping organisations at the building stage, and educating developers and contractors to prevent issues from arising later.

"People expect better sound conditions today, whether it's in a workplace, social environment or in the home." Says Julie. "Our experience allows us to be able to provide solutions for pretty much any sound problem in most environments. We have worked on home cinemas, offices and studios, bars and restaurants- we even have an upcoming project in a luxury cigar lounge in Mayfair. It's a very varied industry, so every day is different for us." says Julie. Although they are based in Hampshire, Pinnacle Sound is very much a national business. "We've worked for long periods on specialist projects in London and as far north as Scotland on wind farms," Julie adds.

When asked about the secret to their success and what sets them apart from competitors, Julie is clear: "We always stick to our principles, which is doing the best quality job for a fair price. We don't compromise on that."

Looking ahead, Julie's focus is on stability and sustainable growth.
"Looking forward, we want to futureproof the business and maintain a strong pipeline of work. You never know what's around the corner, so consistency is key. We've put everything into building this business up, and have seen great success, but you can never sit on your laurels, you've always got to plan for the future."

Working with Compass

After looking for a new accountant, Julie discovered Compass, and working with them brought immediate benefits to the business.

"Before Compass, our books made us look like a failing company because of our previous accountants." Said Julie. "Compass have helped us in so many ways. If you haven't got a good accountancy firm on your side, you've got nothing. A good accountant is the backbone of an organisation. We had been making so many financial errors, when Compass came on board, we had to scrap everything and completely start again."
"We were paying huge five-figure sums in corporation tax, which we shouldn't have been paying. They immediately pointed that out and they taught us, explained things in plain English, and helped us. You should always trust your accountant, and now, we trust Compass completely."

"If you have a question, they are there at the end of the phone to support – and it's not about money. They want you to grow and succeed. They are completely above board, know exactly what they are doing, and most of all, they are on your side- and that is so important. I can't speak highly enough of them; they are incredible- and so supportive."
"Compass literally saved us. They changed our business. Without them, we wouldn't be where we are now-100%."

If you are interested in using Pinnacle Sound for a soundproofing project in your office or home- get in touch today. Go to www.pinnaclesound.co.uk

TAX DIARY

DECEMBER

1 December 2025 – Due date for Corporation Tax payable for the year ended 28 February 2025.
19 December 2025 – PAYE and NIC deductions due for month ended 5 December 2025. (If you pay your tax electronically the due date is 22 December 2025).
19 December 2025 – Filing deadline for the CIS300 monthly return for the month ended 5 December 2025.
19 December 2025 – CIS tax deducted for the month ended 5 December 2025 is payable by today.
30 December 2025 – Deadline for filing 2024-25 self-assessment tax returns online to include a claim for under payments to be collected via tax code in 2026-27.

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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