NEWS ROUND-UP

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HMRC TARGETS ERRORS IN MARGINAL RELIEF CLAIMS

HMRC has launched a letter campaign for companies that may have miscalculated corporation tax marginal relief on their returns.

Any business receiving a letter must reply within 30 days, even if it believes its return is correct. Ignoring the letter could lead to a compliance check and potential penalties.

The campaign focuses on companies with 'associated companies', where ownership or control links reduce the profit limits for claiming marginal relief. HMRC's letter states: "We have information that shows your company has associated companies, but hasn't declared them when claiming marginal relief. Having associated companies reduces the taxable profit limits for claiming marginal relief. This means your company may owe more corporation tax."

Marginal relief applies to taxable profits between £50,000 and £250,000. Since April 2023, earnings above £250,000 have been taxed at 25%, those below £50,000 at 19%, with marginal relief easing the transition between the two rates. The £50,000 and £250,000 thresholds must be divided proportionately where associated companies exist.

Businesses should review all corporation tax returns for periods including and following 1 April 2023. If a return is incorrect and within 12 months of the statutory filing date, it should be amended online. Where the error falls outside this window, HMRC advises making a voluntary disclosure.

Letters will continue to be issued until October 2025, so affected companies are strongly advised to speak with a qualified tax adviser or accountant to ensure all filings are accurate.

Talk to us about your finances.

UK PAY GROWTH SLOWS AS HIRING WEAKENS

UK employers have reduced annual pay increases and scaled back hiring as the economic slowdown affects the jobs market.

Office for National Statistics (ONS) data for the three months to June shows unemployment increased, though the unemployment rate remained 4.7%, the highest in four years. Average earnings growth, including bonuses, fell from 5% to 4.6%. Pay growth remained at 5% excluding one-off awards, indicating reduced incentive payments.

Vacancies dropped by 44,000, more than 5% from the previous quarter, marking the 37th consecutive decline. At 718,000, vacancies are now well below pre-pandemic levels. The finance and business services sector, which typically pays higher bonuses, recorded the lowest annual regular pay growth at 3.1%.

The Bank of England has highlighted signs of a cooling labour market and easing pay pressures. However, last week's quarter-point interest rate cut to 4% is unlikely to be followed by immediate further reductions. Markets expected unemployment and pay growth to ease in line with the ONS figures.

Surveys indicate businesses are holding back on recruitment amid rising employment costs and economic uncertainty. The Chartered Institute of Personnel and Development reported record-low hiring intentions, with young jobseekers hit hardest. Only 57% of private sector employers plan to recruit in the next three months, down from 65% last autumn.

Private sector pay grew 4.8% in the year to June, equivalent to a 0.7% rise after inflation. Public sector pay rose 5.7%, the ONS said.

Talk to us about your business.

UK HOUSEBUILDING SLUMPS DUE TO ECONOMIC PRESSURES

Construction output saw its steepest fall since May 2020, according to the latest S&P Global Market Intelligence survey.

The UK construction sector suffered its sharpest downturn since the early days of the Covid pandemic, as housebuilding activity collapsed in July.

The sector's purchasing managers index (PMI) dropped from 48.8 in June to 44.3 in July, well below the 50.0 mark that separates growth from contraction.

Housebuilding was the biggest drag, with its sub-index falling from 50.7 to 45.3. Civil engineering also recorded a steep fall, while commercial construction slowed modestly.

The data, drawn from around 150 firms, is closely watched by the Treasury and the Bank of England for signs of economic health. It comes amid a grim outlook: unemployment is rising, inflation remains sticky, economic output shrank in April and May, and global trade faces new disruption from Donald Trump's latest tariffs, which started this week.

The figures raise doubts over Labour's ambition to deliver 1.5 million new homes by the end of the current Parliament. Industry voices have questioned the target's realism, pointing to overstated assumptions about building capacity.

While the Government offers £39 billion for social housing and planning reforms to support development, analysts highlight significant obstacles, including labour shortages, inflation, and April's rise in employer NICs.

Despite these headwinds, ministers are hoping for a rebound. Following the Bank of England's rate cut to 4%, markets now expect at least one more cut by the end of 2026 – a move that could further alleviate financial pressures on households and businesses.

Get in touch to discuss your business.

GOVERNMENT OUTLINES PLAN TO SUPPORT SMALL BUSINESSES

The UK Government has announced a new plan to support small businesses, with a wide-ranging set of measures designed to tackle long-standing challenges and drive growth.

The Chartered Institute of Management Accountants (CIMA) and the Institute of Chartered Accountants in England and Wales (ICAEW) have welcomed the plan, which addresses key issues facing smaller firms.

A primary focus is on improving cashflow by legislating to stop late payments, which currently cost the UK economy £11 billion each year. The Government also aims to reduce business regulatory costs by 25%.

The start-up loans scheme will be expanded to improve access to finance, providing funding and mentoring to 69,000 new businesses. The British Business Bank's Growth Guarantee Scheme will also be extended, alongside a £2bn increase in the ENABLE programme's capacity – from £3bn to £5bn.

The strategy includes permanent reforms to business rates, offering lower multipliers for high street retail, hospitality, and leisure properties. Up to 350 communities will benefit from targeted local funding to boost the everyday economy.

In terms of future planning, the Government will invest £1.2bn in apprenticeships and skills, focusing on helping small businesses adopt new technology.

Finally, the Business Growth Service will be reintroduced to offer tailored support. UK Export Finance's lending capacity will increase from £60bn to £80bn, broadening international trade opportunities for small firms.

Professional bodies have praised the strategy as a strong signal of support for the UK's small business sector.

Talk to us about your small business.

WANT TO TALK TO AN EXPERT?

If you've found the topics covered in this report to be of interest or you would like to delve deeper into any of them, we welcome the opportunity to engage in a more detailed discussion with you. Our team of experts is always keen to share insights, and we're confident that a conversation with us can provide valuable perspective.

We are also well-positioned to update you on the latest trends, opportunities and challenges in the business world. As we all know, staying ahead of the curve is vital in today's fast-paced business landscape, and we're here to help you navigate it successfully.

If you're considering getting extra support, we invite you to explore the comprehensive solutions we offer.

To schedule a meeting or to get more information, please don't hesitate to contact us.

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