Finance Act 2024

Relevant to Advanced Taxation – United Kingdom (ATX-UK)

This article covers the changes made by the Finance (No. 2) Act 2023, the Finance (No. 1) Act 2024 and the Finance (No. 2) Act 2024 (which is the legislation as it relates to the tax year 2024/25).

It should be read by those of you who are sitting the ATX-UK exam in the period from 1 June 2025 to 31 March 2026.

Please note that if you are sitting ATX-UK in the period 1 June 2024 to 31 March 2025, you will be examined on the Finance Act 2023, which is the legislation as it relates to the tax year 2023/24. Accordingly, this article is not relevant to you, and you should instead refer to the Finance Act 2023 article published on the ACCA website.

All of the changes set out in the TX-UK article (see 'Related links') are also relevant to ATX-UK. In addition, all of the exclusions set out in the TX-UK article apply equally to ATX-UK unless they are referred to below.

This article does not refer to any amendments to the ATX-UK syllabus coverage unless they directly relate to legislative changes and candidates should therefore consult the ATX-UK *Syllabus and Study Guide* for the period 1 June 2025 to 31 March 2026 for details of such amendments.

Devolved taxes

You are reminded that none of the current or impending devolved taxes for Scotland, Wales, and Ireland are, or will be, examinable.

Non-technical matters

On the ACCA Global website, there are several non-technical resources relevant to ATX-UK which you should refer to.

- Changes and enhancements from June 2023
- Professional skills in Strategic Professional Options exams
- Professional skills for ATX
- Ethics questions in ATX

Changes relevant to the ATX-UK exam only

Income tax

Unincorporated businesses –taxation of transition profits

The changes to the basis of assessment for unincorporated businesses resulting from the introduction of the tax year basis are set out in the TX-UK article. An overview of these changes is included towards the end of this article.

As a result of the introduction of the tax year basis of assessment, transition profits may arise in the tax year 2023/24. The standard treatment is for one fifth of the transition profits to be subject to income tax in the tax year 2023/24 and in each of the four following tax years.

An election can be made to accelerate the taxation of the transition profits. This election is not examinable at TX-UK but **it is examinable** at ATX-UK.

An election to accelerate the taxation of the transition profits might be made, for example, so that an amount of transition profits would be taxed in a lower tax band than would be the case under the standard treatment. The downside being that the taxation of the profits would be accelerated because the profits would be taxed in an earlier year.

Where such an election is made, the amount of untaxed transition profits carried forward will be spread evenly over the remaining years of the five-year period.

Where relevant, a question in the ATX-UK exam will provide:

- the amount of transition profits arising in the tax year 2023/24; and
- the amount which has already been subject to income tax.

Company Share Option Plan (CSOP)

The CSOP is a tax advantaged share option scheme, such that there are no tax charges on either the grant or the exercise of the options. On the sale of the shares, any excess of sale proceeds over the amount paid for the shares is subject to capital gains tax rather than income tax.

One particular advantage of the CSOP is that the employer can choose which employees to include in the scheme, i.e. there is no need to include all employees.

The maximum value of shares that may be held in the form of unexercised options by a participant in a CSOP has been increased from £30,000 to £60,000. This change will make these schemes even more attractive to both employers and employees.

Seed Enterprise Investment Scheme (SEIS)

The SEIS is a close relation of the Enterprise Investment Scheme. It provides tax incentives to encourage investors to subscribe for new shares in start-up companies.

Tax incentives:

- Income tax: the investor is able to deduct 50% of the amount subscribed from their income tax liability.
- Capital gains tax: any profit on the sale of the shares is exempt once the shares have been held for at least three years. In addition, SEIS reinvestment relief enables an investor to exempt some of the chargeable gain arising in respect of the sale of any asset.

The maximum qualifying investment in respect of which relief can be claimed has been increased from £100,000 to £200,000, such that the maximum deduction from income tax in a tax year is £100,000 (50% x £200,000).

Capital gains tax

Transfers between spouses or civil partners

Transfers between spouses or civil partners take place automatically on a no gain/no loss basis. However, this treatment only applies while the couple are living together or have separated and been living apart for a limited period of time.

This limited period of time has been increased, such that the no gain/no loss treatment continues to apply until the earlier of:

- the last day of the third tax year following the tax year in which they separated; and
- the date on which their marriage or civil partnership is legally brought to an end or the separation is legally recognised.

The no gain/no loss treatment will also apply to assets transferred between spouses or civil partners as part of a formal divorce agreement, but this situation will NOT be examined.

Inheritance tax

Agricultural property relief (APR)

From 6 April 2024 onwards, APR will only be available in respect of property located in the UK. It will no longer be available in respect of property situated in the EEA, the Channel Islands or the Isle of Man.

Disposals of property before 6 April 2024 which qualify for APR will not be examined.

Corporation tax

Research and development (R&D) expenditure

A single new R&D expenditure credit (RDEC) scheme has replaced the two existing R&D schemes (i.e. the one for small or medium enterprises and the other for large companies). This new RDEC scheme is available to all companies.

A new enhanced scheme, known as the enhanced R&D intensive scheme (ERIS), has also been introduced for certain companies which carry out a significant amount of R&D expenditure. However, this enhanced scheme **is not examinable.**

In general, it is the company that decides to carry out the R&D that makes the claim. The claim can be made in respect of the costs incurred by the claiming company and the cost of contracting out a company's R&D to another person.

The RDEC scheme

The RDEC scheme works by treating an amount equal to 20% of a company's 'qualifying R&D expenditure' as:

1. An additional amount of taxable trading income; and
2. A tax credit, which reduces the company's corporation tax liability.

For a company that has qualifying R&D expenditure of £100,000 and pays corporation tax at the main rate, the overall effect would be as follows.

	£
Additional income (£100,000 x 20%)	20,000
Corporation tax on additional income (£20,000 x 25%)	5,000
Tax credit deducted from corporation tax liability	20,000
Corporation tax saved (£20,000 – £5,000)	15,000

The net corporation tax saving of £15,000 represents the provision of a 15% subsidy to the company for carrying out the R&D activity.

Where the available tax credit exceeds the company's corporation tax liability, the remaining amount of credit can be:

- carried forward and offset against the company's corporation tax liability of future accounting periods; or
- in the case of a group company, surrendered to another member of the group; or

- paid to the company.

There is a cap on the amount that can be used in these alternative ways. This cap **is not examinable**.

Qualifying R&D expenditure

R&D is defined by reference to Generally Accepted Accounting Principles (GAAP) and guidelines from the Department for Business, Energy and Industrial Strategy.

Qualifying R&D expenditure consists of revenue expenditure on a project that seeks to achieve an advance in science or technology that is relevant to the company's trade.

It includes expenditure on the following:

- staffing costs in respect of staff directly involved in the R&D work, including NICs (class 1 employer contributions) and pension contributions but excluding taxable benefits
- software, data licences, and cloud computing services directly used in R&D
- materials, water, fuel and power for R&D
- externally provided workers (i.e. agency staff) for R&D
- qualifying payments to subcontractors who are carrying out the work on the company's behalf

It should be noted that the cost of renting property is not qualifying expenditure for the purposes of the RDEC scheme.

Payments in respect of externally provided workers and subcontractors

Payments made to an UNCONNECTED person: the qualifying R&D expenditure is 65% of the expenditure incurred.

Payments to a CONNECTED person: the 65% restriction does not apply. However, the qualifying R&D expenditure is restricted to the lower of:

- the payment made to the connected person, and
- the relevant expenditure incurred by the connected person.

Unconnected parties can choose to make a joint election to be treated as connected. This would remove the 65% restriction that would otherwise apply. The election would apply to all payments made under the same contract.

Two companies are classed as connected if either:

- they are controlled by the same person, or
- one of them controls the other.

Areas of significant change in ATX-UK exam

The following notes highlight the fundamental principles relating to syllabus areas with significant changes in the June 2025 – March 2026 exam year when compared with previous years. Changes in these areas are relevant to ATX-UK, as well as TX-UK, and the details relevant to ATX-UK are set out below. You should also read the TX-UK article which contains considerably more detail.

Income tax

Unincorporated businesses – the cash basis

- The cash basis has replaced the accruals basis as the default method for calculating trading profit. You will be told where the accruals basis has been claimed, otherwise you should assume that the cash basis applies.
- The restrictions (in relation to interest costs and losses) that were in place in the past when an election was required for the cash basis have been removed.

Unincorporated businesses – the tax year basis of assessment

- From the tax year 2024/25 onwards the current year basis of assessment has been replaced by a tax year basis.
    - Sole traders and partners are taxed on the profits arising in the tax year, i.e. from 6 April to 5 April (or 1 April to 31 March). Where the accounts of an unincorporated business are prepared to a date other than 31 March / 5 April, the profits must be time apportioned (to the nearest month) to determine the amount arising in the tax year.
    - In the tax year in which the business starts, the taxable profit is the profit for the period from the date of commencement to 5 April.
    - In the tax year in which the business ceases, the taxable profit is the profit for the period from 6 April to the date of cessation.
- The change in the basis of assessment has NOT resulted in any changes to:
    - The treatment of capital allowances.
    - The allocation of profits between partners.
    - The reliefs available in respect of trading losses.
- Transition profits
    - As a result of the change to the basis of assessment, transition profits may arise in the tax year 2023/24.
    - A question in the ATX-UK exam will provide the amount of transition profits arising in the tax year 2023/24 where relevant.
- Taxable amount of transition profits
    - One fifth of the transition profits is subject to income tax in the tax year 2023/24 and in each of the four following years.
    - As noted above, the taxpayer can make an election to accelerate the taxation of the transition profits. In consequence of this, in addition to stating the original amount of transition profits, a question in the ATX-UK exam will state the amount which has already been subject to tax.
    - In the tax year in which the business ceases, any remaining untaxed transition profits will be subject to income tax.

- For the purposes of the ATX-UK exam, the taxable amount is included in the income tax computation as a separate amount of non-savings income i.e. the simpler calculation outlined in the TX article continues to be an appropriate way to calculate the transition profits for the ATX-UK exam. You do not need to calculate the transition profits based on the strict method for this exam.
- The interaction of transition profits with the pension annual allowance and the cap on income tax reliefs is NOT examinable.

Unincorporated businesses – National insurance contributions (NIC)

- Finally, in relation to the unincorporated trader:
  - Class 2 NICs have largely been abolished and will no longer be examined.
  - The main rate of class 4 NICs has been reduced to 6% (previously 9%).

Corporation tax

Rates of corporation tax

For the financial year 2022, the rate of corporation tax was 19%, regardless of the level of a company's profits.

For the financial year 2023 and 2024 the rates of corporation tax are:

- 19% where augmented profits do not exceed the lower limit (a maximum of £50,000).
- 25% less marginal relief where the level of augmented profits is between the limits.
- 25% where augmented profits are greater than or equal to the upper limit (a maximum of £250,000).

It is very important that you go through the detail of this in the TX-UK article and, in particular, that you understand the way in which the lower and upper limits are reduced for both short accounting periods and by reference to the number of associated companies.

The effect of having the two rates of corporation tax together with marginal relief, is that the tax saving resulting from the relief of losses will be maximised if, where possible, losses are targeted to relieve the following profits:

Relieve profits	**Rate of relief**
Between the limits	26.5%
Down to the level of the upper limit	25%
Below the lower limit	19%

When advising on the offset of losses there are two fundamental issues:

- The amount of tax saved as a result of the losses relieved; and
- The timing, i.e. the cash flow implications, of the relief obtained.

When considering these two issues you should recognise that:

- A company wishing to obtain earliest possible relief will only be able to obtain relief at 19% where losses are offset against total profits arising prior to 1 April 2023.
- Current and prior year loss relief claims against total profits cannot be restricted; they are all or nothing claims.
- When claiming group relief or offsetting losses carried forward against future total profits a company can choose how much of the loss to offset. This makes it possible to

target those profits being taxed at the higher rates, such that the relief obtained is maximised in accordance with the guidance set out above.

In the ATX-UK exam you should be prepared for a range of group scenarios, for example:

- where it is up to you to determine the rates of tax being borne by a company;
- where you are told the rates of tax being borne by one or more companies, including the situation where ALL companies pay tax at the main rate.

Further reading

The following technical articles will be published on the ACCA website at a later date:

- Taxation of the unincorporated business – the new business
- Taxation of the unincorporated business – the existing business
- International aspects of personal taxation
- Inheritance tax and capital gains tax
- Trusts and tax
- Corporation tax
- Corporation tax – Group relief
- Corporation tax – Groups and chargeable gains

The following exam technique articles will also be published on the ACCA website at a later date:

- *Passing the ATX-UK exam'*
- *'Examiner's approach to ATX-UK', which explains the structure of the ATX-UK exam and the skills required of candidates.*
- *'Stepping up from TX-UK to ATX-UK', which provides guidance on the progression from TX-UK to ATX-UK in terms of the syllabus, the style and format of the exam, and the approach necessary to maximise your chance of success.*
- *'Guidance on answering Section A questions in ATX-UK', which provides detailed guidance on the approach to be taken when answering Section A questions.*
- *'Improving your performance in ATX-UK', a series of five articles which provide detailed guidance on various aspects of exam technique.*
- *Exam technique and fundamental technical issues for ATX-UK*
- *Making the best use of the tax tables in your ATX-UK exam*
- *How to approach Advanced Taxation*

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