

A young man in a school uniform is writing on a whiteboard in a classroom. He is wearing a white shirt and a blue and white striped tie. He is holding a red marker and looking towards the whiteboard. In the background, another student is also writing on the whiteboard. The scene is brightly lit, suggesting a window nearby.

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**SCHOOLS BRIEFING**

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**SPRING 2024**



## Contents

- 2** The clock is ticking
- 4** New frontiers in build projects
- 6** Key considerations for a school when borrowing
- 10** VAT in relation to lettings
- 12** Payrolling of benefits in kind – it will be mandatory from April 2026
- 14** Corporation Tax update
- 16** Upcoming events programme
- 18** Schools team

# Welcome from the editor

Welcome to the Spring 2024 edition of our briefing for independent schools, where we provide updates and insights on accounting, tax, reporting and governance for school bursars and governors.

This edition of our schools briefing looks at some political and environmental considerations which may be a concern for independent schools. Phil Salmon, Partner and Co-Head of VAT, sets out some things for independent schools to consider in the event Labour form the next Government and introduce VAT on school fees.

Andrew Roberts, Senior Manager, explores how schools are continuing to both plan and construct new build projects. Despite current challenges and uncertainties, we are seeing a continuation of capital projects with an increased focus on sustainability. Andrew goes on to explore carbon reduction considerations and why it is important.

With the continuing theme of uncertainty, our first guest author Daniel Jacklin, Corporate Relationship Director, Education at NatWest Group, shares the key considerations for an independent school when borrowing. He goes on to highlight what information a lender might ask for regarding the project, and what they may need the school to provide to secure funds.

Given the current economic climate, schools are seeking ways to bolster and diversify their income streams. Ramzan Khan, Senior Manager, looks at various ways schools can do this across letting of school grounds, hiring out theatres, and letting out event space for weddings, filming and photography. He explores how the VAT treatment can often differ depending on the type of supply and how the many variations can be navigated.

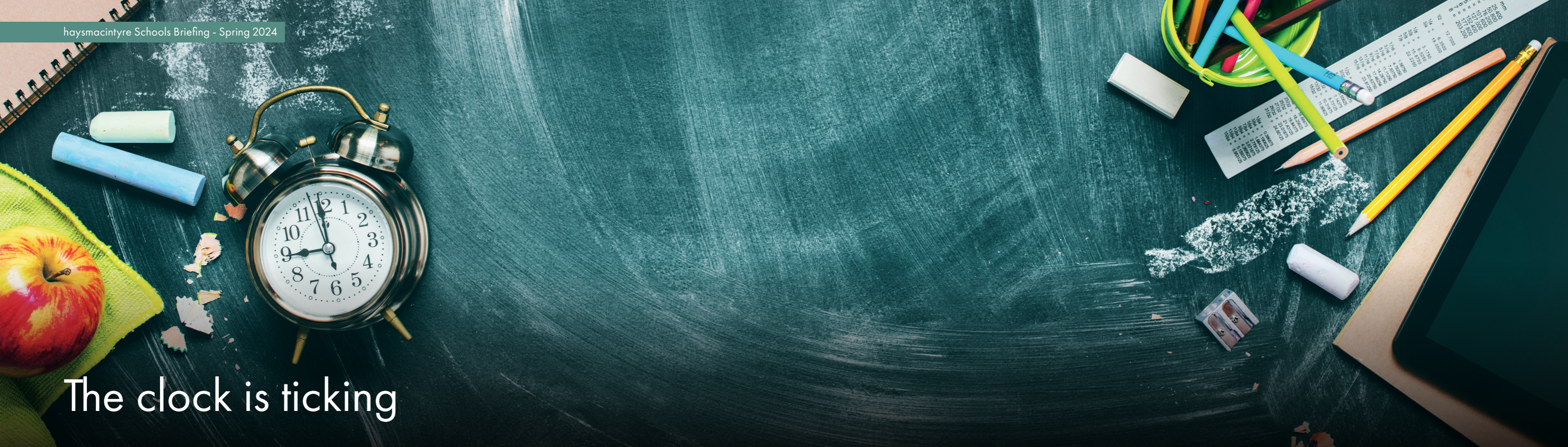
After the latest announcement from HMRC regarding payrolling of benefits in kind, Nick Bustin, Employment Tax Director, explains what this will mean for schools and how they should prepare ahead of April 2026. He goes on to shed further light on past experiences, and what employers will need to consider.

Finally, Louise Veragoo, Not for Profit Tax Director, shares a Corporation Tax update based on the recent changes to legislation. This includes the amount of Corporation Tax that will have to be paid by companies, the impact on the schools' sector and touches on interest rates which furthers the importance of timely payments.

I hope you enjoy this edition and find these articles of interest. Do feel free to let the authors, me or your regular contact know if you have any questions concerning the matters discussed.



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# The clock is ticking

We are now under a year away from the latest date by which the next General Election must be held (24 January 2025), so it seems appropriate to start to set out some of the things that independent schools should be considering in the event that Labour form the next Government and follow through on their promise to introduce VAT on school fees.

Until such time as legislation is published, any comments I do make are speculation, though after spending most of my working life as a VAT specialist, they are, I hope, informed speculation.

### How long will schools have to prepare?

Let's start with my first venture into political punditry as to how long schools might have to prepare. If we roll back the clock to the end of last year, there was some speculation that the Prime Minister might call an early election in perhaps March 2024 following a tax cutting Budget in the Spring. The possibility of that seemed to recede due to the state of the economy and comments from the Chancellor that he would not have as much headroom as hoped for a giveaway Budget.

That said, there is still pressure from the far-right wing of the Conservative party to slash taxes and in recent weeks the possibility of a May election has been mooted, despite comments from the Prime Minister that he was not contemplating an early election.

For what it's worth, my 50 pence was on an Autumn election in either October or November, and probably the former. In recent weeks there has been talk that the Government is moving away from the idea of a November election towards one in October so that the news cycle is not dominated by events in the US should Donald Trump be elected for a second term.

In the event this does happen, I will not be able to pat myself on the back too much since my own reasons for thinking October was a possibility were based on very different reasons, largely to do with the British weather.

It is, after all, no secret that the demographics of the Conservative Party tends to be made up of older people (I hope that as a grandfather and someone who became entitled to collect a pension last year, I can say this without offending anyone). My view was that an election in October, and possibly before the clocks went back, stood a better chance of maximising the Conservative vote than one in November when it was dark and rainy, let alone one in December or January in the run up to Christmas, with even darker, wetter weather with ice and snow perhaps preventing people getting out at all.

So where does my straying into (for me) new territory take us? Quite simply that a year is not a great deal of time to prepare for what, if it happens, will be a fundamental change for independent schools, and we may well not even have a year.

It is said that the first two stages of grief are denial and anger and much of the last couple of years have been taken up with that, but the final stage is acceptance. I think schools now need to accept it is highly likely (if not inevitable) that VAT on school fees will happen.

### With a limited amount of time, what action should schools be taking?

Firstly, I think this is too big a change to simply leave it to Bursars. They will need help, so I think that if they have not already done so, schools should be setting up a working party with Governors and the Head involved, as well as finance staff.

Secondly, and bearing in mind that absent sight of draft legislation, schools cannot predict exactly what will change, therefore the working party should be drawing up an action plan of what steps they can take to mitigate the impact of VAT being introduced.

The plan should attempt to set out the order in which action should be taken, prioritising those that have the largest financial impact and the greatest likelihood of working at the top, so that even if a school cannot work through all of the areas, it can work through some of the most important at least.

### Mitigating the impact

Over the last couple of years, various commentators have set out their thoughts of ways in which the amount of VAT that will need to be charged can be reduced. As a VAT specialist, I will set out my views on some of these areas over the next few months.

But mitigation of the impact of such a change is not solely confined to ways in which the VAT bill can be reduced. It will encompass various things, such as how much fees will need to be increased by, and how much a school might bear itself at least over the first few years after a change. This might impact on reserves policies and how much support schools can afford to give by way of bursaries and scholarships. However, such things are outside my specialism, so I leave them to others better qualified to opine.

For now, here is a list of some of the VAT aspects which schools should consider and which I will look at in more detail over the next few months.

- Accounting packages
- Assisting state schools
- Being VAT registered
- Boarding
- Bursaries
- Bussing
- Capital Goods Scheme
- Expenditure
- Extras
- Fees in advance
- Nurseries



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# New frontiers in build projects

Despite the challenges and uncertainties in both the sector and general economy, schools are continuing to plan and construct new buildings. We outline below the change we have seen in recent years with a greater focus towards more sustainable approaches.

## A look back

Complex and expensive capital projects are nothing new to the independent schools sector. There is a never-ending arms race for schools to ensure they have the latest facilities to impress the parents of future pupils and ensure the pupil roll remains full.

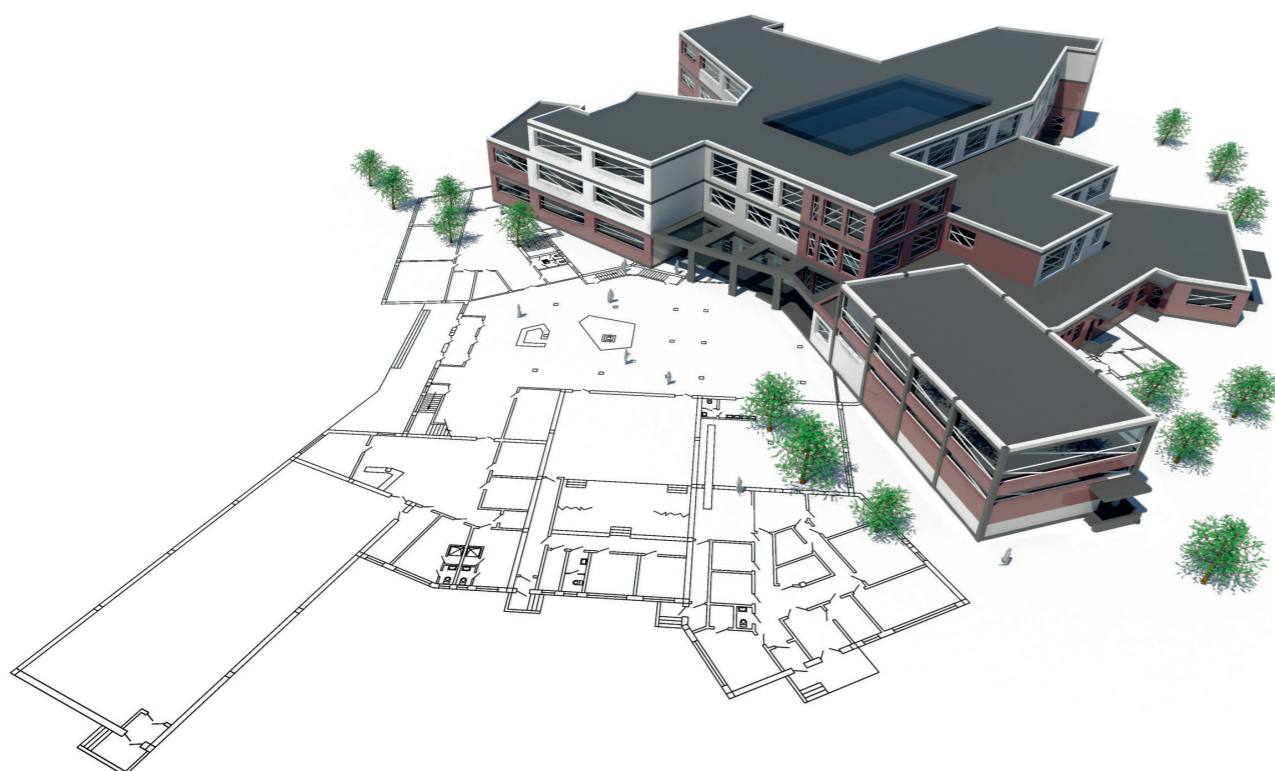
Over the years, we have seen this race move through sports halls and swimming pools, to high specification science labs and performing arts centres, to top tier sports training pitches and then coming full circle with more in depth sports centres replacing the traditional sports hall. In all cases the focus has been on providing bigger, better and more high specification equipment and facilities for schools to use in delivering upon their educational objectives.

More recently, the general uncertainty in the economy following COVID-19 and various international conflicts, as well as the anticipated financial pressures to come following a potential Labour victory in the general election, has caused some schools to delay or cancel major build projects. Despite this, some schools are still pressing ahead in line with previously agreed long-term masterplans.

## What's changing?

The main change we have seen in recent times is an increased focus on sustainability, both in terms of how the project is built and also for the wider life cycle and operations of the building itself. These credentials are, no doubt, important in the wider context but specifically for the independent schools market to give them something new to market to current and prospective parents. There is a positive message in sustainable practices and this will resonate through to the pupils as well.

You will see terms thrown around such as climate crisis, net zero and carbon neutral. Whilst most people will have a vague idea what these terms are, they can be very difficult to precisely express and, in a legal sense, they are not formally defined. Certainly, if you were looking to have your building certified with some sort of sustainability badge, there are various providers who will do this for you which can help with the marketability of the project. However, none are officially sanctioned and, in the face of changing regulations and focus, those credentials could be challenged either from the outset or in the future.



When considering carbon reduction or offset within your project, here are two different types of carbon to consider for your build project:

1. **Embodied carbon** – this relates to those emissions associated with the materials used in the project, together with their construction.
2. **Operational carbon** – the carbon used in operating the building, typically used in the heating/cooling and lighting.

When working on your project, you may wish to focus on one or the other – or take on a ‘whole-life’ carbon viewpoint which encapsulates both.

There are various things to consider in the design phase of any such project. If you are planning on using solar or wind to help with the energy supply, you will need to be cognisant of the site, to ensure these can be captured efficiently. This could be especially problematic if the school site does not have a huge abundance of land to choose from. You will need to give some thought to modelling the projected energy usage, and then overlay this on any renewable energy sources and any offsetting you may be able to do through ‘passive design’ to reduce usage and the use of more energy efficient climate control and lighting systems. Any remaining energy used, you may wish to off-set through one of the recognised carbon offsetting mechanisms. Secondly, you will want to consider the materials used in construction, typically concrete is known to be very unsustainable with a huge carbon hit for its manufacture. Other materials will need to be assessed for their carbon footprint through manufacture, installation and use.

As well as carbon, many will also give thought to water use, and consideration can be given to ‘grey water’ systems and rainwater harvesting to reduce the reliance on and use of traditional piped water supplies.

## Why is this important?

As auditors, our natural focus is on the costs and as you might imagine all the above considerations will add cost to your project. Any deviations from the ‘normal’ methods of building will add complexity and add to the costs for your contractors. This of course needs to be balanced with both what the building needs to deliver in use, and the available budget to spend on the project.

The design, planning and construction of a net-zero building requires a holistic approach to consider the various aspects of the project and how these interact, the needs and desires of the various stakeholders and, most importantly, the impact on the delivery of education to the pupils.

Away from capital projects there are a number of other things schools can look at to try to show a focus on sustainability:

1. **Renewable energy initiatives** – standalone projects to implement solar panels or wind turbines to reduce reliance on energy from the grid.
2. **Energy efficient upgrades** – the upgrade of windows, light fittings, and heating systems to more efficient modern versions to reduce energy use, together with the installation of additional insulation materials.
3. **Water saving measures** – use of grey water systems and rainwater harvesting as mentioned above. Replacement of fittings with ‘low-flow’ models to reduce water use.
4. **Education** – run sessions for pupils on how to be more aware of sustainability and things they can do to help. Allow pupils to become involved in the school’s operations in this area through student-led initiatives and committees.
5. **Transportation** – encourage the use of sustainable transport to school, more walking, cycling and use of public transport above the use of individual cars.
6. **Food programmes** – look at the use of local and organic produce for school meals, this will support local providers and reduce the ‘food miles’ of the meals provided.

Schools that qualify as large companies will already be aware of the Streamlined Energy and Carbon Reporting requirements for their annual reports. Whilst the narrative requirements of these regulations are currently fairly limited, it is likely that future iterations of accounting regulations and the Charity SORP will develop these requirements further, and possibly push them down to small and medium sized entities.

There are a number of things for Bursars and project managers to think about, and sustainability both in construction and also in the day-to-day operations of schools is likely to rise up the agenda as time goes on. Some schools have already employed sustainability leads, and Bursars at those schools will tell you that those leads have a long list of suggested projects, totalling up to a significant cost. Senior management at schools will need to balance the needs of the school with the costs of increased sustainability all within the fluctuating budgets of current times, which is not an easy task.

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# Key considerations for a school when borrowing

In spite of the current headwinds facing the independent school sector, there continues to be demand for debt facilities, predominantly to fund property developments for new or replacement facilities. For many schools these are infrequent projects, and can add significant time pressure on top of an already busy role for the senior management team.

Given the long term impact of a new development and the repayment of any bank lending, it's important for both the school and lender to ensure that the process goes well before, during and after a facility is provided.

While there are many different lending facilities widely available, the majority of facilities provided to independent schools fall into one of the following categories:

- **Overdraft** - either committed or repayable on demand. Typically used to meet a short term financing requirement or fulfil day to day cash flow requirements.
- **Revolving Credit Facility** - offers committed flexible funding for a number of years, can be drawn and repaid as many times as required to meet short-term borrowing requirements. Only interest has to be repaid during the life of the facility. This is typically available to larger or more complex clients.
- **Term loan** - a committed debt facility, typically with regular repayments of capital and interest. They can feature a drawdown period, during which the loan can be drawn in tranches to match cashflow needs, and typically feature for property developments.

As a general rule of thumb, the debt facility should match the life of the asset being funded; an overdraft probably isn't appropriate to fund a large property development, nor is a term loan appropriate to fund a short term working capital shortfall.

## What information will a lender ask for?

### Reason for the funding

For the lender one of the key pillars of the request is the school's ability to articulate the reason for the funding, how it will impact the school and ultimately the school's ability to repay the debt. The lender will wish to understand questions such as:

- What is the funding for? If it is a building project, is it to replace an existing facility, will it lead to a growth in income such as increasing pupil capacity, the number of boarders, commercial hire opportunities or the ability to charge higher fees? If it is to broaden the school's facilities, such as a new swimming pool where you haven't previously had one, what is the rationale?
- What is the total cost of the project, how much will the school contribute and from what sources? If the contribution is from donations that are yet to be received, the lender will want to understand your previous success in fundraising.
- If it is a property development, who is the main contractor and what relevant experience do they have? The budget contingency amount is important, especially if the construction contract is not fixed price, leaving you at risk of price increases during the development.
- Management and Trustee team. Does the school have experience of successfully managing similar developments? Are there sufficient skills and capacity in the senior management team to manage the project as well their existing responsibilities? Much of the school and the project's success is due to the management team.

## Knowledge of The School

Even if you are discussing borrowing with your existing lenders, they may wish to update or improve their knowledge of the school. They will want to understand:

- Can you articulate the school's USP? Do parents choose to send their children to you as you are academically strong, you have great sports or arts facilities, you have good pastoral care?
- What is the pupil mix? Where relevant, what is the mix of genders, boarding : day pupils and home : international pupils.
- How close are you to either your practical or DofE pupil capacity, and what is the ratio of applicants to places? These are indicators of demand for the school, and therefore ability to remain successful in the face of any factors that affect fee affordability.
- Do you have any income streams other than pupil fees: investment portfolio income, overseas schools, commercial letting of your facilities, summer camps etc.?
- Who are your competitors, how do you benchmark against them, and how do you differentiate? The bank will review and compare factors such as fees, exam results, reviews, ISI inspection reports, and the pupil's success in achieving their first choice senior school or University.

## Financial Performance

While the financial performance is important to the lender, it is combined with the knowledge of the school and the wider market to provide a full picture. While probably an over simplification, the financial performance shows what has happened but not why. Regarding financial performance, lenders will ask for information such as:

- Last three years annual accounts, and an explanation of any exceptional factors e.g. fee rebates given during Covid.
- Historic and current pupil numbers by year group, to identify any bulge or fallow year groups and pupil trends.
- Financial Forecasts. This should include income and expenditure, balance sheet and a cashflow, and typically would look forward at least five years. The bank would wish to understand the assumptions in your base case and rationale for them e.g. pupil numbers, fee increases, cost increases, maintenance capital expenditure.
- The financial forecasts should also run different scenarios from best case to worst case, such as loss of VAT exemption and business rate relief. If this downside forecast shows issues in servicing the debt, the bank will want to understand what actions you could take to address this.

### Lender Security

Facilities can either be secured by taking a charge over an asset or unsecured. This will depend on factors such as the quantum, the type of facility requested and the financial and non-financial strength of the school.

Security can be taken over non-teaching assets (houses let to teachers, investment properties, boarding houses), investment portfolios or school land and buildings.

One key factor to note is that security is a mitigant for the lender, and is not itself a sufficient rationale for lending. A lender will not lend purely because it is fully secured: its primary source of repayment will always be the free cash that the school generates, and therefore the importance of understanding the school's dynamics, competitive and financial position.

### Analysis

The lender will combine all of the above to analyse the request. They will analyse the school's ability to service its current and proposed debt, and how much headroom it has before this comes under pressure. Understanding the school's resilience to external pressures affecting demand is important, as well as what actions the school could take to manage any underperformance.

### Debt Conditionality

Upon approval of a lender, there are likely to be additional conditions to be met both before and after the facility can be drawn. Depending on the type, their view of risk and the reason for borrowing, this could include:

- A lender appointed chartered survey undertaking a valuation of a property pledged as security
- A lender appointed monitoring surveyor to report on the progress of a construction project, its risks and whether it remains on time and on budget.
- Satisfaction with considerations such as planning consent, the school's powers to borrow and for construction lending the quality of the main contractor and sub contractors.

### Lending Covenants

These are additional events of default used by the lender to give advanced warning if there are emerging issues with school's ability to repay. These will be set in line with historic and projected financial performance, with some leeway to allow for underperformance.

They can measure various quantitative indicators of performance. Common covenants measure the ability to service the debt e.g. EBITDA or Cashflow, combined with a second asset based measure such as loan to value or minimum net worth.

Other covenant types can also feature such as minimum pupil numbers, or restrictive covenants to manage cash outflows e.g. maximum annual capital expenditure or a dividend restriction at for profit schools.

### Costs

The borrower will usually bear the lender's costs for any external party they need to use, such as solicitors for loan documentation, chartered surveyors for valuing property assets or monitoring surveyors for supervising property developments.

### Ongoing Facility Monitoring

Once the facility has been provided, a lender will wish to continue to monitor the school's performance, both financial and more generally. This could include the request for regular management accounts and annual accounts, as well as the school demonstrating covenant compliance where relevant.

It is important to raise any performance concerns with the lender early; the sooner that they know about any problems, the more options are available to help if needed.

### In Closing

Independent schools, still continue to get lending, in spite of the current uncertain environment. From a lender's perspective it's important to understand why a school is successful, why it should continue to be so and what options are available to management if faced with challenges. The ability of the school to communicate this to their lender is therefore vital, not just with accounts and forecasts but through clearly articulating the dynamics of their school, local market and the quality of their senior management team.

There will always be risks during a property development and over the life of a facility that a lender will seek to mitigate. It's important for both parties to ensure that these conditions are fully understood, achievable and in the case of lending covenants are as future fit as possible.

As with all relationships, open and honest two-way communication between lender and borrower is critical for success.



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# VAT in relation to lettings

Schools looking to bolster and diversify their income streams can most easily do this by letting their school's grounds and buildings, but the VAT treatment can often differ depending on the type of supply and whether or not you have an option to tax in place.

This would impact both VAT registered schools (in terms of whether they need to charge VAT) and non-VAT registered schools, in checking the level of taxable supplies and being aware of, if and when, they exceed the £85,000 VAT threshold.

## General letting of school grounds and option to tax

The starting position is that lettings of single classrooms, or other areas of school sites without additional services, would be treated as being exempt from VAT and there would be no VAT chargeable. If you are not VAT registered this is not an issue but if the school (or a trading subsidiary) is registered, you may want to be able to charge VAT on the supplies of land so there isn't a restriction to your ability to recover VAT that you are incurring.

In such situations you are able to make this supply taxable by making what is known as an 'option to tax'. However, one important point to note is that once the option to tax has been made, it applies for 20 years and means any supplies (rent or sale) of the land would attract VAT at the standard rate in most situations. This can impact any transfers of the opted land and building and so the decision to opt should not be taken hastily.

In contrast, when you let areas of the school out with additional services, for example, members of staff or other equipment/ services as part of the letting, you would need to treat the supply as being taxable for VAT purposes.

## Letting of theatres

Some schools have impressive theatres that can be hired out as a source of income. If the school is hired out on its own, then in line with above whether you charge VAT depends on whether there is an option to tax in place on the building/grounds. If there is no option, the supply is exempt. If there is an option then VAT at the 20% rate needs to be charged.

However, theatre hire is often accompanied by technical staff (for example, lighting technicians) or catering. When these additional services are provided alongside the supply of land in the theatre hire, this all becomes one standard rated VAT package.

## Lettings for events such as weddings and other parties

Where schools allow their often historic and beautiful buildings to host events, these are very rarely a bare letting. Events such as weddings and other parties often consist of packages with the hire of the venue taking place alongside catering and other related supplies. In such situations, this would not be treated as a letting but instead seen as a standard rated hospitality package i.e. 'wedding packages' which is considered as one taxable supply of services on which VAT should be charged.

However even in the event that only a room is provided, there is case law to the effect that a letting of a room for the purposes of a supply of catering, such as a wedding reception, is taxable regardless of whether an option to tax has been made and even if the catering is provided by a third party. With this in mind, when letting school halls for weddings you should be charging VAT regardless of whether you are providing the catering.

There is an exception. If the supply was solely for wedding services held in a chapel (without the reception and catering) this would be considered by HMRC as a religious service and, if the charges cover the chapel, minister and a choir, then this would be outside the scope of VAT. Only additional services (for example, florists and other musicians) would mean that there is a taxable element.

## Filming and photography

Media companies will pay to hire historic school premises for location shoots. Even if there is no option to tax, this would not be exempt as it is not seen as letting per se. This would be considered to be a supply of filming rights which is a taxable supply for VAT purposes.

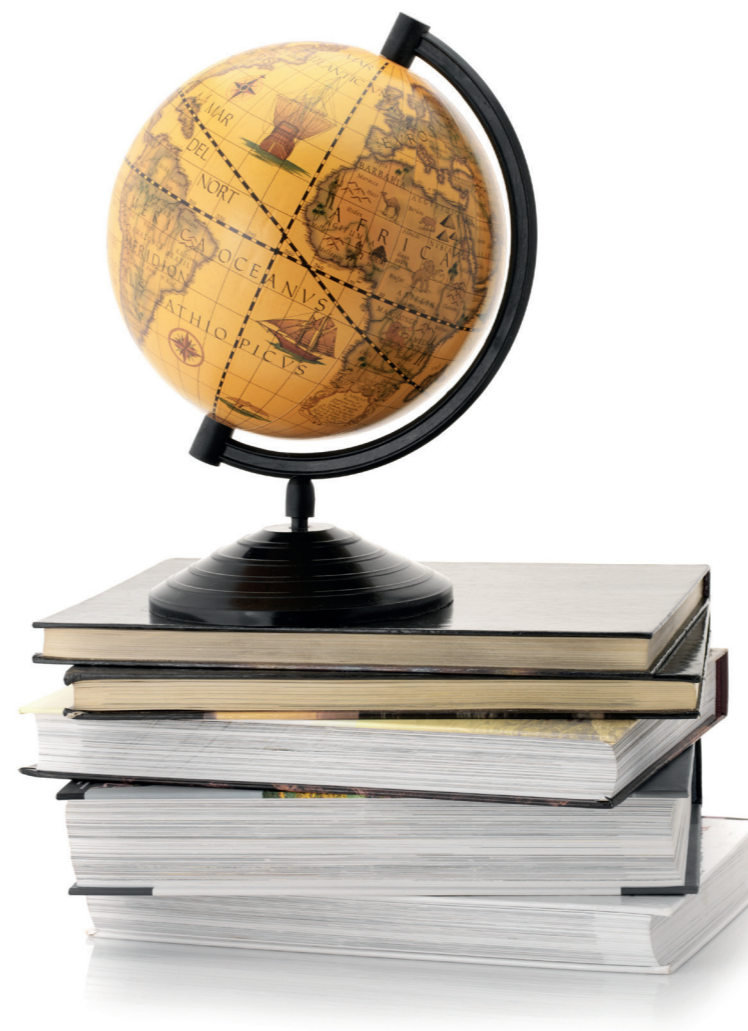
## Holiday lettings

Many schools seek to utilise buildings during the holiday breaks by letting their facilities to other educational establishments who may run summer or Easter schools, often for students from abroad who may come to the UK to learn English. These lettings will usually involve use of the facilities, including offices and classrooms, as well as accommodation, catering and cleaning.

As set out above, the letting of the premises with additional services means the supply is taxable. However, there is another exemption which can be relevant in cases such as this. Supplies of goods or services which are closely related to education (such as accommodation and catering) can be exempt when it is supplied by one eligible body to another, for the use of the pupils of the second eligible body.

School and commercial providers of tuition in English as a Foreign Language (EFL) are eligible bodies and the lettings to them would be exempt from VAT, regardless of whether you have opted to tax the land or not.

The only point to watch is that they would only be treated as eligible bodies to the extent they provide "the teaching of English as a Foreign Language". So if they were providing language tuition in languages other than English they would not be regarded as eligible bodies.



## Sport lettings

The default position of a letting of sports facilities, such as the gym, swimming pool or pitches is different to the general letting of other school land and buildings.

The general rule for the letting of sports facilities is that the supply is standard rated for VAT purposes. However, there are exceptions for block bookings under certain circumstances. The first and less likely situation is when the facilities are let for a continuous period of over 24 hours. The second scenario is much more likely and is where there is a series of lets.

If sports facilities are let for a series of ten or more sessions to a school, club, association or to organisations representing affiliated clubs or constituent associations, then this supply can be exempt from VAT provided the following conditions are met:

1. The facilities must be used for the same activity at the same place each session
2. The interval between each period must not be less than one day and not more than 14 days
3. The consideration must be payable by reference to the whole series of lets (not on a session by session basis) and be evidenced by a written agreement
4. The customer must have exclusive use of the facilities

It is important to note that even if the series of lets conditions are met the exemption can be overridden if an option to tax has been made over the facilities. The letting of the facilities would then become subject to VAT.

Unlike the education exemption detailed above, the exemption for the sports lettings is the same whether the supply is made by the school or the trading subsidiary so it would not matter who the agreement is with.

## Conclusion

The VAT treatment of school lettings can be more complicated than it appears and the haysmacintyre VAT team are happy to help with queries to help you navigate the many variations.



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# Payrolling of benefits in kind – mandatory from April 2026

HMRC has announced that it will be making payrolling of benefits in kind via payroll software mandatory from 6 April 2026. This has been a much anticipated development which HMRC confirmed in their recent 'Simplification Update' dated 16 January 2024.

What will this mean for schools and what should they be thinking about ahead of April 2026?

## Current position

Currently, taxable expenses and benefits ('benefits') need to be reported to HMRC on forms P11D and P11D(b) and submitted to HMRC by 6 July following the end of the tax year.

The employee is required to pay income tax based on the value reported in their form P11D. This is collected by HMRC through a change to both the employee's tax code and their income tax personal allowance.

The school is also required to pay Class 1A National Insurance Contributions ('NIC') to HMRC by 19 July if paying by post or 22 July if payment is being made electronically.

Schools can 'voluntarily' payroll expenses and benefits where they have registered to do so with HMRC before the beginning of the relevant tax year. The school must select what expenses and benefits are going to be payrolled and the employees to whom this will relate as part of the process. Where payrolling of benefits is applied, the income tax due is collected in 'real time' through the payroll, based on the cash equivalent of the expense or benefit, which can be estimated. There is no change necessary to an employee's tax code.

Where a school opts to 'voluntarily' payroll benefits, they are no longer required to submit forms P11D for each employee. However, a form P11D(b) still needs to be submitted along with payment of the Class 1A NIC's. There remains a requirement to provide each employee with a summary statement of the expenses and benefits provided by 1 June following the end of the tax year.

Currently, there are two benefits where the voluntary payrolling of benefits cannot apply:

1. Employer provided beneficial loans in excess of £10,000 (no benefit is due on loans of less than £10,000).
2. Living accommodation, which is taxable and does not benefit from one of the statutory exemptions.

Where either of the above benefits are provided, forms P11D will still need to be submitted to HMRC.

## Mandatory payrolling of benefits from April 2026

In an attempt to simplify and further modernise the tax system, the mandatory payrolling of benefits for all employers will come into effect from 6 April 2026. HMRC has stated that they will consult with stakeholders on the arrangements. We are awaiting draft legislation which is due to be published later this year.

At this stage we will know if it is proposed that payrolling of benefits will also be extended to include employer provided loans and living accommodation.

## What will employers need to consider?

Based on experiences where clients 'voluntarily' payrolled benefits, schools will need to consider the following:

- Determining the nature of the taxable benefits you will provide.
- The changes required to the current payroll system.
- What changes need to be made to your processes.
- What changes need to be made to your policies and procedures.
- How you will value the benefits provided.
- How information is shared with employees.

It is important that schools plan well ahead of the April 2026 deadline. This will ensure the challenges of moving across to payrolling of benefits are managed to avoid significant disruption to the school.



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# Corporation Tax update

Recent changes to Corporation Tax legislation are now impacting current accounting periods, for the first time. Below is a summary of some of the changes which may affect you.

## How much Corporation Tax do companies pay?

As of 1 April 2023, the main rate of Corporation Tax increased to 25% (from 19%) for companies with profits exceeding £250,000. However, companies with annual profits below £50,000 will still enjoy the previous rate of 19%, also known as the 'small profits rate', with a marginal rate applying between those profit limits.

## Schools sector relevance

For charitable schools, these changes will only impact schools with non-charitable (taxable) trading activities. For non-charitable group companies, including trading subsidiaries, these changes will impact companies that have taxable profits.

In most cases, a trading subsidiary will pay away its remaining taxable profits via a donation to its charitable parent school, but that is not always possible or, in some cases, desirable. Where tax profits exceed accounting profits, or where cash is limited within the subsidiary for example, then these changes will impact the level of Corporation Tax payable on any remaining profits.

Where a wholly owned subsidiary is relying on making a donation to its parent charity, any delay past the nine-month deadline, will not only result in a potentially increased rate of Corporation Tax payable, but will now also attract a higher rate of late payment interest. As such, these deadlines become even more important.

## Associated companies and Corporation Tax

In addition to the increase in the overall Corporation Tax rate, we now have the reintroduction of the term "associated company". The number of associated companies impacts the rate of Corporation Tax payable, as the above profit limits must be divided by the number of associated companies.

This change affects companies with common control, substantial trading interdependence, or shared premises. For example, if a husband and wife each own separate companies that engage in significant commercial activities with each other, they will be considered associated. Consequently, the profit limits mentioned earlier will need to be divided by two for tax calculation purposes. In addition, where an individual controls two separate companies, these companies will now be treated as associated companies of each other.

Associated companies includes both UK and overseas entities, so greater visibility of the worldwide group is needed to ensure that the correct rate of Corporation Tax is being applied.

## What are the current Corporation Tax interest rates?

Companies not subject to quarterly instalments, or those who delay payment for more than nine months after their year-end, also face higher interest rates, now at 7.75% as of August 2023, up from 2.75% in March 2020. Therefore, it is crucial that any Corporation Tax payments are made on time.

There has also been a significant increase in interest rates for underpaid quarterly instalments (for larger companies), rising from 1.1% in March 2020 to 6.25% as of August 2023.

On the positive side, HMRC interest rates are 5% for overpaid quarterly instalments and 4.25% for repayments of Corporation Tax. The interest payable for late payment of Corporation Tax has significantly increased over the years, emphasising the importance of timely payments.

Taxable profit (2023/24)	Marginal Corporation Tax rate	Average Corporation Tax rate	Pre-April 2023
£0 - £50,000	19%	19%	19%
£50,001 - £250,000	26.5%	19% - 25%	19%
More than £250,000	25%	25%	19%



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# Upcoming events programme

We have one of the largest charity and not for profit teams in the country: we act for over 800 clients, accounting for approximately 30% of our annual turnover. Our team of specialists host topical seminar updates and speak at other organisations' events presenting the latest developments within the not for profit sector.

## **Quarterly Charities Update**

12 March 2024

15:30 – 17:00

Online

## **AGBIS Annual Conference**

18 March 2024

09:00 – 17:00

Queen Elizabeth II Centre London

## **Trustee Training: Charity Law Update**

26 March 2024

13:30 – 15:30

Online

## **Bi-annual Schools Update**

17 April 2024

15:30 – 17:30

Online

## **NFP VAT and Tax Exchange**

18 April 2024

10:00 - 11:00

Online

## **ISBA 2024 Annual Conference**

21 - 22 May 2024

09:00 – 17:00

International Convention Centre, Wales

## **Quarterly Charities Update**

4 June 2024

Online

## **Quarterly Charities Update**

5 September 2024

Online

To book your place at any of our events,  
please visit [haysmacintyre.com/events](https://haysmacintyre.com/events)

# Schools team

If you need guidance on any audit and accounting, financial reporting, statutory obligations, funding, employment tax or direct tax matter you can contact any member of our Schools team as detailed below.



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An eprivateclient top accountancy firm 2023



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