

## Reporting Company Payments to Participators – Modernising the Reporting Framework

Comments from Saffery LLP, submitted through the online response form, together with our executive summary and general points

## 1. Executive summary

1.1 We welcome the opportunity to comment on the proposals to introduce new requirements to report transactions between close companies and their participators to HM Revenue and Customs (HMRC).

1.2 In summary, our key points are as follows:

- The proposals would introduce a significant additional compliance burden for family and owner-managed businesses, the vast majority of which are compliant.
- The existing framework, including the loans to participators regime and benefit in kind rules, already provides a comprehensive and robust set of measures.
- A large proportion of businesses already engage professional advisers, most of whom are subject to recognised professional standards, including requirements around integrity, professional competence and due care.
- Much of the relevant activity relates to director's loan account movements, which are commonly reviewed as part of the year-end compliance process rather than in real time.
- A wider reporting requirement risks capturing a large volume of ordinary commercial and compliant transactions without clear benefit in terms of tax yield.
- Additional disclosures could lead to increased enquiry activity without a corresponding improvement in outcomes, increasing costs for compliant businesses.
- Targeted additional reporting for directors of close companies has already been introduced in self-assessment tax returns from 2025-26, and its effectiveness should be assessed before introducing wider new requirements.

1.3 Section 2 below makes some general comments on the proposals, and section 3 covers our responses to the specific questions raised in the consultation document.

1.4 We would be happy to discuss the points raised here in further detail. If you have any questions, or would like any further information, please contact: Sean McGinness, National Tax Partner, on +44 (0)131 221 3217 or email [sean.mcginness@saffery.com](mailto:sean.mcginness@saffery.com) or Ami Jack, Partner, National Tax, on +44 (0)330 094 3079 or email [ami.jack@saffery.com](mailto:ami.jack@saffery.com).

## 2. General points

2.1 We support the objective of ensuring that the right amount of tax is paid and that HMRC has appropriate information to address non-compliance.

2.2 However, we have significant concerns that the proposals would place a disproportionate administrative burden on compliant businesses, including not only family and owner-managed businesses but also a wider population of privately owned and investment-backed groups that fall within the close company definition. In our view, these businesses already operate within a framework that includes detailed rules such as the loans to participators regime and the benefit in kind provisions, both of which are designed to identify and tax value extracted from companies.

2.3 Many companies in scope are also supported by professional advisers who are members of recognised professional bodies and operate within established standards of conduct set out

in Professional Conduct in Relation to Taxation (PCRT), which already plays an important role in identifying and addressing non-deliberate errors as part of the normal compliance process.

2.4 We also note that additional reporting for directors of close companies has already been introduced in the personal self-assessment regime from 2025-26. These changes require specific information to be provided even where no remuneration or dividends are received. In our view, these targeted enhancements represent a more proportionate approach, and their effectiveness should be assessed before introducing a broader reporting framework.

### **3. Specific consultation questions**

#### **3.1 Question 1: Is the close company definition well-understood in the small company population? Are companies always aware whether they are close?**

3.1.1 Our experience, including since the introduction of additional reporting requirements for directors of close companies in the self-assessment tax return from 2025-26, suggests that understanding in this area is not consistent. We have seen an increase in queries from clients seeking to confirm whether they fall within the definition of a director of a close company.

3.1.2 This indicates that the rules are not universally well understood. While many companies are supported by professional advisers, this places increasing reliance on agents to explain the rules.

3.1.3 In our view, there would be merit in focusing on improving general awareness and understanding of the existing framework before introducing further reporting requirements.

#### **3.2 Question 2: Are the loans to participators rules well-understood in the small company population?**

3.2.1 The existing loans to participators regime is well established and provides a clear and effective framework, including the section 455 charge where loans remain outstanding. Taken together with benefit in kind rules, the current system already provides comprehensive coverage of value extracted from close companies.

3.2.2 In our view, the proposals risk duplicating or extending existing obligations rather than addressing a clearly identified gap.

#### **3.3 Question 3: Do small companies have a good understanding of relevant corporate law? For example, about when it is permissible to issue a dividend?**

3.3.1 No comment.

#### **3.4 Question 4: Do small companies typically receive support from tax advisers or accountants with understanding their tax obligations and completing their tax return? If so, at what stage would the adviser be engaged, and what level of support is offered?**

3.4.1 It is our understanding that most companies in scope receive support from professional advisers in understanding their obligations and completing tax returns.

- 3.4.2 A significant proportion of those advisers are members of recognised professional bodies and are required to comply with established standards of conduct, including requirements around integrity, professional competence and due care. These professional standards help ensure that non-deliberate errors are identified and addressed as part of the compliance process.
- 3.5 Question 5: Other than by engaging tax advisers, how else do companies find appropriate guidance or advice on these subjects?**
- 3.5.1 No comment.
- 3.6 Question 6: What challenges do tax advisers currently encounter in this space when handling company records and preparing returns? Are there examples available of 'good' or 'bad' client workflows?**
- 3.6.1 A common feature of current practice is that director's loan account movements are reviewed as part of the year-end process. Transactions may then be analysed and, for example, posted to expenses, cleared via a dividend or retained as a loan with any associated charges considered.
- 3.6.2 This reflects an established and practical workflow. A requirement for more granular or real-time reporting would represent a significant change and could add complexity without improving outcomes.
- 3.7 Question 7: What data do close companies currently keep about their transactions with their participators? How do companies currently keep track of Director's Loan Accounts?**
- 3.7.1 Companies typically maintain accounting records that include director's loan account movements. These records form the basis of the analysis undertaken as part of the year-end accounts and tax return process.
- 3.7.2 Companies may not routinely hold all the identifying information that could be required for reporting purposes (for example, National Insurance numbers or full address details for all participators). Introducing such requirements may require new processes to collect and validate the information.
- 3.8 Question 8: How often do companies collect or collate this data? For example: daily, weekly, monthly or on an as-and-when basis. If infrequently, what safeguards are in place to ensure that all transactions are captured in the records?**
- 3.8.1 In many cases, information is reviewed and analysed periodically, particularly at the year end, rather than on a real-time basis. This aligns with the way in which smaller businesses manage their accounting and tax obligations.
- 3.9 Question 9: How many separate transactions might occur annually in an average close company in relation to a single participator?**
- 3.9.1 No comment.
- 3.10 Question 10: What is the general size and frequency of these transactions?**

3.10.1 No comment.

**3.11 Question 11: How many participators might an average close company be undertaking transactions with?**

3.11.1 No comment.

**3.12 Question 12: Are there any categories or types of participators where it may not be practical or beneficial to provide details?**

3.12.1 A key difficulty lies in distinguishing between higher-risk transactions and ordinary commercial or compliant arrangements. Examples of legitimate transactions include, bonuses paid to directors, market value rent charged to family members and interest being charged on loans which prevent any benefit in kind charges. A broad reporting requirement risks capturing significant volumes of such activity, increasing administrative burden without a clear benefit. There may also be uncertainty in identifying which transactions fall within scope, particularly in relation to accounting adjustments, reclassifications or transactions with mixed purposes.

3.12.2 There may also be practical challenges in more complex situations, such as transactions between multiple entities owned by the same participator, where data alone may not provide meaningful insight, particularly where the application of the loans to participators rules depends on factors such as intention or motive which would not be apparent from the data reported.

**3.13 Question 13: How, and to what extent, are company and personal records currently aligned?**

3.13.1 No comment.

**3.14 Question 14: How are these records currently kept?**

3.14.1 Records are typically maintained within existing accounting systems and reviewed as part of the year-end accounts and tax return process.

**3.15 Question 15: Do software products currently used by companies to prepare their accounts or tax return contain any functionality to help keep track of transactions such as shareholder loans, or possible charges under the loans to participators regime?**

3.15.1 If additional reporting requirements are introduced, a software-based solution would be essential. However, not all businesses currently use software capable of capturing and reporting detailed transactional data in the manner envisaged.

3.15.2 Requiring businesses to adopt new or enhanced software, or to rely on bridging solutions, would introduce additional cost and administrative burden. This is likely to be particularly significant for smaller businesses with tighter profit margins.

3.15.3 As seen with Making Tax Digital for Income Tax, while some lower-cost or free software options may be available, these can have limited functionality and may require increased manual input to extract and transmit the required information to HMRC.

**3.16 Question 16: What would be the preferred way to transfer the required information to HMRC?**

3.16.1 Any reporting requirement should be aligned with existing systems and processes. A standalone process would add unnecessary complexity and cost.

3.16.2 We also note that additional reporting requirements for directors of close companies have already been introduced in the personal self-assessment tax return from 2025-26. It would be sensible to assess their effectiveness before introducing a broader new framework.

3.16.3 If additional information is required, an alternative could be to enhance existing disclosures, such as removing the exemptions for reporting related party transactions in iXBRL accounts, rather than introducing separate reporting obligations.

3.16.4 We also note that even under Making Tax Digital for Income Tax and with approved software, HMRC does not receive transactional data. It is therefore important to consider the practicalities of how such data would be received, processed and used, both for HMRC and for businesses required to provide it, together with associated costs.

**3.17 Question 17: Do you expect this to cause any additional administrative burdens for your business? If so, how could they be minimised or removed?**

3.17.1 Yes. We consider that the proposals would create a significant additional administrative burden, particularly for compliant family and owner-managed businesses.

3.17.2 Even if supported by software, there is a risk that the cost of compliance would outweigh any additional tax yield, particularly where the majority of reported transactions are routine or compliant.

**3.18 Question 18: In what circumstances might it be difficult for companies to provide identifying details of participators?**

3.18.1 No comment.

**3.19 Question 19: Do you have a view on the relative administrative impact of this suggestion?**

3.19.1 Extending reporting requirements to repayments, releases and write-offs would add further complexity and administrative burden to an area already covered by an established tax regime, without clear evidence of additional benefit.

**3.20 Question 20: Do you anticipate any issues with the application of the normal CT penalty regime to this requirement? Can you see any scenarios where a more bespoke penalty regime might be more appropriate?**

3.20.1 A broader reporting obligation, combined with existing penalties, would increase compliance risk and cost for businesses and advisers, including the risk of incurring penalties from process or data quality issues even where the underlying tax treatment is correct. Those deliberately seeking to avoid tax are unlikely to be significantly affected by additional reporting requirements, whereas compliant businesses may face increased enquiry activity and associated costs without a corresponding increase in tax yield.

**3.21 Question 21: Are you willing to participate with this public consultation and have your name published in the list of respondents on the GOV.UK website?**

3.21.1 Yes

**3.22 Question 22: Are you responding to this survey as: a business, a representative body, an agent, an individual, other?**

3.22.1 An agent.

**3.23 Question 23: Please provide your name (if you are responding as an individual or an agent) or the name of the body/business you represent (if you are responding as a representative body or business).**

3.23.1 Saffery LLP

#### **4. About Saffery LLP**

4.1 At Saffery, we're more than just chartered accountants and tax and business advisers. We're a partner-led and people-focused firm, committed to our clients and honouring our heritage.

4.2 Since 1855, we've evolved in size and scope, but our unwavering dedication to exceptional client service remains the same.

4.3 As a proud member of Nexia, a worldwide network of trusted member firms, we've got access to local insight on a global scale.

4.4 In the UK, Saffery LLP is the 15th largest accountancy firm by fee income, with 90+ partners and 1,300+ staff across nine offices. Saffery also has an office in Dublin, Ireland.