EXPLANATORY MEMORANDUM TO

THE INCOME TAX (ADDITIONAL INFORMATION TO BE INCLUDED IN RETURNS) REGULATIONS 2025

2025 No. 84

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 James Murray MP, Exchequer Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Zoë Nettelfield and Declan Norris, Deputy Directors for Strategic Data Policy at HMRC, confirm that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Colin Connor at HMRC, telephone: 03000 530581 or email: responsivenessdataconsultation@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 These regulations specify information on start and end dates of self-employment, which the self-employed are required to provide to HMRC via their Income Tax Self Assessment return, and additional information about dividend income which directors of owner-managed companies are required to provide to HMRC via their Income Tax Self Assessment return.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the UK.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the UK.

5. Policy Context

What is being done and why?

5.1 Improving the information provided to HMRC on Income Tax Self Assessment returns will deliver better outcomes for taxpayers and businesses, as well as improving compliance, resulting in a more resilient tax system. The improved data can also help increase the range of options available to respond to future economic shocks, supporting increased resilience and preparedness.

Start and end dates

5.2 HMRC currently collects incomplete information regarding the start and end dates of self-employment through Income Tax Self Assessment returns as questions on whether a business started or ceased trading within that tax year are voluntary to complete.

5.3 Making these questions a mandatory part of the Income Tax Self Assessment return will improve HMRC's understanding of the characteristics of the trading population, supporting small business compliance and allow help to be provided earlier in the business lifecycle. It will also provide HMRC with a better understanding of those businesses that have ceased trading.

Dividends

5.4 Many individuals who carry on their personal business through a company, Company Owner-Managers (COMs), remunerate themselves partly by way of dividends rather than through payments of salary. Under current reporting mechanisms, it is not possible for HMRC to distinguish between the origin of dividends received and whether they are derived from an individual's own company or as dividends from other sources. As a result, it is not possible to determine which taxpayers receive dividends from their own companies from those who do not. Being able to do this will allow for appropriately targeted communications to be issued to this population.

5.5 Requiring COMs to declare separately the amount they receive from their own companies and from other UK dividends will give HMRC a better awareness of the total package of remuneration received by COMs from their own company. This will improve HMRC's understanding of this population, allowing better targeting of tax administration and policy interventions, as well as helping focus compliance activities.

What was the previous policy, how is this different?

5.6 HMRC previously collected some of this information from Income Tax Self Assessment returns on a voluntary basis. From April 2025 the previously voluntary information will be collected on a mandatory basis along with new information. See sections below for more detailed information on each area.

Start and end dates

5.7 Income Tax Self Assessment for the self-employed currently includes questions on whether a business started or ceased trading within that tax year. However, completion of these questions is voluntary, which results in incomplete information that is of limited use.

5.8 From April 2025, the effect of this instrument is that these questions will be made a mandatory part of the Income Tax Self Assessment return, requiring all self-employed persons to tell HMRC whether their business started and/or ceased trading within that tax reporting year and if so, provide the relevant dates.

Dividends

5.9 From April 2025, the effect of this instrument is that COMs must declare separately from other UK dividends received, the amount they receive from their own companies. The existing voluntary question on the Income Tax Self Assessment return asking whether the individual is a director of a closed company will be made mandatory. New mandatory questions will also be added requiring the individual to

report the value of dividends received from the close company and the percentage of the company's share capital held by the individual.

5.10 A person completing a personal tax return who has been a director of a close company during the year to which the tax return relates must, by virtue of this instrument, provide the following information in the return:

- the name and registered number of the close company;
- the amount of dividend income received from the close company that year; and
- the highest percentage of the close company's share capital held by the person during that year.

6. Legislative and Legal Context

How has the law changed?

6.1 These regulations specify additional information that persons are required to include in certain tax returns that they may be required to make and deliver to HMRC.

6.2 These regulations are made pursuant to the new sections 8(1J) to (1L), 8A(1H) to (1J) and 12AA(5F) to (5I) of the Taxes Management Act (TMA) 1970, which were inserted by section 36 (Additional information to be contained in returns under TMA 1970 etc) of the Finance Act 2024. They require:

- the start and end dates of relevant business activities to be included in personal returns, trustee returns, and partnership returns; and
- information about directorships, close companies, and dividend income from close companies to be included in personal returns.

Why was this approach taken to change the law?

6.3 Primary legislation under section 36 (Additional information to be contained in returns under TMA 1970 etc) of the Finance Act 2024 amended sections 8, 8A and 12AA of the Taxes Management Act 1970 to enable HMRC to require additional information to be collected through personal, trustee and partnership returns. Regulations are required in order to specify such additional information. The present regulations are therefore required in order to achieve the aim of obtaining this new information.

7. Consultation

Summary of consultation outcome and methodology

7.1 HMRC formally consulted with stakeholders about requiring additional information from the self-employed on start and end dates for self-employment and directors in owner-managed businesses. The technical consultation was published on GOV.UK[1].

7.2 A consultation on the draft instrument was held from 14 March 2024 to 9 May 2024. The consultation received 24 written responses from a range of stakeholders including payroll professionals, software providers, representative bodies, tax/accounting agents, large business, consultancies, an academic researcher and an individual.

7.3 Responses focused on drafting of definitions in the regulations, suggestions to amend the current Income Tax Self Assessment return forms, and the need for detailed guidance. There has been minimal change to the instrument from the responses

[1] Secondary legislation technical consultation: https://www.gov.uk/government/consultations/draft-legislation-improving-the-data-hmrc-collects-from-its-customers

received from the consultation. HMRC will address these responses by working collaboratively with stakeholders to prepare new guidance.

8. Applicable Guidance

8.1 Guidance will be updated when this measure comes into force (at the start of the tax year 2025 to 2026).

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note has not been prepared for this instrument because the financial impacts are the same as the previously published assessment included with the HMRC technical consultation[2].

Impact on businesses, charities and voluntary bodies

9.2 The impact on business, charities or voluntary bodies is as follows. There is anticipated to be a significant impact on up to 1.2 million self-employed businesses each year and around 0.9 million directors of owner-managed businesses. These businesses will be required to submit additional information to HMRC via their Income Tax Self Assessment returns and to provide information which was previously voluntary to complete, from April 2025. There are no significant impacts on charities or voluntary bodies.

9.3 The legislation does impact small and micro businesses.

9.4 Small and micro businesses are the focus of the policy so cannot be exempted. However, to minimise the impact on them HMRC will ensure clear guidance is available.

9.5 There is no significant impact on the public sector because the measures affect individuals carrying out business via their own company or as a self-employed individual.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 No specific monitoring arrangements are required. The policy objectives will be kept under regular review by HMRC alongside regular communication with employers and payroll representative bodies.

10.2 The instrument does not include a statutory review clause because it is exempt under section 28 (3) (a) of the Small Business, Enterprise and Employment Act 2015 (provisions relating to tax).

[2] Secondary legislation Statutory Instrument impacts: https://www.gov.uk/government/consultations/draft-legislation-improving-the-data-hmrc-collects-from-its-customers/draft-statutory-instruments-impacts-improving-the-data-hmrc-collects-from-its-customers

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").