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INTRODUCTION

Summer 2025 Update: Supporting Law Firms Through Clarity, Compliance & Confidence

As we enter the summer season, Team LFC™ would like to take this opportunity to thank you for your continued trust and partnership.

It remains a privilege to support your firm, and we are always committed to delivering a service that not only meets your needs, and also adds meaningful value to your operations.

This time of year often prompts a pause for planning and reflection.

Many firms use the quieter summer months to review internal processes, address outstanding compliance matters, and prepare for a more efficient second half of the year.

From a bookkeeping perspective, this is an ideal time to strengthen financial systems and resolve any ongoing challenges before they become costly or time-consuming.

Over recent months, we have supported law firms in navigating a number of recurring issues.

SRA Accounts Rules Compliance

VAT Treatment of Disbursements vs Recharges

Using Technology to Streamline Bookkeeping

If any of these issues resonate with you, or if there is anything else you would like to discuss, please don't hesitate to get in touch via support@legalfc.zendesk.com

Wishing you a productive and positive summer ahead.



BUSINESS

Still recording your accounts on spreadsheets?

For small and medium-sized enterprises (SMEs), adopting accounting software offers a range of practical benefits that help streamline financial management, reduce errors, and improve decision-making. Here are the key advantages:

Time-Saving Automation

Accounting software automates routine tasks such as invoicing, bank reconciliations, VAT calculations, and payroll processing. This reduces manual data entry and allows business owners and finance teams to focus on running and growing the business, rather than spending hours on admin.

Real-Time Financial Insights

Most modern platforms offer real-time dashboards and reporting tools. Business owners can instantly see cash flow positions, outstanding invoices, and profit margins. This helps with day-to-day financial decisions and longer-term planning, such as forecasting and budgeting.

Accuracy and Reduced Errors

Manual bookkeeping can lead to errors in data entry, calculations, or tax reporting. Accounting software includes built-in checks and reconciliation tools to minimise these risks. With fewer mistakes, businesses are less likely to face penalties or compliance issues from HMRC.

Simplified Tax Compliance

Cloud-based software is increasingly aligned with HMRC's requirements, including Making Tax Digital (MTD). It helps SMEs maintain digital records and

submit VAT and income tax returns directly from the system. This not only saves time but ensures timely and accurate compliance.

Better Cash Flow Management

With tools to track incoming payments, flag overdue invoices, and send automatic payment reminders, SMEs can manage credit control more effectively. Improved cash flow visibility makes it easier to plan for outgoings and avoid late payment issues.

Access Anywhere, Anytime

Cloud-based accounting software allows users to log in from multiple devices, enabling remote working and access for accountants or bookkeepers. This flexibility supports businesses that operate across locations or use outsourced finance support.

Scalability

Most accounting packages offer scalable features that grow with the business. SMEs can start with basic invoicing and reporting and add features like inventory management, multi-currency support, or project tracking as needed.

Integration with Other Systems

Accounting platforms often integrate with other business software, such as e-commerce, payroll, point-of-sale, and CRM tools. This creates a joined-up business system and reduces duplication of work.

Professionalism

Using accounting software can improve the presentation of invoices and financial reports, giving a more professional impression to clients, suppliers, and lenders.

In summary, accounting software helps SMEs improve efficiency, accuracy, and control, making it a worthwhile investment for sustainable business growth.

If you are still considering your software options, we can help. Call now...

Ideas for additional revenue streams

For many small and medium-sized

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enterprises (SMEs), the core business keeps the lights on, but additional income streams can provide much-needed stability and growth. Whether you're a service provider, a retailer, or run a niche consultancy, diversifying your revenue can cushion seasonal dips, economic shocks, or customer churn. Here are some practical ways to bring in extra income without straying too far from your core business.

Offer Online Courses or Webinars

If you have specialist knowledge, turn it into a digital product. Creating online courses or hosting webinars allows you to monetise what you already know. This works particularly well for consultants, tradespeople, or niche service providers. Platforms like Teachable or Thinkific make setup relatively easy.

Introduce Subscription Services

Subscription models work for more than just magazines. If you sell products, consider offering a monthly bundle or repeat-order service. If you're in a service industry, a retainer model or premium membership can offer exclusive content, support, or discounts to subscribers.

Rent Out Equipment or Space

Do you have tools, machinery, or office space that sits idle some of the time? Renting these out, even on an occasional basis, can generate passive income. This is especially useful for creative or construction businesses that own specialist gear.

Sell Branded Merchandise

If you have built a recognisable brand, merchandise could be a low-effort income stream. Think branded mugs, notebooks, tote bags, or even digital downloads like planners or templates. Print-on-demand services mean you don't need to hold stock.

Affiliate Marketing or Product Referrals

If you already have a mailing list or online presence, recommending relevant products or services could bring in



commission. Just ensure the partnerships are relevant and credible to maintain trust with your audience.

Create a Paid Newsletter or Exclusive Content Channel

If your business produces insights or useful information, consider launching a paid newsletter or members-only blog. Tools like Substack or Patreon allow you to test this with minimal upfront cost.

Offer Freelance or Consulting Services

If your business has a quiet season, consider offering your skills on a freelance basis. This works well for design, IT, marketing, or finance professionals looking to supplement core revenue.

Need help tailoring any of these ideas for your business? Call now so we can discuss your options.

Key business concerns for UK SMEs in 2025

Rising operational costs

Many SMEs are under pressure from increased running costs. Rising energy prices, national insurance contributions, and the uplift in the national living wage are all eating into profit margins. These pressures are forcing some businesses to freeze recruitment, delay investment, or even consider redundancies.

Access to finance

Accessing funding remains a key challenge for small businesses. Loan approval rates have declined, particularly from high street banks, and some firms are turning to alternative lenders. The government has acknowledged the problem and is in discussions with leading

banks to improve the availability and affordability of credit for SMEs.

Tax policy changes

Changes to tax policy are prompting some business owners to rethink their long-term plans. Adjustments to capital gains tax and business asset disposal relief have caused concern, especially for those looking to sell or close their businesses. There is growing interest in securing favourable outcomes while current tax rules remain in place.

Economic uncertainty

Broader economic instability continues to weigh heavily on SMEs. Uncertainty around global trade, domestic interest rates, and future tax changes is creating a climate of caution. Many business owners are delaying decisions on growth, recruitment, and capital expenditure as they wait for greater clarity.

Technological adaptation

While automation and digital tools offer real productivity gains, many SMEs struggle to keep pace with rapid technological change. Investing in the right systems is essential but can be costly. There is also a skills gap, with some teams lacking the confidence or training to make best use of new software and platforms.

Speak to us for tailored support

If you recognise any of these issues within your business, we strongly encourage you to get in touch. As your accountant, we are here to help you assess your position, explore your options, and plan a course of action that protects your business and supports your goals. Early conversations can make all the difference in a challenging environment.

VAT & DUTIES

VAT concerns facing UK SMEs in 2025

Value Added Tax (VAT) continues to be a source of concern for many small and

medium-sized businesses. The complexity of the rules, administrative burden, and risks of penalties for errors or late filing mean VAT is one of the most frequently cited areas of worry among SME owners.

Administrative complexity

Many SMEs struggle with the day-to-day administration of VAT. Even businesses that are digitally capable find that recording transactions, managing VAT on expenses, and reconciling returns can be time-consuming. This is especially true for businesses dealing with mixed rates, partial exemption, or the VAT margin scheme.

Cash flow impact

VAT is often a cash flow challenge. Businesses must charge VAT on sales and pay it over to HMRC, often before they have been paid by their own customers. This time lag can create pressure, especially in sectors with long payment terms or where late payment is common. While the VAT Cash Accounting Scheme can help, not all businesses are eligible or aware of it.

Threshold anxiety

The £90,000 VAT registration threshold is a common worry for growing businesses. Crossing this threshold means additional compliance, pricing changes, and often the need for new systems. Some businesses deliberately limit their growth to stay below the threshold, which can restrict long-term potential. Others find they have exceeded the limit unintentionally and face backdated liabilities.

Uncertainty over rules and reliefs

Frequent rule changes and narrow deadlines often catch business owners off guard. For example, navigating import VAT post-Brexit, understanding domestic reverse charge rules in construction, or reclaiming VAT on mixed-use expenses can all lead to uncertainty or costly errors.

Risk of penalties

VAT returns must be submitted accurately



and on time. With the introduction of Making Tax Digital for VAT, HMRC has also introduced a points-based penalty system for late returns. Mistakes or missed deadlines can now lead to automatic penalties or loss of a business's clean compliance record.

If you are unsure about your VAT obligations or concerned about the impact on your cash flow or compliance record, please get in touch. We can help assess your VAT position, identify potential savings, and ensure you meet your obligations without unnecessary stress.

When SMEs can use the VAT Cash Accounting Scheme

The VAT Cash Accounting Scheme is available to VAT-registered businesses with an estimated taxable turnover of no more than £1.35 million a year. Under the scheme, VAT is accounted for based on when payments are actually received and made, rather than the invoice date.

You can start using the scheme at any time without needing HMRC approval, provided you meet the turnover condition and have no serious VAT compliance issues. You must leave the scheme if your turnover exceeds £1.6 million.

To use the scheme, you must apply it consistently across all VAT returns and keep appropriate records of payment dates. Some transactions, such as imports and reverse charge supplies, must still be reported under standard rules.

Why it is helpful if you have more debtors than creditors

For businesses that regularly give credit to customers, but pay suppliers quickly, the Cash Accounting Scheme can significantly

ease cash flow pressures. You only pay VAT to HMRC once your customers have paid you, rather than when you issue the invoice. This avoids the situation of having to fund VAT from your own pocket on unpaid invoices.

If your business is often owed more than it owes, using this scheme helps align your VAT liability with your actual cash position.

VAT return filing deadlines

If your business is registered for VAT in the UK, you must submit a VAT return to HMRC every quarter, even if there is no VAT to pay or reclaim.

The deadline for submitting a VAT return is one calendar month and seven days after the end of your VAT accounting period. Payment of any VAT due must also be made by this date.

For example, if your VAT quarter ends on 31 March, the return and payment must be received by 7 May.

Most businesses are now required to file VAT returns using Making Tax Digital (MTD) compatible software. Failing to submit on time may lead to penalties under HMRC's points-based system.

Some businesses use non-standard accounting periods or file annually, but the same rule applies: the return and payment must reach HMRC within one month and seven days of the period end.

EMPLOYMENT & PAYROLL

When do business owners need to register for PAYE?

If you are a business owner planning to pay staff, including yourself as a director, you may need to register as an employer with HMRC and operate PAYE (Pay As You Earn). PAYE is HMRC's system for collecting Income Tax and National Insurance from employee wages.

You must register for PAYE before the first payday. This applies if you are paying any employee, including directors, who:

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- Earn £96 or more a week (£417 a month or £5,000 a year)
- Receive expenses and company benefits
- Have another job or pension income
- Have received Jobseeker's Allowance, Employment and Support Allowance or Incapacity Benefit

Even if the employee earns less than the weekly threshold, you may still need to keep payroll records and report to HMRC if they have another job or are receiving a pension.

Once registered, you must report payroll information each time you pay employees using Real Time Information (RTI) submissions.

If you are unsure whether PAYE registration is required for your business or need help setting up your payroll system, please get in touch. We can guide you through the process and ensure full compliance with HMRC rules or, if you prefer, we can quote to manage the payroll for you.

What is an RTI payroll return?

Real Time Information (RTI) is HMRC's system for receiving payroll information from employers each time they pay their staff. Instead of reporting annually at the end of the tax year, employers must now submit payroll data every time they run a payroll.

The main RTI submission is called a Full Payment Submission (FPS). It includes details of employees' pay, Income Tax, National Insurance, and other deductions. This must be sent to HMRC on or before the date employees are paid.

In some cases, an Employer Payment Summary (EPS) is also required. This is used to report adjustments, such as statutory payments recovered or where no employees were paid in a period.

RTI helps HMRC ensure tax codes are kept up to date and that benefits such as Universal Credit are calculated using current income data. It also allows more accurate and timely collection of tax and National Insurance.

Failure to submit RTI returns on time can lead to penalties, even if no tax is due.

NIC & PENSIONS

Are there limits on employer pension contributions?

When a business contributes to an employee's pension scheme, the good news is that there is no absolute legal limit on how much an employer can pay in. However, there are tax rules and practical limits that employers should be aware of.

Employers can contribute any amount to a registered pension scheme, but only contributions that fall within the employee's annual allowance are tax-efficient. For most people, the annual allowance for the 2025–26 tax year is £60,000. This includes all pension contributions made by both the employer and employee.

If total contributions exceed this allowance, the employee may face an annual allowance tax charge, unless they can cover the amount paid by utilising carry forward unused allowances from the previous three tax years.

From the employer's point of view, pension contributions are usually an allowable business expense, meaning they can be deducted when calculating taxable profits. However, the contributions must be made wholly and exclusively for the purposes of the trade, and they must not be excessive or irregular.

Auto-enrolment rules also apply, requiring minimum contributions based on qualifying earnings, but employers are free to pay more than the minimum if they wish.



PERSONAL

Making Tax Digital: The clock is ticking for landlords and the self-employed

If you are a landlord or self-employed individual with total business or property income over £50,000 a year, time is running out to get ready for a major change in how you report your income to HMRC. From April 2026, Making Tax Digital for Income Tax (MTD for IT) will become mandatory. This means you will need to keep digital records and submit quarterly updates using approved accounting software.

What changes under MTD for Income Tax?

You will no longer be able to simply file a single Self-Assessment tax return each year. Instead, you will need to:

- **Keep digital records** of all business or property income and expenses. This means moving away from paper records or basic spreadsheets.
- **Submit quarterly updates** to HMRC. These updates will summarise your income and expenses every three months, using MTD-compatible software.
- **Submit an End of Period Statement (EOPS)** at the end of your accounting period. This confirms your final figures and includes any accounting adjustments.
- **Submit a Final Declaration**, which replaces the current Self-Assessment tax return. This confirms your full income for the year and calculates the final tax due, including other sources of income.

These requirements apply per individual, not per business. So, if your combined turnover from all self-employment and property sources exceeds £50,000, you will fall within the MTD regime.

For many, this will be a big shift from the once-a-year Self-Assessment routine. MTD will require a more regular, structured approach to managing your tax affairs. And while 2026 may sound like it's



still a way off, the truth is that choosing and setting up the right system takes time. You will want to avoid a last-minute scramble.

There's no one-size-fits-all answer. The best software will depend on the type of income you receive, whether your records are currently paper-based or digital, and how comfortable you are with using technology. It may also need to link with other systems you use – for example, for invoicing, rent collection or expense tracking.

That is why it is vital to act now. Getting started early gives us time to recommend the most suitable package, help you get set up, and make sure you're comfortable using the system before the new rules come in.

If you're affected by these changes and haven't yet made plans, please don't delay. Contact us as soon as possible so we can guide you through the transition and ensure you're MTD-ready well before the April 2026 deadline.

Personal Tax Account with HMRC

If you want to manage your tax affairs more easily and securely, setting up a Personal Tax Account with HMRC is a practical first step. This free online service allows individuals to view and update their tax information in one place. It is available 24 hours a day and can be accessed from a computer, tablet or smartphone.

Step-by-step guide to setting up your account

1. Go to the official HMRC page

Visit www.gov.uk/personal-tax-account

2. Sign in or create a Government Gateway ID

If you already have a Government Gateway account (for example, for Self-Assessment or Child Benefit), you can use your existing login.

If not, select 'Create sign in details' and follow the prompts to register. You will need:

- Your National Insurance number
- A UK passport, payslip, or P60
- Access to your email and mobile phone for security codes

3. Set up two-step verification

For added security, you will be asked to link a mobile phone number so HMRC can send a code every time you log in.

4. Activate your account

Once you have completed the registration and verification steps, your Personal Tax Account will be ready to use.

What you can do with a Personal Tax Account

Once logged in, you will be able to:

- check your Income Tax estimate and tax code
- submit, view or manage a Self-Assessment tax return
- claim a tax refund
- check your Child Benefit
- check your income from work in the previous 5 years
- check how much Income Tax you paid in the previous 5 years
- check your State Pension
- check if you'll benefit from paying voluntary National Insurance contributions and if you can pay online
- track tax forms that you've submitted online
- check or update your Marriage Allowance
- tell HMRC about a change of name or address
- check or update benefits you get from work, for example company car details and medical insurance
- find your National Insurance number
- find your Unique Taxpayer Reference (UTR) number, if you already have one
- check your Simple Assessment tax bill

Why it is useful

Having a Personal Tax Account gives you direct access to information HMRC holds about you. This can reduce the need for phone calls or letters and helps ensure your tax records are up to date. It also makes it easier to spot and correct mistakes before they cause problems. If you are claiming tax relief, expecting a refund, or want to check your pension position, the account provides immediate access to the relevant data.

Self-Assessment registration and filing deadlines

If you need to report income not taxed at source, such as from self-employment, property, dividends or capital gains, you must register for Self-Assessment with HMRC.

You must register by 5 October following the end of the tax year in which you received untaxed income. For the 2024–25 tax year, this means registering by 5 October 2025. Registration can be completed online through GOV.UK.

Once registered, you must file a tax return each year. The deadline for filing a paper return is 31 October. For online submissions, the deadline is 31 January following the end of the tax year. Any tax due must also be paid by 31 January. If your liability is over £1,000, you may also be required to make payments on account.

Missing deadlines can result in automatic penalties and interest on unpaid tax, even if no tax is owed.

FINANCIAL CALENDAR

Every month:

- 1 Annual Corporation Tax due for companies with a year ending nine months and a day earlier, e.g. tax due 1 October 2025 for year ending 31 December 2024.
- 14 Quarterly instalment of Corporation Tax due for large companies (depending on accounting year-end).
- 19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.
- 22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.
- 30/31 Submit CT600 for a year ending 12 months earlier. Last day to amend CT600 for a year ending 24 months earlier.

If the due date for payment falls on a weekend or Bank Holiday, payment must be made by the previous working day. Electronic payments sent using the Faster Payments Service (FPS) are able to clear into HMRC's account on a non-banking day – a Saturday, Sunday and most Bank Holidays.

File accounts with Companies House for private companies with a year ending nine months earlier and for public companies with a year ending six months earlier.

July 2025

- 5 Final date to agree 2024/25 PAYE Settlement Agreements (PSA).
- 6 Last date for returns of expenses and benefits (forms P11D, P9D and P11D(b)) for 2024/25 to reach HMRC. Relevant employees to receive copies of forms P11D and P9D.

- 6 Last date to submit annual returns for employee share schemes and employment-related securities for 2024/25 (forms 34, 35, 39, 40 and 42).
- 14 Due date for CT61 return and CT payment for quarter to 30 June 2025.
- 22 Class 1A NICs for 2024/25 due (19th if paid by cheque).
- 31 Due date for second payment on account of 2024/25 Income Tax and Class 4 NICs.
- 31 Last day to pay 2023/24 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).

August 2025

- 2 Submit employer forms P46 (car) for quarter to 5 July 2025

October 2025

- 5 Deadline to notify HMRC of chargeability to Income Tax or CGT for 2024/25.
- 14 Due date for CT61 return and CT payment for quarter to 30 September 2025.
- 31 Deadline to submit 2024/25 Self Assessment tax return if filed on paper.

November 2025

- 2 Submit employer forms P46 (car) for quarter to 5 October 2025.

December 2025

- 30 Last day to submit 2024/25 tax return online to have unpaid tax of up to £17,000 collected through the 2026/27 PAYE code. The amount of debt that can be coded out in a year ranges from £3,000 to £17,000 based on a graduated scale.



January 2026

- 14 Due date for CT61 return and CT payment for quarter to 31 December 2025.
- 31 Submit 2024/25 Self Assessment return online. Pay balance of 2024/25 Income Tax and CGT plus first payment on account for 2025/26.

February 2026

- 2 Submit employer forms P46 (car) for quarter to 5 January 2026.

March 2026

- 31 Last minute planning for 2025/26 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

April 2026

- 5 Last day of tax year (6 April 2026, first day of new tax year).
- 14 Due date for CT61 return and CT payment for quarter to 31 March 2026.

May 2026

- 3 Submit employer forms P46 (car) for quarter to 5 April 2026.
- 31 Last day to issue 2025/26 P60s to employees.

In preparing and maintaining this newsletter, every effort has been made to ensure the content is up to date and accurate. However, law and regulations change continually and unintentional errors can occur and the information may be neither up to date nor accurate. The editor makes no representation or warranty (including liability towards third parties), express or implied, as to the accuracy, reliability or completeness of the information published in this newsletter.

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