

Consultation on reporting company payments to participators Response by the Chartered Institute of Taxation

1. Executive Summary

- 1.1. The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 20,000 members, and extensive volunteer network, in providing our response.
- 1.2. The Chartered Institute of Taxation (CIOT) welcomes the opportunity to respond to HMRC's consultation on the proposed introduction of new reporting requirements for transactions between close companies and their participators. We recognise the government's objective of reducing the small business tax gap and improving the accuracy of reporting, particularly in relation to close companies where the distinction between company and personal finances can be blurred.
- 1.3. However, while we support the broad policy objective, we have significant concerns regarding the proportionality, design and likely effectiveness of the proposed reporting regime. In particular, we are concerned that the proposals as outlined risk imposing substantial administrative burdens on a wide population of businesses, many of whom are compliant, while any intended benefits are lost in a sea of data.
- 1.4. We recommend that any new regime should be carefully targeted, aligned with existing reporting mechanisms, and subject to robust cost-benefit evaluation. It should also be designed with a strong emphasis on simplicity, clarity and minimising duplication.

2. Introduction

- 2.1. This response addresses HMRC's consultation on the proposed introduction of new reporting requirements for transactions between close companies and their participators. The proposals form part of the government's wider strategy to reduce the small business tax gap and improve the transparency and accuracy of tax reporting.
- 2.2. Transactions between companies and their participators are a longstanding area of complexity within the tax system. In particular, the interaction between the loans to participator rules, dividend rules and company record-keeping requirements can cause confusion and inadvertent errors for many small and owner-managed businesses. This is often compounded by differences in the quality and sophistication of accounting systems and processes.

2.3. In considering the proposed reforms, it is important to recognise the diversity within the close company population. Businesses range from very small single-director companies with limited administrative resources to more complex, multi-layered structures with multiple participators and high transaction volumes. As such, any new reporting framework should be proportionate, carefully targeted and capable of accommodating this wide variation without imposing unnecessary administrative burdens.

2.4. This response draws on the practical experience of CIOT members advising a variety of businesses. It highlights key challenges in current record-keeping practices, the role of advisers, and the potential impact of the proposed measures.

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

3.1. In our view, the close company definition is reasonably well understood by advisers but far less so by unrepresented businesses. While many owner-managed companies will intuitively recognise that they are closely held, there is very often limited awareness of the existence of a technical definition and its consequences.

3.2. This is not surprising given that the definition is broad, capturing companies controlled by five or fewer participators or by directors, and therefore applies to most small businesses.

3.3. We consider that improved education and clearer guidance on the implications of close company status would be beneficial, but do not consider that a new reporting framework is necessary solely to address knowledge gaps in this area.

4. Question 2: Are the loans to participators rules well-understood in the small company population?

4.1. The loans to participators rules are among the more complex areas of corporation tax for small businesses. Our members acting for small companies, and newly incorporated businesses in particular, will be familiar with the cohort of clients who struggle to understand the need to differentiate between the company bank account and their own. Some owner-managed businesses simply accept that their adviser makes various adjustments to their accounts at the end of the year and tells them what tax is payable and when.

4.2. Even people who know they cannot take money out of their company as a loan without tax consequences may not fully understand what counts as a loan. For example, they may distinguish between borrowing a lump sum for an agreed period with, say, paying personal expenses from the company account or drawing amounts in anticipation of future salary or dividends.

4.3. The rules were specifically introduced to counter avoidance through value extraction via loans, therefore their application to ordinary commercial transactions is poorly understood. For example, loans made for cash-flow purposes between mismatched business types like a sole trade business or family partnership and an associated company.

4.4. Complexity can also arise in management buy-out situations where the management team indirectly use company funds for the purchase. The loans to participator rules can have unexpected consequences in these cases, as we explained in more detail in an earlier submission.¹

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

¹ [240613 s459 CTA 2010 loans to participators charge on upstream loans – CIOT submission.pdf](#)

- 5.1. In our experience, understanding of corporate law requirements, particularly around distributable reserves and lawful dividends, is mixed. Many businesses rely heavily on advisers for this area, based on our members' experience of correcting wrongly declared dividends.
- 5.2. At the smaller end of the corporate taxpayer spectrum, awareness of the rules is negligible.
- 5.3. Errors in this space are often unintentional and arise from a lack of understanding rather than deliberate non-compliance. As such, improved HMRC guidance and education initiatives may be more effective than increased reporting.
- 5.4. We consider that corporate law and tax law in terms of dividend record-keeping and timings of interim and final dividends is also poorly understood by small companies. This is exacerbated by a relaxed attitude in some cases to agreeing dividends to be posted through the accounts after the end of the accounting period.
6. **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?**
- 6.1. Our members' knowledge of unrepresented taxpayers is limited. However, given the make-up of many small-business practitioners, it is clear that individuals often need support right through the lifecycle of a company, from pre-incorporation, through growth and onto succession planning.
- 6.2. Support can take the form of either ad-hoc or ongoing advice in navigating the administrative hurdles of setting up and running a company, from various Companies House reporting requirements, dividends and shareholder/director paperwork, to operating payroll, declaring and paying tax on employee benefits, completing accounts, iXBRL tagging, calculating corporation tax-adjusted profits, filing VAT returns, and filing corporate and personal tax returns.
- 6.3. For very small businesses, the cost of professional support is a significant factor. Advisers will sometimes be brought in at too late a stage, requiring additional work to unpick and correct poor record-keeping. Typical errors are a misunderstanding of stock versus fixed assets, capital versus revenue income and expenditure and the tax deductibility of business entertaining/hospitality. The tax treatment of benefits in kind can also cause difficulty.
- 6.4. Small company advisers also act as a signpost for additional support, for example financial, funding or legal advice, business networks and specialist tax advice. This differs to large companies and high-net worth individuals who may be more likely to use larger international firms that can offer all of these services under one roof, or who have in-house resources.
- 6.5. Unless there is a particular transaction that requires tax planning advice, most companies will engage with tax advisers or accountants after the relevant period eg when the corporation tax return needs to be prepared.
7. **Question 5: Other than by engaging tax advisers, how else do companies find appropriate guidance or advice on these subjects?**
- 7.1. Again, as a representative body of tax advisers, our members' thoughts on how companies find guidance outside advisers may not reflect the wider population of unrepresented taxpayers, as this sits with our Low Income Tax Reform Group, whom we know as engaging with HMRC directly on these issues
- 7.2. At this point, we also wish to draw attention to the apparent assumptions made in the framing of this question and others in the consultation. Many small businesses have no awareness of the need for guidance on matters of specific company or tax law, let alone where they might go to find it. And those who would like to know more will typically be restricted by a lack of time if they are running their business full-time.

- 7.3. That said, we are aware of a noticeable uptick in companies using artificial intelligence (AI) to research questions initially (some more successfully than others), leaning on advisers for a subsequent 'quick check.' AI may reference professional commentary or HMRC guidance and therefore prove a helpful starting point in simple cases. Issues arise, however, where guidance is being relied upon that stems from foreign legislation, outdated UK legislation, different fact-patterns or entirely made-up AI hallucinations.
- 7.4. Another source of guidance for those with bookkeeping and accounting software is the software itself, which increasingly automates accounting through linked banking and automated labelling.
- 7.5. We note that Gov.UK covers provides some limited guidance on taking money out of a company, with a trail of links to various other pages. HMRC will have website statistics but in general our members are not aware of any particular use of these pages by represented taxpayers.
- 7.6. We would echo the recommendation of the Office of Tax Simplification in their 2019 report on simplifying everyday tax for smaller businesses². A downloadable guide for new companies could explain the purpose and effect of the rules on directors' loans at a basic level. Providing practical examples, diagrams, templates and other visual aids, perhaps accompanied by a short video guide, could help make it easier for taxpayers to get things right.

8. 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?

- 8.1. The main record-keeping challenges tax advisers encounter in this space are the volume of data and distinguishing between private and business income and expenditure. Where bank statements or bookkeeping entries are unclear, additional work is required to ensure accurate returns, made more difficult when a significant period of time has passed.
- 8.2. Unless a company has integrated systems that provide tax advisers with on-demand access to the business's bookkeeping, accounts and underlying records (invoices, receipts, etc.), establishing the tax-deductibility of tax-sensitive transactions (for example, payment of professional fees) can be time-consuming.
- 8.3. An example of a bad workflow would be a small company that reconstructs records retrospectively, say on a monthly basis. Such examples of more manual bookkeeping should reduce in future, corresponding to the increase in the adoption of digital tools, but they do still exist.
- 8.4. A good workflow relies on the company having properly classified/posted transactions to the director's loan account (DLA). The quality of data often reflects the size of the company, since the smallest companies may not have the resources for dedicated administrative/finance staff.
- 8.5. These issues highlight the importance of good record-keeping to the accuracy of tax returns, but do not necessarily justify transaction-level reporting to HMRC.

9. The following questions have been grouped together:

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?

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?

Question 9: How many separate transactions might occur annually in an average close company in relation to a single participator?

² [Simplifying everyday tax for smaller businesses - print](#)

Question 10: What is the general size and frequency of these transactions?**Question 11: How many participators might an average close company be undertaking transactions with?**

- 9.1. How companies keep track of and collate data on participator transactions, the number and size of these transactions and the number of participators involved is likely to vary too widely to draw general conclusions about averages.
- 9.2. Nominal ledgers will usually include transactions with participators but these can vary from one nominal ledger for several participators (which then needs splitting out by an adviser) to several for each participator, and from a few transactions to several hundred. It is also common for various transactions to need re-posting to the correct nominal ledger.
- 9.3. Small single shareholder/director companies might range from traders using the company bank account for their everyday spending to consultants who have no expenses or drawings, through the DLA or otherwise, for the entire year.
- 9.4. For small cash-based businesses, the issue is less likely to be the records of transactions between the shareholder and the company as it is accurate record-keeping as a whole. Encouraging the adoption of digital tools, as the government is exploring in its Business Systems Integration call for evidence, could support improvements in record-keeping in these cases.
- 9.5. The size and frequency of the transactions with a participator will vary for numerous reasons, such as the nature of the particular industry, the life stage of the company and its primary purpose, and the funding needs of the participator. A company holding a large managed property portfolio for a wealthy family may have little need for any participator transactions for several years, whereas a company that is an individual's sole source of income may be more likely to see regular dividends, salary, loans, etc. going through the DLA.

10. Question 12: Are there any categories or types of participators, or types of transactions themselves, where it may not be practical or beneficial to provide details to HMRC?

- 10.1. We suggest that intragroup transactions should be excluded from reporting requirements. This is based on the differing tax treatment for transactions between group companies and the potentially significant volume of data providing little if any benefit to HMRC.
- 10.2. If transactions with corporate participators were not excluded, there is a question as to whether collating, formatting and sending the volume of data involved is even logistically possible without costs increasing by an order of magnitude. Nor is it clear whether the proposal is for detailed transactional data to be provided at every level of a corporate group, which could lead to duplicated data.
- 10.3. Reporting intragroup transactions would also be at odds with the removal of UK:UK transactions within the transfer pricing rules.
- 10.4. Removing corporate participators from scope would better target the consultation's goals of improving accurate tax compliance and creating a stronger boundary between individual and corporate funds.
- 10.5. There is also an argument for excluding companies that are only close by reason of being held by collective investment schemes, other types of investment funds or large professional partnerships. Regular detailed reporting on transactions within these structures may result in significant data that does not benefit HMRC.
- 10.6. The proposals risk HMRC being unable to see the wood for the trees due to the sheer volume of data. Our view is therefore that any changes must be designed to target specific and clearly defined problems.

10.7. There may be some benefit to a de minimis threshold for immaterial transactions, to lower the administrative burden for small companies. On the other hand, small transactions in a small company could still mount up to a significant proportion of the profits, such that a de minimis is not appropriate. Additionally, a framework that requires the same reporting across the board may help encourage consistent record-keeping and an overall improvement in standards.

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

11.1. Alignment is usually achieved through the year-end compliance process rather than through real-time integration. However, timing differences can create discrepancies that have a higher potential of falling through the net.

11.2. As an example, a shareholder receives a dividend on 1 April 2026; when they come to prepare their tax return, they check the 2025/26 company accounts that run to 31 March 2026 and mistakenly conclude that as the dividend falls into the 2026/27 accounting period, there is nothing to report on their 2025/26 personal tax return.

11.3. Small companies that are not required to report on related party transactions are also more susceptible to a mismatch with personal records, particularly if different people deal with the company and the personal records or no professional advice is sought. For example, a bookkeeper might recategorise a large personal payment at the end of the year into a loan, but may not recognise the need for benefit-in-kind reporting.

12. Question 14: How are these records currently kept?

12.1. Records are typically maintained within accounting software, although very small companies use spreadsheets or manual systems to transfer information from their bank statements.

12.2. Even with sophisticated accounting software, expertise varies widely and user-error or a lack of sufficient checks on automated processes can lead to incorrect and incomplete records.

12.3. Backing records such as detailed invoices are more likely to be held on separate paper or electronic files for convenience where they are received by different means/devices (eg till receipts, paper order statements sent with goods, invoices downloaded from online portals, quotes received over email or by text message, etc.)

13. 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?

13.1. We suggest that this question is best answered by software providers. However, our members comment that the smallest companies do not use bookkeeping software or, when they do, they find the concept of the DLA within the software confusing.

14. Question 16: What would be the preferred way to transfer the required information to HMRC?

14.1. If a reporting requirement is introduced, integration with the CT600 or existing digital filing processes would be preferable to a separate reporting system.

14.2. Bringing in new forms, deadlines or filing platforms would unnecessarily add to the ever-increasing company administration checklist and could create a barrier to companies growing their businesses.

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

15.1. Yes, we expect additional burdens would be created by requiring detailed transactional reporting, more so if the reporting was required more regularly than once a year or in real-time.

- 15.2. For companies with large quantities of data, reporting on a more regular basis may only be managed by spending more resources on internal or external support, whether that is staff time, enhanced software and/or additional adviser services.
- 15.3. While efforts to standardise processes would ease the burden, there will always be differences to account for different industry needs, software price points, and user expertise. Our comments to earlier questions shed light on the huge variation in record-keeping for small companies, to which their advisers must adapt.
- 15.4. For advisers, the challenges would likely include changes to their systems and processes, updating terms of service, agreeing new scopes of work and fees with clients, and building their own additional resources. Such added work offers little benefit to corporate clients and there would be a reluctance by some for the work to be carried out thoroughly and accurately, if at all.
- 15.5. As noted in response to question 8, it can be difficult for advisers to distinguish between personal and company expenses in a DLA. The imposition of regular detailed transaction-level reporting, setting out the dates, amounts, payees, payment types, etc. will not necessarily fix this problem.
- 15.6. If analysis is not carried out until the annual compliance work is picked up after the year-end, in-year reporting may exclude personal expenses paid for by the company that remain unallocated to the DLA and vice versa. Sending a report to HMRC showing, for example, a bank transfer of £2,000 to Mr Joe Bloggs for fencing on 1 September does not tell HMRC any more about the tax treatment of the transaction (ie personal or business-related, capital or revenue) than it does the company's adviser. This could lead to a lot of unhelpful information being sent to HMRC that does not necessarily align to the final corporate and personal tax reporting.
- 15.7. The alternative is for the analysis work by the adviser or the company's in-house staff to be picked up more frequently, leading to inefficiencies and higher costs. In our view this is not feasible and imposes a significantly disproportionate burden on taxpayers.
- 15.8. We suggest that a requirement to report only summary information alongside the annual CT600 would minimise the additional administrative burden.
- 15.9. We agree that alignment between company and personal records is an important part of reducing the small business tax gap. However, the most useful information could reasonably be summarised for companies pre and post 5 April, for example, total dividends, salary, interest, rent, transfers of assets, loan payments and write-offs, etc.
- 15.10. We believe that an annual summarised reporting requirement strikes the right balance between reducing the small business tax gap and limiting extra red tape on businesses of all sizes.
- 16. Question 18: In what circumstances might it be difficult for companies to provide identifying details of participators?**
- 16.1. There may be more difficulty in obtaining identifying details for overseas entities, and more so if they do not align with UK structures. However, money laundering regulations and various other reporting requirements already impose stringent identity checks on beneficial owners, therefore identification for these purposes should not be overly burdensome in most cases.
- 16.2. The consultation proposes a requirement to provide a National Insurance number for all participators. This seems an overly simplistic suggestion; many participators will not have a National Insurance number (overseas nationals, minors, non-natural persons).
- 16.3. If identifying information is needed to align tax records, the use of a unique taxpayer reference, National Insurance or overseas tax identification number, in that order, may be more appropriate.

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

- 17.1. We do not believe that reporting on loan repayments, releases and write-offs would be any more burdensome than reporting on other participator transactions. It would allow for consistent treatment with other transactions and align with the overall goal of the proposals.
- 17.2. As previously discussed, there is often a blurring of company and personal funds in small businesses, and poor historic records, of loan positions in particular, can cause issues for all parties in the event of a sale, merger or liquidation. As such, measures that encourage and improve record-keeping are a positive step in the long run.
- 17.3. The difficulty comes with identifying such transactions contemporaneously. An agreement with a participator to write-off their loan may not find itself posted to the accounting records for some time after the event, for example when the adviser starts work on the records after the year-end.
- 17.4. Adding minimal extra information requirements covering loan positions and other participator transactions for the year into the existing tax and accounting processes should limit the administrative impact of any new measures, while providing the sought-after benefits.

18. 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?

- 18.1. We consider that the normal penalty regime covering inaccuracies in returns would be appropriate.
- 18.2. Introducing a bespoke penalty regime would appear to contradict the aims of previous penalty harmonisation work and add unnecessary complexity to the tax system.

19. Question 21: Are you responding to this survey as a business, representative body, agent, individual or other?

- 19.1. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.
- 19.2. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 19.3. The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.
- 19.4. Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

20. Conclusion

- 20.1. The CIOT supports the government's objective of reducing the small business tax gap and improving standards of compliance.
- 20.2. We also strongly advocate for measures that help taxpayers better understand their tax reporting obligations and improve understanding of tax and corporate law. At the same time, we want to ensure tax law is as simple to understand as possible and proportionate in the burdens it imposes.

- 20.3. Clear, accurate reporting of transactions between close companies and their participators is an important element in reinforcing the distinction between company and personal finances. Measures that encourage better record-keeping, greater transparency and improved alignment between corporate and personal tax reporting are therefore, in principle, welcome.
- 20.4. However, it is essential that any new reporting requirements are carefully designed to target specific issues and go no further. As currently proposed, the introduction of detailed, transaction-level reporting risks placing significant additional administrative burdens on a very large population of taxpayers and their advisers.
- 20.5. For many, particularly those with limited resources or less sophisticated systems, the cost of implementing and maintaining such requirements would be substantial. Despite this, there is limited evidence that the resulting data would meaningfully enhance HMRC's ability to address non-compliance.
- 20.6. We would strongly discourage any plan that imposes blanket requirements across the entire close company population. Greater emphasis should be placed on encouraging accurate record-keeping, understanding existing tax rules and introducing summary-level information reporting for individual participators aligned to existing tax processes.
- 20.7. In conclusion, while we endorse the policy intent behind the consultation, we urge HMRC to refine the proposals with a stronger focus on practicality, proportionality and cost-effectiveness. A well-targeted framework that builds only marginally on already familiar requirements will be far more likely to achieve the desired improvements in compliance without discouraging enterprise or placing undue strain on small businesses and their advisers.

21. Acknowledgement of submission

- 21.1. We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation is included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation

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