2025-26

YEAR END TAX
REVIEW

Merranti accounting

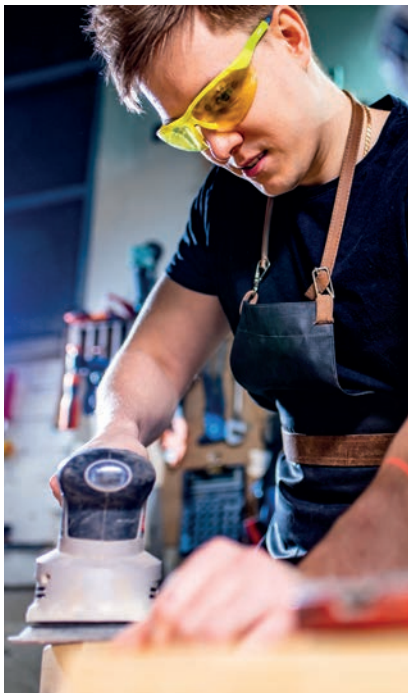
Tax planning in an era of tax rises

There were a number of tax increases announced or confirmed at the 26 November 2025 Budget, but some of them don't take effect for several years. Knowing how tax rates are changing is a key element in reviewing your financial position, but it can be difficult to keep up to date.

For example, the Chancellor announced that the cash ISA limit is reducing from £20,000 p.a. to £12,000 (except for the over-65s) but this is not happening until April 2027. Whether holding cash or investing in stocks and shares, it is usually worth topping up your ISAs each year if you have the funds to do so. The tax exemptions they give will become more valuable over the next 15 months, with dividend tax rates increasing this coming 6 April and savings income tax rates increasing a year later.

January is a good time to review your tax affairs, as there may be the chance to make use of planning opportunities before the end of the tax year on 5 April. Examples include topping up your pension (which may be very tax-efficient), making disposals that utilise your £3,000 CGT exemption or making gifts to utilise annual Inheritance Tax (IHT) exemptions. More details on all of these are given in this document. Also mentioned are a number of matters that those running their own companies should be thinking about, including the timing of dividend payments, maximising relief for capital expenditure and the impact of increasing car benefit charges over forthcoming years.

For the self-employed and landlords, the biggest tax change on the horizon is the phasing in of Making Tax Digital for Income Tax (MTD IT) from 6 April 2026. If affected, don't underestimate the significance of this, as we emphasise on page 7.



You should also review the investments that you hold. Would it be more tax-efficient to transfer ownership to a spouse, so that you can both use up your personal allowance and lower tax bands? Do you have all the documentation you need to calculate capital gains or losses on disposal of investments, including land and buildings? Now is a good time to get your paperwork in order, even if you have no current plans to sell.

It is always sensible to check your wills once a year, to see if they still meet your family needs. A lot may have happened to your personal circumstances, asset values and tax rates since your will was written. It is particularly important to do so this year if you are a farmer or own a trading business, due to the restriction on IHT business reliefs that are coming in this April. Even if you are not a business owner, the IHT changes to pensions that are due to take place in April 2027 need to be considered, as they may mean many wills need re-drafting.

It is important to appreciate all the filing and payment deadlines that you need to comply with in the self-assessment system, as the penalties and interest can be onerous if you are late. This is covered on page 2. By the way, the interest rate charged on late payment of tax has gone up significantly this year!

Of course, the personal circumstances of each individual must be considered in deciding whether any particular planning is suitable or advantageous, but the suggestions in this document may give you some ideas. We are happy to discuss them with you in more detail.

Self-assessment key dates

Failure to notify chargeability to tax, to file your self-assessment tax return or pay any tax due on time may result in penalties. Key dates to be aware of over the next year are outlined below. Note how penalties increase with the lateness of the return.

31 January 2026

- Deadline for filing 2024/25 online returns and certain claims and elections.
- A £100 penalty will arise if your return is not filed by 31 January, regardless of whether any tax is due.
- A £100 penalty per partner applies for a late partnership return.

Paper returns for 2024/25 not filed by this date will be three months late and may attract a daily penalty of £10 a day, for up to 90 days thereafter.

The balance of your 2024/25 tax liability, together with the first payment on account for 2025/26, is due.

3 March 2026

The first automatic 5% late payment penalty will apply to any outstanding 2024/25 tax.

5 April 2026

The four-year time limit for certain claims and elections in respect of the 2021/22 tax year expires.

30 April 2026

- Paper returns for 2024/25 not received by this date will now be six months late, so a further penalty may be charged of 5% of any tax due, or £300 if greater.
- Online tax returns for 2024/25 not filed by this date will be three months late and exposed to daily penalties of £10 a day for up to 90 days, to a maximum total of £900.

31 July 2026

- Due date for the second payment on account for 2025/26.
- Online returns for 2024/25 not filed by this date will now be six months late and a further penalty may be charged of 5% of the tax due, or £300 if greater.

1 August 2026

The second automatic 5% late payment penalty will apply to any outstanding 2024/25 tax.

5 October 2026

Deadline to notify HMRC of your chargeability to tax if you have not been issued with a return (or a notice to file a return) and you have an income tax or CGT liability for 2025/26.

31 October 2026

Deadline for submitting 2025/26 paper returns.

For paper returns filed by this date, HMRC should be able to:

- Calculate your tax for you;
- Tell you what you owe by 31 January 2027; and
- Collect tax through your tax code, where you owe less than £3,000.

If your paper return is submitted after this date, you will be charged an automatic £100 penalty.

Paper returns for 2024/25 not submitted by this date will now be 12 months late and subject to a further penalty of 5% of the tax due, or £300 if greater.

30 December 2026

Deadline for online filing for 2025/26 if you want HMRC to collect tax through your tax code (where you owe less than £3,000).

31 January 2027

- Filing deadline for 2025/26 online returns.
- Payment date for balancing tax payment in respect of 2025/26 and first payment on account for 2026/27.

Time-To-Pay arrangement (TTP)

If you are struggling to pay your tax on time, you should be able to set up a TTP before the tax falls due. This will allow you to pay the tax by instalments and avoid penalties.

Please contact us if you need to set up a TTP – we can help!

Income tax planning

Tax thresholds

Income tax thresholds (except possibly in Scotland) are set to remain unchanged for 2026/27.

- The Personal Allowance (PA), below which income is not taxed, is £12,570.
- The higher rate threshold (at which the tax rate moves from 20% to 40%) is £50,270.
- Top rate tax (45%) begins when income exceeds £125,140.

Scotland has different tax rates and bands for non-savings, non-dividend income (e.g. employment income, business profits, rental income and pension income).

Many Scottish taxpayers now pay a significantly higher amount of tax than those elsewhere in the UK (although some lower earners pay slightly less than in the rest of the UK).

The Scottish rates and bands for 2025/26 are:

Taxable Income	Tax rate	Band
up to £12,570	0%	Personal Allowance
£12,571-£15,397	19%	Starter rate
£15,398-£27,491	20%	Basic rate
£27,492-£43,662	21%	Intermediate rate
£43,663-£75,000	42%	Higher rate
£75,001-£125,140	45%	Advanced rate
over £125,140	48%	Top rate

For 2026/27, the 19% and 20% thresholds rise to £16,537 and £29,526 respectively; all others are unchanged.

Dividend tax rates

These are due to increase from 6 April 2026, as follows:

- Dividends falling in the basic rate band will be taxed at 10.75%, rather than the current 8.75% rate.
- Dividends falling in the higher rate band will be taxed at 35.75%, rather than 33.75%

There is no change to:

- the dividend tax rate for top rate taxpayers, which will remain at 39.35%; nor
- the dividend allowance, which taxes the first £500 of dividends at a nil rate, rather than at the rate that would otherwise apply.

Personal Allowance

The PA of £12,570 is progressively withdrawn for individuals with income of more than £100,000, leading to a marginal rate of 60% on income between £100,000 and £125,140. This rate is different in Scotland and for those who have dividend income within this band.

Planning points

- Consider taking action to reduce taxable income, particularly where income falls just above one of the thresholds. There are various

Income tax planning (continued)

options to achieve this, including pension contributions and Gift Aid donations.

- Income that can easily be moved from year to year includes:
  - bonus from your own company;
  - dividends from your company; and
  - withdrawal of taxable income from pension schemes in 'drawdown'.
- Consider advancing dividends from your own company to be received before 6 April 2026, so that they will be taxed at a lower rate (if you are a basic or higher rate taxpayer). In doing so, make sure that the extra income does not push you into a higher tax bracket or cause you to be subject to the High-Income Child Benefit Charge (HICBC), which is payable if income exceeds £60,000.
- Income can also be moved between spouses, in order to make sure that PAs and lower rate tax bands are utilised. This is not always easy to do, but permissable methods include:
  - make an outright gift of investments that produce taxable income;
  - put savings and investments into joint names and share the income; and
  - employ the spouse or partner in the other person's business.
- HMRC can challenge some of these methods if they think the arrangement is not genuine. **Always take tax advice to be sure that your plan will work.**
- If you have children, it may be possible to switch income from one spouse to the other (as discussed above), so that both spouses' incomes remain below the £60,000 threshold for the HICBC.

Will you get a full state pension?

If you are looking forward to retirement, it's a good idea to check out how much state pension you will get. You can do this by logging on to your personal tax account on gov.uk, which contains lots of useful information about how much tax you owe and about your NICs record, among other things.

To receive the full amount of the state pension, your NICs record needs to contain 35 completed years. You need at least ten complete NICs years to receive any amount of the UK state pension.

Planning points

- You can plug gaps in your NICs record by paying voluntary Class 3 NICs. This payment generally needs to be made within six years of the gap year.
- For 2025/26, where profits are above £6,845 (rising to £7,105 in 2026/27), no Class 2 NICs are payable by self-employed traders, but the trader still gets a NICs credit. Self-employed traders whose profits are below this figure can choose to pay Class 2 voluntarily instead of Class 3; paying Class 2 NICs will be cheaper.
- You may also qualify for NICs credits for some years if you were claiming state benefits, Child Benefit or were a foster carer. The NICs credits were not always applied automatically, so it's worth checking your own NICs record in your personal tax account.

Gift Aid

This is a valuable relief for gifts to UK charities; the gift is made out of the donor's taxed income and the charity benefits by claiming basic rate tax on the value of the gift.

- Higher rate taxpayers can claim extra tax relief of 20% of the gross value of the gift.
- For top rate taxpayers, the extra relief is 25%.
- There is no cap on the amount that can qualify for Gift Aid, provided the donor has paid sufficient tax during the tax year to cover the charity's reclaim from HMRC.

Example

If you are a higher rate taxpayer and you make an £800 donation to a charity, the gross value of the gift to the charity is £1,000, since it can claim back the basic rate tax of £200.

You can claim an additional 20% tax relief on the gross value, reducing the net cost to £600.

Planning points

- You must provide the charity with a Gift Aid declaration, so that both parties can claim the relevant tax relief.
- You can elect for donations made in one tax year to be treated for tax purposes as made in the prior year.
  - This would be of benefit, for example, if you are a higher or top rate taxpayer in 2024/25 but not in 2025/26; in other cases, it will merely accelerate the higher or top rate relief.
  - The election can only be made when submitting your tax return, which must be filed on time.
- Donating assets (eg shares, land and property) to charity while you are alive can also attract income tax relief. Additionally:
  - any gain arising on the donation of such assets is exempt from CGT; and
  - the gift itself is not subject to Inheritance Tax (IHT), even if the donor dies within seven years.

Personal pensions

Contributions within the annual allowance (AA) to pension funds attract relief at your marginal rate of tax. The combination of tax relief on contributions, tax-free growth within the fund and the ability to take a tax-free lump sum on retirement makes a pension plan an attractive savings vehicle. Saving for retirement should always be considered as part of the year-end tax planning process.

However, for those with an annual adjusted income in excess of £260,000, the AA of £60,000 is usually tapered by £1 for every £2 of income in excess of £260,000, reducing to a minimum of £10,000 for those with income over £360,000. No tax relief is available for contributions exceeding the available AA.

The AA can be carried forward for three tax years to the extent it is unused. Any unused AA for the three previous years can be added to your allowance for 2025/26 and will attract full relief, subject to the level of your pensionable income ('net relevant earnings').

Planning points

- If you are approaching retirement and are considering drawing benefits, take advice from a properly authorised advisor, to

Personal pensions (continued)

ensure that you understand the tax and other implications of accessing your pension fund.
- Those aged 55 (rising to 57 on 6 April 2028) or over can access their pension fund flexibly, with no restrictions on the amount they can withdraw, although amounts drawn above the permitted tax-free lump sum will be taxed as income as they are drawn.
- Consider making additional contributions to your pension scheme before the end of the tax year to obtain relief at 40% or 45%, depending on whether you are a higher or top rate taxpayer, taking care not to breach your available AA.
- Contributions are particularly tax-efficient where your income is between £100,000 and £125,140. Tax relief is available at 60% on income falling within this bracket; the relief is different in Scotland and where the income being relieved is dividend income.
- Review the availability of any unused allowance for the 2022/23 tax year, as this will expire on 5 April 2026. Note that, in 2022/23, the AA was £40,000 (not £60,000) and that tapering began at adjusted net income of £240,000.
- Consider making contributions of up to £2,880 to a pension scheme for a spouse or child if they have no earnings of their own, to obtain basic rate tax relief on the contributions. For example, if you contribute £2,880, HMRC will pay in £720, giving a gross contribution of £3,600.

The pensions tax-free lump sum allowance

The lifetime allowance (LTA), which previously put a cap on the amount of tax-advantaged pension rights that you could build up without incurring punitive tax charges, has been abolished.

The tax-free lump sum allowance remains £268,275 (25% x £1,073,100, the old LTA) unless the member holds a higher level of protection from when the LTA had previously been cut.

Planning points

- For those with large pension pots, the abolition of the LTA charge may change:
  - the timing of your retirement; or
  - the level of contributions you might want to make before retiring.

Inheritance Tax (IHT)

Scope of IHT

Prior to 6 April 2025, the extent to which someone was subject to IHT depended on their country of domicile. Broadly, 'domicile' means one's country of 'natural or permanent home'.

Finance Act 2025 changed this, such that the scope of IHT now depends on whether or not you are a 'long-term resident' (LTR), i.e. an individual who has been **UK resident** for **at least 10 out of the previous 20 tax years.**

- Individuals who are LTR in the UK are subject to **IHT on their worldwide assets.**
- In contrast, non-LTRs are subject to **IHT on their UK assets only.**

For a LTR individual who has left the UK, the number of years for which their non-UK assets will remain within the scope of UK IHT will depend on how many years they were resident prior to departure.

- If they were resident for 13 years or less, the number of years is 3;
- For every additional year, one year is added to the number of years (up to a maximum of 10 years).

So, say, someone who had been resident for 17 years would remain within scope on their worldwide assets for 7 years.

Tax rates

IHT is payable at 40% where a person's assets on death, together with any gifts made during the seven preceding years, total more than the nil rate band (NRB). The NRB is £325,000 for 2025/26.

Unused NRB on death can be transferred to a spouse, so couples can currently have a combined NRB of up to £650,000 on the second death. In addition, a 'residence NRB' (RNRB) is available in respect of a property that:

1. At some point has been the deceased's main residence; and
2. Is passed **on death** to a direct descendant (or their spouse).

- For 2025/26, the RNRB is £175,000.
- If unused, this relief will also be transferable to the deceased's spouse.
- The RNRB will be progressively reduced where estates are over £2 million in size (before reliefs and exemptions), such that estates over £2.35m receive no benefit from the RNRB.
- If an estate does not qualify for a full residence NRB, it may be entitled to a further relief, known as a 'downsizing addition', if three conditions apply:
  1. The deceased disposed of a home on or after 8 July 2015 and either downsized to a less valuable property or ceased to own a home.
  2. The former home would have qualified for the residence NRB if it had been retained.
  3. At least some of the deceased's estate is inherited by their direct descendants or the spouses thereof.

Planning points

- Consider gifting assets during your lifetime to minimise the IHT payable on your death.
  - Such gifts will fall outside the IHT net after seven years, provided you do not reserve a benefit in the asset transferred.
  - After three years, the amount of IHT potentially payable on the gift (should you die within seven years of making it) is reduced, based on how long you survive.
  - The gifting of assets can give rise to CGT liabilities, but some assets are exempt CGT (e.g. cash and gilts).
- If you have income surplus to your normal living expenses, consider making use of the IHT exemption for regular gifts out of surplus income.
  - Such gifts are tax-free, even where death occurs within seven years.
  - Appropriate documentation should be retained to show that the gift is **regular** and made from **income** not required by the donor to cover their living expenses.
- Make use of other IHT reliefs and exemptions.

Inheritance Tax (continued)

  - The annual exemption of £3,000 (£6,000 if no gifts were made during 2024/25);
  - The small gifts exemption of £250 per donee p.a.; and
  - Gifts made in consideration of marriage (£5,000 to children, £2,500 to grandchildren and £1,000 to anyone else).
- Consider taking out life insurance to fund any contingent exposure to IHT, although the availability and cost will depend on the transferor's life expectancy.
- If you sell your home (e.g. to move into care or downsize), keep records of the transactions, so that on your death the downsizing addition may potentially be claimed.

Agricultural and business property

Since 1992, qualifying agricultural and business property has had 100% relief from IHT, providing certain conditions are met. From 6 April 2026, this 100% relief will be restricted to the first £2.5m of qualifying property, with any excess attracting 50% relief. Also from 6 April 2026, the 100% business relief that currently exists for qualifying shares quoted on the Alternative Investment Market (AIM) or other 'unlisted' markets is reduced to 50%, with no part of the value eligible for 100% relief.

These changes could potentially create significant IHT liabilities for family farming and trading businesses in the future, including where business assets are held in trust.

Planning points

- All businesses should consider their IHT position, including:
  - reviewing wills; and
  - considering whether some lifetime gifts of qualifying property may be worthwhile.

IHT and pensions

The Autumn 2025 Finance Bill contains major changes to the IHT rules for both unused pension funds at death and certain pension death benefits.

Currently, it is standard IHT planning to write death benefits payable from pension schemes, such as personal pensions, into trust for one or more nominated beneficiaries (usually family members).

Under current rules, this puts them outside the IHT net if the policyholder dies.

This IHT exemption is being abolished from 6 April 2027. This may alter how you should plan for your retirement.

Planning points

Make sure you get specialist advice, as the interaction of the IHT and income tax rules on pensions is complex. However, planning strategies may include:

- Draw tax-free cash (if available) and gift it;
- Draw down additional income
  - paying income tax; and
  - gifting to the next generation using the normal expenditure from income exemption.
    - This will work better where the income is taxed at a rate which is lower than the 40% IHT rate.
- Review arrangements to see if an expression of wishes in favour of a spouse is appropriate for death benefits; and
- Make provision for IHT by effecting a life policy in trust for the beneficiaries who will suffer the charge.

Most importantly of all, make sure you have an up-to-date will, which is not only efficient from an IHT perspective but also distributes your assets based on your current family circumstances. For example, trusts that were due to be set up in your will while your children were minors may no longer be needed.

Property owners

Letting property

- Expenses incurred wholly and exclusively in connection with the rental business are deductible when calculating net taxable profits, provided they are not capital in nature.
- An exception is finance costs of residential landlords (e.g. mortgage payments or arrangement fees). These are not deductible for tax purposes, but a 'tax reducer' is given equal to 20% of the disallowed costs. This reduces the landlord's income tax payable, but can be subject to restrictions.
- Capital expenditure is usually deductible against any capital gain on an eventual disposal of the property.
- The rules for determining whether an expense is capital or revenue in nature for tax purposes are not always straightforward, particularly in relation to repairs and maintenance.
- Capital allowances are available on qualifying expenditure in commercial property, but not in respect of residential property. For the latter, the cost of **renewing** existing furnishings can be taken as a revenue deduction.
- The Rent-a-Room rules provide tax relief of £7,500 per year where an individual rents out a room in their only or main residence.
- There is also a £1,000 property allowance, allowing individuals to receive small amounts of rental income tax-free. An example would be receiving a few hundred pounds of income for renting out a parking space on your driveway.

Planning points

- The default position for an unincorporated property business with a turnover of up to £150,000 is to calculate taxable profits on the 'cash' basis (i.e. looking at the cash received and paid during the tax year).
- If you wish to elect out of the cash basis, elections for 2024/25 will need to be made by 31 January 2027. Your taxable profits will then be calculated by matching income and expenditure to the period to which they relate, irrespective of the cash movements.
- Ensure that any losses are claimed, so that they can be carried forward and offset against future profits from the same rental business.
- If you let a furnished room in your home to a lodger and your gross rental income exceeds £7,500 for the year, calculate whether it is more tax efficient:
  - for the excess to be charged to tax; or
  - to pay tax on your rental profits after deduction of expenses in the usual way (with no £7,500 allowance).
- You can use whichever method produces the lower tax liability.
- The abolition of the tax-favoured furnished holiday let (FHL) regime on 6 April 2025 means that such landlords are now governed by the normal rules for residential lets. Make sure you have budgeted for the higher tax bills that may result, due to:

Property owners (continued)

  - The disallowance of finance costs (as discussed above); and
  - The non-availability of Business Asset Disposal Relief and other CGT reliefs on disposal of properties.
- The income tax rates for property income are due to go up by 2 percentage points from 6 April 2027, to 22% (basic rate taxpayers), 42% (higher rate taxpayers) and 47% (top rate taxpayers). Consider whether, under these new tax rates, your letting business will still be worth operating, particularly if it was previously a FHL and so is also hit by the disallowance of finance costs.
- Making Tax Digital for Income Tax (MTD IT) is being phased in for landlords from 6 April 2026. Make sure you are prepared for this. Further details are given in the Sole Traders section below.

Private Residence Relief (PRR)

- PRR reduces the gain on the sale of your main home, usually to nil, thus avoiding a charge to CGT. The relief applies for the time that the property is occupied as your main home, plus the final 9 months of ownership, which is extended to 36 months for:
  - disabled people or their spouses; or
  - individuals moving into a care home.
- Other periods of absence from the property may qualify for PRR as deemed occupation (e.g. if working full-time abroad).
- You need to show that you have occupied the property with the intention of living there as a 'home' with a degree of permanence.
- If you own more than one property that you actually use as a home (as opposed to always renting out), you may be able to make a PRR election, stating which property is your main home for CGT purposes.

Planning points

- HMRC often challenge the availability of PRR on a property, particularly where it is a partial claim for a property that was once lived in for some of the period of ownership. Make sure you have enough evidence to show that you were in occupation there (e.g. utility bills, or having notified the DVLC that you lived there).
- Couples should consider jointly owning property for which no PRR election can be made, to benefit from two annual exempt amounts (see below under Capital Gains Tax) and (possibly) lower rates of CGT when the property is sold.
- If a residential property is not fully covered by PRR when sold and a tax liability arises, a CGT property return has to be filed within 60 days and the CGT on the disposal paid by that date. **This is a very tight deadline.** To make sure it can be met, it is sensible to ensure that you have a record of all costs you have incurred on the property and all documentation (as discussed above) to back up any PRR claim. This will enable the taxable gain to be calculated in time to make the 60-day payment.

Capital Gains Tax

The annual exempt amount (AEA) is £3,000 for 2025/26 and will be unchanged in 2026/27. Gains above this level are taxed as follows:

- 14% (rising to 18% from 6 April 2026) if the gains qualify for Business Asset Disposal Relief (BADR) or Investors' Relief, up to a lifetime limit of £1 million of qualifying gains;
- 18% if the gains fall within any unused basic rate band; and
- 24% for gains above the basic rate band.

Assets transferred between married couples or civil partners do not give rise to a CGT charge; instead, the recipient takes over the CGT cost of the donor. This means that, when the asset is eventually sold by the recipient, the gain or loss will reflect the combined ownership period.

Gifts to other family members will produce capital gains or losses, using the market value at the time of the gift as deemed proceeds. However, where the asset is a qualifying business asset (e.g. unquoted trading company shares), a joint 'holdover relief' election will enable any gain to be deferred.

Non-residents are not generally subject to UK CGT. There is an exception to this rule, however, for disposals of UK immoveable property (i.e. land and buildings).

Planning points

- The AEA cannot be carried forward or transferred to a spouse, so where possible aim to make disposals before 6 April 2026 to utilise this year's AEA.
- Consider transferring assets (wholly or partly) to your spouse or civil partner, to utilise their AEA or capital losses on a subsequent disposal. Such transfers must be made outright and without preconditions to be effective for tax purposes.
- Where disposals of assets are eligible for BADR or Investors' Relief, consider bringing forward disposals to this current tax year, as the tax rate is going up to 18% in 2026/27.
- Consider carefully when you will make any disposal, as the timing will determine when any CGT is due and may affect the amount of CGT payable.

Example-Reshmin

Reshmin is a basic rate taxpayer (with £7,000 of basic rate band unused) in 2025/26 but expects to be a higher rate taxpayer in 2026/27. Her sole disposal in 2025/26 of some non-residential land takes place on 31 March 2026 and realises a capital gain of £19,000.

- Her taxable gain (i.e. after AEA) is £16,000 and her CGT liability will be £3,420 [(£7,000 @ 18%) + (£9,000 @ 24%)].
- This will be payable on 31 January 2027.

If, instead, the disposal is made early in 2026/27 (say, on 30 April 2026):

- Her taxable gain (i.e. after AEA) is still £16,000 but her CGT liability will be fully at 24%, i.e. £3,840.
- This would be payable on 31 January 2028.

Sole traders

Basis of assessment

Tax year 2023/24 was the transition year from the 'current year' basis of assessment (which charged tax on the profits of a 12-month accounting period ending in the tax year) to the 'tax year' basis of assessment, which taxes the profits actually arising in the tax year. Only businesses that already had a year-end between 31 March and 5 April have been unaffected by the change.

Under the transition year rules:

- Up to 23 months' worth of profits come into charge in 2023/24, with overlap profit (which usually arose on commencement of trade) being set off against the additional months' profits.
- The extra profits are spread over five years, to avoid a large additional tax charge arising in one year.
- The taxpayer may choose to advance the spread profits into an earlier year if it is beneficial to them (e.g. to use up basic rate band) by election on their tax return.

'Cash basis'

For 2024/25 and subsequent years, whatever the level of profits, cash basis is the default method of calculating taxable profits.

If you wish to elect out of the cash basis, elections for 2024/25 will need to be made by 31 January 2027. Your taxable profits will then be calculated by matching income and expenditure to the period to which they relate, irrespective of the cash movements.

Losses

- Losses made by an unincorporated business for tax year 2025/26 can be offset against your other income of that year and/or 2024/25, subject to a maximum of £50,000 or 25% of your total income for the year (whichever is greater).
- Unused losses can be carried forward against future profits of the same trade with no limit.
- Further options may be available to obtain relief for losses in the early years of a business, or on its cessation.

Making Tax Digital for Income Tax (MTD IT)

MTD IT is being phased in for landlords and the self-employed from 6 April 2026. Once enrolled, this will involve quarterly reporting of income and expenditure for income tax purposes to HMRC via MTD-compatible software.

The reporting quarters will be to 5 July, 5 October, 5 January and 5 April, irrespective of your accounting year-end. However, taxpayers with an accounting date of 31 March will be able to operate MTD from 1 April in the first year of operating MTD.

A finalisation statement (effectively a tax return) will also need to be sent after the year-end. MTD IT will thus greatly increase the compliance burden of any business affected.

Those with qualifying income above £50,000 must enrol from 6 April 2026.In deciding whether an individual needs to register for MTD IT for a tax year, HMRC will look at the tax return that should have been submitted in the January before the tax year being considered.

Qualifying income is gross (combined) income of any property business and/or sole tradership.

Planning points

- Employing a spouse or child might allow them to utilise their personal allowance and provide a NICs record for state pension purposes. The level of salary paid must be commensurate with the duties performed and must meet National Minimum Wage requirements.
- Pension contributions can also be made on behalf of a spouse or child whom you employ, to save tax and NICs. Any contributions made should be reasonable in relation to their working hours and salary.
  - Note that the above two points are equally applicable for companies.
- Where the cash basis applies, bringing forward business expenditure into the current tax year will reduce profits for that year and therefore tax liabilities.
- If you had transition profits that are being spread over 5 years, make sure you budget for the tax that will be payable on these profits.
- Do not underestimate the extra reporting responsibilities that MTD IT will bring and, in particular, make sure you have adequate MTD-enabled software.

Benefits-in-kind

In some cases, an employee can avoid being taxed on a benefit if they 'make good' the value of the benefit by reimbursing their employer. There are strict time limits for doing this.

Reimbursements of taxable non-payrolled benefits for 2025/26 must be made by 6 July 2026, which aligns with the date for submitting the P11D forms.

The deadlines for making good 2025/26 payrolled benefits are:

- 1 June 2026 for the value of vehicle fuel used; and
- 5 April 2026 for all other benefits.

The deadlines for making good do not apply to interest payable on beneficial loans and overdrawn directors' loan accounts. Where such loans exceed £10,000 at any point in the tax year, there is a taxable benefit if insufficient interest is paid. This benefit takes account of the loans outstanding throughout the year, not just the days when the balance was above £10,000.

This taxable benefit can be avoided if interest at least equal to the Official Rate is reimbursed, as long as the borrower is legally obliged to pay interest. The Official Rate is currently 3.75% p.a.

Despite this exclusion from the reimbursement deadlines, most people should try to pay any interest due on a loan by the 6 July following the tax year, to avoid any doubt as to whether a benefit arises at the time the P11D form is being prepared.

Planning points

- Don't miss the deadline for 'making good' any benefits you have received, if you want to avoid a tax charge.
- The benefit charges for having an employer-owned car available for private use are increasing on 6 April and are due to continue doing so over forthcoming years. If you have a company car, or provide them for your staff, make sure that they remain a tax-efficient means of remuneration. You may wish to consider switching to a lower emission vehicle, to reduce the tax charge.

Capital expenditure

Capital allowances can be claimed on expenditure on certain types of assets used in your business. You must be careful to distinguish between:

- 'plant and machinery' (P&M), which includes many fixtures and fittings (such as desks or chairs for an office); and
- structures and buildings.

The latter attract much slower tax relief.

The rules on capital allowances can be quite nuanced and there are lots of cases where the taxpayer does not get the tax relief they were expecting, so please check the likely tax treatment with us before undertaking any major expenditure. However, we explain below some of the key points of which you should be aware.

P&M allowances

- The Annual Investment Allowance (AIA) is a particularly valuable relief for businesses. 100% relief is given for expenditure on most types of P&M, up to a limit of £1m p.a.
- Cars (with a few exceptions, such as dual control driving school vehicles) are not eligible for the AIA (or the FYAs mentioned below).
- Any other expenditure eligible for capital allowances generally attracts an annual capital allowance of 18% or 6% (depending on the nature of the expenditure) on a reducing balance basis (i.e. the rate is applied to the balance of unrelieved expenditure each year, rather than full cost). The 18% rate is reducing to 14% p.a. from 1 April 2026 (companies) or 6 April 2026 (unincorporated businesses and Limited Liability Partnerships (LLPs)).
- For expenditure on new, unused P&M **by companies**, there is now a First-year Allowance (FYA) of either 100% ('full expensing') or 50%, depending on the type of P&M bought.
- Most businesses will be better off claiming the AIA though, as:
  - It is available on second-hand plant;
  - It is available to unincorporated businesses, not just companies (although certain businesses cannot claim the AIA, including partnerships with a corporate member); and
  - Unlike for FYAs, there are no special rules that apply on eventual disposal of the asset.

Structures and buildings

- Structures & Buildings Allowance (SBA) can provide relief for expenditure on non-residential buildings (including new conversions and renovations).
- Relief is normally given at a flat rate over 33 1/3 years at 3% per annum of qualifying cost (which will always exclude the cost of land).
- Garden offices used purely for business purposes will NOT qualify as they are built on residential property.

Planning points

- To accelerate tax relief, consider purchasing new assets, either:
  - just before the end of your accounting period (companies); or;
  - before the end of the tax year (unincorporated businesses).
- Consider the timing of the disposal of cars and other equipment on which allowances have been claimed. Such disposals will impact the taxable profits for the period in which they take place.
- If your company claims full expensing, make sure that any disposal proceeds of that asset can be separately identified; they will be treated as taxable profits of your company in the period of disposal.
- If you are intending to purchase commercial property containing fixtures that are P&M, seek advice to ensure that the maximum capital allowances can be claimed. On purchase, any value attributed to the fixtures should be agreed by a joint election between the seller and the purchaser.
- A 100% allowance is currently available on electric vehicles (EVs) and EV charging points, although this is due to expire on 31 March 2027 (companies) or 5 April 2027 (unincorporated businesses and LLPs). If you are thinking of changing your business cars to electric ones, you should consider doing so before this tax relief expires.

Year-end checklist

Individuals and families (general planning)

- ☐ Meet the tax return filing dates and tax payment dates to avoid penalties
- ☐ Claim any higher or top rate tax relief on Gift Aid donations
- ☐ Make sure that savings and investments are held tax-efficiently within the family
- ☐ Consider advancing dividends from a company you own into this year
- ☐ Make use of ISA allowances and (where possible) the £3,000 CGT exemption
- ☐ Consider how the timing of CGT disposals will affect tax rates and when CGT is payable

Pensions

- ☐ Check state retirement pension entitlement
- ☐ Consider using your pensions annual allowance (and any unused brought forward amount)
- ☐ Consider if the changes to IHT pension rules will affect your retirement planning

Property and trading businesses

- ☐ Make sure you are ready for MTD reporting responsibilities
- ☐ Claim all allowable expenses that your business has incurred
- ☐ Consider the tax efficiency of employing a family member in your business
- ☐ Consider the timing of capital expenditure, particularly business EVs
- ☐ Collate documentation needed for PRR claims and CGT calculations when properties are subsequently sold

Inheritance tax

- ☐ Make use of the IHT exemptions for lifetime gifts
- ☐ Make sure your will is up to date and deals with your current family circumstances, as well as the pending IHT changes to agricultural / business reliefs and pensions