2026

SPRING NEWS

Merranti accounting

All change for many landlords and self-employed traders

It is almost eleven years since George Osborne announced the intention to introduce Making Tax Digital for Income Tax (MTD IT). It has taken much longer to implement than he thought, while it is still unclear to many commentators what benefits MTD IT will bring to either HMRC or the businesses concerned. Two things are certain though: the first tranche of businesses is mandated to use the system from 6 April 2026 and the compliance burden on businesses within MTD IT will be much greater than it was outside it.

Those individuals with combined turnover of £50,000 from self-employment and letting (based on figures in their 2024/25 tax return) are the first who have to join MTD IT, which will involve keeping digital records and making quarterly reports of income and expenses to HMRC using MTD IT-enabled software. The quarterly reports must be made up to 5 July, 5 October, 5 January and 5 April, irrespective of the business's accounting year-end. There will also be a 'finalisation statement' to be submitted by 31 January following the tax year. Those mandated in 2026/27 will also need to be filing a tax return for 2025/26 by 31 January 2027. This will not be part of MTD IT, so such taxpayers will have to deal with the old and new HMRC filing rules in the same year.

HMRC are meant to have written to all those mandated from 6 April 2026 to tell them that they will need to comply with MTD IT rules. However, it is reported that many affected taxpayers have not yet received a letter! By mid-March, only about 10% of those who should be using MTD IT from April 2026 had signed up to the system, although this will no doubt increase as the 6 April approaches.

The good news is that, as confirmed in the Autumn Budget, taxpayers joining MTD IT from April 2026 will not be penalised for late filing in the first year. This relaxation will not apply to those cohorts who are subsequently mandated to join, such as those with turnover (in 2025/26) of £30,000, who will have to comply with MTD IT from 2027/28.

Important though it is, MTD IT is not the only tax change of which to keep abreast. For those owning companies, on page 2 we explain the imminent changes to the corporation tax rules on overdrawn shareholder loan accounts, an area into which HMRC often enquire. On page 3, we look at the tax rises that are coming on property and savings income in a year's time. These will make income tax calculations even more complicated, as we explain.

For those running payrolls, we cover the new Plan 5 student loans, reclaiming Statutory Maternity Pay (and similar payments) and the changes to the National Living Wage.

We also look at developments in the tax tribunals. Two VAT cases deal with, firstly, the supply of catering services and, secondly, the supply of care workers. Making VAT errors can prove very costly, as these cases show. We also mention a recent CGT case, which shows how difficult it can be to have penalties removed.

We hope you find plenty to interest you in this newsletter. If you have any questions about MTD IT, please get in touch urgently. We will also be happy to discuss any of the other issues raised, if you want to know how they will affect you or your business.

An unannounced tax rise

There is a corporation tax (CT) charge on loans made to 'participators' in close companies (broadly, companies controlled by 5 or fewer shareholders) where the loan is outstanding at the end of a CT accounting period (CTAP). This charge used to be at a fixed rate, which Chancellors changed from time to time. However, in 2016, George Osborne altered this principle, instead setting the rate to be equal to the tax rate that higher rate taxpayers pay on dividends.

Change in dividend tax rates

In the November 2025 Budget, Rachel Reeves announced that dividend tax rates for basic and higher rate taxpayers would both rise by two percentage points from 6 April 2026 to, respectively, 10.75% and 35.75%. Due to the increase in the latter, CT on loans advanced from 6 April 2026 is automatically increased to 35.75% (from 33.75%).

Clearing overdrawn loan accounts

The tax is payable nine months and one day from the end of the CTAP. However, to the extent the loan is repaid (typically by declaring a dividend) or written off by the company before the payment date, no tax will be payable.

With the upcoming rate increase, if partial repayments of loans to director-shareholders are made, it will be very important to specify which loan or loans are being repaid.

Example

Lucy owns 100% of her company, which has a June year-end. At 30 June 2026, she has an overdrawn director's loan account of £40,000, which has arisen as follows:

- loans from 1 July 2025 to 5 April 2026 of £22,000; these would attract a CT charge at 33.75%; and
- loans from 6 April to 30 June 2026 of £18,000; these would attract a CT charge at 35.75%.

The parties may choose which of the loans any repayment should be set against and should clearly document their intentions (e.g. by an email from Lucy to the company).

If a partial repayment of £26,000 is made in March 2027, this should be allocated:

- firstly, against the post 5 April loans (£18,000); then
- against £8,000 of the rest of the loans.

This would leave £14,000 of the pre-6 April loans outstanding, producing a tax charge at 33.75% of £4,725, payable on 1 April 2027.

If no formal allocation is made by the director or the company, HMRC would normally allocate repayments against the oldest outstanding borrowing. Although this normally works in the taxpayer's favour (by assuming, for example, that loans that were outstanding at the last year-end are paid off before more recent loans, which would not yet be triggering a tax charge), it would not be the case in our example.

For Lucy, if the earlier loans were deemed paid off first, it would mean that £14,000 of the post 5 April 2026 loans are left unpaid. This would suffer a tax charge at 35.75%, giving tax payable of £5,005.

Loans subsequently repaid or written off

Where this tax charge has been paid on outstanding loans, it will be reclaimable by the company if the loan is subsequently repaid by the shareholder or written off by the company. In the latter case, there will be income tax and (usually) National Insurance implications for the shareholder and the company.

Compliance

There are a number of tax traps involving directors' loans. Make sure you are aware of all the income tax, National Insurance and corporation tax issues, as they often catch out the unwary. There is also a lot of anti-avoidance legislation to catch what HMRC believe to be artificial ways of repaying loans. ***We can help you make sure that your tax compliance in this area is accurate, so that you can avoid unexpected tax charges, interest and penalties.***

Penalties can be harsh

Tax legislation is complex in many areas, so it is not surprising that people sometimes make errors due to either a lack of understanding of the law or by not having taken sufficient care in preparing their tax returns. Unfortunately, as well as having to pay any extra tax that should have been due, the person may also incur significant interest and penalties. A recent case at the Upper Tax Tribunal has shown how difficult it can be to have such penalties overturned, even where the original error was clearly inadvertent.

The case concerned a married couple, who were directors of a company that traded as financial advisers and in which they each held approximately 6% of the ordinary share capital. In 2018, they and some other shareholders decided to sell their shares to other continuing shareholders.

A meeting was held, during which the taxpayers were advised by their solicitors that as each shareholder held more than the required 5% interest in the company, they would qualify for entrepreneurs' relief (ER), the predecessor of business asset disposal relief (BADR). All at the meeting were aware of the 5% minimum holding that was necessary in order to claim ER.

However, in order to more accurately reflect each individual's contribution to the business, the directors decided that the consideration should be split in a different manner. To facilitate this, the couple each gifted shares to other shareholders, reducing their ownership to approximately 4.14% each.

These gifts of shares did not produce any immediate CGT bill, as holdover relief was available and claimed jointly with the recipients of the gifts. However, the ER position on any subsequent disposal was not reconsidered at this time.

After gifting the shares in April 2019, the following month the couple disposed of their remaining shares, claiming ER in their 2019/20 tax returns.

Following an HMRC enquiry, the couple accepted that they were not entitled to claim ER, as their shareholding was below the required 5%. However, HMRC issued a penalty, calculated as 15% of the underpaid tax, on the basis that the taxpayers had acted carelessly in respect of the failed claims.

The couple appealed, arguing that they had taken reasonable care or, alternatively, that HMRC should suspend the penalties, with the condition that, going forward, the couple would

attend an annual meeting with their accountants to review each entry on their return before it was submitted, to make sure that errors did not happen again.

The Tribunal decided that the couple had acted carelessly by failing to take further professional advice after changing their shareholding. Their tax returns were completed based on previous advice given that related to different facts. The errors were not simple oversights.

HMRC may exercise its discretion to suspend penalties for carelessness. However, this can only be done if it would help the taxpayer avoid becoming liable to future penalties for careless inaccuracy. The inaccuracy in this case was a one-off event, which meant suspension was not appropriate.

If your circumstances change, make sure that you update any advice that you have previously been given, otherwise you may find that unexpected tax bills arise that could have been avoided.

Income tax to become even more convoluted!

At the November 2025 Budget, the Chancellor announced increases in the tax rates applicable to income from property businesses and savings, to apply from 6 April 2027. The basic, higher and additional rates on rental and savings income will all rise by two percentage points in 2027/28, to 22%, 42% and 47% respectively. These increases are being legislated in Finance (No.2) Bill 2026.

Where residential property is being let, finance costs (e.g. mortgage payments) are not treated as a deductible expense when calculating the taxable profits. However, a basic rate 'tax reducer' is given on the disallowed finance costs. This tax reducer will increase to 22% in April 2027.

There will also be new rules about the order in which certain amounts are deducted from income. Reliefs and allowances (such as trading business losses or the personal allowance) will be deductible against other sources of income in priority to property, savings and dividend income. Property income will be treated as the top slice of non-savings, non-dividend income, coming before savings income (if there is any) and then dividend income.

Scottish and Welsh taxpayers

While savings and dividend tax rates apply across the whole of the UK, the Scottish Government and Welsh Assembly can vary the rates of tax on non-savings, non-dividend income (although this has not yet happened in Wales). It remains to be seen if either legislative body will opt not to increase their property income tax rate in line with the rest of the UK from 6 April 2027, as they are to be given new powers to vary the property tax rates.

Example

Nicola has a salary of £38,000, dividends of £15,000 and residential property business profits of £36,000 (before mortgage interest of £14,300). She is an English taxpayer. The tax-free personal allowance is £12,570 and the basic rate band is £37,700. Her tax calculation in 2027/28 will be as follows.

Income	**£**
Salary	38,000
Property income	36,000
Dividends	15,000
Less personal allowance	(12,570)
Net taxable income	**76,430**
Tax calculation	**£**
(38,000-12,570 =) 25,430 @ 20%	5,086
12,270 @ 22%	2,699
23,730 @ 42%	9,967
500 (dividend allowance) @ 0%	0
14,500 @ 35.75%	5,184
Total	22,936
Less tax reducer (£14,300 @ 22%)	(3,146)
Tax to pay	19,790

If you have a rental business, consider whether, once property income tax rates rise in April 2027, your letting business will still be worth operating, particularly if it was previously a furnished holiday let and so has also been hit by the disallowance of finance costs in April 2025. ***We will be happy to discuss these changes with you if you have any concerns.***

Supply of catering services

One of many contentious areas of VAT is the treatment of certain types of food. In previous newsletters, we have often mentioned VAT cases that, to the lay person, make VAT law seem ridiculous. For example, the case about McVitie's 'Blissfuls', which consist of a:

- biscuit cup with a flat bottom base;
- layer of chocolate hazelnut and a layer of chocolate;
- McVitie's logo made of biscuit on top that does not cover the entire top, so leaving some of the chocolate underlayer exposed.

This meant that they had to be standard rated, as 'biscuits wholly or partly covered with chocolate or some product similar in taste and appearance' are excluded from zero-rating.

A recent VAT case concerned a company that supplied cooked meals to private and state-run nurseries for lunches and afternoon meals, with all meals cooked freshly each day. The food arrived hot and, in order to satisfy health and safety requirements, was consumed within three-and-a-half hours of it being cooked.

The contracts between the company and the nurseries required that the food was consumed on the nursery premises and that it would be supplied hot. Was this a standard rated 'supply in the course of catering'? If not, it would be zero-rated food.

While the company did not provide premises, seating, cutlery, or staff to assist with serving the meals provided, the food was delivered hot and ready to eat on the nursery premises, with no reheating or cooking required by the nursery. The service therefore resembled a catering service offering planned meal options, with invoices issued per meal and not per food item.

The Tribunal concluded that the ordinary person would regard the supply as catering, because:

- hot, ready-to-eat meals, ordered from a menu, were delivered for immediate consumption; and
- they were presented in a manner consistent with commercial catering.

If your business supplies food or catering services, make sure you have the VAT treatment correct, as the law can be very nuanced. Please contact us if you feel you may need more help in this area.

Yet another student loan plan

Although not strictly a graduate tax, the student loan system effectively is one, as it reduces the take-home pay of those subject to the repayment rules. Repayments may run for several decades, depending on earnings and how much was borrowed.

The Department for Education has introduced a new student loan type: Plan 5. It applies to those who applied to Student Finance England and started courses from August 2023 onwards.

For those subject to PAYE, repayments are due to begin from 6 April 2026. For those within self-assessment, it will be 6 April 2027.

Plan 5 will be operated and collected in the same way as current plan types 1, 2 and 4, but with an annual repayment starting threshold of £25,000. (This is lower than for the other plans, except the post-graduate loan plan, where the threshold remains £21,000.) Repayments will be made at 9% on earnings over the £25,000 threshold.

Note that these rules only apply in England. Other parts of the UK have different systems in place.

Please speak to us if you need any help in understanding how student loan repayments need to be processed, or (if you have outstanding student debt yourself) you are unsure of how the repayments will affect you own finances.

VAT on supply of care staff

Supply of staff by agencies is normally a standard-rated supply for VAT purposes. However, it will be an exempt supply if it is the supply of services consisting of the provision of medical care by a person registered or enrolled in any of various specified professions, including those on:

- the register of medical practitioners;
- the register kept under the Health Professions Order 2001; and
- the register of qualified nurses, midwives and nursing associates maintained under the Nursing and Midwifery Order 2001.

There are often VAT cases before the tribunals where the issue at dispute is whether this medical care exemption applies. In a recent one, a company provided carers to nursing and residential care homes.

The Tribunal agreed with HMRC that none of the carers were registered or enrolled in any of the specified professions, nor were they carers directly supervised by such individuals (which would also have made the supply exempt). Had the Tribunal found for the company on that point, it would have had to go on to consider if the carers were actually providing the 'medical care' required for the exemption.

In summary, the company did not make exempt supplies relating to the provision of medical care by a suitably qualified person. It therefore had a lot of VAT to pay over to HMRC, where it had not charged VAT on what were in fact taxable supplies.

VAT law is often complex. Mistakes can prove very costly. If your business is involved in the supply of staff, make sure you understand the VAT treatment of these supplies. Please speak to us if you need further help in this area.

Capital allowances update

Over the decades, capital allowances for plant and machinery (P&M) has been one of the areas of tax that has undergone continual change. Following the abolition of the 'super-deduction' (i.e. 130% relief for qualifying expenditure) in April 2023, we seem to have entered an era of relative stability.

Since the 1 April 2023, 'full expensing' (i.e. a first-year allowance (FYA) of 100%) has been available to companies that invest in new, unused P&M that would go in the general pool. This pool includes most categories of P&M. There is a 50% FYA for special rate pool expenditure (such as P&M integral to a building). There is no monetary cap on the qualifying amounts, but some purchases are excluded, notably assets acquired for leasing.

For much longer, most businesses have had an annual investment allowance (AIA) of £1 million, also giving 100% relief.

Note that cars (with a few exceptions, such as dual control driving school vehicles) are not eligible for the allowances mentioned above.

Before taking office, Rachel Reeves had confirmed that full expensing and the £1m AIA limit would stay in place for the whole of this Parliament. She has, though, made some tweaks to other aspects of capital allowances. In particular, from 1 January 2026, there is a new 40% FYA for expenditure on new and unused general pool P&M, where the purchaser is unable to claim full expensing. It excludes assets for leasing overseas and cars. However, assets bought for leasing to a lessee who is resident in the UK do qualify, as long as the asset is not used for the purpose of earning income from a source outside the UK that is not within the charge to UK tax.

Unincorporated businesses would only benefit from this new FYA on expenditure above the AIA limit of £1 million.

Zero-emission cars and electric vehicle charging points

The Government has again extended the period of availability of 100% FYA on zero-emission cars and electric vehicle charging points. This extension is for an extra year, running to 1 April 2027 (companies) and 5 April 2027 (income tax businesses). Any business thinking of changing its cars to electric ones should consider doing so before this up-front tax relief expires.

Structures and Buildings Allowance

This is unchanged, the rate remaining 3% p.a. of qualifying cost.

If you are planning significant capital expenditure, make sure you understand how this will be treated for tax purposes. We are here to help, should you have any questions.

Minimum wage workers

	2026/27	2025/26	Increase
NLW (21 and over)	£12.71	£12.21	50p (4.1%)
18-20 year-old rate	£10.85	£10.00	85p (8.5%)
16-17 year-old rate	£8.00	£7.55	45p (6.0%)
Apprentice rate*	£8.00	£7.55	45p (6.0%)

*Apprentices aged 19 or over, who have completed the first year of their apprenticeship, are entitled to the NLW/NMW applicable to their age group.

From April 2026, the National Living Wage (NLW) increases by 4.1% and the National Minimum Wage (NMW) by up to 8.5%, depending on the category of the worker.

There is also an accommodation offset rate. This is rising from a daily amount of £10.66 to £11.10, a 4.1% increase. How this impacts the NLW/NMW calculations can be found at: https://www.gov.uk/national-minimum-wage-accommodation .

If your business employs workers who are paid at NLW/NMW rates, make sure you apply these wage increases properly. They will, of course, also increase the employer's NICs for your business.

If you have any questions on these rules, for instance how the increases will affect the profitability of your business or your staff hiring plans, please get in touch.

Statutory payments

There are now several statutory payments associated with childbirth and young children: maternity pay, paternity pay, adoption pay, parental bereavement pay, neonatal care pay and shared parental pay.

Employers can usually reclaim 92% of these statutory amounts paid to employees. However, employers can claim a higher amount if they qualify for small employers' relief (SER). The employer must have paid £45,000 or less in Class 1 NICs (ignoring the employment allowance) in the last complete tax year to qualify for SER.

For 2025/26, a business that meets the criteria for SER can claim 108.5%. This will increase to 109% for 2026/27.

If you have any doubts over what statutory payments you should be making, or how much you can reclaim, please get in touch.

This newsletter is written for the benefit of our clients. Further advice should be obtained before any action is taken.