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*“a fresh approach to accounting”*

SMART TAX:  
PRACTICAL TIPS

2025/26

# SMART TAX: PRACTICAL TIPS

## Clear and concise tax guide 2025/26

This guide provides practical tax information to help you navigate through the tax system and plan tax efficiently by providing you with an overview of the key tax rules.

The first part of this guide covers rules potentially impacting you as an individual including certain scenarios which may be relevant such as family matters or working for others. The second part deals with the tax implications of running a business or investing in property.

Throughout this guide you will find a number of tax tips and checklists to help you identify planning opportunities, pitfalls to avoid and areas where you may need to take action. We would be happy to help with advice on your specific position.



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*The rules, rates and allowances in this guide relate to the 2025/26 tax year and these may be different for other tax years.*

*The general effect of the Civil Partnership Act is to treat registered civil partners on a consistent basis with married couples. For the purposes of this guide we have on occasions referred only to spouses.*

# FOR INDIVIDUALS

## A FEW PERSONAL TAX ESSENTIALS

### Introduction

Taxation in the UK is administered and regulated by HMRC. Many individuals will have no need to interact with HMRC; for employees income tax is typically deducted at source from earnings before they are paid out by way of Pay as You Earn (PAYE), and other common sources of income, such as savings and dividends, may be covered by allowances such that no tax needs to be paid. Without additional income tax payable to HMRC, these individuals do not need to complete income tax returns.

However, over 12 million taxpayers have a self assessment requirement. They might have income from their own business or receive rent from a property. Alternatively, it may be that their savings or dividend income is significant enough to result in tax being payable. These taxpayers may be asked to complete a self assessment return each year. Other taxpayers may need to complete periodic returns; for example, where they have made a disposal of an asset which is subject to Capital Gains Tax or where they are responsible for collecting and paying the tax on behalf of others such as employers or businesses charging VAT.

### Practical Tip

If you have a new source of income or capital gains which could lead to a tax liability you have a responsibility to advise HMRC by 5 October following the tax year.

### The personal allowance

In principle, individuals are entitled to a basic personal allowance before any income tax is paid. This means that many individuals do not pay income tax on the first £12,570 of income they receive, and individuals who have lower levels of income may not need to pay any income tax at all. The personal allowance is fixed until April 2028.

### Losing the personal allowance

However, the personal allowance is reduced for individuals with higher levels of income. Where an individual's adjusted net income (ANI) exceeds £100,000 the personal allowance is reduced by £1 for every £2 of income in excess of that limit. This means that an individual with ANI of £125,140 or more will not be entitled to any personal allowance.

### Tax Tip

The withdrawal of the personal allowance means that individuals with income between £100,000 and £125,140 may be subject to an effective tax rate of up to 60% on that income. There may be ways to mitigate this which we can discuss with you.



## Tax rates and allowances

The income tax bands and rates for 2025/26 are determined by where you live in the UK and the type of income you have.

For most UK residents the following tax rates and bands apply:

Taxable income £	Non-savings and savings income rate %	Dividend rate %
0 - 37,700	20	8.75
37,701 - 125,140	40	33.75
Over 125,140	45	39.35

Taxable income is income in excess of the personal allowance.

Non-savings income is broadly earnings, pensions, trading profits and property income. Scotland and Wales have the autonomy to vary the rates and bands applicable to non-savings income (see below); the rates and bands for savings and dividend income and the personal allowance are set for the UK as a whole.

### Rates and bands for Scottish and Welsh taxpayers

For 2025/26 the tax rates and bands applicable to Scottish taxpayers on non-savings and non-dividend income are as follows:

Taxable income £	Band name	Rate %
0 - 2,827	Starter	19
2,828 - 14,921	Basic	20
14,922 - 31,092	Intermediate	21
31,093 - 62,430	Higher	42
62,431 - 125,140	Advanced	45
Over 125,140	Top	48

For 2025/26, the overall tax payable by Welsh taxpayers continues to be the same as English and Northern Irish taxpayers.

### Savings and dividends allowances

Individuals may be entitled to the savings allowance (SA), with savings income within the SA taxed at 0%.

The amount of SA depends on an individual's marginal rate of tax (the highest rate of tax to which they are subject). An individual taxed at the basic rate of tax has an SA of £1,000, whereas a higher rate taxpayer is entitled to an SA of £500. Additional rate taxpayers receive no SA.

The dividend allowance (DA) is available to all taxpayers regardless of their marginal tax rate. The DA charges the first £500 of dividends to tax at 0%.

Savings income and dividends received above these allowances are taxed at the rates shown in the table. Savings and dividends within the SA or DA still count towards an individual's basic or higher rate band and so may affect the rate of tax payable on income in excess of the allowances.

In addition, some taxpayers may be entitled to the starting rate for savings which taxes up to £5,000 of



interest income at 0%. However, this rate is not available if non-savings income exceeds £5,000.

## Income tax reliefs

In order to encourage charitable giving and saving for the future, income tax relief is available for donations made to charity under gift aid and pension contributions.

### Give as you earn and occupational pension schemes

If you make a donation to charity out of your salary or a contribution to an occupational pension scheme, relief is automatically given at your highest marginal tax rate on your salary as the donation or contribution is deducted from your gross salary before income tax is calculated.

### Individual donations and personal pension schemes

However, the method in which relief is given is different if you make a gift aid donation personally or contribute to a personal pension scheme.

Basic rate relief is deemed to be given at source. Effectively what this means is that basic rate tax is reclaimed by the charity or pension fund, so you only need to pay £100 for the charity/fund to receive £125.

Relief for higher and additional rate taxpayers is given by extending the bands set out above by the gross amount of the donation (the total receipt by the charity/fund). Following on from the above example, a higher rate taxpayer making a donation of £100 would pay tax at 20% on the first £37,825 of taxable income (being £37,700 plus £125).

## Tax Tip

**Gift aid donations and personal pension contributions are also deducted from your income to arrive at adjusted net income for the purposes of calculating any reduction in your personal allowance.**

**If your adjusted net income is between £100,000 and £125,140, you may want to consider making or increasing charitable donations or pension contributions in order to minimise the reduction in the personal allowance. We can help you with these calculations.**

There are specific rules which determine how much tax relief can be obtained for pension contributions which are discussed further in the [Tax and your investments](#) section of this guide.

## Self assessment timetable

Income Tax and Capital Gains Tax are both assessed for a tax year which runs from 6 April to the following 5 April. The tax year 2025/26 runs from 6 April 2025 to 5 April 2026.

Shortly after the end of the tax year on 5 April a notice to complete a return is usually issued by HMRC if required. Typically the return then needs to be submitted by:

- 31 October following - non-electronic returns (where you have requested a paper return from HMRC or downloaded a blank return).
- 30 December following - returns filed online if you want HMRC to automatically collect tax owed through PAYE.
- 31 January following - returns filed online.

These deadlines may be extended in certain



circumstances where the notice to submit a return is issued later than expected.

There is an automatic penalty of £100 for late filing of the return. Further penalties may be due if the filing of the return is significantly delayed. These may run into hundreds of pounds.

HMRC is increasingly emphasising the importance of good records. Failure to maintain adequate records may lead to inaccurate tax returns, which could result in penalties.

### Practical Tip

**Remember to keep all tax related documents such as interest statements, dividend vouchers, form P60 etc. Place everything in a folder through the year as it is received. Then you can simply hand this to us when we need to prepare your self assessment return.**

### Paying the tax

Generally any additional tax payable for a tax year is payable by 31 January following the end of the tax year. Penalties and interest may be due if income tax is paid late.

Some taxpayers will need to pay income tax in instalments known as payments on account. Payments on account are required unless either:

- The amount of tax you owed last year was less than £1,000; or
- More than 80% of the tax owed last year was paid through deduction at source e.g. PAYE.

Two payments on account are required on



31 January in the tax year and 31 July following the tax year. Each payment on account is calculated based on 50% of the income tax and class 4 NIC liability for the previous tax year (less any amounts deducted at source). A balancing payment is due on 31 January following the tax year.

### Practical Tip

**If you know your income tax is going to be lower than the amount paid for the previous year, you can ask HMRC to reduce your payments on account. Do take care though because if you reduce your payments on account and your tax bill is higher than expected, you will be charged interest on the difference.**

**We can help you with the calculations of your expected liabilities and any application to HMRC.**

## Other taxes impacting individuals

Individuals are not only taxable on the income they receive. You may own assets such as a precious antique,

a second home or shares. If such an asset is sold at a profit this may give rise to a liability to Capital Gains Tax (CGT). Details of any capital gains may have to be included on the self assessment return if you receive one; alternatively you can complete a 'real time' return. Further information on CGT is provided in the [Disposals and CGT](#) section of this guide.

Inheritance Tax (IHT) may be payable on the assets that you give to others in your lifetime or leave behind when you die. With rising house prices, this has become a concern for many more individuals. Find out more in the [Preserving your inheritance](#) section of this guide.

National Insurance contributions (NICs) are payable to fund certain benefits and the State Pension. There are different types or classes of NICs and the class payable depends on the individual's employment status. Class 1 NICs are payable in respect of employed individuals and Class 4 are paid by self-employed individuals. Class 2 and 3 NICs are voluntary contributions which may be paid in certain circumstances. NICs are discussed further in the [Running a Business](#) section of this guide.





# DISPOSALS AND CAPITAL GAINS TAX

## The basics

When you dispose of a capital asset such as shares, your business or a property, Capital Gains Tax (CGT) may arise on the chargeable gain which is broadly the difference between the sale proceeds and the original cost. Where property has been improved then these capital costs may be available to reduce the value of the gain. In addition, various reliefs may apply to either reduce the value of the chargeable gain or the rate of CGT payable.

The annual exempt amount (AEA) results in the first £3,000 of gains for 2025/26 being tax free.

### Tax Tip

Each individual has their own AEA. Equalising assets between partners may allow both exemptions to be used to the fullest extent. See [Family matters](#) for more details.

## Rates of CGT

In general CGT is payable at 18% where total taxable gains and income, after taking into account all allowable deductions, are within the income tax basic rate band. CGT is payable at 24% on gains, or any parts of gains, above this limit.

## Capital losses

Capital losses may only be used against capital gains. Current year losses are offset against current year gains

as much as possible; this may result in the AEA being wasted. Brought forward losses may be restricted to preserve an amount of gain in the year equal to the AEA.

### Tax Tip

As you will see later in this section, a lower CGT rate applies to gains qualifying for Business Asset Disposal Relief or Investors' Relief than to other gains. You can choose to allocate the AEA and any losses against gains subject to a higher rate of CGT in order to maximise the tax saving.

## Reporting and payment of CGT

For non-residential property disposals, these can be reported on the self assessment tax return or via a 'real-time return' if you are not otherwise required to submit a tax return. Payment of CGT is due by 31 January following the tax year of the disposal.

CGT on residential property disposals must be reported and a 'best estimate' payment on account made within 60 days of completion of sale.

### Tax Tip

When calculating the best estimate of CGT on a residential property disposal, you can take into account the AEA and any capital losses brought forward or incurred in the tax year prior to the completion date of the disposal.

## CGT Reliefs

### Private Residence Relief

An individual's or married couple's only or main residence is generally exempt from CGT under a relief known as Private Residence Relief (PRR). The exemption extends to grounds of up to half a hectare provided this is not used for any other purpose. Larger grounds may also be exempt, but professional advice is recommended to plan for the best outcome in this case.

There must also be clear evidence of occupation as a main residence and not just ownership. An element of the gain may be chargeable if the individual is absent from the property during the period of ownership. Certain periods of absence from the property can be deemed to be periods of occupation and as such, can count towards the exemption from CGT. Please contact us if you have been absent from your property and we can advise on the likely position.

Where an individual (or married couple) has two or more residences, only one residence at any one time can be treated as the main home for exemption. This is done by an election.

## Tax Tip

As long as the property has been your main residence at some point, the last nine months will always be treated as a period of occupation even if you are not present in the house. This gives you some leeway to move into a new property before disposing of the previous one and still retain full PRR.

## Example

Joe's house in Luton is his private residence, which he has owned for eight years. Fed up with commuting, he buys a flat in central London and elects for this to be his main residence. Exactly five years later he sells his home in Luton.

The Luton home is exempt for the first eight years whilst he was living in it and for the last nine months because, even though he had another home which was his main residence during this time, the last nine months is always exempt provided the home in question qualified as the main residence at some point.

8.75/13 of the gain on the Luton home will be exempt from CGT. Upon the eventual sale of the flat the whole of that gain will also be exempt.

Full PRR also only applies where the whole property is occupied. Apportionment may be required where part of the property is used for business purposes or is let out with resulting gains being potentially taxable. Lettings Relief may apply where you have multiple lodgers or let out part of your home. We would be happy to discuss your specific circumstances with you.



## Business Asset Disposal Relief

Business Asset Disposal Relief (BADR) may be available on the first £1 million gains from the disposal of certain businesses during an individual's lifetime. Qualifying gains are taxed at a 14% rate of tax. Qualifying business disposals include:

- qualifying shareholdings in a trading company (broadly where an employee or office holder owns at least 5% of the shares and voting rights)
- the whole or part of an unincorporated business
- the disposal of assets on cessation of a business.

There needs to be a qualifying period of ownership of two years up to the date of disposal.

## Tax Tip

The CGT rate applying to disposals of assets qualifying for BADR will increase to 18% for 2026/27. Accordingly, if you are planning a disposal of your business you may wish to accelerate the disposal to 2025/26.

Where an individual makes a qualifying business disposal, relief may also be available on an 'associated disposal'. An 'associated disposal' is a disposal of an asset which is used in a qualifying company of the individual or used in a partnership where the individual is a partner.







## Example

Maggie owns a non-residential property which is used by her wholly owned trading company. Provided the property is disposed of in conjunction with a material disposal of her shares in the trading company then the gain on the property may also qualify for BADR.

Care should be taken where rent has been charged on the property as this could limit the availability of BADR. Please contact us if you personally own a property which is used in your business.

The rules on qualifying disposals, particularly in relation to qualifying shareholdings, can be complex. Please do get in touch if you would like to discuss whether BADR might be available or how to meet the requirements.

## Investors' Relief

A 14% CGT rate applies to external investors (i.e. not employees or officers of the company) in unlisted trading companies. Conditions apply:

- shares must be newly issued and subscribed for by the individual for new consideration

- be in an unlisted trading company, or an unlisted holding company of a trading group
- have been issued by the company on or after 17 March 2016
- have been held continuously for a period of three years before the disposal.

As for BADR, an individual's gains for Investors' Relief is subject to a lifetime cap of £1 million and the rate increases to 18% in 2026/27.

## We can help

Contact us if you:

- Have disposed of assets
- Are thinking of making a residential property disposal
- Are planning to dispose of your own business
- Own shares which you acquired on issue rather than from another party

# FAMILY MATTERS

## Married couples

Spouses are taxed as independent persons, each of whom is responsible for their own tax affairs. The phrase 'spouse' whenever used in this guide includes a registered civil partner.

For spouses, there is no aggregation of income, no sharing of the tax bands and, except in limited circumstances detailed below, the personal allowance may not be transferred from one spouse to the other.

However, tax can be minimised if spouses equalise their income so that personal allowances, savings allowances and dividend allowances are fully utilised and higher/additional rates of tax are minimised.

### Example

In 2025/26 Ian and Angela have savings income of £50,000, dividend income of £50,000 and no other income. If this is split equally between them, the total tax bill for the couple is £6,860. If only one spouse has an income of £100,000 and the other has nothing, the total tax bill leaps to £23,092 - an additional £16,232!

### Tax Tip

A donation to charity under the Gift Aid scheme benefits from tax relief. It makes sense for a higher rate/additional rate taxpayer spouse to make such donations so that they can benefit from the extra tax relief.

Equalising assets may also be beneficial from an IHT perspective (see [Preserving the inheritance](#)).

### Marriage allowance

Married couples and civil partners may be eligible for a Marriage Allowance (MA). The MA enables spouses to transfer a fixed amount of their personal allowance to their spouse. The option to transfer is not available to unmarried couples.

The option to transfer is available to couples where one party has not used all of their personal allowance and the other does not pay tax at the higher or additional rate. If eligible, one spouse will be able to transfer 10% of their personal allowance to the other which means £1,260 for the 2025/26 tax year.

Relief is given as a basic rate tax reducer with a benefit of up to £252 (20% of £1,260).

### Tax Tip

It is also possible to backdate a claim for Marriage Allowance for up to four years - please contact us if you think this might apply to you.

A Married Couple's Allowance may also be available, but only where one spouse was born before 6 April 1935, so has not been considered further in this guide.

### Jointly owned assets

Married couples or civil partners will often own assets in some form of joint ownership. This can have benefits for income tax, CGT and IHT.

Where assets are owned jointly by spouses, any income is deemed to be shared equally between the spouses unless an election is made to split the income in the same proportion as the ownership of the asset. See [Property investment](#) for an example of this.

This does not apply to shares in close companies (almost all small, private, family owned companies will be close companies) where income is always split in the same proportion as the shares are owned.



## Capital Gains Tax

Independent taxation also applies to CGT. Each spouse is entitled to take advantage of the AEA of £3,000 before any CGT has to be paid.

This is advantageous where assets are held jointly and then sold as each spouse can use their AEA to save tax.

### Tax Tip

The transfer of assets between spouses takes place at no gain no loss for CGT. This is sometimes done shortly before assets are sold to minimise tax.

The tax neutral treatment for spouses remains up to the earlier of the end of the third tax year after that in which they ceased to live together or the date on which a court grants a divorce or annulment of marriage, or dissolution or annulment of a civil partnership. Transfers in accordance with the divorce or dissolution are also at no gain or loss without a time limit.

## A word of caution

Transferring assets or interests in a business between spouses may attract the interest of HMRC especially where it is obvious that it has been done primarily for tax saving purposes. Transfer of ownership of an asset must be real and complete, with no right of return and no right to the income on the asset given up.

If a non-working spouse is given shares in an otherwise one-person, private company, HMRC may, in some circumstances, seek to tax the working spouse on all of the dividends under what is known as the 'settlements legislation'. You may want to consider obtaining advice from us before entering into this type of arrangement.

## What about unmarried partners?

It still pays to equalise income as much as possible, as income tax will be minimised. However, transfers of assets may be liable to CGT and, if substantial, could also lead to an IHT liability. It is vital for unmarried couples to each make a Will if they wish to benefit from each other's estate at death.

## Children

### Transferring income to children

If a child has sufficient income to make them liable, they will be taxed in exactly the same way as an adult. However they also benefit from their own personal allowances and tax bands. Where their only income is low, there may be some scope for transferring income producing assets to the children to use up their personal allowance.



Note that if assets are provided by a parent then the income remains taxable on the parent, unless it does not exceed £100 (gross) each tax year. However, this option could be considered where grandparents or other relatives wish to pass on wealth. Be mindful of capital and inheritance tax implications of the transfers of assets.

### Tax Tip

**Children may be employed in the family business so as to take advantage of their personal allowance (subject to legal restrictions). It is essential that payment is only made for actual work carried out for the business and at a reasonable commercial rate.**

## Children and capital gains

Children also have their own AEA for CGT, so assets transferred to them which are expected to grow in value may prove to be advantageous.

## Child Trust Funds (CTFs)

The availability of new CTFs ceased from January 2011, as did government contributions to the accounts. Existing CTFs, however, continue to benefit from tax free investment growth. No withdrawals are possible until the child reaches age 18. However, the child's friends and family are able to contribute up to the annual limit of £9,000. It is possible to transfer the investment to a Junior Individual Savings Account.

## Junior ISA (JISA)

A JISA is available for UK resident children under the age of 18 who do not have a CTF account. JISAs are tax advantaged and have many features in common with existing ISAs.

They are available as cash or stocks and shares based products but a child can only have one cash JISA and one stocks and shares JISA. The annual investment is limited to £9,000.

Other children's savings options are available which may be tax efficient such as National Savings Children's Bonds and Friendly Societies' savings plans.

## High Income Child Benefit Charge

A High Income Child Benefit Charge (HICBC) arises on a taxpayer who has adjusted net income (ANI) over £60,000 in a tax year where either they or their partner are in receipt of Child Benefit for the year. Where both partners have adjusted net income in excess of £60,000 the charge applies to the partner with the higher income.

Note in this case 'partners' does not just include spouses and civil partners but also couples living together as if they were married or in a civil partnership.

The HICBC applies at a rate of 1% of the full Child Benefit award for each £200 of income between £60,000 and £80,000. The charge on taxpayers with income of £80,000 or above will be equal to the amount of Child Benefit paid.

Child Benefit claimants are able to elect not to receive Child Benefit if they or their partner do not wish to pay the charge.



## Tax Tip

Equalising income can help to reduce the charge for some families.

In addition, the amount of HICBC is calculated based on ANI. As mentioned in [A Few Essentials](#), making gift aid payments and personal pension contributions will reduce an individual's ANI and therefore potentially the HICBC. Do get in touch if you think you may be subject to the charge.

## Example

Phil and Jane have two children and receive £2,252 Child Benefit. Jane has little income. Phil expects his ANI to be £70,000. On this basis the tax charge will be £1,126. This is calculated as  $£2,252 \times 50\%$  ( $£70,000 - £60,000 = £10,000 / £200 \times 1\%$ ).

If Phil can reduce his income by £10,000 to £60,000 no charge would arise. This could be achieved by transferring investments to Jane or by making additional pension or Gift Aid payments.

## Tax-Free Childcare

The scheme is available to families where all parents are working (on an employed or self-employed basis) 16 hours a week and meet a minimum income level (generally £195 a week for over 21 year olds for 2025/26) with each earning less than £100,000 a year. Parents who are receiving support through Tax Credits or Universal Credit are not eligible.

Parents need to register with the government and open an online account. The government 'top up'



payments into this account at a rate of 20p for every 80p that families pay in. The scheme is generally limited to £10,000 per child per year. The government's contribution is therefore a maximum of £2,000 per child. The maximum limits are increased to £20,000 and £4,000 respectively for disabled children.

Employer Supported Childcare closed to new entrants on 4 October 2018. Parents who qualify for both schemes are able to choose which scheme they wish to use but families cannot benefit from both schemes at the same time.

## We can help

Contact us if you:

- Are married and would like to discuss equalising income streams or transferring assets
- Own your own business and are considering employing your family members
- Claim child benefit (or your partner does) and you or your partner has income over £60,000

# WORKING FOR OTHERS

Few avoid working for others at some time in their life and most will have encountered the PAYE system operated by employers to collect the income tax and National Insurance contributions (NICs) due on wages and salaries.

## The tax code

Ensuring the right amount of tax is taken from employees relies on a PAYE code issued by HMRC and based on information given in a previous self assessment return or supplied by the employer. The employee, not the employer, is responsible for the accuracy of the code.

Code numbers try to reflect both an individual's tax allowances and reliefs and also any tax they may owe on employment benefits and in some cases other types of income. For many employees things are simple. They will have a set salary or wage and a basic personal allowance. Their code number will be 1257L and the right amount of tax should be paid under PAYE. However, for those who are provided with employment benefits, the code number is generally adjusted to collect the tax due so that there are no underpayment surprises at the end of the tax year. HMRC may also use the code to collect tax owing for an earlier year or the High Income Child Benefit Charge.

For Scottish taxpayers a letter 'S' is included in the tax code and denotes that the Scottish income tax rates apply to an employee's pay, rather than the rates and bands which apply across the rest of the United Kingdom. For Welsh taxpayers a letter 'C' is included in the tax code.

With so many complications and some guesswork involved, getting the code exactly right can be difficult and the right amount of tax will not always be deducted.

### Tax Tip

If you are unsure about your code and are anxious not to end the tax year under or overpaid, then you should have it checked. HMRC may update an individual's tax code during the tax year to reflect changes to benefits and to collect tax underpayments. Please talk to us about getting your tax code checked.

## Benefits

Benefits such as company cars, childcare facilities or medical insurance have become key parts of remuneration packages.

There can be tax advantages to the employee of receiving benefits instead of salary; some benefits are completely exempt from income tax. Other benefits will

be subject to income tax under PAYE for the individual. However, only the employer is subject to NICs on the benefit (see [Running a business](#)) so even a taxable benefit may have savings for the employee compared to receiving salary.

The general rule is that the value of the benefit which is taxable on the employee is the cost to the company although there are special rules in respect of some benefits. Where a benefit is taken rather than an alternative cash option, the taxable value of the benefit is the higher of the cash foregone or the taxable value under the normal benefits rules. Contact us for the correct valuation of benefits.

We have covered the main benefits which are commonly provided below but if you would like to discuss other types of benefits as either the employee or employer, or the tax consequences of a particular remuneration package, please do contact us.



## Company cars

Employer-provided cars, commonly known as company cars, remain a popular benefit, despite the tax charge they give rise to. The charge on cars is generally calculated by multiplying the list price of the car by a percentage which depends on the CO<sub>2</sub> emissions of the car with higher emissions resulting in a higher percentage and therefore taxable benefit.

The percentages have been set as far as 2029/30 which allows for better forecasting of the cost of benefits. The percentage applicable may be obtained from HMRC [here](#).

### Tax Tip

For hybrid cars with emissions not exceeding 50g/km, the percentage is currently determined by the electric mileage.

However all vehicles with CO<sub>2</sub> emissions of 1g to 50g/km will have percentages of 18% in 2028/29 and 19% 2029/30. This could significantly increase the taxable benefit for employees as the most efficient hybrids will have a percentage of only 5% in 2027/28.

If you are currently considering a lower emission car that you expect to still hold in 2028/29, it may be preferable to choose an electric zero emission vehicle. These are expected to have a percentage of 7% in 2028/29.

### Example

David has a company car which had a list price of £28,395 when it was provided new on 6 April 2024. The CO<sub>2</sub> emissions are 26g/km and its electric range is 90 miles. David's benefit in kind for 2025/26 is £1,704, being £28,395 x 6%.

Note, the equivalent benefit will be £5,111 in 2028/29 (£28,395 x 18%). If David were a higher rate taxpayer this could increase his income tax liability by over £1,000 (compared to the 8% rate applicable in 2027/28).

### Fuel for private use

A separate charge applies where private fuel is provided by the employer for a company car. The charge is

calculated by applying the same percentage used to calculate the company car benefit to a fixed figure which for 2025/26 is set at £28,200. No fuel benefit applies to an electric car.

### Tax Tip

The fuel benefit charge can be expensive. It may be cheaper for the employee to pay for all the fuel and to reclaim from the employer the cost of business miles driven in a company car based on a specific log of business journeys undertaken.

HMRC publishes advisory fuel rates for company cars which are updated on a quarterly basis. Click [here](#) for the latest rates or contact us.



## Vans

Where employees are provided with a van and the only private use of this is to travel to and from work, then no taxable benefit should arise. If there is private use beyond this, there is generally a benefit of £4,020 for 2025/26 and an additional £769 if fuel is provided for private as well as business journeys. In order to avoid this charge, it is advisable to have a formal written policy, detailed mileage logs and make use of vehicle tracker records. These will support the limited private use of the van and may avoid problems with HMRC in the future.

HMRC guidance has previously regarded Double Cab Pick Ups with a payload of 1 tonne (1,000kg) or more as being vans for benefits purposes (as well as capital

allowances and leasing adjustments). From 6 April 2025 whether they are cars or vans will depend on their primary suitability. Where there is dual suitability for both passengers and goods vehicles will generally be considered cars. This will likely result in a higher benefit for the employee. Do get in touch if you think you are impacted by this change.

## Medical insurance

The employee is taxed on the amount of the premium paid by the employer.

## Home and mobile phones

There is no benefit on the provision of a company mobile phone even where it is used privately. However, this is limited to one phone per employee.

Where home telephone bills are paid by the employer, the amount paid will be taxable. The employee may make a tax deduction claim for the cost of business calls only but not the line rental. Note that whether the benefit is subject to class 1 or class 1A National Insurance will be dependent on the exact circumstances of who holds the contract etc; contact us if you would like to discuss this further.

## Cheap or interest free loans

If loans made by the employer to an employee exceed £10,000 at any point in a tax year, tax is chargeable on the difference between the interest paid and the interest due on the entire loan at an official rate of interest (ORI) - currently set at 3.75% per annum. An exception applies for certain qualifying loans - please contact us for information.

Prior to April 2025 HMRC committed to not increase the ORI during the tax year. However from 6 April 2025 this commitment will no longer be applicable and the ORI may change quarterly. This may mean that the ORI and therefore the benefit of the loan may increase during a tax year; care should be taken if you have a loan over £10,000.

## Tax Tip

The £10,000 limit on tax free loans is an attractive perk for many employees. Even for tax-free loans over £10,000, the tax charge may still be more attractive than taking out a loan at current interest rates.





## Childcare costs

Childcare costs paid for by an employer may be exempt from both income tax and NICs. This applies to a place in an employer operated nursery and to Employer Supported Childcare as long as the claimant entered the Scheme before 4 October 2018. In the latter case, the exemption is limited and excess amounts are subject to tax and NICs. Employer Supported Childcare is now closed to new claimants and has been replaced by Tax-Free Childcare (see [Family matters](#)).

## Pension contributions

Contributions by an employer to a registered pension scheme are generally tax and NICs free for most employees.

## Expense payments

An employer would normally reimburse an employee for business expenses. In this event employees do not need to claim tax relief on these expenses and the reimbursement is non-taxable.

If an employer does not reimburse business expenses, an employee can claim tax relief for those expenses which are incurred wholly, exclusively and necessarily for business purposes. The main types of expenses are travelling to places for work (but not the normal place of work) and overnight accommodation.

## Mileage claims

Many employers pay a standard rate of mileage to all employees who use their own cars for business journeys. HMRC sets statutory rates for business mileage which are 45p for the first 10,000 miles in a tax year and 25p thereafter.

If the employee is paid for business miles at less than the statutory rates, tax relief is available on the difference. If, however, the employee is paid at more than these rates then the excess is taxable.

If you are paid less than the statutory rates to use your own car for business purposes remember to claim a deduction on your tax return or write to HMRC to make your claim.

### Example

In 2025/26 Michael travels 14,100 business miles in his own car and is paid 32p per mile by his employer.

Michael can claim tax relief on an additional amount of  $\pounds 1,013 ((10,000 \times 45p) + (4,100 \times 25p)) - (14,100 \times 32p)$ .

## We can help

Contact us if you:

- Have a tax code different to 1257L or receive a notice of a change to your tax code
- Have been offered a benefits package or multiple options for salary/benefit - we can help you understand the tax implications
- Are not reimbursed for expenses which you incur for business purposes



# TAX AND YOUR INVESTMENTS

Setting aside income is important for everyone, to provide for the unexpected or to build up a nest egg to enjoy in retirement. We cover some of the main methods below; residential property investment is dealt with in [Property investment](#).

## Tax Tip

Don't forget to use the dividend and savings allowances. These allowances tax £500 of dividends and up to £1,000 of savings income at 0%.

## Pensions

### Making pension contributions

Pensions are one of the most tax efficient forms of saving. Taxpayers benefit from tax relief on contributions at their marginal rate and investment income and capital gains will accrue within the scheme largely tax free.

An individual is entitled to tax relief on personal contributions in any given tax year up to the higher of 100% of earned income or £3,600 (gross). The mechanisms for giving tax relief depends on whether the individual is contributing to an occupational or personal pension scheme and are dealt with in [A Few Essentials](#).

Employer pension contributions are an exempt benefit for the employee and a deduction from profits may be available to the employer.

There are controls which serve to limit the availability of tax relief on high levels of contribution. These are complex but, put simply, they may give rise to a tax charge if annual contributions exceed £60,000. This threshold is reduced for high income individuals; generally where a taxpayer has adjusted income in excess of £260,000 the maximum annual contribution possible will be restricted by £1 for every £2 for the excess income. The minimum annual allowance available after this restriction is £10,000.

## Tax Tip

The annual allowance may be carried forward up to three tax years. We can assist you with planning your pension contributions to maximise the tax savings.

### Pensions freedom

Taxpayers have choice and flexibility when it comes to accessing their personal pension fund. Options include taking a tax free lump sum of 25% of the fund value and purchasing an annuity with the remaining fund or opting for a more flexible drawdown.

The total amount which can be withdrawn as a tax free lump sum (under whichever option chosen)

is generally limited to a total of £268,275, except in certain circumstances where previous protections apply. Other income withdrawn from a fund is taxable as income.

The rules on pensions drawdown are complex and there are a number of options for taking a pension. Getting the right advice at the point of retirement is therefore crucial.

### Money Purchase Annual Allowance

The government is aware of the possibility of people taking advantage of the flexibilities by 'recycling' their earned income into pensions and then immediately taking out amounts from their pension funds. The Money Purchase Annual Allowance sets the maximum amount of tax-efficient contributions an individual can make at £10,000 per annum in certain scenarios.

## Tax free savings

### Individual Savings Accounts

Individual Savings Accounts (ISAs) are free of income tax and CGT. There are maximum investment limits which apply for each tax year but, over several years, large investments can be built up. The overall annual ISA savings limit is £20,000. Investors can choose to invest in a cash ISA, stocks and shares ISA or an Innovative Finance ISA or a combination thereof as long as they do not exceed the investment limit.

## Lifetime ISA

Adults aged between 18 and 40 may open a Lifetime ISA. Payments can be made into the account until you are 50. Individuals are able to contribute up to £4,000 per year and receive a 25% bonus from the government (up to £1,000 per year). Investments into a Lifetime ISA count towards the overall ISA savings limit of £20,000.

Lifetime ISA funds, including the government bonus, can be used to buy a first home worth up to £450,000 at any time from 12 months after the first subscription or can be withdrawn from age 60 completely tax-free.

## Other tax efficient investments

The following investments work in varying ways. You should consider your needs in detail before entering into any commitments.

### National Savings and Investment premium bonds

Premium bonds are tax free and you could win £1 million. However, the rate of return is not predictable.

### Venture Capital Trusts

Venture Capital Trusts (VCTs) mainly invest in the shares of unquoted trading companies. Income tax relief of 30% is available on subscriptions for VCT shares, up to £200,000 investment per tax year, as long as the shares continue to be held for at least five years. An investor in the shares of a VCT will be exempt from tax on dividends and on any capital gain arising from disposal of the shares in the VCT (note limits apply where investments greater than £200,000 have been made in any one tax year).



## Enterprise Investment Scheme

Under the Enterprise Investment Scheme (EIS), you are making an investment into the company itself. The EIS was developed to encourage investment in smaller, high-risk, unquoted companies.

Income tax relief at 30% is available on new equity investment (in qualifying unquoted trading companies) of up to £1 million. A higher limit of £2 million may apply to investments in 'knowledge intensive companies' (companies which invest in research and development or create intellectual property).

EIS investment also provides CGT benefits. There is exemption from CGT on sales of EIS shares held for at least three years. If the gain on the sale of another chargeable asset is reinvested in EIS shares, the gain on the disposal can be deferred.

## Seed Enterprise Investment Scheme

The Seed Enterprise Investment Scheme (SEIS) was introduced to provide additional incentives for investments in startups and early-stage businesses. Income tax relief is higher than for VCT or EIS and is available at 50% in respect of qualifying SEIS shares up to an annual maximum investment (in all SEIS companies) of £200,000.

As for EIS, a CGT exemption is available where SEIS shares are sold more than three years after they are issued. Where an individual makes a capital gain and reinvests the gain in qualifying SEIS shares, up to 50% of the gain is exempt from CGT (subject to the annual investment maximum above). Note this is an exemption rather than a deferral.

### Tax Tip

The income tax relief on an EIS or SEIS investment may be carried back to the previous tax year. This may be particularly useful where there is an insufficient tax liability in the current tax year for full relief to be given or can provide cashflow benefits.

## We can help

Contact us if you:

- Have surplus cash you would like to invest
- Have made an EIS or SEIS investment and want to maximise tax relief
- Are approaching retirement age
- Have income in excess of £100,000 and are subject to the reduction in the personal allowance





# PRESERVING THE INHERITANCE

Inheritance tax (IHT) has some unique features and may be charged on some lifetime gifts, not just on an individual's death estate. Planning to minimise IHT is something that many put off until it is too late and early attention to this tax is almost always worthwhile.

## The basics

IHT is charged on a person's estate when they die and on certain gifts made during their lifetime.

There is a minimum threshold for paying IHT (also called the nil rate band or NRB) which is set at £325,000. This threshold has been frozen until April 2030 and has been at this level since 2009/10. This means more and more estates are falling within the charge to IHT.

## Lifetime gifts

Many lifetime gifts are treated as 'potentially exempt transfers' (PETs). This includes gifts made to individuals. There is no immediate charge to IHT on PETs and, as long as the donor lives for at least seven years after making the PET, there will be no possibility of an IHT charge whatever the size of the gift.

If the donor does not survive seven years from the date of the gift the IHT will be payable on any amounts in excess of the NRB.

## Tax Tip

Even if the donor does not survive seven years from the date of the gift then it is still beneficial to make lifetime gifts where affordable. IHT will be based on the value of the asset when it was originally gifted and not on the value at the date of death. In addition taper relief (see below) will reduce the IHT payable where the donor has survived at least three years from the date of the gift.

Whilst gifts to individuals are PETs, most gifts to trusts are considered 'chargeable lifetime transfers' (CLTs) and are subject to IHT at the lifetime rate of 20% to the extent the total amount of CLTs exceed the NRB over a seven year period.

## Tax Tip

One of the key benefits of trusts is that the donor may be able to retain control over their assets (unlike a direct gift to a beneficiary). In addition the NRB is applied on a seven year rolling basis so where gifts are carefully managed, it may be possible to transfer significant sums without an IHT liability. Finally, the lifetime rate of IHT is lower than the death rate, and where the donor survives seven years from the date of the gift into the trust, no further IHT will be payable.

The rules concerning trusts are very complex but they can have a number of benefits, both tax and otherwise. Please get in touch if you are interested in making gifts to trusts.

## Death estate

As a result of the freezing of the NRB and the fact that many individuals are not able to make substantial lifetime gifts from an affordability perspective, an increasing number of estates incur an IHT liability on death.

IHT is also payable on death on any gifts (whether PETs or CLTs) which have been made in the seven years prior to death.

The rate of IHT payable on the death estate and chargeable gifts (where in excess of the NRB) is 40%.



## Exemptions and reliefs

A number of exemptions and reliefs can apply either to reduce the value of transfers or the IHT payable. Some of these apply only to lifetime transfers and others apply both to lifetime gifts and the death estate.

### Annual exemption

Each individual benefits from an annual exemption of £3,000 per donor per year for lifetime gifts which can be carried forward for one year if unused.

#### Tax Tip

Timing of gifts in a tax year can be critical. The annual exemption is applied to the first gift made in the tax year, even if that gift is a PET. If you plan to make gifts to trusts, it may be preferable to make these earlier in the tax year.

### Normal expenditure out of income

An exemption applies where an individual makes habitual or regular gifts to individuals. For these gifts to be exempt they must also be made out of surplus income rather than capital and the individual must be able to maintain their standard of living on their remaining income.

#### Tax Tip

This exemption could apply in a number of circumstances e.g. payment of a grandchild's school fees or payment of a certain percentage of income each year to children. This can be a tax efficient way to pass on wealth rather than accumulating income; please get in touch if you would like to discuss options.

### Other lifetime exemptions

Other exemptions may also apply to lifetime gifts:

- small gifts not exceeding £250 in total per donee per tax year
- gifts made in consideration of marriage up to £5,000 if made by a parent, £2,500 by grandparents and £1,000 by others
- gifts between spouses are exempt from IHT (note this also applies to spousal transfers in the death estate)

#### Tax Tip

Do not waste your exemptions. Regularly using IHT exemptions will build up funds outside of the estate without incurring an IHT liability.

#### Word of caution

The small gifts exemption limit of £250 applies to the total per donee per tax year not to each gift. If gifts to a donee total more than £250 in a tax year the total amount is no longer exempt.

### Charitable giving

Gifts to charity are exempt from IHT whether made during lifetime or on death.

In addition, a special relief means the legacies may result in a lower IHT liability on the estate which remains chargeable. A reduced rate of IHT applies where 10% or more of a deceased's net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. In those cases the 40% rate will be reduced to 36%.



## Practical Tip

Instead of giving a specific amount of money to a charity it is possible to draft your will in such that the donation is set at an amount equal to that needed to benefit from the lower rate of IHT.

## Business and agricultural property

Important reliefs of up to 100% are available on business assets such as shares in a family trading company or on agricultural property. These reliefs apply to gifts made both in lifetime and on death.

The rules concerning these relief are complex and various conditions must be met to qualify for relief but we can help you to make best use of available reliefs.



## Residence nil rate band (RNRB)

An additional nil rate band, the RNRB, may be available where a residence is passed on death to direct descendants such as a child or a grandchild. The RNRB is £175,000 in 2025/26 and is frozen until April 2030. The RNRB can only be used in respect of one residential property which has, at some point, been a residence of the deceased.

The RNRB is also available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the RNRB, are passed on death to direct descendants.

There is a tapered withdrawal of the RNRB for estates with a net value (after deducting any liabilities but before

reliefs and exemptions) of more than £2 million. The withdrawal rate is £1 for every £2 over this threshold.

## Taper relief

Where an individual does not survive seven years from the date of a gift, a PET becomes chargeable and additional tax may be payable on a CLT.

However, the amount of the IHT charge is reduced where an individual survives at least three years from the date of the gift. The amount of reduction depends on the length of time between the gift and death; the IHT liability is reduced by 20% if the individual survives three but not four years, increasing to an 80% reduction if the individual survives six but not seven years.

## IHT planning

### Lifetime transfers

If possible you should make absolute gifts in your lifetime. Benefits of this may include:

- Use of the annual and other lifetime exemptions.
- If you survive seven years then a PET becomes completely exempt and no further tax is due on a CLT.
- If you do not survive seven years but you do survive three years then taper relief may reduce the IHT liability.

### Word of caution

You cannot continue to benefit in any way from the asset gifted because this will render the gift ineffective for IHT purposes. You cannot, for example, give away your home to your children but continue to live in it rent free.

## IHT for spouses

Each spouse/civil partner has their own NRB and annual exemptions. In addition gifts between spouses are typically exempt from IHT whether in lifetime or on death.

### Tax Tip

Equalising assets between spouses may have benefits both from an income tax perspective (see [Family matters](#)) and for the purposes of IHT planning. It may be beneficial to make use of the spousal exemption to broadly equalise estates so that both partners can make full use of exemptions and the NRB.

There may also be benefits to being married or in a civil partnership where it is not possible to use the full NRB on the death of the first spouse e.g. because they wish to leave sufficient assets to their surviving spouse to maintain their standard of living. If the NRB is not fully used on the death of the first spouse it may be proportionately transferred to the estate of the surviving spouse.

It is also possible to transfer the RNRB to the surviving spouse.

### Example

Tom died leaving the whole of his estate of £800,000 to his wife Pru. A few years later Pru died leaving her whole estate of £1,100,000 to her children including the family home worth £600,000.

As Tom's estate was left to Pru, 100% of his NRB and RNRB is available. This is in addition to Pru's own NRB and RNRB. Therefore IHT on Pru's death would be calculated on just £100,000 (£1,100,000 - [£325,000 x 2] - [£175,000 x 2]).

## Use life assurance

Life assurance arrangements can be used as a means of removing value from an estate and also as a method of funding IHT liabilities. A policy can be arranged to cover IHT due on death. It is particularly useful in providing funds to meet an IHT liability where the assets are not easily realised like family company shares.

## We can help

Contact us if you:

- Own assets with a value exceeding £325,000
- Wish to pass on wealth in a tax efficient way
- Already have a trust or want to set one up
- Have surplus annual income
- Have your own business, shares in an unlisted company or a controlling shareholding in a listed company
- Own agricultural property either used by yourself or let out





# FOR BUSINESS

## RUNNING A BUSINESS

Starting up a business of your own is a big step and not one to take lightly. The taxation of your business is only one of many commercial and legal aspects of starting a business that you will need to consider.

### Choosing a business structure

The alternative business structures are:

#### Sole trader

This is the simplest form of business structure since it can be established without legal formality.

The business of a sole trader is not distinguished from the proprietor's personal affairs. If the business incurs debts which are unpaid, the creditors can seek repayment from the sole trader personally.

#### Partnership

A partnership is similar in nature to a sole trader but involves two or more people working together.

A written agreement is essential so that all partners are aware of the terms of the partnership. Again, the business and personal affairs of the partners are not legally separate.

Sole traders and partnerships are often referred to as unincorporated businesses and the individual owners as self-employed. The trading profits of both sole traders and partnerships are subject to income tax.

#### Limited company

A company is a legal entity in its own right, separate from the personal affairs of the owners and the directors.

A company provides protection from liability, which means that the creditors of the company cannot make a claim against the owners or the directors except in limited circumstances.

Companies are subject to corporation tax and individuals are only subject to income tax on any funds withdrawn from the company by way of salary or dividend, for example. In the past, this has been an advantage of incorporation as corporation tax rates have been lower than income tax rates. The recent increase in corporation tax has eroded that tax advantage for companies with larger profits.

Operating as a company carries the downside of greater legal requirements and regulations that must be complied with.

#### Limited Liability Partnerships (LLPs)

LLPs are a halfway house between partnerships and companies.

They are taxed in the same way as a partnership but are legally a corporate body. This again gives some protection to the owners from the partnership's creditors.

In this guide we consider the differing tax treatments of the alternatives but you should choose which structure is right for you based on more than just the tax issues alone.

## Taxation of unincorporated businesses

A new business should register with HMRC on commencing to trade. Income tax is paid on the profits of the business. The amount that the proprietor, or a partner in a partnership, draws out of the business is irrelevant.

Note that this section deals with the taxation of trading activities. Property businesses have some different rules and are dealt with in the [Property investment](#) section of this guide.

### Do I have a trade?

There is no definition in the legislation of a trade; per HMRC's guidance 'broadly, 'trade' can be taken to refer to operations of a commercial kind by which the trader provides to customers for reward some kind of goods or services'. A number of 'badges of trade' exist including repeated operations and connection with existing trade which can help inform whether an activity is an isolated event or trading in nature.

It is worth noting that HMRC is targeting activities which they consider to be potential trades based on the information they collect from external sources. As examples, digital selling platforms are now required to make annual reports to HMRC for anyone who sells 30 or more items or earns approximately £1,700 or more in a calendar year. HMRC also conducted a One to Many campaign where they sent out correspondence directed at individuals who carried out deliveries during the tax year 2023/24 and weren't registered for Self Assessment (SA) or paid via PAYE for this work.



If you earn income from an activity which you are not paying tax on, we can help you ascertain whether this would be considered trading.

### Tax Tip

**If you have trading income of £1,000 or less, it is covered by the trading allowance and you do not need to declare or pay tax on that income. If you have income above the allowance you are able to calculate your taxable profit either by deducting their expenses or by simply deducting the £1,000 trading allowance.**

### Basis of taxation

An individual will be taxed on any profits arising from the 6 April in one year to the 5 April in the next; this

is known as the actual or tax year basis. This may add significant complexity to calculating the income tax payable for a trader who does not have an accounting year end between 31 March or 5 April as the profits will need to be apportioned into the tax year. We would be happy to assist you with these calculations.

For many businesses, the profits which are taxed in a tax year are calculated using the cash basis as the default. Under the cash basis, business profits are taxed on cash receipts less cash payments of allowable expenses. As the individual is only taxed on income actually received, they will not be subject to income tax on sales receipts paid late until those amounts are actually paid.

A business can elect to apply the accruals basis instead which means profits are calculated based on income





receivable less expenses payable for a tax year regardless of whether these amounts are paid. The optional accruals basis requires an election by the business owner for the year in which it is to apply. The election will stay in place until revoked by the business.

Other than the timing of taxation for sales and expenses, one of the main differences of using the accruals basis is the treatment of capital assets. Under the cash basis, the cost of most purchases of plant and machinery is deductible when paid (cars being the main exception). Similarly any cash proceeds from the disposal of plant and machinery are taxable on receipt. Under the accruals basis deductions for the use of capital assets are

given through capital allowances which are explained further below.

### Tax Tip

**The cash basis can be much simpler than the accruals basis to apply for small businesses and means individuals aren't taxed until the cash is actually received which can be beneficial to businesses where most sales are made on credit.**

Do get in touch if you would like us to consider which scheme is appropriate for you and your business.

There are transitional adjustments which apply when moving from one basis to another so please do seek advice if you are thinking of doing this.

### Allowable expenses

Not all of the expenses that a business incurs are allowed to be deducted from income for tax purposes. It is important that you keep proper and comprehensive business records so that relief may be claimed.

Non-deductible expenses include those which are not wholly and exclusively for the purposes of the trade. Client entertaining and private expenses of the sole trader are common examples of this. Private expenses can include either wholly personal expenditure such as advice on the sole trader's income tax return or expenditure with an element of private use or benefit such as motor expenses for a car a sole trader uses for both personal and business purposes. In the latter case, it may be appropriate to pro-rate the expense between allowable (the business element) and disallowable (the private element).

Training expenses are generally considered wholly and exclusively for the purposes of the trade if these help you to improve the skills and knowledge you currently use for the business or to support your business (e.g. administrative skills) or to develop new skills to adapt to changes in your industry or for technological updates. Training expenses would not be deductible if they were incurred in relation to starting a new business or expanding into a new area which is not related to what you currently do.





We can help you ascertain which expenses are deductible from your trade.

### Tax Tip

You may choose to use simplified expenses for certain types of expenditure. This may be a more straightforward approach for vehicles where you have both private and business use or where you work from home. Simplified expenses give a flat rate deduction for business miles or hours worked at home instead of needing to apportion the total expenditure. They are also available to work out the allowable costs where you live at your business premises e.g. you operate a B&B.

## Capital allowances

When assets are purchased for the business, such as machinery, office equipment or motor vehicles, capital allowances are available to reflect the cost of the asset to the business. As with expenses, these are deducted from income to calculate taxable profit. The below allowances are available to companies and unincorporated businesses using the accruals basis or which purchase cars.

### Plant and machinery

Plant and machinery purchased by a business is eligible for annual writing down allowances (WDAs) of 18% per annum for most plant and machinery and 6% per annum for certain expenditure which is 'integral' to a building such as air conditioning or water systems and other long life assets. These allowances are calculated on a reducing balance basis rather than straight line on cost.

## Annual Investment Allowance

The Annual Investment Allowance (AIA) gives a 100% write off on most types of plant and machinery costs, but not cars, of up to £1 million per annum. Any costs incurred in excess of the AIA will attract ongoing WDAs as set out above.

### Tax Tip

Capital allowances are available in full regardless of when the asset was purchased in the period (provided it has been brought into use). It may be possible to time a purchase to get a deduction under the AIA in a year when profits (and therefore tax) are higher. We can assist you with planning your capital spend.

### Motor vehicles

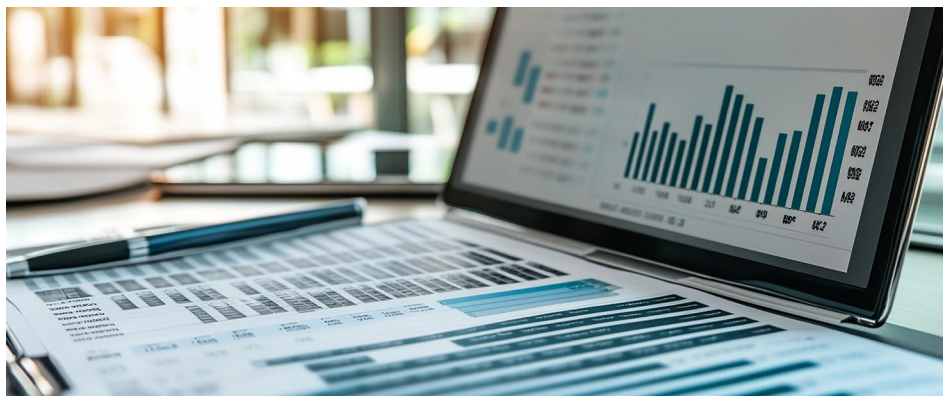
The AIA is not available on cars and annual WDAs on a car purchase depend on CO<sub>2</sub> emissions. From April 2021

purchases of cars with emissions not exceeding 50g/km attract an 18% allowance and those in excess of 50g/km are only eligible for a 6% allowance. A first year allowance of 100% is available on new zero emission cars and electric charge points (if purchased before April 2026). Note that vans are eligible for the AIA and 18% WDAs regardless of the level of their emissions.

## Structures and Buildings

Qualifying expenditure on the construction of new, or the renovation of, non-residential structures and buildings is eligible for Structures and Buildings Allowances (SBAs) of 3% per annum.

Unlike WDAs, SBAs are calculated as a straight line deduction based on cost over a time period of 33 ⅓ years. Where a building on which SBAs have been claimed is purchased, the purchaser takes on the remaining SBAs. Adjustments need to be made to the chargeable gains calculation when a property on which SBAs have been claimed is then sold.





## National Insurance for unincorporated businesses

A self-employed individual is required to pay Class 4 NICs based on the profits of their business. Class 4 NICs are payable at 6% on profits between £12,570 and £50,270 and at 2% on profits in excess of £50,270.

From 6 April 2024, Class 2 NICs are no longer required to be paid by self-employed individuals. However, if you have profits below the small profits threshold of £6,845 per annum and do not otherwise pay NICs (e.g. on your employment income) you may wish to pay voluntary Class 2 NICs to preserve your entitlement to state benefits.

## Losses

Sometimes a business may make a loss instead of a profit and there are particular tax rules to give businesses

relief for that loss. Trading losses for unincorporated businesses can generally be used against an individual's net income in either the current or the preceding tax year although certain maximum limits apply to larger losses. Any unused losses are carried forward against future profits from the same trade.

### Tax Tip

**You can choose how to make best use of any trading losses. Considerations will include the tax saving generated and using losses earlier rather than later for a cashflow benefit. We can assist you with calculating the benefit of potential options.**

Special rules apply where a trade has ceased; contact us if you think this might apply to you.

## Companies

Unlike sole traders and individual partners in a partnership who are subject to income tax on the trading profits of the business, companies are subject to corporation tax on profits. In addition, individuals may be subject to income tax on the extraction of profits from the company; thus profits may be taxed on both the company and the individual.

However, there may be cash savings to operating as a company as the corporation tax rate will be lower in some circumstances than the applicable income tax rate on the profits.

## Corporation Tax

The rate of corporation tax payable is dependent on the level of taxable profits in the company (plus certain dividends received by the company).

Profits £	Corporation tax rate %
0 - 50,000	19%
50,000 - 250,000	25% less marginal relief
Over 250,000	25%

Unlike income tax bands, the corporation tax rate is applied to the total taxable profits of the company. Therefore a company with profits of £400,000 would have a corporation tax liability of £100,000 (being 25% of £400,000). The operation of marginal relief acts to gradually increase the rate of corporation tax from 19% to 25%.



### Tax Tip

Marginal relief has the impact that any profits falling between £50,000 and £250,000 are effectively taxed at 26.5%. Therefore, maximising deductions available will be particularly important for those companies whose profits fall between these thresholds. We can assist you with identifying any claims for deductions for your business.

Companies are taxed on the basis of their accounting period which typically aligns to the period for which the company prepares accounts.

### Tax on profits

The profits of a limited company are calculated in a similar way as for unincorporated businesses and the same rules with regard to expenses and capital allowances generally apply.

Salaries paid to directors (but not the dividends paid to shareholders) are deductible from the profits before they are taxed. In addition, expenditure with an element of private use is not disallowable in calculating the profits subject to corporation tax; instead this may result in a benefit in kind for the director or other employee which is subject to income tax.

### A word of caution

**Companies are a popular business structure as they may result in less tax being paid overall.**

**However, the saving is dependent on profits and withdrawals. We would be happy to discuss the implications of incorporation with you before you decide whether or not to incorporate your business.**

## Capital allowances for companies – Full Expensing

In addition to the AIA and WDAs which are available to companies as well as unincorporated businesses, companies investing in qualifying new plant and machinery can claim:

- First year allowances (FYAs) of 100% on most new plant and machinery investments that ordinarily qualify for 18% WDAs; this is often referred to as Full Expensing.
- An FYA of 50% on most new plant and machinery investments that ordinarily qualify for 6% WDAs.

This relief is not available for unincorporated businesses.

### Tax Tip

**Full Expensing will typically be most useful where companies or groups invest over the AIA of £1 million in new plant and machinery.**

## Tax relief for expenditure on Research and Development (R&D)

Companies with expenditure in qualifying R&D activities can receive tax relief. This will typically take the form of a taxable credit of 20% of the qualifying expenditure which can be used to reduce the corporation tax liability, or potentially repaid in the case of loss-making companies.

R&D intensive companies will operate under a separate scheme, with enhanced relief where R&D expenditure accounts for 30% or more of total expenditure of the company.



This is a complex area. Please get in touch if you would like to know more.

## Losses

Trading losses incurred by companies may be offset against total profits in the current year. After a current year claim is made it is possible to carry back trading losses for twelve months and offset against total profits. Note that, unlike for an individual, a current year claim must be made before a carry back claim. If there are any excess trading losses or a claim is not made the losses are carried forward and a claim may be made to offset against total profits in future periods.

## Payment of tax

Corporation tax is usually payable nine months and one day after the year end but payments may be accelerated for large companies.

## Tax on 'drawings'

Directors of a company will normally be paid a salary and this is taxed under PAYE as for all employees. The

cost of this, including the employer's NICs, is generally an allowable expense of the company. Shareholders of the company in contrast may be rewarded by the payment of dividends on their shares. Dividends are paid out of profits after taxation.

### Tax Tip

**In most small companies the directors and shareholders are one and the same and so they can choose the most tax efficient way to pay themselves. Using dividends can result in savings in NICs. However, this requires careful planning, especially given the increase in corporation tax rates. Please talk to us to decide what is appropriate for you.**

## Warning - close company loans to participators

A close company (which generally includes owner managed companies) may be taxed where it has made a loan or advance to individuals or their family

members who have an interest or shares in the company (known as participators). The tax charge is currently 33.75% of the loan if it is outstanding over nine months after the end of the accounting period. The tax charge is repaid to the company nine months and one day after the end of the accounting period in which the loan is repaid.

Further rules prevent the avoidance of the charge by repaying the loan before the payment date and then effectively withdrawing the same money shortly afterwards. This is a complex area so please do get in touch if this is an issue for you and your company.

### Tax Tip

**Ensure that sufficient salary and dividends are drawn from the business to prevent these charges arising unnecessarily on an overdrawn director's current account. We can also ensure that overdrawn accounts are cleared properly. Please contact us if you would like to discuss the right options for you and your business.**

Note that loans to participators who are directors or other employees in excess of £10,000 may also result in a benefit in kind for the individual which would be subject to income tax. This is dealt with in [Working for others](#).

## Employing others

As an employer you will have many responsibilities. These will include employment law requirements and the need to enrol workers into a work based pension scheme (Pensions Auto Enrolment) which are not covered in this guide.



## Real Time Information

Real Time Information (RTI) reporting is mandatory for almost all employers.

Under RTI, employers or their agents are required to make regular payroll submissions for each pay period during the year. The submissions detail salary and other employment payments made to, and deductions such as income tax and NICs made from, employees. These submissions must generally be made on or before the date the amounts are paid to the employees.

The employer must also report details of expenses and benefits provided to employees.

## National Insurance

An employer must pay employers' or secondary Class 1 NICs on their employees' earnings. This is calculated at a rate of 15% on earnings in excess of £96 per week.

An employment allowance of £10,500 may be set off against the employers' class 1 NIC liability.

### A word of caution

**The employment allowance is not available where the only employee paid above £5,000 per annum is a director; care should therefore be taken for recently incorporated sole trader businesses.**

## Benefits

Where an employee is provided with benefits (see [Working for others](#)) then the employer is required to pay Class 1A NICs on the value of those benefits. The rate of Class 1A NIC is 15%.



## Value Added Tax

Value Added Tax (VAT) is a tax ultimately paid by the final consumer and businesses act as the collectors of the tax.

### What does VAT apply to?

VAT is chargeable on the supply of certain goods and services in the UK when made by a business that is registered for VAT (see later).

A registered business must charge VAT on its taxable supplies (broadly the sales made) which is known as output VAT. There are currently three rates of VAT which can be payable. These are the standard rate of 20%, the reduced rate of 5% and the zero rate.

The zero rate applies where the supply is deemed to be subject to VAT but the output VAT is charged at 0%, meaning that no VAT is actually payable.

A business also pays VAT on the goods and services it buys. This is known as input tax and may be reclaimed by a VAT-registered business.

If the output tax exceeds the input tax, then a payment of the difference has to be made to HMRC. If input tax

exceeds output tax a repayment of VAT will be made. This calculation is generally done on a quarterly basis. However, where repayments occur regularly, it is possible to opt for monthly VAT returns.

Some input VAT is not reclaimable by a VAT-registered business. Two common examples are VAT incurred on entertaining UK business customers and VAT on the purchase of a car.

Certain supplies of goods and services are not subject to VAT at all and are known as exempt supplies. A business that makes only exempt supplies cannot register for VAT and will be unable to reclaim any input tax.

### Do I need to register?

A business must register if its taxable supplies exceed an annual figure of £90,000. If taxable supplies are less than this a business may still register voluntarily. So, for example, if the business makes only zero-rated sales, it can still register and reclaim the input tax suffered.

VAT can affect competition. A plumber, for example, who sells only to the general public will be at a disadvantage if they have to register for VAT. They may have to charge up to 20% more than a plumber who is not VAT-registered to earn the same profit.



On the other hand, if the same plumber only works for other VAT-registered businesses, such as building companies, then it will not matter whether they are registered because the customer will generally be able to recover the VAT that is charged.

Indeed, it may be beneficial for a business that always sells to other VAT-registered businesses to register for VAT, even if below the annual limit, because then it can reclaim VAT on purchases and expenses. This will improve profit and can be especially relevant for new businesses because there are often high initial set up costs that carry VAT. Do note that VAT registration comes at the cost of having to meet record keeping requirements, a need to submit online VAT returns and pay VAT online and on time.

We can help you assess your situation and register for VAT if required or beneficial.

### Tax Tip

**When you first register for VAT you can reclaim input tax on goods purchased up to four years prior to registration provided they are still held when registration takes place. VAT on services supplied in the six months prior to registration may also be reclaimed.**

## Making Tax Digital

### Making Tax Digital for VAT

Making Tax Digital (MTD) for VAT is part of a government strategy which will ultimately require taxpayers to move to a fully digital tax system.



Under the MTD for VAT rules, all VAT-registered businesses must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD compatible software.

There are some exemptions from MTD for VAT. However, the exemption categories are tightly drawn and are unlikely to be applicable to most VAT-registered businesses.

We can help you to meet your MTD for VAT obligations.

### MTD for income tax

MTD for income tax will be introduced in stages. Self-employed individuals and landlords with qualifying income over £50,000 will be mandated to apply MTD from April 2026. Those with qualifying income over £30,000 will be mandated from April 2027 and those with qualifying income over £20,000 from April 2028. The government will review the application of MTD for smaller businesses.

Similarly to MTD for VAT, businesses will be required to keep their records digitally and provide digital quarterly

updates to HMRC through MTD compatible software.

We can help you assess when MTD will be required for your business and to meet your obligations.

## We can help

Contact us if you:

- Are starting a new business
- Are considering incorporating a sole trader or partnership
- Need help with your business expenses
- Want to buy new assets for your business
- Think you've undertaken some research or development activity
- Employ individuals or are considering hiring your first employees
- Have annual turnover close to the VAT registration threshold
- Provide services predominantly to VAT-registered businesses





# PROPERTY INVESTMENT

Investment in residential property has always been a popular form of investment. The tax consequences of investing in non-residential property will differ; these are only covered at a high level in this guide but do let us know if you would like to discuss further.

## Buy to let - direct ownership

Traditionally, buy to let involves investing in property with the expectation of capital growth with the rental income from tenants covering the mortgage costs and any outgoings. However the gross return from buy to let properties can change. Investors also need to take a view on the likelihood of capital appreciation exceeding inflation. Investors should take a long-term view and choose properties with care.

### Practical Tip

When choosing between investments always consider the differing levels of risk and your requirements for income and capital in both the short and long term. An investment strategy based purely on saving tax is not appropriate.

## Acquisition of properties

Stamp Duty Land Tax (SDLT) applies in England and Northern Ireland, Land and Buildings Transaction Tax (LBTT) in Scotland and Land Transaction Tax (LTT) in Wales. SDLT, LBTT and LTT are all calculated on a banded basis with different rates applicable depending on the level of consideration or deemed consideration and whether the property is residential or non-residential.

Higher rates of SDLT, LBTT and LTT apply on purchases of additional residential properties. The higher rates of SDLT are 5% above the SDLT rates. For LBTT an Additional Dwelling Supplement of 8% is payable. The bands applicable to LTT for higher residential rates differ; the effect is that the higher rates of LTT range from 2.5% to 8.5% above the equivalent 'normal' residential rate.

## Tax on rental income

A property allowance of £1,000 per annum is available. Individuals with gross property income of £1,000 or less do not need to declare or pay tax on that income.

### Tax Tip

As with the trading allowance, if you have property income above £1,000 you can choose whether to calculate your taxable profit either by deducting actual expenses or by simply deducting the property allowance. Which approach is best will depend on your circumstances and the level of actual expenses you have, please contact us to discuss further.

Where an individual does not claim the property allowance, income tax will be payable on the rents received after deducting allowable expenses. Allowable expenses include agent letting fees, repairs and maintenance and the cost of replacing furnishings.

## Relief for finance costs

Mortgage interest on non-residential properties can be deducted as an allowable expense from rental income.

The same treatment does not apply to finance costs on residential property. Instead relief for landlords is given by way of a basic rate tax reducer - 20% of the finance costs may be deducted from the income tax liability of the landlord.

## Jointly owned property

For assets which are owned jointly the split of property income depends on whether the owners are spouses or not.

Where the owners are not spouses, profits are typically split according to the ownership percentage of the property unless another division of profits is mutually agreed. However where spouses own a property jointly, any income is deemed to be shared equally between the spouses unless an election is made to split the income in the same proportion as the ownership of the asset.

### Example and Tax Tip

A buy to let property is owned three quarters by Phoebe and one quarter by her husband Felix. If no election is made the net rental income on which tax is payable will be split 50:50. If an election is made the income will be split 75:25.

You can choose whether or not to make the election dependent on the relative income levels of the individuals. If, for example, Phoebe was a higher rate taxpayer and Felix a basic rate taxpayer then it may be preferable not to make the election so that Felix is taxed on a greater proportion of the income.

## Multiple properties

Profits and losses across all UK properties are amalgamated together in a single UK property business. Current year losses on individual properties are therefore automatically set off. Where there is a loss in the overall UK property business this is carried forward and may be used to reduce taxable property income in future years.



If you own any property overseas then this will be treated as an overseas property business and any profits or losses are treated separately from UK properties.

## Buy to let - property investment company

Sometimes it may be preferable to operate the property investment business through a company. Clearly there will be non-tax issues to consider (as for [Running a business](#)) but some of the key tax differences are:

- generally lower rates of corporation tax than income tax on rental profits

- interest on loans to purchase the property will be deductible from profits in a company regardless of the type of property (rather than as a tax reducer for interest on residential property for individuals)
- capital gains for companies are subject to corporation tax rather than CGT
- no Annual Exempt Amount for companies
- extraction of funds from the company will often result in additional tax charges
- additional taxes may be payable where residential properties worth more than £500,000 are held through a company.



Clearly there are both advantages and disadvantages of operating through a company rather than holding the properties directly. Which approach is best will depend on your individual circumstances so please do get in touch if you either already have or are thinking of starting a property investment business.

## Disposal of buy to let property

Disposing of a buy to let property may result in a chargeable gain subject to CGT (if held directly by an individual) or corporation tax (if held by a company).

Generally, Private Residence Relief (see [Disposals and CGT](#)) will not be available on the disposal of buy to let properties unless they have been your main residence at some point during the period of ownership.

## Renting a room

There has been an increasing number of individuals seeking to generate income from their own home either by taking on a lodger or through ad-hoc lettings such as Airbnb or Vrbo.

## Rent a Room relief

Income from letting a room within your main residence is property income. However, if gross rents for a tax year do not exceed £7,500, no income tax is payable. This relief is known as Rent a Room relief.

If rents exceed £7,500, the taxpayer has a choice whether to deduct actual expenses or £7,500.

The £7,500 limit is a maximum which can apply to either a property or a person, so if two individuals jointly own a property and take in a lodger, they must share the limit at £3,750 each.

## Capital gains

Having a single lodger sharing the use of facilities such as the kitchen should not impact a taxpayer's ability to claim Private Residence Relief (see [Disposals and CGT](#)).

## We can help

Contact us if you:

- Own a second or multiple properties either yourself, jointly with your spouse or others, or in a formal partnership arrangement
- Want to buy a second property or start up a property investment business
- Let out a room or part of your own home
- Are increasing the amount of properties you own
- Own a property overseas





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