2026 AUTUMN NEWS

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Another year, another Chancellor

While large parts of the country spent a lot of the summer bemoaning the lack of rainfall, there was no drought of political news, some of which was tax-related.

Before leaving office, Rachel Reeves introduced temporary VAT reductions to try to reduce the cost of family meals and entertainment during the second half of the summer. These reductions expired on 2 September, so affected businesses should by now have reprogrammed their tills to revert to the normal VAT rates. Meanwhile, one of Andy Burnham's first announcements on becoming Prime Minister was that VAT on domestic heating will be removed.

The new Chancellor, in the 28 October Budget, will need to find additional money for Defence, as well as for any other spending pledges, such as the reduction in bus fares and 20% reduction in business rates promised to pubs and hospitality businesses. Although we may see some spending cuts announced by John Healey, current interest rates make it difficult to borrow more without breaching the Government's fiscal rules, so some tax rises seem inevitable. Where these might fall, it is difficult to say, but the manifesto pledge not to raise taxes on 'working people' means the most likely areas of attack are probably property taxes, CGT and Inheritance Tax (IHT). Before we have some details of what is proposed, it is difficult to undertake tax planning with any degree of certainty, although many will try to do so.

One tax rise we know is coming is the inclusion of unused pension funds in someone's estate for IHT purposes, where the death happens from 6 April 2027 onwards. In some circumstances, this may lead to very high effective tax rates on these funds, so anyone who may be affected should take professional advice if they have not done so yet. In many cases, this may mean a Will needing to be re-written.

We devote a significant amount of this newsletter to another change that is coming next April, namely the mandatory 'payrolling' of some benefits provided to staff. This is a very major change and should be understood not just by businesses that employ people, but also by the employees themselves, who will need to understand the effect on their payslips and net pay.

On page 3, we discuss an important tax case for contractors and any business that uses them. It concerns football referees but is of much wider importance, due to the issue of employment status being one that is rife for HMRC enquiries. Getting things wrong can lead to a lot of back tax and penalties being due.

On page 4, we cover three other areas. There are brief updates on, firstly, the VAT 'Option to Tax' regime and, secondly, how foreign rental income should be reported under Making Tax Digital for Income Tax (MTD IT). We also remind you about the impact of the freezing of rates and allowances, in particular the very high marginal tax rates that you can incur once your income goes above £100,000. There are some steps that individuals and businesses might consider to mitigate this, as we discuss.

We hope that you enjoy reading this newsletter. Please contact us if you need any help in understanding how any of the topics might affect you or your business, or if you have any other tax issues that are causing you uncertainty or worry. We will try to put your mind at rest.

Employee benefits – tax compliance is changing

Benefits-in-kind (BIKs), such as company cars or gym memberships, are often used as a means of remunerating employees and directors. Unless an exemption applies (e.g. employer pension contributions), the benefit will be reported on a P11D form, the recipient will be subject to Income Tax (often via an adjustment to their tax code) and Class 1A National Insurance Contributions (NICs) will be payable by the employer. The current rate of Class 1A NICs is 15% of the taxable value of the benefit.

Several years ago, HMRC introduced the option for employers to 'payroll' most BIKs. This effectively involves adding an amount of deemed income to the person's salary each pay period to represent the benefit received. The benefit does not then appear on a P11D, although it is still subject to Class 1A NICs.

HMRC originally announced that payrolling would become mandatory for nearly all benefits from 6 April 2026, although this subsequently got put back to 6 April 2027. In June this year, this timetable was further relaxed: only company car, van, fuel and medical BIKs will be subject to mandatory payrolling from April 2027, with voluntary payrolling still available for other benefits, most of which are now expected to come within the scope of mandatory payrolling from April 2028.

Mandatory payrolling represents a major change for any business that has employees, as well as for the employees themselves. In the following paragraphs, we explain some of the key aspects and problem areas.

Overview

The reporting process for payrolled benefits is via Real-Time Information (RTI). The Full Payment Submission (FPS) shows the payroll information plus details of:

- taxable employment expenses and BIK details; and
- the PAYE tax and Class 1A NIC due.

Employees will pay IT and employers will pay Class 1A NICs each payday on the benefits and expenses.

The number of fields for reporting benefits and taxable employment expenses on the FPS will be increased, to align with existing P11D information.

This will allow HMRC to:

- see the benefits on the FPS; and
- ensure the right amount of tax is being reported and paid.

As mentioned above, only company car, van, fuel and medical BIKs will be subject to mandatory payrolling from 6 April 2027.

Most other benefits will be mandated from April 2028, but payrolling of employment-related loans and employer-provided accommodation BIKs will remain voluntary until further notice (as they can be difficult to value within the tax year).

Preparing for mandatory payrolling

Employers will no longer need to register to payroll company car, van, fuel and medical BIKs from April 2027, as it will be automatic. However, registration will still be needed to voluntarily payroll other benefits. The online service to register to payroll these other benefits is expected to go live in November 2026.

Advising employees

During the 2026/27 tax year, employers should meet with employees to share information about the changes and how they will affect them in 2027/28 and later years.

Employees should understand how their tax codes and net pay will be affected, so they can plan for the change and the effect on their net pay.

If they currently have a deduction in their tax code for an estimated benefit that is now going to be payrolled, there will be no such deduction from 6 April 2027. However, arrears of tax to pay on 2026/27 and/or prior years' P11D benefits will still be collected from April 2027 via PAYE, unless they agree to pay HMRC directly.

Without adequate prior information being provided to employees, employers may well find themselves inundated with staff queries, once the first payroll run including payrolled benefits is made, due to changes in net pay and payslips that will result.

Review benefits provided

Employers should make a list of benefits provided to employees that are currently reported to HMRC on the Form P11D, to identify what benefit data needs to be, or might voluntarily be, payrolled. They should consider how often that data is received from the providers and whether this would allow the employer to file the FPS on or before the payment date. Will data (and changes therein) be provided by the benefit providers on a timely enough basis?

Cashflow issues

Currently, Class 1A NICs is payable annually in arrears, by 31 July following the tax year. With payrolled benefits, the Class 1A has to be paid via PAYE for every payment period (e.g. monthly or weekly). Will there be cashflow implications for employers when paying Class 1A NICs monthly rather than by 31 July after the tax year?

For the first year (2027/28), on payrolled benefits, the employer will be paying:

- 2027/28 Class 1A NICs monthly; plus
- the Class 1A NICs due from 2026/27, by 31 July 2027.

There is therefore an overlap of Class 1A NICs payments in 2027/28.

Penalties

To support the introduction of the changes, employers who make errors in the mandatory payrolling of benefits in the 2027/28 tax year will not be charged penalties for inaccuracies (unless there is evidence of deliberate non-compliance). However, late filing and late payment penalties for RTI returns may apply where returns are not sent on time or payments are made late. Statutory interest will also be charged.

So, employers should get their returns in on time, even if they are not completely sure of their accuracy! Amended submissions can be made later.

Reporting the benefit in real time

The employer must calculate the 'cash equivalent' of the benefit i.e. the cost to the employer of providing that benefit (using normal BIK rules) less any contribution from the employee.

The cash equivalent figure is then divided by the number of pay periods in the tax year, typically fifty-two, thirteen or twelve. This gives the taxable benefit per payday, which is then added to the employee's payroll records as a non-monetary gross pay element.

Should the value of the benefit change during the year, the employer must work out the revised taxable amount to be payrolled over the remaining pay periods in the tax year.

The benefit should be identified in the payroll software as:

- taxable; but
- not subject to employee NICs, student loan deduction nor pension contributions.

It will however (as discussed) be subject to Class1A NICs each payday.

It must also be identified as a 'payrolled benefit' on the RTI submission. This enables the Department of Work and Pensions (DWP) to exclude the figure when reviewing the employee's pay for state benefit purposes.

The benefit will appear as a new line on the employee's pay slip under gross pay.

'Making good'

If the employee intends to make good the benefit, the employer should payroll the cash equivalent, taking into account the sum the employee expects to make good. Where the making good does not happen, or is overpaid or underpaid, corrections can be made in subsequent pay periods. Employees have until 6 July after the end of the tax year to make

Employee benefits – tax compliance is changing (cont'd)

good. Employers have until 22 July following the tax year to adjust taxable values of benefits.

The employer will be able to report this by revising the final FPS for the tax year.

Unknown value

If the BIK value is not known at the start of the tax year, an estimate of the taxable value can be used, but it must be "reasonable". Once the value is known, an adjustment can be made later in the year.

HMRC expect the employer to:

- report the BIK, either when they become aware of it and its value or when they can estimate a value;
- take reasonable care when reporting the BIK if estimating taxable values; and
- report the benefit as close to the relevant pay period as possible, rather than waiting until the end of the year.

Record keeping requirements

HMRC will expect employers to:

- comply with current record keeping requirements; they may ask for evidence of how expenses and benefits have been accounted for at the end of the tax year;
- record the date and details of every expense or benefit provided;
- keep any information needed to work out the amount reported to HMRC;
- record any payments an employee contributes to an expense or benefit;
- keep any correspondence with HMRC;
- keep records for 3 years from the end of the year to which they relate.

Employees and directors with no income

In these cases, the employer will be required to:

- send details of payrolled benefits and expenses using an FPS; and
- pay Class 1A NICs due in the same way that applies for an employee with income.

The FPS will need to show no payment of earnings and tax. The uncollected tax will be collected:

- using the existing end of year reconciliation P800 process; or
- simple assessment; or
- via a tax return (if the employee is registered for self-assessment).

Employees who receive BIKs and expenses after leaving employment

These benefits (e.g. continued use of a company car or private medical insurance) should be reported on an FPS, with the employee having no earnings.

Any uncollected amounts of tax will be collected in the same way as for employees with no income.

As we said, there is much for businesses and employees to think about, including whether employers want to voluntarily payroll other benefits so as to avoid having to deal with two different systems in the same year. Please get in touch if you need help in understanding these changes.

HMRC gets a red card!

As football fans will know, Professional Game Match Officials Ltd (PGMOL) is the body that oversees professional referees in this country. In June 2026 it was rebranded as 'Pro Ref'.

An extremely important tax case concerning part-time professional referees (who generally referee below Premier League level while having other main jobs) has looked at whether these referees should be treated as employees of the PGMOL or self-employed contractors when entering into each individual match contract. The case has been rumbling on for many years, eventually reaching the Supreme Court, which clarified the law in this area and then sent the case back down to the First-tier Tribunal to re-examine.

This Tribunal has now found that there are not enough characteristics of employment to prevent the referees being treated as self-employed contractors, so PGMOL does not need to account for PAYE and Class 1 NICs on the match fees paid to the referees. HMRC has said it will not appeal the decision again.

We will not attempt to discuss employment status tax law in detail here, as it is both complicated and nuanced, but a few of the key points that informed the decision are:

1. There was no obligation for PGMOL to offer the referees work, nor for the referees to accept any work offered. Additionally, even after an offer was accepted, the referees had a right to withdraw up to the point of their intended arrival at the football ground; withdrawal did not breach the contract or result in any disciplinary action by PGMOL. As this is fundamentally inconsistent with the structure of employment, neither party was bound in an ongoing or stable relationship of mutual engagement.
2. A structured framework was operated by PGMOL, which governed matters such as appointment, fitness, integrity and discipline, but the referees themselves exercised autonomous judgment when officiating. Although sufficient control was exercised by PGMOL to meet the basic test for an employment relationship, it was regulatory and developmental in nature, rather than being supervisory.
3. PGMOL's role was administrative and the referees did not participate in PGMOL's governance, management or commercial activities. The referees were therefore not integrated into the organisation.
4. No salary or retainer was offered, with payment confined to individual matches. Referees generally accepted the offers of matches on a secondary basis, alongside their full-time work. Refereeing did not provide their livelihood.

The principles laid down by the Supreme Court will be relevant to any business engaging contractors. Misclassifying someone who should be an employee as self-employed can prove very costly indeed, particularly if the relationship has existed for a long time. The unpaid PAYE, Employee NICs and Employer NICs that are owed will likely be increased by interest and penalties. Also, as a result of the changes made to IR35 rules a few years ago, most businesses cannot avoid payroll taxes by simply engaging with a contractor's personal service company, rather than with the contractor directly.

If your business is unsure how a contractor should be classified, or you are a contractor who thinks that an engager has misclassified you, please get in touch. We will help you navigate this difficult area and make sure that the correct amount of tax and NICs is paid.

A nasty stealth tax

It has become common, in recent decades, for Chancellors to promise (in one way or another) not to raise certain tax rates, only to bring in (with much less fanfare) other effective tax rises. We have got used to the freezing of allowances and tax bands in recent years (which brings a greater proportion of your income within the charge to tax and, potentially, within higher tax bands) but there have been many other examples. George Osborne restricted tax relief on the finance costs of residential landlords, often increasing their tax bills significantly, while, in 2016, he changed the method of taxing dividends and, in the process, effectively raised dividend tax rates by about 7.5 percentage points.

Prior to that, Alistair Darling had introduced the phasing out of the personal tax-free allowance (which is currently £12,570) as someone's 'adjusted' income rises above £100,000. The effect of this is currently that, over a range of income up to £125,140, the individual suffers a marginal rate of tax of 60%, before it drops down to 45%, the official top rate. (Note that, for Scottish taxpayers and those with dividend income in this band, the same effect applies, but the marginal tax rate will differ from 60%.)

The £100,000 starting threshold for this abatement has not changed since these rules were introduced 16 years ago, at which point the figure represented over 4 x average earnings. Now, it is more like 2.5 x average earnings, so many more people are affected by it. When you add 2% Employee NICs and a 9% student loan repayment rate, the marginal rate for many individuals now reaches 71%.

The childcare cliff edge

The introduction of the 'Tax-free Childcare' scheme a few years ago has made the situation worse for many families. This support (£2,000 p.a. per child or £4,000 p.a. for a child with a disability) has a hard cut-off at £100,000 of income. Above this level, no support is given.

This produces anomalous results. For example, a family with three children loses £6,000 of support if either parent earns even one pound above £100,000. Thus, they could be worse off if they get a promotion and their salary rises from, say, just under £100,000 to £115,000.

Labour market evidence shows that many people are choosing to work fewer hours or decline overtime, where their extra income is going to be hit for these high tax rates. What can you do about it if you, or your staff, are affected by this problem? Here are some suggestions.

1. Owner-managers of companies have the option of controlling salary and dividend levels to keep income below £100,000, as long as this level of income will meet their personal spending needs.
2. For employees and employers, options include:
   - Increasing pension contributions to reduce adjusted income. This is less attractive if the individual needs the cash now, but still preferable to paying high marginal rates.
   - Making charitable contributions, which can reduce adjusted income.
   - Negotiating a different remuneration package, to including benefits that are lightly taxed (e.g. electric vehicles) or untaxed (e.g. additional training).
   - Deferring income into a new tax year.
   - Using tax advantaged share schemes, which can reduce current tax liabilities while providing long-term incentives.

Individuals caught in this tax trap must understand their position clearly, while their employers need to be flexible in how they structure remuneration packages.

We can help you analyse the tax effect of working extra hours if you think you are likely to be affected by these high marginal rates, as well as helping employers decide on tax-efficient remuneration strategies, so please get in touch if you need to.

VAT – Option To Tax

In VAT, the 'option to tax' (OTT) allows someone to treat supplies of non-residential land and buildings (L&B), which would otherwise be exempt, as being taxable. This means that you must charge VAT at 20% on any rents you charge tenants or on any sale proceeds, but it allows you to recover VAT on any costs incurred that relate to the property. When deregistering for VAT, any OTT in place may impact the final VAT liability.

HMRC has recently issued guidance on how to tell HMRC about an OTT on L&B when deregistering. Information is required regarding an OTT on any property that has been, or still is, owned when cancelling the VAT registration. This includes any options to tax which have been previously disapplied.

The information needed must be submitted online via the Government Gateway and includes:

- property address;
- land registry title number;
- date the property was purchased;
- details of the previous owner, including their VAT registration number (if known);
- the date the property was sold or disposed of;
- the value or sale price of the property;
- details of the purchaser, including their VAT registration number;
- the date any option to tax was revoked if this happened before deregistering from VAT.

Decisions on whether to opt to tax a property are often complex. You must consider a number of factors, including who your tenant is (if you plan to rent out the property) and how much input tax you might save by opting to tax. Similar issues arise when disapplying an OTT, where this is allowed.

If you need help in this area, get in touch and we can point you in the right direction.

Landlords with foreign properties

Do you have a flat in Spain or a cottage in France that you rent out and for which you need to make Making Tax Digital for Income Tax (MTD IT) quarterly reports? In March, significant simplifications were announced to the level of information required for foreign properties, such that the MTD IT record-keeping requirements now differ to those for UK properties.

For a UK property business, taxpayers in MTD IT have to keep fully categorised income and expense records (ignoring certain possible easements). In contrast, the requirements for foreign properties are much simpler, with currently just three categories:

- Total rent/other receipts;
- Premiums for grant of a lease; and
- Allowable expenses.

HMRC will subsequently add a separate expense category to cover residential letting finance costs, so it is worth keeping these recorded separately in digital records. No doubt there will be further amendments to the detailed rules as MTD IT beds in.

Sole traders and landlords already mandated into MTD IT should by now have filed their first return, as the deadline was 5 August.

Please get in touch if you are still unsure as to whether you need to make MTD IT returns or if you are having difficulties in getting to grips with this new digital process. We are here to help.