Money Matters

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Employment rights reform takes off

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Numbers paying HMRC penalties increasing

Credit: Elizaveta Galitckaia/Shutterstock.com

Time for an estate planning review?

Many business owners and farmers have already taken steps to mitigate the impact of changes to the inheritance tax (IHT) business and agricultural property reliefs (BPR and APR) that came into effect on 6 April 2026.

However, despite the increase in the 100% relief allowance to £2.5 million from the £1 million originally proposed, the changes are still having a material effect on prospects for family businesses and farms. If you have not already taken action, there are still some worthwhile steps to consider.

The relief cap applies to the first £2.5 million of combined agricultural and business property. The value of assets qualifying for APR or BPR above this limit will receive relief at 50%. Any unused allowance on a person's death can be transferred to the estate of their surviving spouse or civil partner even if the business or agricultural property was owned solely by the surviving spouse or civil partner. The full £2.5 million allowance can also be transferred if the first death was before 6 April 2026.

Mitigation

There are some actions couples can take:

- Review your wills to make sure that your £2.5 million allowances are not wasted and that no unexpected tax charges will arise on the first death, especially if the value of assets qualifying for BPR or APR is more than £2.5 million.
- Consider lifetime gifts to your children. Gifts of any assets more than seven years before you die will escape IHT entirely. But don't overlook capital gains tax – make sure the gift qualifies for holdover relief.
- You could set up a trust and make use of your £2.5 million allowances and £325,000 nil rate bands. A couple could potentially settle £5.65 million into trust tax free every seven years. Trusts have their own £2.5 million allowance.
- If, despite steps taken, an IHT charge might arise, you could take out insurance to cover the potential liability.

IHT, especially concerning business and agricultural assets, as well as trusts, can be complex. It is essential to take good professional advice

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Making a business out of your property

The 2% rise in income tax rates on property income coming in from April 2027 means it is worth considering whether incorporation might work for you.

Owning buy-to-let property via a limited company is becoming the norm, especially for new landlords who own more than one or two properties.

Tax advantages

The key driver towards corporate ownership has been the restriction on tax relief for finance costs if property is held personally. No restriction applies when it comes to corporate ownership.

For example, a higher-rate taxpaying landlord has buy-to-let rental income of £60,000, allowable deductions of £10,000 and mortgage interest of £40,000. The overall tax cost is £12,000, but within a company structure it would have been just £1,900.

Property income tax increase

From April 2027, the tax landscape for personally owned residential property will become considerably tougher because the property income tax rates are going up by two percentage points. Although this will not have too much impact on highly geared landlords – because tax relief for finance costs is also increasing – it does increase the appeal of corporate ownership for those who are less mortgaged.

Corporate ownership avoids having to comply with the Making Tax Digital record keeping and filing requirements being introduced for landlords from April 2026.

Tax trap

A common misconception is that any gain arising when a personally owned property is transferred to a company can be held over, but this is normally not the case. Capital gains tax – which will probably be mostly at the higher 24% rate – will be payable despite no sale proceeds being received.

For properties bought many years ago, the tax cost could be so substantial that corporate ownership is not a realistic option.

Stamp duty land tax is also payable when property is transferred from personal to corporate ownership, and this could mean another significant restructuring cost.

Credit: Wei Huang/Shutterstock.com

Employment rights reform takes off

Many of the headline reforms being introduced by the Employment Rights Act 2025 will not land until 2027, but employers need to be aware of the new day one rights which employees are entitled to from 6 April 2026.

New day one rights

Several statutory rights will now be available to employees immediately.

Statutory sick pay: Entitlement to SSP previously applied from the fourth day of sickness, but this three-day waiting period has been removed. The lower earnings threshold has also gone, so all employees are now eligible for SSP. From 6 April 2026, employees off sick receive the lower of either the rate of SSP (£123.25 weekly) or 80% of their average weekly earnings.

Employers may find themselves having to deal with more cases of sick leave abuse, and these will need to be handled carefully. Approaches to reducing abuse include asking employees to check in regularly when off sick and holding return to work interviews.

Paternity and ordinary parental leave: These are likewise now day one rights. Previously, paternity leave was only available after 26 weeks of employment, with unpaid ordinary parental leave only becoming available after working for a year. However, the 26-week qualifying requirement has not changed in regard to paternity pay.

Bereaved partner's paternity leave: Although introduced by separate legislation, this is another new day one right that came in from 6 April 2026; there is no statutory pay requirement. The new leave can be taken by an employee who loses the mother of a child within the first year of the child's life. Up to 52 weeks of leave can be taken depending on when bereavement occurs. The same leave is available if a child is adopted and the primary adopter dies.

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January 2027: unfair dismissal

Protection from unfair dismissal currently only kicks in after two years of continuous employment.

- Although originally expected to be a day one right, from 1 January 2027 protection from unfair dismissal will now become a right after six months of employment.
- When faced with the potential day one right, employers were concerned that in future they would be unable to easily dismiss those employees whose performance was not up to par. Under the final iteration, employers will have six months to assess an employee's capabilities.

With the limit on awards for unfair dismissal being removed at the same time, the financial cost of getting things wrong could be significantly higher in future. Employers should use the remainder of 2026 to strengthen their recruitment practices.

Coming in 2027

Additional rights are expected to come through in 2027, including statutory leave rights for those suffering pregnancy loss. Workers on zero-hours and low-hours contracts will get the right to guaranteed working hours – if they want them. Workers will have the right to a stable contract reflecting the hours they regularly work over a reference period, which is expected to be 12 weeks.

Workers will also have to be paid for any shifts that are cancelled, moved at short notice or curtailed. Employers will have to provide reasonable notice of shifts, but what is 'reasonable' may well vary depending on specific circumstances.

Even though zero-hours contracts are not abolished as such, the changes are likely to be problematic for employers that make extensive use of seasonal workers.

News in brief...

Loans to participators

The charge when a participator has an outstanding loan with a close company has increased by two percentage points to 35.75%. Broadly, a participator is a company shareholder, and a close company is one controlled by five or fewer participators.

Government Gateway changes

Going forward, users of HMRC's online services will have to create a Gov.UK One Login. Existing Government Gateway users are not affected by this change, although the government plans to migrate them to the new login by the end of 2027.

Company car tax rises

The new tax year has brought increases across the board for company car tax bands, expected to affect around 700,000 employees. The rate for electric vehicles (EVs) goes up from 3% to 4%, with standard petrol and diesel rates each increasing by one percentage point, based on emissions. The top 37% rate has been frozen until 5 April 2028. Fuel benefit charges for cars and vans are subject to CPI increases for the tax year.

HMRC's cryptoasset disclosure

Despite running for over two years, HMRC's cryptoasset disclosure service has generated just over £4 million. Most crypto gains are subject to CGT, and HMRC believes that many investors have failed to report gains when cryptoassets are sold or gifted.

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Payroll update: State pension age impact and compensation rates

Credit: fizkes/Shuterstock.com

Now the latest increase to the State pension age (SPA) is underway, employers should take care as the date employee class 1 national insurance contributions (NICs) are no longer payable is shifting alongside the changes to SPA. Also, a higher rate of compensation is now paid to smaller employers for administering statutory payments.

SPA increases

The SPA is increasing from 66 to 67 years, with this increase being phased in from 6 April 2026.

- Men and women born between 6 April 1960 and 5 March 1961 will reach their SPA at 66 years plus a specified number of months. Pension age will be 67 years for anyone born on or after 6 March 1961.
- Although employee class 1 NICs are no longer payable once an employee reaches SPA, employer contributions are still due.

For employees, the change applies to the first wage or salary payment on or after their SPA is reached. NIC classification is based on the date of payment, not the earnings period.

Employers should check that the employee's NI category letter has been set to 'C' in their payroll software so that no further employee class 1 NICs are deducted.

Rate of compensation

Smaller employers receive compensation for the inconvenience of administering statutory payments, which has gone up from 8.5% to 9% from 6 April 2026.

- Employers can usually reclaim 92% of statutory payments, but smaller employers can recover 100% of the cost along with the 9% compensation.
- For example, if statutory maternity pay of £1,000 is paid, the normal recovery is £920. However, a smaller employer will recover £1,090.
- An employer is classed as small for statutory payments purposes if their total class 1 NIC payments were £45,000 or less for the tax year prior to the employee's qualifying week.

Relief is claimed on a monthly basis through payroll software using the employer payment summary.

When it pays to be on time

Credit: MaxZolotukhin/Shutterstock.com

Paying your tax late is now very costly. Latest figures for the 2023/24 tax year reveal that 1.3 million taxpayers paid a total of £137 million in interest charges, an average payment of just over £100. The number is likely to increase as HMRC only counts taxpayers after the interest or any late payment penalty has been paid.

Late payment interest is charged at 4% above bank base rate – upped from 2.5% above base rate charged before 6 April 2025. That makes the current late payment interest rate 7.75%. It accrues daily on the outstanding balance, so if you cannot pay your full tax bill, paying off as much as you can, as soon as you can, will reduce the interest charged. It will also reduce late payment penalties which are charged at 5% on the outstanding balance at the points when your payment is 30 days, six months and 12 months late.

Arrange a payment plan

If you cannot pay your tax in full, you might be able to agree a payment plan with HMRC to pay off your tax in monthly instalments.

Although you will still be charged interest, if HMRC approves the arrangement late payment penalties will stop accruing from the day you approach HMRC to agree it, provided you continue to pay the instalments on time. A time-to-pay arrangement also avoids HMRC calling in a debt enforcement agency or using other enforcement powers.

For some people, paying interest to HMRC under a payment plan could work out to be more favourable than other borrowing if you have temporary cash flow difficulties. HMRC interest is not compounded, but it is also not tax deductible. For a 40% taxpayer, for example, HMRC's 7.75% rate is equivalent to 12.9% on a loan for business purposes.

P&L filing shake-up shelved

The requirement for micro entities and small companies to file a profit and loss (P&L) account with Companies House has been postponed.

Resistance from business owners

The government's intention was that both micro-entities and small companies were going to have to file a (P&L) account with Companies House from 1 April 2027, but following stakeholder concerns this reform has been paused indefinitely. Many company owners are against the change because it would put commercially sensitive information into the public domain.

However, without a (P&L) account, the published accounts for micro-entities and small companies are of limited value, especially for employees, customers and suppliers who might be concerned about a business's profitable status.

Long lead time

The government is going to give at least 21 months' notice before any new filing requirements are introduced, so for now filing can continue under existing rules for these businesses.

Ready or not, Making Tax Digital is here

Making Tax Digital for income tax (MTD) has now gone live.

If you are a sole trader or landlord, since 6 April you must use MTD if your total annual income from self-employment and property letting is over £50,000. This means signing up to MTD on the HMRC website, and keeping digital records of your income and expenses using commercial software that can file your quarterly statements and tax returns.

Slow sign up

However, by two weeks into March, despite extensive advertising and individual letters from HMRC, only 10% of the estimated 864,000 people affected had signed up. The first quarterly update is due on 7 August, so if you need to sign up it's time to get moving. Although no penalty points will be imposed for late quarterly updates during 2026/27, you must have submitted them before you can file your 2026/27 tax return, due on 31 January 2028.

Compatible software

HMRC does not provide users with any free MTD-compatible software. If your business is VAT-registered, you will already be using software to keep digital records and submit your VAT returns, so check whether it is also compatible with MTD for income tax.

If you are not VAT-registered but use software to keep your business records, you can check with your provider whether it can meet your MTD requirements or be extended to do so. Your software must not only keep records of your business or property income but also add any other income needed to complete your tax return. Some banks are giving free software to their business customers – you could try asking yours.

HMRC has a tool for finding software suitable for your needs. It does not recommend any specific product, but all the products listed within the tool have been through its recognition process. Finally, if you have an agent, make sure they can support you with your chosen software.

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