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Tax & Business - Recent Updates

Dividend tax

There will be a 2% increase in the rates of income tax paid on dividends at the basic and higher rate of taxation. The rates of tax on dividends for 2026-27 will increase to 10.75% at the basic rate and 35.75% for the higher rate. The additional rate will remain 39.35%.

Directors' loans tax charge

The tax charge on directors' loans made to participators by close companies will increase by 2% from 33.75% to 35.75% for loans made on or after 6 April 2026 under section 455 rules.

This change will be particularly relevant for owner managed businesses where directors regularly use their loan accounts to manage cash flow. The rules apply where a director is a participator, meaning a shareholder, and the company is classed as a close company, typically one controlled by five or fewer shareholders.

The main and small profits rates of corporation tax remain unchanged at 25% and 19%.



Frozen tax thresholds

Continuation of freeze to personal tax thresholds continues, with no respite until 2031, likewise for inheritance tax cap. This means personal allowance remains £12,570, with higher rate 40% tax kicking in from £50,271, and then 45% rate on earnings above £125,140. This creates a continual erosion of pay and income, reflecting the highest tax burden in decades.

In Scotland, there are changes due to a 7.4% rise in the basic tax threshold, while the higher, advanced and top rate thresholds for income tax will be frozen. This means that the starter rate of 19% in Scotland, which is lower than the rUK standard, now kicks in from £12,570 - £16,537, and the basic band from £16,538 - £29,526 for the 20% rate.

Making Tax Digital for Income Tax for £50k cohort

First wave of mandatory quarterly reporting under Making Tax Digital (MTD) for Income Tax starts with registration now required for sole traders, landlords and self employed earning qualified income of over £50,000 based on tax year 2024-25.



The first quarterly reporting deadline is Friday 7 August with nearly 900,00 taxpayers dragged into the system in wave one.

Inheritance tax

From an individual perspective, inheritance tax (IHT) thresholds continue to be frozen, the case for many years so no change there. However, there are major changes for privately owned businesses and farmers with the overhaul of business property relief (BPR) and agricultural property relief (APR) eroding 100% IHT tax relief under pre-April 2026 rules.

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Savings, tax and ISAs

Personal savings allowance remains at £1,000 for basic rate, £500 for higher rate and £0 for additional rate taxpayers. This is something to watch carefully with higher interest rates, meaning that using tax-free savings products like ISAs is more important than usual. In addition, changes to ISAs from April 2027 will see the cash limit reduced to £12,000 to encourage investment in stocks and shares ISAs.



This is the year to maximise ISA savings, although the higher £20,000 cash limit will be retained for over 65s.

State pension



The 'new state pension' rate rises by 4.8% to £241.30 a week, up from £230.25, equivalent to £12,547.60 a year. This brings the state pension perilously close to the tax free personal allowance of £12,570. The chancellor has told MPs in parliament that from next April pensioners in receipt of only the state pension, with no other income at all, will not have to pay income tax. How this will work in practice is not clear at this stage.

There are currently two state pension systems - the 'basic state pension', and the 'new state pension', introduced in 2016.

Child benefits

Child benefit payments are increasing from £26.05 to 27.05 per week, equivalent to £1,406.60 a year for the eldest or only child, and to £17.90 from £17.25 per week - £930.80 a year - for subsequent children. Child benefit is usually paid every four weeks and will automatically be paid into a bank account. The guardian's allowance is also uprated by 3.8%. At the same time, the totally separate two-child benefit cap for parents in receipt of universal credit benefits is being removed.



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Umbrella companies, recruitment agencies and PAYE liability

Major change to the rules affecting wide net of recruitment agencies. This is a tightening of the rules with new legislation in Chapter 11, Part 2 Income Tax (Earnings and Pensions) Act 2003 (ITEPA) to tackle non-compliance in labour supply chains which include an umbrella company, or any third person sees introduction of a new 'joint and several liability' rule.

This measure is coming in to crack down on situations where umbrella companies contract out workers to other organisations, resulting in a blurring of the responsibilities surrounding off-payroll labour/IR35 rules.

Under the new rules, from 6 April, the umbrella company will retain the primary responsibility for deduction of PAYE and national insurance contributions (NIC) from the pay of their employees supplied to clients. However, if this does not happen, the responsibility to account for PAYE and NIC will shift to the recruitment agency.

Construction industry scheme (CIS) tightened up

From 6 April 2026, contractors operating under the construction industry scheme (CIS) will once again be legally required to submit a monthly CIS return, even when no subcontractors have been paid.



Under the CIS scheme any business sub-contracting construction work may need to pay 20-30% of the agreed fees directly to HMRC as advanced payment of the subcontractors' tax liability. This is to reduce the risk of fraud and non-payment of tax. However, many large construction companies have 'gross payment status', meaning they do not suffer these deductions.

But new rules bring CIS in line with VAT. If HMRC suspects fraud has occurred related to CIS, it will now be able to immediately cancel the gross payment status of that taxpayer and penalties of 30% of the lost tax will be in force.

Construction companies with gross payment status could lose their gross payment status for five years if they fail to spot CIS fraud at any point in their supply chain. Their status can also be lost if they make a CIS return showing CIS tax deducted which they knew, or should have known, was not deducted or paid.

Business asset disposal relief (BADR)

The old entrepreneurs relief, now known as business asset disposal relief (BADR), will once again be changing with increased BADR rates of 18% from 6 April 2026. Even still this is a useful relief from full capital gains tax (CGT) exposure.

In contrast to both retirement relief, upon which it is based, and taper relief, which it replaced, business asset disposal relief must be claimed. That claim must be made by the first anniversary of 31 January following the year of the qualifying business disposal. In practice, however, the self-assessment return includes the facility to make a claim when returning the chargeable gains for the year.

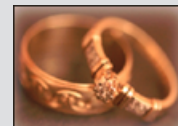
Business property relief and agricultural property relief

Under the new regime, effective 6 April 2026, for privately owned businesses and farmers the allowance for the 100% rate of IHT relief will be set at £2.5m on the (combined) value of property with a 50% rate of relief thereafter. So over the threshold, IHT will be paid at a reduced rate of 20%, not the current 40% figure.



This means a couple will be able to pass on up to £5m of agricultural or business assets between them, on top of the existing allowances such as the nil-rate band.

The revision applies to married couples and civil partners, and siblings, according to the examples in the government announcement. But unmarried couples will only qualify for the £2.5m threshold, not the combined figure of £5m. This requires careful consideration of whether a change of marital status might make sense from a tax perspective.



It is worth bearing in mind that under the new APR/BPR rules the inheritance tax can be paid over a 10-year period, not the usual six-month window for estates, and is at a reduced rate of 50% over the threshold, not the full standard 40% IHT rate.

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Venture capital trusts (VCT)

A number of changes to venture capital trust (VCT) are coming into effect with the rate of income tax relief reducing from 30% to 20%. This is a significant diminution in the current tax regime.

'Venture capital trusts are akin to an investment trust but invest in smaller and younger, therefore riskier, companies,' said Alex Davies, chief executive of Wealth Club. 'In the new tax year, someone investing the full £200,000 allowance would see their maximum income tax relief reduced from £60,000 to £40,000.'

However, there are some positive changes available to companies that are scaling up, with thresholds for gross assets before allotting shares doubling from £15m to £30m, the annual investment limit for knowledge intensive companies doubling to £20m and to £10m for all other companies, while the lifetime investment limit goes from £20m to £40m, and £12m to £24m respectively.

Enterprise investment schemes (EIS)

Annual limits applicable to enterprise investment scheme (EIS) companies based in Great Britain (not Northern Ireland) will increase.

The gross assets test before investment into non-Northern Irish companies will double from £15m to £30m, and the gross assets test immediately following investment will slightly more than double from £16m to £35m.

Note the increased limits apply to the investee company's gross assets and the amount of investment companies can raise through these schemes. Investment limits for individual investors are unchanged.

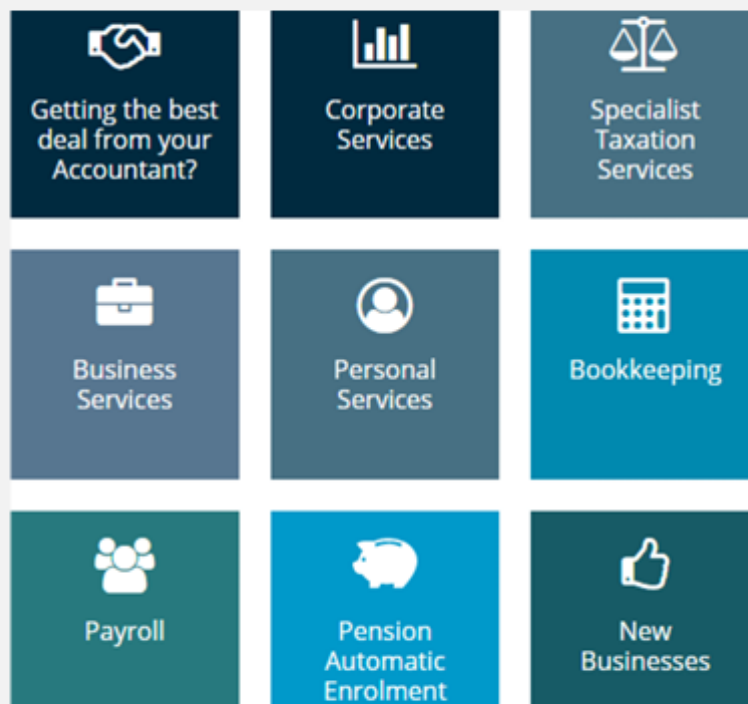
Enterprise management incentives (EMI)

Changes to enterprise management incentive (EMI) share option schemes also come into force. These schemes allow companies to grant options to employees to buy company shares at a future date at a predetermined price.

EMI schemes will be available to be used by independent quoted or unquoted companies with group gross assets of £120m. Previously the limit was £30m or less.

'These new rules will make EMI schemes more accessible, flexible and attractive to larger companies, meaning the tax advantages will be available to more companies and employees. They are also designed to reduce administrative complexity,' said Jon Hickman, tax partner at BDO.

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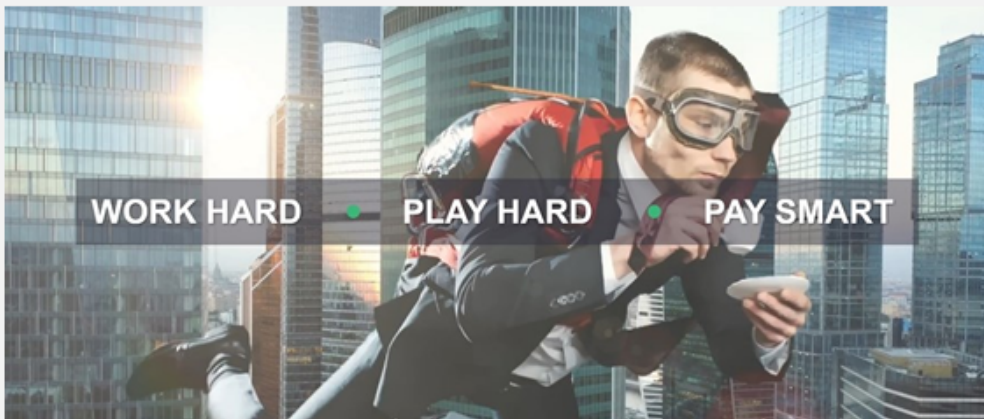
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- ⇒ Latest accounts and tax news
- ⇒ Downloads section which includes all our newsletters
- ⇒ Filing deadlines pages
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We have created a dedicated website at www.mnpay.co.uk
With our payroll clients in mind, so all your payroll resources
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Visit our website or contact Joe Bostock who will
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*we have 2 main reception numbers based at our Newton Abbot office



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