

SPRING 2026

Hazlewoods

Talking Tax



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What's new for the 2026/27 tax year?

The start of a new tax year also brings changes to various tax rates and reliefs. A summary of some of the key changes to be aware of are set out below.

Dividend tax rates increased

From April 2026, dividend tax rates rose by two percentage points, increasing the tax burden for company shareholders. The basic rate increased from 8.75% to 10.75%, whilst the higher rate increased from 33.75% to 35.75%. The additional rate remains unchanged at 39.35%. With the dividend allowance still frozen at £500, many owner managed businesses will see higher extraction costs going forward and the benefit of remuneration via dividends rather than salary narrows further.

Capital Gains Tax (CGT) and Business Asset Disposal Relief (BADR)

The CGT rate for disposals qualifying for BADR has increased to 18%, up from 14% after the 2025 rise. The £1 million lifetime BADR limit remains unchanged, but the cumulative effect of rate changes means that the tax liability on a £1 million gain in 2026/27 will now be £180,000, compared to £100,000 if the relief had been claimed prior to the 2025 reforms.

CGT incorporation relief also has to be explicitly claimed rather than applying automatically from April 2026, adding an extra compliance step for those transferring businesses into corporate structures. This appears to be targeted at property rental business incorporations, so care needs to be taken to ensure the qualifying criteria are met.

Venture Capital Trust (VCT) relief reduced

Relief for VCT subscriptions has reduced from 30% to 20% from 6 April 2026, reducing the up front income tax benefit for investors participating in these schemes.

The limits for companies receiving investment under the VCT and enterprise investment scheme (EIS) have also increased allowing more businesses to access greater funding through these schemes. The annual investment limits have doubled to £10 million for standard companies and £20 million for knowledge-intensive companies. The lifetime investment limits have similarly doubled to £24 million and £40 million for standard and knowledge-intensive companies respectively. The gross assets tests before and after the share issue have also increased to £30 million and £35 million respectively.

Inheritance Tax (IHT) reliefs capped

The much-publicised reform to IHT reliefs for agricultural and business property, affecting succession planning and family businesses, also comes into effect from April 2026. The key changes to the rules include:

- The 100% reliefs for Agricultural Property Relief (APR) and Business Property Relief (BPR) are now subject to a combined cap of £2.5 million per individual (or £5 million for spouses/civil partners).
- Any qualifying assets above the cap receive only 50% relief, leading to an effective 20% IHT rate on the excess.
- AIM listed shares no longer have access to full 100% relief, they are now restricted to 50% relief regardless of value.

Capital allowances

- **New 40% first-year allowance (FYA)** – Taking effect from 1 January 2026, a new 40% first year allowance (FYA) was introduced for main rate plant and machinery investments, offering an accelerated deduction for businesses investing in qualifying assets. The allowance can be applied to assets used for leasing but cannot be claimed against second hand assets or cars.

This relief is available to unincorporated businesses as well as companies and, in particular, may benefit partnerships with a corporate partner that cannot benefit from the 100% Annual Investment Allowance.

- **Writing down allowance** – this allowance, for main rate assets, was reduced from 18% to 14%, meaning slower relief.

Making Tax Digital (MTD)

April 2026 marked the mandatory start of MTD for Income Tax for self employed individuals and landlords with gross income over £50,000, requiring quarterly digital submissions to HMRC.

First quarterly updates will be required to be filed with HMRC by 7 August 2026 and affected taxpayers will need to keep digital records, on a transaction by transaction basis, from April.

Late filing penalties for corporation tax (CT)

The fixed penalties for late filing of CT returns will double for those due on or after 1 April 2026, including an increase to £200 for a return filed after the deadline and £400 where filed more than three months late.



Property tax tips and traps

The UK property tax landscape has undergone frequent change in recent years, and further reforms, with effect from April 2027, mean landlords should be reviewing their structures, compliance obligations, and long term planning more carefully than ever.

This article summarises some of the key tax tips and traps to avoid, along with details of the upcoming rate changes.

1. 60 day capital gains tax (CGT) returns

For disposals of UK residential property, CGT must be reported and paid within 60 days of completion. Failure to meet this deadline is a common trap for both residents and non residents.

Tip: Prepare or engage tax advisers to prepare CGT calculations before exchange of contracts to ensure that the 60-day filing requirement can be met and to avoid penalties.

2. SDLT surcharges: additional property & non resident rates

Owning more than one residential property may trigger the 5% additional dwelling supplement.

Non resident purchasers also face a 2% SDLT surcharge on top of the standard and additional SDLT rates. Those affected can include UK companies owned by non-resident individuals, so it is important to understand the beneficial owners of any corporate acquirer.

Lower non-residential rates could apply for mixed-use property i.e. where there is residential and commercial use such as a shop with a flat above, or a working farm, or rented outbuildings.

Trap: Mixed use misclassification — some buyers assume a minor commercial element removes the surcharge and that the lower rates will apply, but HMRC often challenge cases where the commercial use is minimal or incidental.

Tip: Ensure that you check what rates will apply early on in the process so that you don't get a nasty surprise further down the line. If unsure, take advice on what rates will apply to enable you to quantify the liability upfront.

3. Annual Tax on Enveloped Dwellings (ATED)

ATED applies when UK residential property worth over £500,000 is held through a company (or by certain other "non natural persons"). Charges depend on property value bands, and annual returns are required even where a relief can be claimed to negate the charge (e.g. where the property is rented out to unconnected persons).

Trap: Investors acquiring property via a company sometimes forget ATED compliance. Returns and charges need to be filed and paid by 30 April of the relevant tax year i.e. 30 April 2026 for the 2026/27 tax year. The deadline for filing the return and paying the charge for new property acquisitions is within 30 days of the purchase date. For new builds, the deadline is 90 days after the earlier of first occupation or the property becoming a dwelling for council tax purposes.

Tip: Always assess whether ATED applies and claim reliefs proactively; failure to file returns on time leads to penalties.

4. Income tax deductions for mortgage interest costs

Finance costs are restricted for properties owned individually with interest relieved at the basic rate of 20% (increasing to 22% from April 2027).

Trap: Landlords may mistakenly expect full relief at their marginal rate, but interest relief is effectively capped, increasing taxable rental profits. Effective rates of tax can often be 70% plus, depending on how highly geared the landlord is.

Tip: Explore alternative ownership structures, such as incorporation where full interest relief can be obtained. Tax costs of incorporation would need to be considered, however, as well as modelling the overall tax cost of profit extraction via a company.

5. Making Tax Digital for Income Tax (MTD for IT)

Landlords owning properties personally may find themselves within MTD for IT from April 2026 if their gross income exceeds £50,000. Digital records will need to be maintained, and quarterly updates will need to be filed to report property income and expenses. If UK and foreign properties are owned, two separate filings will need to be made each quarter.

Trap: The threshold is based on gross income and not net (i.e. rental income before any expenses). Further, if the individual has any sole trade income, that will also be taken into account to see if the total gross combined income exceeds the threshold. The threshold reduces to £30,000 from next year and £20,000 the year after bringing more individuals into quarterly reporting.

6. Inheritance Tax (IHT)

Estate planning to reduce any possible IHT liability in the future is an important consideration. Such planning can involve the gift of properties to family members and, providing the donor survives seven years post the gift, the property would not form part of their estate for IHT purposes on death.

Trap: Gifting property can trigger immediate CGT, creating a dry tax charge (i.e. without realising any proceeds to pay for it). When carrying out estate planning, other tax implications do need to be considered. Without careful planning, families could face both a CGT bill now and IHT later. Use of a trust could alleviate a CGT charge but could still trigger an immediate IHT liability if it is above the £325,000 nil rate band allowance.

Property tax rates increase from April 2027

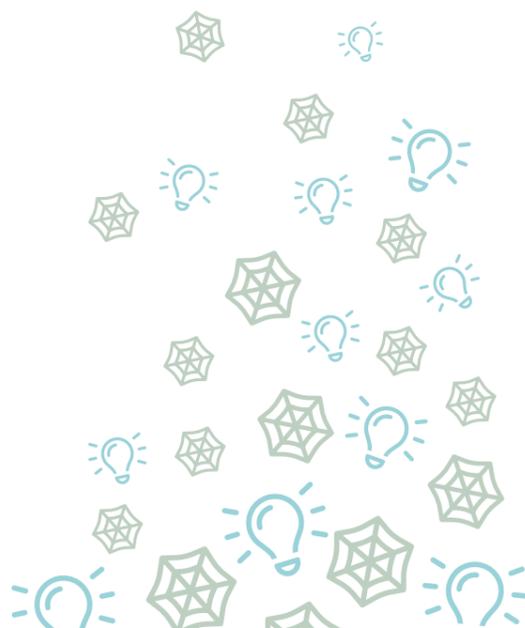
From 6 April 2027, property income will be subject to a new standalone tax banding system, increasing all rates by two percentage points, to:

- Property basic rate: 22%
- Property higher rate: 42%
- Property additional rate: 47%

As mentioned above, finance cost relief will also be increased to the new 22% basic property rate. The personal allowance must be used against employment/trading income first, meaning more property income will fall into the new property-specific tax bands.

Portfolio landlords could face significant annual increases in tax liabilities as a result.

We would recommend modelling future cashflows now to determine future profitability of personally owned property portfolios. We would also recommend, revisiting your ownership structure to determine the most tax efficient way to hold your properties, including the tax implications of restructuring, for example, any SDLT and CGT charges on incorporation.



Upcoming tax deadlines – dates for the diary

Beyond the normal filing deadlines for annual tax compliance returns, there are a number of other tax deadlines which businesses should be aware of.

A summary of some of the key upcoming deadlines to be aware of and who may need to comply are set out below.

Deadline date	Tax filing/payment obligation	Relevant to	Description
30 April 2026	Annual tax on enveloped dwellings (ATED)	Companies holding UK residential property with a value in excess of £500,000.	Filing and payment deadline in relation to the 2026/27 tax year. Even if a relief can be claimed such that no charge is due, a return will still need to be filed.
5 July 2026	PAYE settlement agreement (PSA)	Employers wishing to settle any tax and NIC on minor, irregular or impracticable benefits provided to employees.	The most common benefits an employer may want to agree via a PSA with HMRC on behalf of their employees include low value one off gifts (not covered by the £50 trivial benefits exemption) and staff entertainment.
6 July 2026	P11D and P11D(b) forms	Employers that have provided benefits-in-kind/expenses to their employees during the 2025/26 tax year.	Typical benefits employers must report to HMRC include, but are not limited to, company cars, medical insurance, beneficial loans, living accommodation and gym memberships.
6 July 2026	Employment related securities (ERS)	Employers with employee share schemes or any employment related securities events.	Deadline in relation to the 2025/26 tax year. A nil return may be required even if there were no reportable events during the year.
22 July 2026	Payment of class 1A NICs as reported on form P11D(b)	Employers with reportable benefits-in-kind during the 2025/26 tax year.	Deadline if paying online, with a slightly earlier deadline of 19 July 2026 if paying by cheque.
7 August 2026	Making Tax Digital for Income Tax	Individuals with combined gross rental and sole trade income of more than £50,000 in the 2024/25 tax year.	First quarterly update filing deadline to report property and sole trade income and expenses for the first quarter of the 2026/27 tax year.
18 August 2026	Mandatory registration of tax advisers	Anyone interacting with HMRC regarding someone else's tax affairs and being paid for doing so.	Registration opens from 18 May 2026, with any tax advisers that do not have an ASA, SA or CT online account being required to register in the first wave, subject to a few exemptions.
5 October 2026	Notification deadline to HMRC of chargeability to income tax	Individuals that have income or gains for 2025/26 that have not been taxed at source and have not received a notice to file a tax return from HMRC.	Requirement for taxpayers to advise HMRC where they may need to file a self-assessment tax return. Tax geared penalties can apply where not notified on time and the tax has not been settled by 31 January 2027.
22 October 2026	Payment of tax and NIC under a PSA agreement	Employers that have agreed a PSA with HMRC for 2025/26.	Deadline if paying online, with a slightly earlier deadline of 19 October 2026 if paying by cheque.

Tax risk – dealing with umbrella companies

Joint and several liability rules took effect from April 2026 with the aim of addressing the misuse of umbrella companies in employment supply chains. These new rules fundamentally change how tax risk is allocated across labour supply chains that use umbrella companies.

Under the rules, businesses engaging with umbrella companies now share liability for unpaid income tax, national insurance contributions and other associated taxes, if the umbrella company fails to meet its tax responsibilities. With joint and several liability, HMRC can choose which party to pursue to recover the unpaid taxes.

This shared liability is designed to encourage businesses to conduct thorough due diligence on their supply chain partners and ensure they are compliant with tax laws.

Who is liable under the new rules?

HMRC guidance confirms the following hierarchy of liability depending on the supply chain:

- Where there is a recruitment agency contracting with the end client that supplies workers via an umbrella company, HMRC can pursue the agency.
- If there is no agency in the supply chain, or it is based overseas, liability will instead transfer to the end client.

What are the implications for businesses?

The introduction of these rules is likely to have significant implications for businesses that use umbrella companies, as HMRC aim to recover the reported £1 billion per annum lost in this sector.

Businesses will need to invest more time and resources into conducting due diligence on their supply chains, if they are not doing this already. This includes verifying the tax compliance of umbrella companies and ensuring that all parties involved in the supply chain are operating within the law.

Under the new rules, there is no defence mechanism to remove the risk from the agency, or the end client if the umbrella company fails to pay, even where it can be shown adequate due diligence has been carried out. HMRC have also confirmed in webinars on the subject that they will pursue the agency in the first instance (rather than the umbrella company) to make good any shortfall.

As well as the financial implications for agencies and end clients, the new rules could also result in a damage to their reputation. As a result, businesses may need to reconsider their relationships with umbrella companies and/or employment intermediaries to mitigate these risks.

Action to take

Businesses should take proactive steps now, where they haven't already, to ensure compliance. This could include:

- reviewing existing contracts and agreements with umbrella companies and employment intermediaries to identify potential risks;
- establishing robust due diligence processes to verify the tax compliance of all parties in the supply chain; and
- make alternative arrangements for engaging contractors, where it is identified that there is an umbrella company in the supply chain and/or if there could be uncertainties around the tax compliance of that umbrella company.

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