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Hazlewoods

Talking Tax



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Autumn Budget 2026 – key tax announcements

John Healey delivered his first Budget as Chancellor on 28 October 2026. While the Budget avoided broad-based tax increases for most taxpayers, it included significant changes affecting investors, entrepreneurs, business owners, employers and those with savings or property income. Below we summarise the main tax announcements.

Individuals

- **Savers and landlords** – savings and property income tax rates will increase by a further two percentage points above those originally announced, with rates of 24%, 44% and 49% from April 2027.
- **Self-assessment payments** – accelerated and more frequent payments on account will be required from April 2029. The proposal of mandatory collection via PAYE where an individual has sufficient income, however, will now become voluntary.
- **Cash ISA allowance U-turn** – the previously announced reduction in the cash ISA limit for individuals under 65 from £20,000 to £12,000 was reversed, with the annual limit remaining at £20,000 for all.
- **Pensioners will pay no income tax on income up to the full new state pension** - the new pension allowance will be withdrawn, however, where an individual's total income exceeds £13,319 in 2027/28.
- **Trading allowance increased to £3,000 from April 2027** - self-employed individuals will now be able to deduct £3,000 from their turnover instead of actual expenses incurred, but no similar increase was announced for the property allowance which remains unchanged at £1,000.

Business owners

- **Employee ownership and share incentives** - the government announced further expansion of the new EMI2 regime (formerly CSOP), intended to provide more generous and accessible employee share incentives for growing businesses.
- **No further dividend tax increases** - providing some stability for owner-managed businesses.
- **Company distributions** – the government confirmed that various transactions and restructurings, including demergers and company purchases of own shares, currently untaxed or subject to capital gains tax, will come within the dividend income tax regime from April 2027.

Entrepreneurs

- **Business asset disposal relief (BADR)** – no increases to the main rate of capital gains tax but the BADR lifetime limit will be halved to £500,000 from April 2027, with the maximum tax benefit reducing to £30,000 compared to standard capital gains tax rates.
- **Founders' relief** - a new 10% capital gains tax rate on up to £10 million of lifetime gains. Owners looking to sell should check if they may qualify and potentially look to defer until next year. With stringent conditions to qualify, however, only a small number of entrepreneurs are likely to benefit.

Businesses

- **R&D** – some welcome announcements with the removal of the requirement to file a claim notification form and simplification of the additional information form. The new founders' relief is also targeted towards innovative companies.
- **Capital allowances** – first year allowances will increase from 40% to 50% from 1 January 2027 but the main pool writing down allowances will reduce from 14% to 12%.

Employers

- **Higher business mileage reimbursements** – the tax-free rate for business mileage over 10,000 will increase to 35p per mile from April 2027, with the 55p per mile for the first 10,000 miles to be made permanent. Employers should review whether to increase mileage reimbursements and, if lower rates are paid, employees may be able to claim tax relief on the difference.
- **Mandatory payrolling of benefits in kind** – confirmed to be phased in from April 2027, starting with company cars and vans.

Tax roundup – key developments for individuals and businesses

The tax landscape continues to evolve, with a mixture of legislative changes, new consultations and recently introduced regimes creating both opportunities and obligations for taxpayers. Below we outline five developments of note.

Mandatory payrolling of benefits to be phased in from 2027

HMRC has announced that the move to mandatory payrolling of benefits-in-kind (BIKs) will now be introduced in phases rather than through a single implementation date. Under the revised approach, from 6 April 2027 employers will only be required to payroll certain commonly provided benefits, including company cars, car fuel, vans, van fuel and employer-provided medical benefits. Mandatory real time reporting covers both income tax and class 1A NIC.

Most other BIKs are expected to move into mandatory payrolling from April 2028, although beneficial loans and living accommodation will remain outside the initial scope for a longer period. Globally mobile employees can also be excluded from mandatory payrolling and continue to report through P11Ds.

It will be possible to voluntarily payroll other BIKs during the transitional period, to prevent having to report under two different processes and reduce the administration burden. However, this may not be practical for some benefits which can be complex to calculate on a real-time basis. Employers should review what benefits they offer and how they will be reporting them in advance of April next year, as well as ensuring systems are set up to cope with mandatory payrolling.

EMI reforms: longer option life and wider eligibility

Significant enhancements to the Enterprise Management Incentive (EMI) regime took effect from 6 April 2026. Whilst much attention has focused on the expansion of eligibility thresholds, one of the most welcome changes is the increase in the maximum qualifying exercise period from 10 years to 15 years for many EMI options. Existing unexercised options may also be capable of being amended to benefit from the extended exercise period without losing their tax-advantaged status, providing a written variation is made by no later than the tenth anniversary.

The reforms are particularly relevant for growing businesses that may remain privately owned for longer before a sale or other liquidity event. The extended timeframe provides employers and employees with greater flexibility and reduces the pressure to restructure or replace options as the previous 10-year limit approached. At the same time, higher employee, asset and company-wide option limits mean that a larger number of scale-up businesses can now access the EMI regime.

A reminder on the Foreign Income and Gains (FIG) regime

The FIG regime, which replaced the remittance basis from 6 April 2025, continues to be relevant for individuals relocating to the UK after an extended period of non-residence. Under the new rules, qualifying individuals who have been non-UK resident for at least 10 consecutive tax years before returning can claim relief from UK tax on most foreign income and gains arising during their first four years of UK residence.

The regime represents a shift towards a residence-based system of taxation, with all UK residents generally taxed on their worldwide income and gains as they arise. For eligible new arrivals, however, the FIG regime provides a valuable transitional relief and allows foreign income and gains that qualify for relief to be brought to the UK without triggering a UK tax charge. Individuals returning to the UK or considering a move should ensure they understand the conditions and reporting requirements before making a claim.



Consultation on earlier self-assessment tax payments

HMRC is consulting on proposals to accelerate the payment of income tax self-assessment liabilities, following an announcement made at Budget 2025. The consultation explores how some taxpayers could begin paying estimated tax liabilities through adjustments to their PAYE tax code during the tax year, rather than through the current payment-on-account regime. Taxpayers without sufficient PAYE income, may also have to make accelerated and more frequent payments on account under the proposals. Implementation of the new regime is expected for April 2029.

While the proposals would not increase the overall amount of tax payable, they would bring forward payment timings and could have significant cash flow implications for many business owners, landlords and self-employed individuals. Concerns have also been raised to HMRC by professional bodies regarding privacy over additional income being visible to employers, the suitability of information and estimates driving the payments, along with the transitional impact on taxpayers moving from the current system.

HMRC nudge letters for persons with significant control

HMRC has recently written to some individuals listed as persons with significant control (PSCs) of UK companies, asking them to review their self-assessment tax returns and ensure that all relevant income has been correctly reported. The letters are understood to be part of HMRC's ongoing use of Companies House and other third-party data to identify situations where an individual's declared income may not appear consistent with their level of ownership or involvement in a company.

Please note, however, that these letters are not formal enquiries or compliance checks. They are part of HMRC's wider 'nudge letter' programme, under which standardised communications are sent to groups of taxpayers as a prompt to review their tax affairs. Receiving a letter does not mean HMRC believes that an error has been made but, if in doubt, please get in touch with a member of our tax team.

Investments in companies – what's the position?

Over recent years, more and more business owners are seeking to diversify their excess cash, or plan ahead for the increasingly harsh inheritance tax (IHT) landscape, through structures such as family investment companies. This often sees a corporate entity make investments either directly into stocks and shares, or through portfolio providers and financial advisers.

The reporting provided by portfolio providers is often set up for personal tax requirements, rather than corporate tax, which can result in unknown and 'dry' tax charges despite previously advised as being tax efficient.

This article summarises the potential pitfalls and differences that can arise.

'Dry' tax charges

Where a company holds investments in debt-based assets, such as gilts or certain bonds and funds, the tax treatment can differ to that of traditional share investments. Such investments can fall within the loan relationship rules and be taxed broadly the same way as interest income. Particular care is required when investing through collective investment funds as, if more than 60% of the underlying investments held by a bond are interest-based investments, this would result in that bond or fund being taxed under the loan relationship rules. If the investment is 60% or less then they are generally taxed as an equity-based investment.

The below table summarises how each type of investment is taxed:

	Equity investments	Loan relationship investments
Taxation of income	Income is usually exempt. Certain overseas countries are taxable (Bermuda, Cayman Islands etc.)	Taxed as a loan relationship credit on an accruals basis
Taxation on sale	Taxable gain or loss based on original base cost versus proceeds received	Taxed as a loan relationship credit or debit on the proceeds on disposal less market value at the beginning of the period or date of purchase (whichever is later)
Taxation on revaluation	No tax on revaluation	Taxable loan relationship credit or debit on each revaluation based on the movement in the accounting period.

Therefore, some bonds may not be structured in a tax efficient way, creating taxable profits without the company having the means to be able to pay the resulting tax due to the cash being tied up within the bond itself.

Personal tax and corporate tax on investments: the differences

Most financial advisers and portfolio providers prepare a tax report at the end of the tax year for their clients. The issue we face as advisers is that these reports are often not prepared from the perspective of a corporate entity and therefore present several problems where the actual tax treatment differs to that contained within the report. Below are some examples of such differences:

- **Gilts:** from a personal tax perspective gilts are well known to be exempt, however, for a company they are not and fall under the loan relationship rules. Potentially, this may create the dry tax charges mentioned earlier.
- **Share disposals:** the reporting for capital gains differs between personal and corporate investors. The reports could potentially miss items such as indexation relief or may have the wrong base cost entirely. This is due to the difference in the bed and breakfast rules for share pooling between personal and corporate tax.
- **Bonds:** the above dry tax charges are not identified in the tax reports and often do not include sufficient detail to tax these correctly. Significant work is required to identify each investment to ensure the disclosure is right.
- **Dates:** the reports are often generated on a tax year basis, whilst companies will not often have the same year end. This can create mismatches and make it difficult to obtain the correct information for the corporation tax return.

Company accounts

Depending on the nature and size of your company, the accounts you are required to produce can change. Smaller entities may be able to adopt FRS105 accounts. The key advantage of this is that investments can be held at cost, resulting in no fair value movements or dry tax charges on the investments held under loan relationship rules. However, pure investment companies cannot adopt such accounts. The type of accounts required, therefore, needs consideration prior to investments being made.

How Hazlewoods can help

We have built up a specialism in the taxation of investments, working alongside our clients and IFAs to structure company investments to avoid dry tax charges and ensure correct reporting.

If you are thinking of making investments or setting up a family investment company, we can help from implementation and investment all the way through to the annual reporting requirements.



What's new in VAT?

There have been several important VAT developments over the past six months, affecting sectors including property, construction, healthcare and education.

Some changes are already in force, while others are still moving through the courts or consultation process. An overview of the main developments and the points businesses may wish to consider are set out below.

Property:
Simpler Capital Goods Scheme rules

From 29 July 2026, the Capital Goods Scheme threshold for land, buildings and civil engineering works increased from £250,000 to £600,000, excluding VAT. Computers and computer equipment have also been removed from the scheme.

The £250,000 threshold continues where any relevant expenditure on the land, building or civil engineering work was incurred before 29 July 2026; the £600,000 threshold applies only if no relevant expenditure was incurred before that date. Existing capital items remain subject to adjustment until their adjustment periods end.

This should reduce the administrative burden for businesses undertaking smaller property projects. Businesses acquiring, developing or refurbishing property should check which threshold applies and make sure that any existing adjustment obligations continue to be monitored.

Healthcare:
VAT treatment of locum doctors

Following the first-tier tribunal decision in Isle of Wight NHS Foundation Trust v HMRC, HMRC now accepts that supplies of General Medical Council registered locum doctors may qualify for VAT exemption. This can include doctors supplied through employment businesses.

The change is limited to registered doctors carrying out roles that must be performed by a medical practitioner. It does not automatically apply to other healthcare professionals or general staffing services.

Businesses that previously charged VAT on qualifying supplies may be able to make claims covering the previous four years. Any claim will need to consider associated input tax, partial exemption and whether the repayment would result in unjust enrichment. Healthcare providers and staffing businesses should review both their current invoicing and historic arrangements.

Further education:
Treatment of public funding

In Colchester Institute Corporation, the Court of Appeal found that certain public funding was payment for the delivery of education rather than a grant supporting non-business activities.

HMRC is not appealing the decision, although it has not yet been announced when its wider policy will change. For the time being, further education institutions that have continued to treat the relevant activities as non-business can continue to do so until a future implementation date is announced.

The eventual change could affect VAT recovery, partial exemption calculations, available VAT reliefs and the treatment of capital projects. Institutions should review how they currently treat their funding and consider the possible financial impact of any future change.

Alternative education providers:
An opportunity to protect claims

The Court of Appeal's decision in St Patrick's International College suggests that some education supplied by providers that are not formally recognised as "eligible bodies" could still qualify for VAT exemption.

HMRC has permission to appeal the decision to the Supreme Court. In the meantime, providers in a similar position may wish to consider submitting protective claims.

Any potential repayment will need to take account of input tax recovery, partial exemption and unjust enrichment. As exemption can also reduce the amount of VAT a provider is entitled to recover, the overall financial effect should be calculated before a claim is made.

Construction and social housing:
Proposed VAT relief for land

The government has consulted on introducing a new zero rate of VAT for land intended for the construction of social housing across the UK.

The proposal is intended to reduce the additional costs and cash-flow pressures that VAT on land purchases can create for housing associations, local authorities and developers. The consultation considered which organisations and developments should qualify, as well as the evidence needed to show that the land will be used for social housing.

The consultation closed on 18 August 2026, and the government is now reviewing the responses. The final scope of the relief and its proposed implementation date have not yet been confirmed, so the existing VAT rules continue to apply.

Housing providers, developers, landowners and funders should monitor the outcome. If introduced, the relief could affect the VAT treatment of land transactions, development agreements, project appraisals and funding arrangements.

What should businesses do next?

Businesses affected by any of these developments should review their current VAT treatment and consider whether system changes, historic claims or adjustments to VAT recovery may be required. Please do contact our VAT team if you would like our assistance with such a review.



Natural capital schemes – opportunities and tax considerations for landowners

Natural capital schemes are becoming an increasingly important source of income for landowners. These schemes reward environmental improvements such as biodiversity enhancement, nutrient reduction, woodland creation and carbon sequestration.

Recent guidance from HMRC has provided greater clarity on the tax treatment of natural capital credits and payments, although the precise treatment will still depend on the specific arrangements entered into.

While natural capital projects can produce attractive long-term income streams and support environmental objectives, they often involve commitments lasting 30 years or more. Before entering into an agreement, landowners should carefully consider the impact on future farming operations, development opportunities, succession planning, borrowing arrangements and land values.

Tax considerations are equally important. Depending on the nature of the arrangement, receipts may be taxed as income or capital, and there can be implications for VAT, capital gains tax and inheritance tax reliefs.

As the market continues to evolve, professional advice should be sought before entering into any agreement. A careful review at the outset can help ensure that the commercial and tax consequences are fully understood and that opportunities are structured as efficiently as possible.

If you are considering a natural capital project or have been approached about biodiversity, nutrient neutrality or carbon credit opportunities, please contact our Farms and Estates tax team to discuss your circumstances.



Benefits of early collaboration between patent attorneys and tax advisers

What is Patent Box?

The UK Patent Box regime is designed to encourage innovation by reducing the corporation tax rate on profits generated from patented technology. Instead of paying corporation tax at 25%, qualifying profits are taxed at an effective 10% rate.

You may qualify if your business holds a patent granted by the UK Intellectual Property Office, the European Patent Office, or certain EEA states. Eligible income that can benefit is wide-ranging, including:

- Selling or hiring out patented products
- Products incorporating patented components and bespoke spares
- Licensing arrangements
- Royalties
- Infringement proceeds
- Profits generated using patented manufacturing or service processes.

As patents may have a life of up to 20 years, the Patent Box regime can provide significant long-term tax savings for your company.

Why early collaboration with a patent attorney and tax adviser matters?

In our experience, the Patent Box works best when both advisers are involved early in the development process. At this stage:

- Patent attorneys can help you identify patentable opportunities while your designs are still flexible
- Key technical and financial evidence can be captured as part of the natural workflow
- Patent attorneys can secure the right scope of protection, while we assess how that scope aligns with the Patent Box
- You avoid the risk of missing out on relief because decisions were made too late.

A narrow patent claim, for example, might be enough to bring an entire product line into the Patent Box. But a narrow claim may not defend your commercial position well. On the other hand, a broad patent provides a stronger protection but may not always give the most efficient tax result.

By working together, Hazlewoods can help you balance both objectives. The solution may be a dual-patent strategy:

- A broader patent coverage for commercial protection
- A narrower, patent coverage to maximise tax efficiency.

This approach ensures your innovation is protected and tax efficient.

How Patent Box links with R&D claims

Patent Box and R&D tax relief often go hand in hand. The R&D claim sets out the technical narrative behind your innovation, helping demonstrate the development condition required to be met for Patent Box eligibility. Similarly, applying for a patent can help demonstrate within your R&D tax relief claim that the technology is being advanced or appreciably improved.

Involving us in the process from the start enables us to help you to:

- Recognise and document the innovative advances, and scientific or technological uncertainties being addressed, as they occur, helping to make the preparation of the R&D Report easier and smoother
- Set up your accounting and stock systems to capture all relevant income and costs from the start to ensure your financial data is not overlooked when reviewing at the year end and to be able to monitor your products' profitability or the costs of a development project on a line by line basis
- Ensure the structure of the group, origin of the relevant expenditure and ownership of any eventual IP rights are aligned with the opportunities for maximising both R&D and Patent Box tax relief claims.



How Hazlewoods can help

Our innovation tax specialists work closely with trusted patent attorneys to provide a joined-up service. We can help you:

- Identify Patent Box opportunities early
- Shape patent strategy with tax efficiency in mind
- Structure IP ownership and licensing arrangements
- Prepare clear, compliant Patent Box and R&D claims
- Build strong, contemporaneous records to support HMRC requirements

If you would like to explore how the Patent Box could apply to your business, or how early collaboration can strengthen both your IP protection and tax position, our Innovation team would be happy to help.

Hazlewoods

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