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WATSON

Making Tax Digital - Time To Prepare!

In under a year the first tranche of sole traders and landlords will be required by law to keep digital records to comply with the requirements of Making Tax Digital for Income Tax (MTD IT).

From April 2026, taxpayers with qualifying trading and property income of £50,000 or more on the 2024-25 tax return will be mandated to join MTD IT. The start date for incomes between £30,000 and £50,000 is April 2027. The Chancellor confirmed in the Spring Statement that MTD IT will be extended to those with income of £20,000 or more from April 2028.

Qualifying income is broadly defined as total gross income from trading and property, as reported on the most recent self assessment tax return. To decide which taxpayers will be mandated to join MTD for income tax in April 2026, HMRC will look at the 2024-25 tax return, i.e. the one for the previous tax year.

This is a fundamental change to the way sole traders and landlords report their results to HMRC and will eventually apply to almost everyone who receives income from self-employment and/or property. To comply with the requirements, mandated taxpayers must:

- Use approved software, apps or spreadsheets to record income and expenditure;
- Submit cumulative quarterly updates to HMRC by 7th August, 7th November, 7th February and 7th May each year; and
- Complete a final annual submission of taxable profit for the accounting period at the end of the year.

This will replace the current self assessment tax return.
If you do not currently keep digital accounting records, do not worry, as we will be able to help you with the process. HMRC is not providing its own record-keeping software or platform. We will be able to recommend the right commercial software solutions that meet the MTD IT requirements for you.

An exemption from MTD IT will be available for taxpayers who are digitally excluded on practical or religious grounds. Some of the reporting rules for quarterly updates have been relaxed to simplify the process for certain categories of taxpayer.

To summarise, you will need to use MTD for IT from April 2026 (unless you're exempt) if you:

- are an individual registered for self assessment;
- get income from self-employment or property, or both, before 6 April 2025; and
- have a qualifying income (before expenses) of more than £50,000 in the 2024-25 tax year.

To raise awareness of this change from this month HMRC will be writing to taxpayers they believe may be in scope. Please do not take any action or attempt to sign up early without speaking to us first.

We have been preparing to help our clients navigate the changes for some time, so contact us without delay to discuss what you need to do to get your business MTD-ready.

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Side-Hustle Reporting Threshold Increased

The Government has announced plans to increase the threshold above which income from self-employment must be reported via self assessment.

Currently, if you earn over £1,000 from self-employment, or a so-called 'side hustle' such as babysitting or dog walking, you need to report this income to HMRC by filing a self assessment tax return, even if you do not owe any tax.

To save time and reduce the administrative burden for some 300,000 taxpayers, the Government intends to increase this threshold to earnings of £3,000 a year by the end of the current Parliament (April 2029 at the latest).

This is only a change to the reporting requirements – you will still need to let HMRC know about and pay any tax due on income between £1,000 and £3,000. This will be done via an alternative online service which the Government says will be simpler than self assessment.

The threshold is based on gross income, before any expenses are deducted. Taxpayers with income above £1,000 per year should continue to report this via self assessment until an implementation date for the change has been announced.

If you are earning between £1,000 and £3,000 per year from a 'side hustle' contact us to discuss what this change is likely to mean for you.

High-Income Child Benefit Charge Via PAYE

From August 2025 employed taxpayers will no longer be required to complete a self assessment tax return (SATR) to declare and pay the high-income child benefit charge (HICBC).

The HICBC is a tax charge paid by the higher earning parent which claws back up to 100% of the child benefit claimed by either parent. For the tax year 2024-25 the HICBC is payable at 1% for every £200 of adjusted net income between £60,000 and £80,000 when the charge reaches 100% of the child benefit received.

Currently, even where the higher earner receives all of their income from employment, they need to complete a SATR in order to declare and pay the HICBC. The Government has confirmed that it will no longer be necessary to complete a SATR purely for the purposes of the HICBC.

Those individuals with no other income outside their PAYE earnings will instead need to use a new online service to report their family's child benefit payments and opt to have the HICBC collected from their payslip.

Taxpayers with income from other sources such as property or self-employment income will still be required to file a SATR.

It will no longer be necessary to complete a self assessment tax return purely for the purposes of the HICBC.

Inheritance Tax Reform

The current freeze on inheritance tax (IHT) thresholds has been extended until 2030 and there are important changes to the treatment of inherited pensions and other IHT reliefs.

The nil-rate band (NRB) is the amount of any estate that can be inherited tax free. It has remained at £325,000 since April 2009. If the deceased's estate includes a residential property that is passed to direct descendants, an additional £175,000 residence-nil-rate-band (RNRB) is available, increasing the total tax-free amount to £500,000 (or £1m if the tax-free allowance is passed to a surviving spouse).

The NRB and the RNRB had been frozen by the previous Government until 5 April 2028. This will be extended for a further two years until 5 April 2030, bringing many more estates into the scope of IHT.

Inherited pensions

Currently, if a pension holder dies before the age of 75 their beneficiaries can generally inherit the remaining funds tax-free, whether as a lump sum or as income. If the deceased is 75 or older at the time of death, the inherited pension will be taxed at the beneficiary's marginal income tax rate.

From 6 April 2027 amounts accumulated in a pension pot will be included in the deceased's estate and subject to IHT at 40% regardless of the age of the deceased, unless the pension is passed to their spouse or civil partner. Many more estates will be brought into IHT as a result of this change. This may also impact other reliefs, for example where 10% or more of the estate is left to charity in order to qualify for the lower IHT rate of 36%.

Further, if the pension holder dies aged 75 or older, the inherited pension will (as currently) also attract income tax at the beneficiary's marginal rate. Without careful planning, this could result in a marginal rate of up to 67% if the person receiving the pension is an additional rate taxpayer.

If you have carried out succession planning based on the current rules, we recommend that you seek advice from a pensions expert or independent financial advisor if you think you may need to re-evaluate your options.

BPR and APR

The Chancellor has confirmed plans to reform business property relief (BPR) and agricultural property relief (APR). From 6 April 2026, the first £1m of combined business and agricultural assets will continue to attract IHT relief at 100% but for assets over £1m, the relief will be halved to 50% relief. Assets including AIM shares that qualify for BPR and/or APR will suffer IHT at an effective rate of 20%.

Any unused £1m allowance is not transferable after death to the surviving spouse or civil partner and therefore careful succession and will planning is vital to maximise relief claims.

As a result BPR and APR are to be restricted significantly, and although farmers have been protesting against the changes, many trading businesses owners have not realised that they are also impacted. Arguably the £1m cap will penalise more successful businesses and give incentives for them to restrict their growth and unless the cap rises in line with inflation, it is effectively being reduced each year. It is anticipated that younger farmers and business owners are likely to make lifetime gifts earlier to help mitigate the restrictions.

We can help guide you through the impact of the changes to BPR and APR and help provide solutions, together with your legal and other professional advisors, to structure your farm or business in an inheritance tax friendly manner.

Another Handbrake Turn On Double Cab Pick-Ups

Reversing the previous Government's u-turn on the tax treatment of double cab pick-ups, they will revert to being treated as cars for certain taxation purposes from April 2025.

If you purchase a double cab pick-up with a payload of one tonne or more before 1 April 2025 for corporation tax, or 6 April 2025 for income tax, you can enjoy the favourable tax treatment available on vehicles primarily suited to the conveyance of goods. These include:

- 100% annual investment allowance;
- full-expensing; and
- flat rate benefit in kind value.

Double cab pick-ups purchased after those dates will lose the beneficial treatment as they will be classified as cars. Transitional arrangements for capital allowances will apply where a contract to purchase or lease a double cab pick-up is entered into on or before the date of the change, as long as expenditure has been incurred, ie money has changed hands, before 1 October 2025.

Employers that have purchased, leased or ordered a double cab pick-up before 6 April 2025 can benefit from the previous benefit in kind treatment until the earlier of: disposal of the vehicle; expiry of the lease; or 5 April 2029. Double cab pick-ups with a payload of less than one tonne will continue to be treated as cars for taxation purposes.

As well as a reduction in capital allowances on these vehicles, the change is likely to trigger significant benefit in kind charges for drivers as well as Class 1A NIC for employers.

If you own, lease, or are considering acquiring vehicles of this nature, contact us to discuss the implications of these changes for your business.

Non-Doms Regime Abolished

The generous tax regime enjoyed by non-UK-domiciled individuals, or 'non-doms', has been abolished.

Previously the rules applied to UK resident whose permanent home - or domicile - for tax purposes is outside the UK. These individuals did not pay UK tax on money they make elsewhere in the world that is not remitted to the UK.

The old rules ended on 5 April 2025 and have been replaced by a new regime based on residence, under which foreign income and gains (FIG) will be exempt for the first four tax years of residence. FIG relief will apply only if the individual has not been resident in the UK for at least the last ten years. Individuals will need to claim FIG relief in their self assessment tax return.

Non-doms also benefitted from inheritance tax (IHT) relief, as their worldwide assets are generally exempt from IHT. This has been replaced with a new residence-based IHT system from 6 April 2025.

Transitional arrangements will apply for capital gains tax purposes. For disposals on or after 6 April 2025, current and past remittance basis users who do not benefit from FIG relief can, subject to certain conditions, rebase assets for CGT purposes to their values at 5 April 2017. If you are domiciled overseas for tax purposes, contact us to discuss what these changes will mean for you.

Salary Vs Dividends: Nic Changes

With changes to employer's National Insurance and the Employment Allowance, now is the time for businesses to review the most tax-efficient mix of salary and dividends for directors.

From 6 April 2025 the secondary Class 1 National Insurance threshold reduces from £9,100 to £5,000. At the same time the rate of employer's National Insurance Contributions (NIC) rises from 13.8% to 15%.

Cushioning the impact for some smaller employers the Employment Allowance (EA), previously up to £5,000 per year, more than doubles to a maximum of £10,500. The restriction that applies to the EA where employers have incurred a secondary Class 1 NIC liability of more than £100,000 in the tax year immediately prior to the year of the claim will be removed.

These two changes have the potential to significantly alter any existing calculations on the optimal remuneration structure for directors.

The optimal mix will depend on various factors and differ from business to business. There may be other considerations such as ensuring that the amount paid to directors will be sufficient to cover any planned pension contributions.

We can help you decide on the most tax efficient amounts of salary and dividends to pay yourself from your business.

HMRC To Close Online Filing Service

HMRC has announced that it will close the online service for filing company accounts and corporation tax returns on 31 March 2026.

Companies with an accounting period ending after 31 March 2025 will no longer be able to use HMRC's free online service (unless they file before 1 April 2026) and will need to use commercial software to file their accounts and tax return instead.

The free online filing service is restricted to smaller, relatively simple companies with turnover not exceeding £632,000, subject to a number of exclusions. It allows the company to submit the annual corporation tax return to HMRC and send the accounts to Companies House at the same time.

Following its closure those companies, which could be a local residents' association or a small incorporated charity, will need to use commercial software to comply with their online filing regulations. The software will need to allow the taxpayer to digitally file a corporation tax return (CT600) as well as the corporation tax computation and the company accounts for the same period in the specified 'iXBRL' format.

If you or someone you know currently uses the online filing service to submit the annual accounts and tax return to HMRC for a small company, such as a local amateur sports club, we can help you choose a suitable software product.

IR35: Small Company Exemption

Changes to the company size thresholds from April 2025 will also apply for the purposes of the off-payroll working (OPW) rules.

The primary aim of the changes to the company size thresholds was to simplify regulatory requirements and alleviate the administrative burden for smaller businesses. HMRC has now confirmed that the new thresholds will also apply when deciding whether the OPW rules apply where companies engage workers via an intermediary.

For micro and small companies, the onus is on the contractor to determine its own status in relation to IR35. When a company breaches the threshold for medium sized entities, it is required to carry out the assessment for each contractor under the OPW rules.

To qualify as small from 6 April 2025 a company will need to satisfy two or more of the following criteria:

- Turnover not more than £15m (currently £10.2m)
- Balance sheet total not more than £7.5m (currently £5.1m)
- No more than 50 employees (currently 50)

Following the change many companies that are currently classed as medium will become small and will no longer be required to perform OPW assessments. If you are a contractor and provide services to medium-sized companies, you may be required to assess your own employment status if your client falls into the small company category when they thresholds change. We can help you with this.

It is currently unclear from the legislation when exactly the changes will take effect, although it is unlikely that they will be operational before April 2026. We are seeking clarification from HMRC on this and will update affected clients in due course.

EIS And VCT Sunset Clause Extended

The sunset clause which was set to end the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) scheme on 5 April 2025 has been extended for a further ten years.

The schemes, which offer tax relief for individuals investing in qualifying small and medium-sized companies including start-ups, will now expire on 5.4.35.

Both schemes offer an upfront income tax reduction of up to 30% of the amount invested. Gains from selling EIS or VCT shares are exempt from CGT.

If you are seeking to make an investment that you believe will qualify for the EIS or VCT scheme you should discuss your options and the potential tax implications with an independent financial advisor.

Some Key Tax Dates

30 April 2025	• ATED returns and payments for 2025–26 due for properties held on 1 April 2025.
31 May 2025	• Deadline for employers to give employees P60s for 2024–25.
6 July 2025	• P11Ds and P11D(b) for 2024–25 due to be submitted to HMRC and copies of P11Ds to be provided to employees.
	• Employment-related securities (ERS) return deadline for 2024–25.

Should you wish to speak with us about a specific matter, or just to be a sounding board or for a chat, please do not hesitate to give us a call on 01323 842119.