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BUSINESS UPDATE

Inheritance Tax: welcome changes

Changes to the availability of agricultural property relief (APR) and business property relief (BPR) are expected from 6 April 2026, as first announced at the Autumn Budget 2024.

As originally planned, the change would have significantly increased the IHT payable on the transfer of many farms and businesses. Two recent major developments, however, now look set to considerably soften the impact.

Under the original proposals, the allowance for the 100% rate of relief was set at £1 million for qualifying business and agricultural assets, with 50% relief available for assets in excess of this. This was a per person limit, and not intended to be transferable between spouses and civil partners. But the position has now changed considerably. The allowance for the 100% rate of relief will be increased to £2.5 million; and will, after all, be transferable between spouses and civil partners. Any unused £2.5 million allowance on the death of a spouse or civil partner will be transferable to a surviving spouse or civil partner. This means that overall, a couple will be able to pass on up to £5 million of qualifying agricultural or business assets between them, without paying IHT, on top of the existing allowances, such as the nil rate band.

We should be pleased to assess what this will mean for you.

MAKING TAX DIGITAL FOR INCOME TAX

It's a new obligation for some taxpayers to report income and expenses to HMRC digitally every three months. And it's now only weeks away.

Making Tax Digital for Income Tax (MTD IT) is being phased in from 6 April 2026 for sole traders and landlords with qualifying income over particular thresholds. From April 2026, sole traders and landlords with qualifying income more than £50,000 for the 2024/25 tax year will have to join MTD IT. On HMRC's figures, that means some 864,000 taxpayers will need to get to grips with the new rules from 6 April 2026.

From April 2027, sole traders and landlords with qualifying income over £30,000 for the tax year 2025/26 will be expected to join MTD IT. And from April 2028, it's the turn of sole traders and landlords with qualifying income over £20,000 for the tax year 2026/27.

Under the new rules, taxpayers must keep digital records of income and expenses. MTD-compatible software is then used to send updates of income and expenses to HMRC every three months. In addition to these quarterly updates, there is an end-of-year tax return, also filed via MTD software.

If you are among those impacted in 2026, you should either have had a letter from HMRC already, notifying you that you must join MTD IT, or you should get a letter within the coming weeks. The letter contains a QR code that can be scanned to get further information: though you can also find out more simply by searching 'Making Tax Digital for Income Tax for sole traders and landlords: step by step' on gov.uk.

We may have discussed joining MTD IT with you already, but if this is not the case, and you get a letter from HMRC unexpectedly, please do let us know and we can work with you to see what needs to be done.

MTD IT represents a major change in the way you interact with HMRC. It is important that you have the right software in place, and are confident using it: alternatively, you will need to arrange for a competent third party to maintain the records and make the submissions on your behalf. The need to send updates to HMRC each quarter is something that moves record keeping and reporting very much closer to real time.

We are here to help support you through your entry to MTD IT. Please don't hesitate to contact us with any queries, or for further advice on what you need to do to get ready.

New process to tell HMRC about VAT errors

Errors on the VAT return will now be notified online to HMRC in most cases. The old VAT652 form, previously used for this, has been withdrawn.

1 How it's done

The online notification process is done via your Government Gateway log-in. The form needed can be found by searching 'Check how to tell HMRC about VAT Return errors' on gov.uk. You will need to have the net value of the error, and total value of sales to hand.

Businesses exempt from MTD VAT will continue to notify in writing. Note, also, that taxpayers can choose to notify HMRC in writing, instead of using the online facility, if desired.

2 The rules you need to know

It's only the notification process that's changed. The rules on how to correct errors remain the same.

The correction process depends on the size of the error. For errors with a net value of up to £10,000; or errors between £10,000 and £50,000 and representing less than 1% of the box 6 (net outputs) in the return period in which you find the errors, you can simply correct the next VAT return. This is known as Method 1. Other errors should be notified to HMRC directly (Method 2). You can use Method 2 for errors of any size, if you prefer. Method 2 should always be used for deliberate errors.

There is a four-year time limit from the end of the accounting period to make corrections, though this does not apply to deliberate errors.

3 Why it matters

The importance of VAT compliance cannot be overstated. It's not just about good practice – important though that is – it can impact your business financially, too. Interest can be charged for underdeclared VAT, and there can be penalties for errors in VAT returns that result in tax being underpaid, if HMRC considers that the error was careless or deliberate.

Careless errors can attract penalties of up to 30%. Deliberate errors can attract penalties of up to 70%. Penalties for deliberate and concealed errors can be as much as 100%. HMRC has considerable discretion over what is charged, and reductions can be made for errors disclosed without HMRC prompting; and also for the amount of cooperation given by the taxpayer when a disclosure is made.

For penalty reduction purposes, note that any error that HMRC considers careless or deliberate, regardless of size, must be formally notified to HMRC: in these circumstances, correction on the VAT return alone is not enough. If you are in any doubt as to how HMRC would categorise an error, please get in touch to discuss this with us, and we can provide further details.

Tip: Best defence - taking reasonable care

If you make an error, but have taken what HMRC considers 'reasonable care', you should not be charged a penalty.

Reasonable care: What does taking reasonable care mean? HMRC defines it as taking the 'care and attention that could be expected from a reasonable person in the circumstances'. It's also worth noting that as far as HMRC is concerned, the opposite is also true: not taking reasonable care amounts to being 'careless'.

Taking reasonable care will look different for each taxpayer, depending on individual circumstances and abilities, but it includes basics like keeping sufficient records to form the basis of accurate tax returns; keeping your records safe; and taking advice if there's something you're not sure about.

How we can help

Recent research by HMRC suggests that VAT can be particularly difficult for many businesses.

We can help with a VAT compliance health check to give you confidence that you are taking reasonable care, should HMRC ever come knocking. Please don't hesitate to get in touch.

HIGH INCOME CHILD BENEFIT CHARGE

HMRC is now providing the option to pay High Income Child Benefit Charge (HICBC) through PAYE, by having your tax code adjusted, instead of needing to file a self assessment tax return.

If you are liable to pay HICBC, and there's no other reason for you to send in a tax return, the new service will probably be the easiest way to do this. Be aware that time limits apply, and you need to act on or before 31 January in the year after the tax year for which you need to pay the charge. So, for example, if you need to pay HICBC for the tax year starting 6 April 2025, and it's on or before 31 January 2027, you can pay through PAYE.

To start the process off, you need to notify HMRC online that you want to pay through PAYE. Do this via the HMRC app, or by searching 'Child Benefit tax charge pay charge PAYE' on gov.uk. This then takes you to your Government Gateway login.

The process is slightly different if you already file self assessment returns, but only do so in order to pay HICBC. Here you contact HMRC by phone, and ask to leave self assessment and then register to pay HICBC through PAYE. Both processes require you to provide specific information listed on the gov.uk page referenced above.

AI: no substitute for professional advice

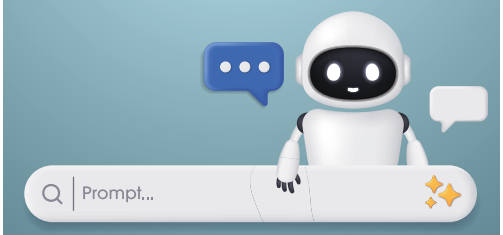
Check AI output before you rely on it, taxpayer warned.

It was just one strand in a bad day for taxpayer, Mr Gunnarsson. HMRC had appealed Mr Gunnarsson's case to the Upper Tribunal on the basis that he had claimed the wrong type of pandemic support.

Sifting pandemic support claims for errors and fraud remains a top government priority, and it is noteworthy that HMRC clearly wasn't prepared to give up on this case, which had been partly decided in the taxpayer's favour at the First-tier Tribunal. The Upper Tribunal was tasked with deciding if Mr Gunnarsson had been eligible for the Self-Employment Income Support Scheme, and judged that he had not. Unfortunate timing meant that a previous self-employment had ceased, and he was then trading as the sole director of a limited company, thus failing to qualify for the support. In a separate point, the Tribunal noted that the paperwork Mr Gunnarsson had prepared for the case had relied on output from AI software, and when HMRC checked it over, the Tribunal decisions quoted by the AI didn't exist.

This time, the Tribunal took a lenient view of what had happened, and did not hold Mr Gunnarsson to be 'highly culpable'. But it did take the opportunity to issue a reminder that anyone going to Tribunal is responsible for the accuracy of information provided. Presenting unreliable evidence is a serious matter, to which sanctions can apply.

The taxpayer in this case was acting for himself, without professional advice and support. As your advisers, we have the expertise that makes a difference when it comes to bright-line judgment calls like the one that Mr Gunnarsson faced. Whatever your question, please don't hesitate to contact us. We are here to help.



VAT: HMRC gets the last laugh

What a case at the Tax Tribunal about the supply of 8g canisters of nitrous oxide (N_2O) for culinary use tells us about the VAT rules.

The N_2O - sometimes known as laughing gas - was supplied by taxpayer business, Telamara Limited. Telamara sold it to wholesalers and catering companies for use as cream chargers, to make whipped cream, foams and mousse.

The case hinged on whether or not it was right to classify the supply as being one of 'food of a kind used for human consumption'. Telamara said the N_2O was food. HMRC said it was not.

And far from being a theoretical exercise, this type of classification matters because of the VAT at stake. In this instance, Telamara faced VAT assessments of just over £1.4 million for zero rating supplies that HMRC said should have been standard-rated.

Rules for classification: two main groups and the odd ones out

The VAT rules specify that food of a kind used for human consumption is usually zero-rated. This is the first main group.

Then there is a list of exceptions: including ice cream, frozen yogurt; and confectionery - but not cakes or biscuits, other than biscuits wholly or partly covered with chocolate. These exceptions are standard-rated, with VAT due at 20%.

Finally, there are items overriding the exceptions, like yogurt unsuitable for immediate consumption when frozen, and herbal tea. These default to being zero-rated.

VAT and the average person

At the Tribunal, HMRC maintained that all this was 'uncomplicated'. It said that working out whether the N_2O in the charger was food of a kind used for human consumption was 'a short practical question calling for a short practical answer'.

In fact, HMRC's short, practical question is really anything but - and HMRC's own guidance on the meaning of 'food of a kind used for human consumption' proves the point. This says that a product qualifies as such food if the average person, knowing what it is and how it's used, would think it was food or drink: and it's fit for human consumption. The definition is then followed up by inclusions and exclusions. Products eaten as part of a meal or as a snack qualify as food, for example, but dietary supplements, food additives and 'similar products', which, though edible, are not food, do not. At least, not usually.

Nothing to do with fairness

The problem is, of course, that the average person needs a mind like HMRC's to be confident that they're dealing with the rules correctly, and unfortunately, by the time that a case gets to the Tax Tribunal, the damage has often been done.

That was what happened in this case. Having digested over 1,000 pages of evidence, including previous decisions on the status of edible flowers; algae derivatives and linseed oil, the Tribunal ruled against Telamara. N_2O was held not to be a food, and the supply of canisters should therefore have been standard-rated.

It was an expensive mistake, and the taxpayer felt it was an unfair one. He had contacted HMRC when he started to supply the canisters, asking how they should be rated for VAT purposes, and felt that other than referring him to its general guidance, HMRC had not been able to help. But while this was noted by the Tribunal, it had to remind him that its remit is not about fairness: it's about applying the law.

Navigating the rules

Telamara makes sobering reading. The VAT rules can be a minefield, and errors can be costly. We are always on hand to help you steer a way through.

SMART DATA SWELLS THE TAX TAKE

What you should know about HMRC's use of algorithms.

Imagine an IT tool that helps find potential tax fraud and transaction errors, and identifies criminal networks. Imagine it doing in minutes and hours what used to take days and weeks.

Imagine it could bring together data from across HMRC, and multiple financial sources, to create profiles of individual taxpayers. Give it access to information from tax returns; bank accounts; pensions; online payment providers like PayPal; overseas tax authorities; and government agencies like Companies House, the Land Registry, and DVLA. Then add taxpayer footprints on social media; information from Google Street View; eBay; flight sales and passenger information; and property letting agents to the mix. And the list goes on. Just for good measure, imagine designing it alongside first-in-class companies like defence and security solution provider, BAE Systems: and AI-leading US data analytics firm, Palantir.

HMRC doesn't need to imagine it, though - because it's done it already. The Connect data system, used by HMRC, has been growing in size and sophistication since it was introduced in 2010.

Connect is now one of the largest data sets in government use. It's key in HMRC investigations, and the bottom line speaks for itself. Connect has, on average, been bringing in an additional £3.4 billion in tax each year. In 2024/25, the extra tax take for HMRC hit £4.6 billion.

HMRC is understandably slow to talk about exactly what goes on under the bonnet. But what it has said is probably enough: Connect exists to identify "'hidden" relationships between people, organisations and data that could not previously be identified'. It turns the spotlight on anomalies between things like bank interest, property income and what HMRC calls 'other lifestyle indicators'. One expert put it like this: 'The algorithms that it uses allow HMRC to spot anomalies that would otherwise go unnoticed by the human eye'.

So, what does that mean for you? Essentially that HMRC can, if it wants, see things it would never have been able to see before. It has the potential to check where someone buys expensive assets but is only reporting small amounts of income. Undoubtedly, HMRC is sometimes correct in identifying errors and evasion; but equally, it sometimes adds two and two and makes ten, and answering unnecessary questions from HMRC is a position no one wants to find themselves in. The first line of defence is always to have the right records to back up any business and personal transactions, and we are here to advise.

We can help keep you on the right side of HMRC's data analytics, and compliant with all your tax and accounting obligations. Please don't hesitate to contact us.

All change for charities

New regulations that trustees and staff of charities and community amateur sports clubs (CASCs) need to be aware of.

Various changes to charity compliance measures are expected to take effect from April 2026. In outline, these include:

- a stricter test for what are known as tainted donations. The tainted donation rules seek to deny tax relief where a donor obtains a financial benefit from the charity or CASC in return for the donation, either for themselves or someone else involved in the arrangement
- approved charitable investments, so that all investments must be for the benefit of the charity and not for the avoidance of tax
- attributable income. The change here brings legacies within scope of the definition of attributable income, meaning they must be spent on the charity's charitable purpose, or be subject to a tax charge.

The changes come as part of the government's drive to close the tax gap, strengthen compliance powers, and challenge abusive arrangements. This means that though technically, all UK charities and CASCs and their donors are subject to the changes, in practice, the impact will only be felt by a few.

The current emphasis is on a defaulting minority. In the government's words: 'The majority of charities meet their tax obligations, but a small minority persistently fail to comply and yet still claim tax reliefs such as Gift Aid.' To combat this, enhanced HMRC powers to compel tax compliance by sanctioning trustees and charity managers are in progress, and amended guidance on the Fit and Proper Persons test is expected imminently.

For the compliant majority, however, there is a more demanding compliance environment. The changes serve as a clear reminder of the need for timely filing of returns; accurate record keeping; and meticulous processes around Gift Aid. Please call on us if we can be of assistance in any of these areas.