Client Bulletin

January 2026

SELF ASSESSMENT

Struggling to pay your Self Assessment tax bill?

Tax due under Self Assessment for the 2024/25 tax year must be paid in full by 31 January 2026. If you need to make a payment on account of your 2025/26 tax bill, the first payment on account must also be made by 31 January 2026.

If you are struggling to pay your bill, you may be able to set up a Time to Pay arrangement to pay what you owe in instalments. While you will still be charged interest, you will not trigger late payment penalties.

It should be noted that HMRC charge interest at the rate of 4% above the base rate. Their current rate is 8%. When funding tax payments, this should be taken into account.

MAKING TAX DIGITAL

MTD for ITSA start date is approaching

If you are a self-employed trader or landlord whose combined gross business and trading income in 2024/25 is £50,000 or more you will need to comply with Making Tax Digital for Income Tax Self Assessment (MTD for ITSA) from 6 April 2026. This will mean that you will need to use software that is compatible with MTD for ITSA to keep digital records and make quarterly returns of income and expenses. You will also need to file a final declaration, rather than a Self Assessment tax return, to finalise your tax position for the tax year.

It is important that you are ready to meet your obligations from April 2026.

We can help you find suitable software and help you meet your compliance obligations.

MTD penalties

A new points-based penalty regime applies under Making Tax Digital (MTD). The regime, which was introduced for MTD for VAT from 1 January 2023 levies a penalty point each time a return is filed late. A penalty of £200 is charged once the points threshold is reached. The points threshold depends on the return frequency, and is set at two points for annual returns, such as the final declaration, and at four points for quarterly returns, such as the quarterly update. Once a threshold has been reached, the points total is reset to zero as long you have met your compliance obligations and made all the submissions that were due in the previous 24 months.

Late payment penalties are harsher under the new regime. However, as long as you pay what you owe within 15 days of the due date, you will not be charged a late payment penalty, although interest will apply if you pay late.

If you are joining MTD for ITSA from April 2026, we can help you understand the new penalty regime.

TAX PLANNING

Year-end tax planning

The 2025/26 tax year comes to an end on 5 April 2026. Ahead of this date it is sensible to review your affairs and to make the most of tax saving opportunities.

A good starting point is to consider your allowances for the year as, in most cases, they will be lost if they are not used. If you have not used your personal allowance, you and your spouse/civil partner could consider claiming the marriage allowance which if they are a basic rate taxpayer allows you to transfer £1,260 of your 2024/25 personal allowance to them, reducing your joint tax bill by up to £252.

If you have yet to use your capital gains tax annual exempt amount and are planning on disposing of assets which would trigger a capital gain, consider making the disposal before 6 April 2026 so that the annual exempt amount is not lost. If you are married or in a civil partnership and your partner has yet to use their annual exempt amount, consider making use of the special rules that allow spouses/civil partners to transfer an asset or a share in an asset between them at a value that gives rise to neither a gain nor a loss. This will allow their annual exempt amount to be used too.

If you have yet to use your ISA allowance, consider investing in a cash and/or stocks and shares ISA before the end of the tax year. With an increase in the dividend tax rates from 6 April 2026 and the savings tax rates from 6 April 2027, it makes sense to shelter as much as possible. Interest and dividends within an ISA are tax-free.

Contact us to arrange a year-end review.

DIVIDENDS

Dividend tax rates to rise

Dividends have their own tax rates. Dividends, which are treated as the top slice of income, are taxed at the dividend ordinary rate where they fall within the basic rate band, at the dividend upper rate where they fall within the higher rate band and at the dividend additional rate where they fall within the additional rate band.

For 2025/26, the dividend ordinary rate is set at 8.75%; the dividend upper rate is set at 33.75% and the dividend additional rate is set at 39.35%. The dividend ordinary and upper rates are both increased by two percentage points from 6 April 2026 to, respectively, 10.75% and 35.75%. The dividend additional rate remains at 39.35%.

The dividend allowance remains at £500 for 2026/27.

The rise in the dividend tax rates will affect you if you are a basic or higher rate taxpayer with dividend income. You could consider investing in stocks and shares ISAs to keep dividend income tax free.

If you operate your business through a personal or family company and have retained profits, consider paying dividends before 6 April 2026 where the tax payable is less than it would be if the profits were extracted after that date.

We can explain what the changes in the dividend tax rates mean for you and what you can do to lessen their impact.

CAPITAL GAINS TAX

Business Asset Disposal Relief

Business Asset Disposal Relief (BADR) is a relief that charges gains on the disposal of a business, business assets or shares in a personal company at a favourable rate up to your lifetime limit of £1 million. To benefit from the favourable rate, you must have met the qualifying conditions for the two year period to the cessation of your business or disposal of your business assets or shares, as appropriate.

Currently, gains qualifying for BADR benefit from a 14% tax rate, regardless of the rate at which you pay tax. This is a saving of 4% or 10% compared to the standard rates, depending whether or not your income and gains exceed the basic rate band. The 14% rate is only available until 5 April 2026. Gains attracting BADR are taxed at 18% from 6 April 2026, saving tax of 6% where the gains would otherwise be taxed at the higher capital gains tax rate of 24%.

If you are planning of retiring or ceasing your business in the near future, we can help you understand how your planned retirement date will affect the capital gains tax that you pay.

AGRICULTURAL AND BUSINESS PROPERTY RELIEF

APR and BPR changes

The changes to agricultural and business property relief announced at the time of the 2024 Autumn Budget come into effect from 6 April 2026. The changes mean that an individual is only able to benefit from the 100% rate of relief on the first £1 million of qualifying agricultural and business property. Once the allowance has been used up, assets that would otherwise have qualified for relief at the 100% rate will secure relief at 50%.

It was announced at the 2025 Autumn Budget that where a person dies without using their £1 million allowance in full, their spouse or civil partner's estate will be able to benefit from the unused portion, in the same way that their estate can benefit from the unused portion of the nil rate band and residence nil rate band.

The ability to transfer the £1 million allowance to the surviving spouse or civil partner's estate simplifies will planning, meaning that spouses/civil partners can leave everything to each other without risking the loss of 100% APR/BPR on assets worth up to £1 million.

BPR and APR are available in addition to the nil rate band and residence nil rate band. This means that a couple may be able to pass on a farm or a business worth up to £3 million free of inheritance tax.

If you are worried about the impact of the changes, get in touch to discuss what they mean for you and the potential planning opportunities available.

INTEREST ON SAVINGS

Savings

At the moment, interest on savings is taxed at the standard income tax rates. Basic rate taxpayers receive a personal savings allowance of £1,000, while for higher rate taxpayers, the personal savings allowance is £500. Additional rate taxpayers do not receive a personal savings allowance.

A savings starter rate of 0% applies to savings falling with the savings starting rate band, set at £5,000. However, this is reduced pound for pound by non-savings non-dividend income in excess of the personal allowance.

From 6 April 2027, the tax rates for savings interest are to rise by two percentage points. This will mean basic rate taxpayers will pay tax at 22% on taxable savings income; for higher rate taxpayers the rate is 42% and for additional rate taxpayers the rate is 47%. From the same date, the personal allowance will first be set against income from employment, trading income and pensions income rather than automatically against income taxed at the highest rates.

To minimise the tax that you will pay on your savings income, consider making use of your ISA allowance. The allowance is to remain at £20,000. However, from 6 April 2027, under 65s will only be able to invest £12,000 in a cash ISA.

Why not get in touch to discuss how to ensure that your savings are invested in a tax-efficient manner?

PROPERTY INCOME

Property tax rises

In recent years landlords have been hit hard by tax changes, and the November 2025 Budget dealt a further blow.

If you are an unincorporated landlord you will face a tax hike from 6 April 2027. From that date, property income will be taxed at the new property tax rates which are two percentage points higher than the standard income tax rates. For 2027/28 onwards, unincorporated landlords will pay tax on the profits of their property rental business at 22% where they fall within the basic rate band, at 42% where they fall in the higher rate band and at 47% where they fall within the additional rate band.

The Renters Rights Act 2025 will limit a landlord’s ability to increase rent, and landlords may wish to consider rent rises ahead of the Act coming into effect where possible to mitigate the impact of the rise.

Corporate landlords are not affected by the increase in the property tax rates, but if you are a corporate landlord and you extract profits in the form of dividends, you will be hit by the increases in the dividend tax rates applying from 6 April 2026. If you have retained profits, you may wish to consider extracting them before the end of the tax year to benefit from the current rates, which for basic and higher rate taxpayers are 2% lower.

If you are a landlord, contact us to discuss the impact of the tax rises on your business.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.