



Client Bulletin

July 2026

SELF ASSESSMENT

July tax bill

The second payment on account for the 2025/26 tax year is due by 31 July 2026.

You will need to make payments on account for 2025/26 if your tax and Class 4 National Insurance bill for 2024/25 was £1,000 or more, unless at least 80% of your tax bill was collected at source, for example, through PAYE. Each payment on account is 50% of your 2024/25 tax and Class 4 National Insurance liability. The first payment on account was due by 31 January 2026. Any balance due for 2025/26 not covered by the payments on account will need to be paid by 31 January 2027.

As the 2025/26 tax year has now ended, you will be able to assess your taxable income for that year. If it is less than in 2024/25, you may wish to reduce your payments on account to reflect your actual income and the tax and National Insurance that you will be liable to pay. This can be done through your personal tax account or on form SA303.

It should be noted that if you reduce the payments by too much, you will be charged interest on amounts not paid on time.

We can help you to review your payments on account and determine whether these should be reduced.

File your 2025/26 tax return early

Although the 2025/26 tax return does not need to be filed online until 31 January 2027, there can be advantages in filing it early.

Once your tax return is filed, you will know with certainty what you need to pay on 31 January 2027. This will allow you to put funds aside and, if you are likely to struggle to pay the bill in full, to agree an instalment plan with HMRC.

If you have overpaid tax in 2025/26 and are due a tax refund, the sooner your return is filed, the sooner you will be able to claim a refund.

If you are a self-employed trader or landlord not already within Making Tax Digital for Income Tax Self Assessment (MTD for ITSA), the sooner you file your return, the sooner you will know whether you will need to comply with MTD for ITSA from 6 April 2027. This will be the case if you have trading and/or property income (before the deduction of expenses) of at least £30,000 in 2025/26. Knowing earlier gives you more time to prepare.

Filing your tax return early also provides peace of mind and ensures that you will not receive any late filing penalties. It also prevents a last-minute panic as 31 January 2027 approaches.

Why not get in touch to discuss the filing of your 2025/26 tax return?

MAKING TAX DIGITAL FOR INCOME TAX SELF ASSESSMENT

First quarterly return

If you are within MTD for ITSA from 6 April 2026, you will need to file your first quarterly return of income and expenses electronically using MTD-compatible software by 7 August 2026. This can be for the three tax months to 5 July 2026 or the three calendar months to 30 June 2026. You will be within MTD for ITSA from 6 April 2026 if you are a trader and/or a landlord and you had trading and/or property income of at least £50,000 in 2024/25.

If you have not already signed up to MTD for ITSA, you will need to do so before you file your first quarterly return. This is something that we can do for you.

For 2026/27, you will need to keep digital records of trading and property income and expenses. This can include spreadsheets and linking software.

We can help you meet your obligations under MTD for ITSA. Why not get in touch to discuss your requirements?

EMPLOYERS

Mandatory payrolling

Mandatory payrolling is now to be introduced in phases.

If you provide employees with company car, car fuel benefits, taxable company vans, van fuel benefits or medical benefits, you will need to payroll them from 6 April 2027. You will also need to report the associated Class 1A National Insurance liability on the Full Payment Submission and pay it to HMRC monthly throughout the tax year, together with the PAYE and Class 1 National Insurance for the month.

However, you will now have the choice whether you payroll other benefits in 2027/28; with the exception of employment-related loans and living accommodation benefits, it will be mandatory to payroll these from 6 April 2028 onwards. From that date, you will also be able to choose to payroll employment-related loans and living accommodation benefits voluntarily.

We can help you prepare for mandatory payrolling.

Employment Allowance

The Employment Allowance will reduce your employer's Class 1 National Insurance bill by up to £10,500 in 2026/27. The allowance is not given automatically – it must be claimed through your payroll software. However, if you are the sole employee and a director of your company, you cannot benefit from the allowance.

If you have not already claimed the allowance, we can check your eligibility and help you make the claim so that you don't miss out.

PERSONAL AND FAMILY COMPANIES

Tax-efficient extraction of profits in 2026/27

If you run your business through a company, you will need to extract your profits if you want to use them personally. There are various ways in which this can be done, some more tax efficient than others.

If your personal allowance has not been used elsewhere, a popular and tax-efficient approach is to take a small salary and to extract further profits as dividends, assuming that you have sufficient profits available to do so. If you do not yet have 35 qualifying years, paying a salary of at least £6,708 will ensure that 2026/27 is a qualifying year for state pension purposes. However, it can be beneficial to pay a higher salary.

For 2026/27, if you have the full personal allowance available, the optimal salary is one that is equal to the personal allowance of £12,570. As this is also equal to the primary threshold for Class 1 National Insurance purposes, there will be no tax or employee's National Insurance to pay on a salary of this level. If you operate your business through a family company and the Employment Allowance is available, there will be no employer's National Insurance to pay either.

If the Employment Allowance is not available, as is the case for a personal company where the sole employee is also a director, the company will pay employer's National Insurance at 15% to the extent that the salary exceeds £5,000. However, as this is deductible in calculating your profits for corporation tax purposes, this is worthwhile as the corporation tax savings outweigh the employer's National Insurance contributions.

If your available personal allowance is not £12,570, your optimal salary will depend on your individual circumstances. We can crunch the numbers for you.

Once you have taken the optimal salary, it is generally tax efficient to extract any further profits as dividends. However, you can only pay dividends if you have sufficient retained profits from which to pay them. If you have more than one shareholder for a class of share, you must also pay dividends in proportion to shareholdings (although having an alphabet share structure overcomes this limitation).

Where dividends are paid, these are tax-free up to the available dividend allowance, which for 2026/27 is set at £500. Thereafter, they are taxed at the dividend tax rates. For 2026/27 these are 10.75% where dividends fall in the basic rate band, 35.75% where they fall in the higher rate band and at 39.35% where they fall in the additional rate band.

We can help you formulate a tax-efficient profit extraction strategy that works for you.

INHERITANCE TAX

IHT on pension pots

For deaths on or after 6 April 2027, most unused pension funds and pension death benefits will be brought within the scope of inheritance tax (IHT) and included in the value of the deceased person's estate. The new rules do not apply where a person died before 6 April 2027, even if their pension benefits are paid to their beneficiaries after this date.

For a death on or after 6 April 2027, if the nil rate band is not available to shelter the pension, 40% of the pot will be lost to inheritance tax. Further, if the deceased is over 75 when they die, the beneficiaries will pay income tax at their marginal rate on any pension income that they withdraw. This is not the case where the deceased died before the age of 75.

If you have money in a pension pot which you are hoping to pass on, we can discuss the tax implications so that you can decide whether it is better to withdraw some or all of the pension pot before 6 April 2027 if you have reached age 55 or to leave the pot untouched.

APR and BPR

Changes to agricultural property relief (APR) and business property relief (BPR) came into effect from 6 April 2026. This means that you are only able to benefit from the 100% rate of relief on the first £2.5 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%.

Where a person dies without using their £2.5 million allowance in full, their spouse or civil partner's estate is able to benefit from the unused portion of their allowance, in the same way that their estate can benefit from the unused portion of their spouse or civil partner's nil rate band and residence nil rate band.

The ability to transfer the unused portion of the 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 £2.5 million.

The APR/BPR allowance is available in addition to the nil rate band and residence nil rate band (RNRB). However, it should be noted that the RNRB starts to reduce for estates of £2 million, and is not available for estates valued at £2.35 million and above. This should be factored into any inheritance tax planning.

If you have a farm or a business and are affected by the cap on relief at 100%, please get in touch to discuss what they mean for you and the potential planning opportunities available.

VAT

Reduced rate on children's meals

If you run a restaurant or café and provide children's meals which are eaten on the premises, you will need to reduce the rate of VAT that you charge from 20% to 5% for the period from 25 June 2026 to 1 September 2026 inclusive.

The reduced rate also applies for the same period to children's cinema and theatre tickets and all tickets to certain family attractions and soft play.

The rate reverts to the standard rate of 20% on 2 September 2026.

We can help you if you are affected by this measure.

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.