



Client Bulletin

July 2025

SELF ASSESSMENT

July tax bill

The second payment on account for the 2024/25 tax year is due by 31 July 2025. You will need to make payments on account of your 2024/25 tax bill if your tax and Class 4 National Insurance bill for 2023/24 was £1,000 or more, unless at least 80% of your tax bill is collected at source, for example through PAYE. Each payment on account is 50% of your 2023/24 tax and Class 4 National Insurance liability.

As the 2024/25 tax year has now ended, you will be able to assess your profits for that year. If they are less than in 2023/24, you may wish to reduce your payments on account to reflect your actual profits 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 review your payments on account and determine whether these should be reduced.

MAKING TAX DIGITAL

Start dates

Making Tax Digital for Income Tax Self Assessment (MTD for ITSA) applies from 6 April 2026 to unincorporated landlords and traders whose combined trading income and property income is £50,000 or more. The relevant income for determining whether a trader or landlord will be within MTD for ITSA from 6 April 2026 is that for the 2024/25 tax year.

As the 2024/25 tax year has now ended we will be able to advise you whether you will need to comply with MTD for ITSA from 6 April 2026 and help you prepare. Under MTD for ITSA, you will need to maintain digital records and make quarterly returns and a final declaration to HMRC using software which is compatible with MTD for ITSA.

Traders and landlords with combined trading and property income of at least £30,000 will be brought into MTD for ITSA from 6 April 2027. The threshold falls to £20,000 from 6 April 2028.

UNINCORPORATED BUSINESSES

Tax year basis

The tax year basis applies from 2024/25 onwards. This means that if you run an unincorporated business, you will be taxed on the profits for the tax year, regardless of the date to which you prepare your accounts. If your accounting date is not 31 March, 5 April or a day in between, you will need to apportion the profits of two accounting periods to arrive at your profit for the tax year. You will need to report your 2024/25 profits on the tax year basis on your 2024/25 Self Assessment tax return.

The 2023/24 tax year was a transitional year between the end of the current year basis and the start of the tax year basis. Transition profits arose if your accounting period did not correspond with the tax year. These are the profits for the period from the end of the accounting period ending in 2023/24 to 5 April 2024. Unless an election is made otherwise, these profits are assessed in equal instalments over the five years from 2023/24 to 2027/28.

You can elect to bring forward some or all of the remaining transition profits to the 2024/25 tax year where this is beneficial.

We can help you calculate your 2024/25 profits on a tax-year basis and also advise whether an election to advance any transition profits would be worthwhile.

PERSONAL AND FAMILY COMPANIES

Profit extraction in 2025/26

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 £6,500 will ensure that 2025/26 is a qualifying year for state pension purposes. However, it can be beneficial to pay a higher salary.

For 2025/26, 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 primary Class 1 National Insurance to pay on a salary of this level. If you operate your business through a family company and are able to claim the Employment Allowance, if this 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.

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 2025/26 is set at £500. Thereafter, they are taxed at the dividend tax rates. For 2025/26 these are 8.75% where dividends fall in the basic rate band, 33.75% where they fall in the higher rate band and 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.

EMPLOYERS

Mandatory payrolling

The start date for mandatory payrolling has been delayed by one year. It will now come into effect from 6 April 2027 rather than from 6 April 2026. This will give you more time to prepare.

Under mandatory payrolling, all benefits in kind with the exception of employment-related loans and living accommodation benefits must be taxed through the payroll. It is currently not possible to payroll employment-related loans and living accommodation benefits but you will be able to do so voluntarily from 6 April 2027. If you opt not to do this, you will be able to report them after the year end using the P11D process as now.

The way in which you pay your Class 1A National Insurance on benefits in kind will change too. From 6 April 2027 it will be paid each month with your PAYE and National Insurance for that month rather than after the end of the tax year, as now.

We can help you prepare for the move to mandatory payrolling.

CAPITAL GAINS TAX

CGT adjustment for 2024/25

The capital gains tax rates were increased with effect from 30 October 2024. From that date, the rate payable on gains other than those on residential property and carried interest was increased from 10% to 18% where income and gains fall within the basic rate band and from 20% to 24% once the basic rate band has been used up. There were no changes to the rates for residential property, which remained at 18% to the extent income and gains are within the basic rate band and 24% otherwise for the full tax year.

HMRC's Self Assessment online return software calculation for 2024/25 does not take account of the in-year rate increase and works out the liability for the year as if the 10%/20% rates applying from 6 April 2024 to 29 October 2024 applied for the whole tax year. This means that if you realised a chargeable gain in 2024/25 on or after 30 October 2024 and your chargeable gains for the year were more than the annual exempt amount of £3,000, your liability will need to be adjusted to make sure that you pay the correct amount of capital gains tax for 2024/25.

We can help you determine whether an adjustment is needed and calculate the amount of that adjustment.

Business asset disposal relief

Business asset disposal relief (BADR) reduces the rate of capital gains tax on qualifying disposals up to the £1 million lifetime limit,

The rate of capital gains tax payable where BADR applies increased from 10% to 14% with effect from 6 April 2025. It is to increase again, to 18%, from 6 April 2026.

If you are planning on disposing of your business or business assets in the immediate future, ensuring that the disposal goes ahead before 6 April 2026 will enable you to access the 14% capital gains tax rate.

If you ceased a furnished holiday lettings (FHLs) business before 6 April 2025 and the property is sold within three years of the date of cessation, BADR can still be claimed. Making the disposal before 6 April 2026 will ensure that any gains are taxed at 14% rather than at 18%.

We can check that the qualifying conditions for the relief have been met and advise of the optimal disposal date to secure the most favourable tax rate.

PROPERTY

Jointly owned holiday lets

The special tax regime for furnished holiday lettings (FHLs) came to an end on 5 April 2025. Under that regime, where the holiday let was owned jointly by spouses or civil partners, they could choose how to share the income between them and were taxed on the income they actually received.

Following the end of the FHL regime this is no longer the case. Furnished holiday lets are now treated in the same way as other residential properties and where the property is jointly owned by spouses or civil partners the default position is that each is taxed on 50% of the income, regardless of the amount that they actually receive and their underlying ownership share.

Where this does not give an optimal result, if the property is owned as tenants in common in unequal shares you can elect instead for the income to be allocated for tax purposes by reference to those shares by making an election on Form 17. Where it would be beneficial to change the underlying ownership, the no gain/no loss rules for spouses and civil partners mean that it is possible to transfer a stake in the property from one spouse/civil partner to the other without triggering a capital gains tax bill.

If you jointly own a furnished holiday let, we can advise you whether a Form 17 election would be beneficial.

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.
