February 2026

TAXADVISER

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Umbrella companies

From April 2026, unpaid PAYE and NICs can transfer up the labour supply chain

Impact of fiscal drag
Remuneration, pension and benefits planning are increasingly important

AI conundrums
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The new CTA qualification
Introducing staged learning, modern assessments, ethics and skills

HELEN WHITEMAN JANE ASHTON

Welcome
Such an exciting year!

As we enter February, we would like to recognise the significant dedication shown by our members. January is always a challenging month for those managing Self Assessment, and once again the profession has shown its strong commitment to supporting taxpayers. With the immediate pressures of the SA filing season now behind us, we can turn our focus to the months ahead.

On the public policy front, our teams, led by Ellen Milner and Emma Rawson, have been actively engaged in making representations on the Finance Bill. Drawing on the expertise and experience of our members, we seek to influence legislation so that it is clear, workable and fair. Constructive engagement with government and HMRC remains central to our role, and we are grateful to the members who contribute their time and technical insight to this vital work.

The early part of the year offers many opportunities to champion our profession. Apprenticeship Week (9 to 13 February) highlights vocational routes into tax and the high-quality training and progression opportunities available across the sector. Tax apprentices play an increasingly vital role in practices throughout the UK, and we remain committed to supporting employers and learners through guidance and qualifications. Further information will be available on our websites.

Careers Week (2 to 6 March) allows us to showcase the diversity of careers in tax. Whether a school leaver, graduate or career changer, tax offers intellectually rewarding work with real societal impact. Our aim is to ensure the profession is seen as inclusive and attractive to people from all backgrounds. During the week, many of our technical officers will visit schools and colleges, and attend careers fairs. Members interested in helping can contact our schools and careers lead, Steven Pinhey, at spinhey@att.org.uk.

We are proud to introduce a new 'Tax Awareness Week' (9 to 13 March), which will help to educate the public about tax, while demonstrating to policymakers the value of professional tax advice. Trusted, ethical advice is more important than ever, and our members are central to the effective operation of the tax system. Events will include a webinar with all Heads of Tax from the Big Six. Please share our social media postings during the week to help raise awareness of this event.

Continuing Professional Development (CPD) remains a core requirement for all our members. At the next free quarterly webinar for ATT members on 26 February, Emma Rawson and Steven Pinhey will provide an update on penalties. These webinars deliver high-quality, engaging technical content aligned with the evolving needs of the profession. CIOT members wishing to access ATT's free quarterly webinars and other resources may wish to consider joint ATT/CIOT membership. Details are at: tinyurl.com/msbd3n6e

The ATT Fellows' Webinar on 22 April will provide an opportunity to engage with our most experienced members, followed by the CIOT Spring Conference on 29 and 30 April – which promises to be one of the highlights of the year. The conference will bring together leading voices from across the profession to explore key technical, policy and professional issues shaping the future of tax.

We are also looking forward to the CIOT Admissions Ceremony on 16 April, which celebrates the achievements of those who have reached the significant professional milestone of becoming a CTA. It is always a pleasure to welcome new members formally and to recognise the dedication behind this achievement.

As always, thank you for your continued support, professionalism and engagement. Whether through our events, consultations or supporting the next generation of tax professionals, your involvement strengthens both our organisations and the wider profession.

Jane Ashton
Chief Executive, ATT
jashton@att.org.uk

Helen Whiteman
Chief Executive, CIOT
HWhiteman@CIOT.org.uk

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30 Monck Street,
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tel: 020 7340 0550
The CIOT is a registered charity – No. 1037771;
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Editorial
Editor-in-chief Bill Dodwell
Publisher Jonathan Scriven
Editor Angela Partington
angela.partington@lexisnexis.co.uk
tel: 020 8401 1810

Advertising & Marketing
Advertising Sales Jimmy Jobson
advertisingsales@lexisnexis.co.uk
Commercial Marketing Director Sanjeeta Patel

Production
Senior Designer Jack Witherden
Production Assistant Nigel Hope

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NICHOLA ROSS MARTIN

PRESIDENT

The impact of our representations

> We do advise government when we believe there may be a better way of achieving an objective or where proposals may have unintended consequences.

I hope that January went well for everyone involved in filing under income tax Self Assessment. There is just time for a well-earned break before the start of the new era of Making Tax Digital (MTD), which of course commences for income tax on 6 April 2026 for sole traders and landlords with a turnover of £50,000 or more.

One of HMRC's stated ambitions for the introduction of MTD is to reduce taxpayer error and mistakes under Self Assessment. It is not easy to estimate the effect of different measures in combating the 'tax gap'. Our legislation continues to evolve, and it is a case of 'wait and see' as to whether the tax gap actually reduces.

The current Finance Bill contains various measures to reduce tax avoidance, and MPs are now subjecting the Bill to line-by-line scrutiny as it makes its way through parliament. The CIOT's Technical Team and Technical Committee have submitted written briefings and representations where we believe we can have a positive impact. This work forms a core part of the Institute's technical work in the interests of helping make better tax law.

As a charity, our general approach is to stay out of politics. That is, we do not tell governments what their objectives should be or what rates they should set. However, we do advise them when we believe there may be a better way of achieving an objective, or where proposals may have unintended consequences.

There is plenty of evidence in this year's Finance Bill of the impact of the CIOT's representations. The proposal to bring unused pension pots within the scope of inheritance tax from April 2027 raised some very difficult potential problems for pension scheme administrators and personal representatives. We succeeded in securing a right for personal representatives to ask pension scheme administrators to retain 50% of a pension fund for up to 15 months in case inheritance tax is payable. The legislation was also amended to remove liability from personal representatives in relation to pensions discovered after HMRC has issued a certificate of discharge.

On the proposal to restrict agricultural and business property inheritance tax reliefs, we always argued that permitting the APR/BPR allowance to be transferable between spouses would be a straightforward way of mitigating the randomly harsh impact of those changes. It is good to see that the government has taken this approach. It remains a great pity that the government chose not to consult on the inheritance tax changes. I fear that many taxpayers have been pushed into undertaking complex tax planning strategies, some of which may now prove unnecessary in light of recent amendments.

CIOT has also been effective in persuading the government that the proposed strict liability offence of failing to notify a scheme under DOTAS was a bad idea. Unfortunately, the replacement provision in the Bill is also problematic, and we continue to press for further changes. On tax adviser registration legislation, progress has been made through changes to the concept of 'senior manager' and the introduction of additional safeguards, but we do not believe these go far enough. Work continues to strengthen them further. I would like to thank all our staff and committee members for working so hard on these representations.

I am also excited to share updates on education. The Chartered Tax Adviser qualification is undergoing significant evolution. From 2028, CTA students will benefit from more flexible assessments with a stronger focus on professional skills, ethics and the practical realities of modern tax practice, including the use of technology. This follows extensive consultation with members, employers and students, and aims to create a more progressive, staged pathway while maintaining the CTA's rigour.

We have also recently launched the Pillar Two Award, a specialist qualification to support advisers working with the OECD's global minimum tax rules. This award will provide structured, practical learning for those advising large groups in a highly technical and globally significant area. The evolution of our qualifications demonstrates CIOT's commitment to equipping future CTAs to thrive in a complex and fast-moving tax environment, while keeping our qualifications accessible and relevant.

Finally, I would like to offer my warmest congratulations to those who passed one or more papers at the November 2025 examination session. I look forward to welcoming the new members into the Institute at the next Admissions Ceremony.

Nichola Ross Martin
President
president@ciot.org.uk

Chartered Institute of Taxation.

BARRY JEFFERD
DEPUTY PRESIDENT

Some observations…

> I think sometimes that tax practitioners must operate in a parallel universe to the normal world.

Welcome to my first column in 2026. Traditionally, we would begin by wishing all of you a Happy New Year in the January column, but our first print edition is in February this year. However, while *Tax Adviser* is now being printed bi-monthly, our monthly online updates mean that our conversations and commentary will continue throughout the year.

In some ways, though, wishing tax compliance practitioners Happy New Year in February feels wholly appropriate. I think sometimes that tax practitioners must operate in a parallel universe to the normal world. As I have written before, it can be helpful to ease the pressures of January by completing as much as possible before Christmas. I lost count of the number of people asking me if I was 'winding down' in December.

There are always articles about the melancholy of working in January, with the third Monday in January now labelled 'Blue Monday'. Slogging through numerous tax returns may be tedious, but it is certainly not boring. I remember one January trying to find a password to submit a Pension Scheme Return, and searching my emails from the previous January. I never did find it but I did discover correspondence from the clients I had just been dealing with. My favourite example was the client who, at 5.35pm on one 31 January, refused to sign his tax return because he said it was incorrect – despite the fact that the only entry on the return was a P60.

In my December column, I wrote that I was preparing my article before the November 2025 Budget. I made three 'observations'.

First, I said that I could see no point in the pre-Budget statement made by the Chancellor in early November. On Budget day, the Chancellor was severely criticised by the Deputy Speaker for making that statement. I also suggested that it would be better if the Chancellor undertook the political television round on the Sunday after the Budget rather than before – which she did. My *pièce de resistance* was recalling the Chancellor in 1945 who was forced to resign for leaking Budget information. We can now add Richard Hughes, the former Chairman of the Office for Budget Responsibility, to that list.

Another prediction is that the implications of Making Tax Digital (MTD) from April 2026 are now less than two months away. This represents a major change in how many sole traders and landlords will interact with HMRC. Understandably, it also places increased pressure on already busy practitioners, both in adapting to changes in their workload and in dealing with frustrated taxpayers.

When MTD for VAT was introduced, it was largely a change to the submission processes for most businesses. While some businesses using manual systems needed to change, the numbers were relatively small. By contrast, MTD for Self Assessment brings into the system a significant number of taxpayers whose previous interaction with HMRC was on an annual basis. It was therefore pleasing to see in the Budget that penalties for quarterly filing will not apply until 5 April 2027. Your go-to source for all things MTD is the ATT website at tinyurl.com/3vcfvjxn, where our technical team has compiled a wide range of very useful guidance.

Finally, in addition to my role as Deputy President, I am also chairman of the ATT Examination Steering Group. I was delighted last month to report to the ATT leadership team that the November 2025 examinations went well, and that we had many successful candidates. To those of you who passed, I send my congratulations. If you did not pass, please do not give up – try again in May 2026. Many candidates are now exam-qualified and eligible to apply for membership, and I would strongly encourage you to do so. Membership brings access to a wide range of benefits, which are set out on our website at tinyurl.com/4dtvfm5n. It also provides public and professional recognition of the hard work you must have put in to achieve exam success.

For students resitting or sitting for the first time in May 2026, you will notice changes on the computer side of our examinations, as we have changed exam providers. The most significant change is likely to be the introduction of remote proctoring. These changes are designed to improve the computer-based experience for our candidates, while maintaining the integrity and reputation of our examinations. Until next time.

Barry Jefferd
ATT Deputy President
page@att.org.uk

GENERAL FEATURE

FTT warns on AI use

Procedural dispute in *Elden v HMRC*

In *Elden v HMRC* [2026] UKFTT 41 (TC), handed down on 8 January 2026, the First-tier Tribunal (Tax Chamber) issued a pointed reminder to tax professionals about the dangers of unverified reliance on AI-generated material in tribunal submissions.

The case arose from HMRC's application to strike out an appellant's appeal against closure notices on the basis that the appellant and his advisers had repeatedly failed to comply with procedural directions, including deadlines for amended grounds, lists of documents and a witness statement. A significant focus of the hearing, however, became the content of the appellant's skeleton argument – which contained case summaries that the tribunal found to bear the hallmarks of AI generation without sufficient verification. The tribunal concluded that those summaries 'could not plausibly have been produced by a competent human lawyer', and would amount to 'professional incompetence' if carried out by a regulated adviser.

While the tribunal ultimately refused HMRC's strike-out application, it imposed strict 'Will-Unless' directions requiring the appellant to produce a compliant witness statement and to re-submit a revised skeleton argument accompanied by full judgments, accurate quotations and statements of truth confirming that all material had been personally verified – whether or not AI tools were used.

The tribunal stressed that responsibility for accuracy lies with the human user, and AI cannot replace careful legal verification. *Elden v HMRC* serves as a clear cautionary tale: AI-assisted drafting must be thoroughly checked against primary sources before submission to a tribunal, or risk criticism – and potentially professional ramifications – for careless reliance on unverified output.

PERSONAL TAX

Sintra v HMRC: civil tax penalty appeals

Taxpayers bear burden of proof in disproving underlying tax liability

In *HMRC v Sintra Global Inc & another* [2025] EWCA Civ 1661, handed down on 18 December 2025, the Court of Appeal has addressed a fundamental question about the burden of proof in civil tax penalty appeals where the taxpayer contests the penalty on the basis that the underlying tax liability is incorrect.

The dispute arose from large VAT and excise duty penalties imposed by HMRC on Sintra Global Inc and Mr Parul Malde, connected with alleged inward diversion fraud. The First-tier Tribunal and, on appeal, the Upper Tribunal had previously held that HMRC bore the burden of proof in relation to the underlying tax liability where this was put in issue during penalty proceedings.

On HMRC's appeal, the Court of Appeal reversed that aspect of the UT's decision. The court held that where a taxpayer challenges a civil penalty by arguing that the underlying liability to tax is wrong, the legal burden to prove that the liability is incorrect remains on the taxpayer, in the same way as in a direct appeal against an assessment. This conclusion applies unless a statute expressly allocates the burden otherwise. Although the Court of Appeal allowed HMRC's appeal on this and related grounds, it remitted the case back to the FTT for rehearing in light of its clarified principles.

For advisers, *Sintra Global* provides important guidance on how tribunals will allocate the burden of proof in complex penalty appeals, particularly where challenges to underlying tax liabilities intersect with broader penalty issues.

INDIRECT TAX EMPLOYMENT TAX

Employee pension contributions

Salary sacrifice arrangements

The National Insurance Contributions (Employer Pension Contributions) Bill completed its remaining stages in the House of Commons on 21 January 2026, clearing the way for detailed scrutiny in the House of Lords.

The Bill provides the primary legislative framework for changes to the National Insurance contributions (NICs) treatment of employee pension contributions made under salary sacrifice arrangements. Its core purpose is to limit the extent to which such arrangements can be used to secure NIC savings for both employers and employees.

Under the proposals, a new annual allowance will apply to employee pension contributions made through salary sacrifice. Contributions above that limit will no longer benefit from NIC exemption and will instead be treated as earnings for both employee and employer NICs purposes. The government has stated that the measure is intended to protect the NICs base while continuing to support pension saving within defined limits.

During Commons debates, ministers emphasised that the reform targets higher levels of remuneration planning rather than ordinary pension saving, and that the changes will not take effect until April 2029, allowing employers and employees time to adjust arrangements. Opposition MPs raised concerns about complexity and the impact on established salary sacrifice schemes, but the Bill passed its Third Reading without amendment. The Bill now proceeds to the House of Lords, where it will undergo Second Reading, Committee and Report stages.

For advisers, the Bill's progress confirms the government's commitment to tightening the NICs treatment of salary sacrifice, with long lead-in times but potentially significant implications for remuneration and benefits planning.

PERSONAL TAX OMB

MTD exemptions

Must be applied for, not assumed

HMRC has clarified that taxpayers who believe they are exempt from Making Tax Digital (MTD) for income tax will be required to apply for exemption, rather than being excluded automatically. The position is set out in updated guidance published on GOV.UK in early January 2026, including the pages 'Use Making Tax Digital for Income Tax' and agent-specific guidance.

The updated material distinguishes between permanent exemptions, such as digital exclusion due to age, disability or lack of internet access, and temporary deferrals, including cases involving insolvency or other circumstances that make compliance impractical. In all cases, HMRC states that exemption or deferral must be requested and agreed, and may be reviewed if circumstances change.

Responsibility for applying rests with the taxpayer, even where an agent manages ongoing compliance. Agents cannot assume that a client will be treated as out of scope without formal confirmation from HMRC.

For advisers, the guidance highlights the importance of identifying potentially exempt clients well ahead of the April 2026 start date. Failure to apply could leave taxpayers technically within MTD, with associated compliance obligations and exposure to penalties despite genuine barriers to digital engagement.

INDIRECT TAX

Voluntary NICs for periods abroad

Budget confirms changes

The government has confirmed significant changes to the voluntary national insurance contributions (NICs) regime for individuals who have spent time working or living abroad, with effect from April 2026.

As announced at Budget 2025, voluntary Class 2 NICs for periods spent abroad will be abolished for tax years 2026–27 onwards. Currently, some individuals working overseas are able to pay voluntary Class 2 contributions at a lower rate in order to protect entitlement to the State Pension and other contributory benefits.

From April 2026, individuals seeking to fill gaps in their National Insurance record for periods abroad will generally need to rely on voluntary Class 3 contributions instead. However, access to Class 3 for time spent overseas will be restricted. New applications will require the individual to demonstrate at least 10 years of continuous UK residence or National Insurance contributions before going abroad.

The government has said the changes are intended to better align the voluntary contributions system with residence-based entitlement and to ensure fairness between those who remain within the UK system and those who do not.

For advisers, the reforms highlight the importance of reviewing clients' NIC positions well ahead of April 2026, particularly for internationally mobile individuals who may wish to make voluntary contributions under the current rules while they remain available.

PERSONAL TAX

Points-based penalty regime

MTD for income tax self-assessment

HMRC has confirmed that its new points-based late-filing penalty system will apply to income tax self assessment from April 2026, as part of the first wave of Making Tax Digital (MTD) for income tax. The change extends a regime already operating for VAT and replaces the longstanding approach under which a single missed deadline could result in an immediate fixed penalty.

Under the new framework, late submissions will attract penalty points rather than an automatic financial charge. A £200 penalty will only be imposed once a taxpayer reaches a prescribed points threshold. The threshold depends on filing frequency, with fewer points required to trigger a penalty for annual filers than for those with quarterly obligations, reflecting the differing compliance burdens.

The system distinguishes between occasional lapses and repeated non-compliance. HMRC guidance confirms that points will expire after a defined period of sustained compliance, provided all outstanding returns have been filed. Once a taxpayer has reached the penalty threshold, further late submissions will generate additional £200 penalties until they meet the compliance conditions required to reset their position.

PROPERTY TAX INHERITANCE TAX

BPR and APR 100% relief cap

Late amendment

The government has tabled late amendments to the Finance Bill 2026 to increase the amount of business property relief (BPR) and agricultural property relief (APR) available at the 100% rate. As announced in late December 2025, the cap will rise from £1 million to £2.5 million, or £5 million where relief can be transferred between spouses or civil partners.

The change is effected through six amendments to Schedule 12 of the Finance Bill, accompanied by revised explanatory notes. The amendments were considered during the Committee of the Whole House on 12 January 2026.

The increase represents a significant softening of the original proposals, which had prompted concern about the potential impact on family businesses and farms. While the revised threshold has been broadly welcomed, commentators have noted that some taxpayers may already have taken irreversible steps — such as selling assets or restructuring ownership — in reliance on the earlier £1 million cap.

GENERAL FEATURE

Digital services

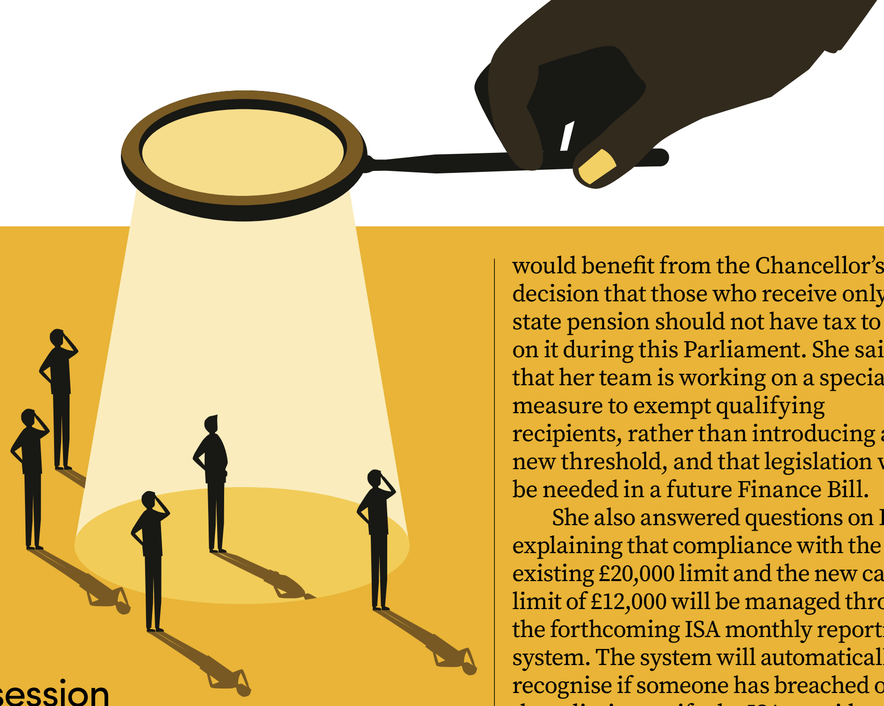
HMRC performance data

HMRC's latest performance report set out key customer service and performance metrics for the financial year 2025–26. The figures underline a continued shift towards digital channels for tax administration and consistently higher satisfaction among users of those services.

According to the data, 77.8% of all customer interactions were handled through automated or digital self-serve channels — illustrating growing adoption of online accounts, the HMRC app and other digital services. HMRC's digital reach is also highlighted by session counts: over 66 million sessions on Personal Tax Accounts, nearly 23 million on Business Tax Accounts, and 76 million HMRC app sessions, alongside more than 1.4 million new app users.

The report also breaks down customer experience metrics by channel, reflecting HMRC's digital-first customer service strategy aims to enable as many customers as possible to self-serve online. Overall levels of satisfaction among users of digital services alone were markedly higher — at 82.9% year to date — compared with 56.5% for phone contact and 72.5% for webchat. Measures of ease of use and 'once and done' resolution similarly favoured digital channels.

HMRC's performance update suggests that its ongoing digital transformation strategy is increasingly meeting taxpayer demand for convenient, round-the-clock online services, while also freeing up adviser capacity for more complex and vulnerable cases.



Scrutiny of HMRC Giving evidence

A Treasury Committee session highlights HMRC staffing, systems reform and Dame Meg Hillier's rigorous scrutiny.

by Bill Dodwell

Dame Meg Hillier moved from chairing the Public Accounts Committee in the last Parliament to chairing the Treasury Committee in this Parliament. The Treasury Committee's website says it 'is appointed by the House of Commons to examine the expenditure, administration and policy of HM Treasury, HM Revenue & Customs, and associated public bodies, including the Bank of England and the Financial Conduct Authority.'

Dame Meg has brought the sharp questioning familiar from the Public Accounts Committee to her new role. When the former Exchequer Secretary James Murray first appeared before the Treasury Committee on 15 January 2025, Dame Meg asked him: 'What background and skills do you bring to chairing HMRC that you think are significant?'

On 13 January, JP Marks, HMRC's First Permanent Secretary and Chief Executive, appeared before the committee alongside Jonathan Russell, Chief Executive of the Valuation Office Agency; Jonathan Athow, Director General for Customer Strategy and Tax Design; and Cerys McDonald, Director of Individuals Policy.

The session kicked off with some remarks about kindness, where JP Marks said: 'Leading with kindness is a thing that we thought a lot about in the Scottish government... Our job is to create an environment where we look after our customers, engage well with our partners, and look after our teams so that we learn from those moments and continue to improve outcomes.'

HMRC headcount

The issue of HMRC's headcount arose in several parts of the session. JP Marks noted that the Budget provided funding for about 1,000 additional staff, who would mostly be focused on low-value imports and, in the Valuation Office Agency, the high-value council tax surcharge. He said that within HMRC the posts were mainly at the lower administrative officer and executive officer grades and recruitment would be spread over several years.

HMRC's headcount increased by just over 2,000 in 2025 but recruiting has not been easy. 'We are having to work hard across all regions of the UK to fill our recruitment,' said JP Marks. We are managing to do it, but we are not doing it by a big margin.' HMRC has established a compliance academy for all the training.

However, the additional recruitment for compliance does not mean a much bigger HMRC overall. JP Marks noted: 'As an organisation overall, we are broadly the same size in 2030 as we are today. We onboard a lot into our frontline for compliance and debt, with a bit more now for customs and valuation. At the same time, we have quite stretching efficiency targets to reduce the size of our core operation to balance the books.'

The state pension and ISAs

This was Cerys McDonald's first appearance before Dame Meg. She offered 'to explain a little bit more about what the Chancellor has announced [on the taxation of the state pension] and how we are . responding.' She was met by a swift response from the Chair: 'Perhaps I will ask the questions and then we will see whether you need to add anything.'

Cerys McDonald explained that between 800,000 and 1 million people would benefit from the Chancellor's decision that those who receive only the state pension should not have tax to pay on it during this Parliament. She said that her team is working on a special measure to exempt qualifying recipients, rather than introducing a new threshold, and that legislation will be needed in a future Finance Bill.

She also answered questions on ISAs, explaining that compliance with the existing £20,000 limit and the new cash limit of £12,000 will be managed through the forthcoming ISA monthly reporting system. The system will automatically recognise if someone has breached one of those limits, notify the ISA provider and ask the ISA provider to take steps to allow the customer to self-correct. 'That is a much more modern system for administering this regime, rather than HMRC doing more intense downstream compliance work. It is a really good, novel upstream compliance intervention.'

Systems

There were several questions about HMRC systems and its performance in taxpayer contact. JP Marks noted: 'Around 80% of our customer interactions are now digital. That was around 75% this time last year.' The aim is to reach 90% by 2030. There are now over 7 million users of the HMRC app, up by over 2 million since 2024. 'This year, we will onboard a new contact centre system ... to give us more modern features around real-time call waiting times and more capacity.'

The impact of the November Budget on HMRC systems was also discussed, with JP Marks confirming that the implementation of several measures – such as the withdrawal of low-value import relief – had been deferred to fit with HMRC systems.

There was much more in the session (see tinyurl.com/y627czkm), such as discussion of business rates and the forthcoming high value council tax charge. These periodic appearances before the Treasury Committee help all of us to understand more about the complexity of HMRC's operations.

Name: Bill Dodwell
Email: bill@dodwell.org
Profile: Bill is the former Tax Director of the Office of Tax Simplification and Editor in Chief of Tax Adviser magazine. He is a past president of the CIOT and was formerly head of tax policy at Deloitte. He joined the Administrative Burdens Advisory Board in 2019. Bill won the Lifetime Achievement Award at the Tolley's Taxation Awards in 2024 and writes in a personal capacity.

What does 2026 hold?
Preparing for the year ahead

We look back at 2025 and consider the key governance and risk issues that tax leaders must address in 2026.

by James Egert

The year 2025 was one of tough fiscal choices and global disruption. In the UK, the Budget was the most obvious focal point – and one of the most anticipated in recent years. It was presented as a careful balance between fairness and fiscal discipline, and it elicited mixed responses.

Supporters emphasised stability and predictability, highlighting the increased fiscal headroom as a sign of resilience that would encourage business investment. Critics, however, viewed the Budget as cautious and lacking ambition, arguing that it amounted to careful tinkering rather than transformative reform. The Institute for Fiscal Studies (IFS) praised the creation of fiscal headroom as 'sensible', but stressed that this was 'not a grand tax-reforming Budget' and showed 'no real appetite for using tax reform to boost growth'.

Confidence improved – but uncertainty remains

Last year, I wrote in *Tax Adviser* that as we hit 2025, 'uncertainty was going to move to a greater confidence over future tax stability'. In advance of writing this article, I tested this assertion using an AI assistant. Its answer was non-committal – and perhaps rightly so.

On one hand, confidence has improved. The government has tried to outline a clearer medium-term strategy and has avoided some of the more drastic measures that had been anticipated. However, uncertainty remains. Many changes have been deferred, fiscal drag continues to play a significant role, and businesses and individuals still face unpredictability in their actual tax burdens. This is compounded by ongoing political instability and wider global volatility.

In this article, I argue that while 2025 brought some progress towards clarity, uncertainty still lingers. Looking ahead to 2026, the message is that businesses and individuals should remain agile, monitor risks and strengthen their tax governance. The signs point to calmer

Key Points

What is the issue?
After a turbulent 2025, tax leaders face continued uncertainty, tougher enforcement and rising global compliance demands as they prepare for 2026.

What does it mean to me?
Greater scrutiny from HMRC, expanding international obligations and accelerating use of technology mean that tax governance and risk management can no longer be informal or reactive.

What can I take away?
Success in 2026 will depend on embedding robust tax control frameworks, clear accountability and resilient operating models that can endure ongoing change.

© Getty images

> **Businesses and individuals should remain agile, monitor their risks and strengthen their tax governance.**

waters, but resilience and adaptability remain essential.

Enforcement takes centre stage

One prediction from last year's article did prove accurate: that in 2025 'we will see the first prosecution under the Corporate Criminal Offence (CCO)'. This indeed materialised in August, involving an alleged R&D tax credit repayment fraud, finally addressing years of criticism that the CCO regime lacked teeth.

This prosecution is likely to set the tone for tougher enforcement and coincided with the introduction of the UK's new Failure to Prevent Fraud offence in September 2025. This further expanded corporate liability for economic crime and prompted many organisations to refresh their CCO procedures, integrating fraud and tax evasion prevention into a single control environment. The message from HMRC in 2025 was clear: enforcement is real, and prevention frameworks must be demonstrable and robust.

Global pressures and operational strain

Internationally, businesses continue to navigate the compliance challenges of Pillar Two, investing in data, systems and processes to meet minimum tax requirements across multiple jurisdictions. Changes in trade and tariffs are continuing to disrupt supply chains and tax planning strategies. I am sure the volatility of tariff adjustments, particularly in the early months of 2025, remains fresh in many memories.

Global tax teams also reported mounting operational pressures. BDO's *Global Tax Outlook*, which surveyed 500 global tax leaders during the summer of 2025, found that 66% of businesses expected tax compliance costs to rise. Meanwhile, 81% reported increased time spent responding to tax authority queries, with some teams spending around a quarter of their time on that alone. The drive for efficiency led 62% of organisations to increase training, 56% to upgrade technology, and 47% to expand outsourcing.

Changes in compliance and other tax law also emerged as a central theme in the survey, with half of businesses citing 'keeping up with regulations' as their biggest challenge. Yet while the pace and complexity of regulatory change can feel daunting, it need not be a burden. Proactive compliance strategies and the effective use of technology can turn regulatory demands into opportunities for improved efficiency, stronger governance and competitive advantage.

As highlighted in the *Global Tax Outlook*, best practice is no longer about box-ticking; it is about building an integrated, risk-aware compliance model that can withstand deeper scrutiny.

Strategic imperatives in 2026

As we move into 2026, the hope is for greater resilience. This requires a proactive, future-ready tax operating model – one that is not only compliant but also flexible enough to adapt to evolving regulations and emerging business challenges. A truly robust tax function integrates risk management, embraces technology and fosters collaboration across the organisation, ensuring it can respond confidently to whatever the regulatory landscape and political shifts bring next.

Businesses are taking steps. According to BDO's *Global Tax Outlook*, most organisations report having a tax risk framework in place, although maturity varies. While 56% describe their framework as comprehensive, 46% say it remains informal or in development. Among the 500 global tax directors surveyed, comprehensive frameworks include monitoring and review processes (71%), documented policies (61%), AI (52%), risk assessment (50%) and escalation workflows (48%). Informal frameworks, by contrast, lean heavily on ad-hoc practices.

Tax authorities increasingly expect a 'no surprises' culture. In the UK, HMRC continues to promote cooperative compliance, signalling that effective tax control frameworks and strong governance are central to lighter-touch oversight.

At BDO, we saw a notable increase in Business Risk Review assessments in 2025, reflecting their role as a cornerstone of HMRC's approach to evaluating large businesses. Business Risk Reviews provide a structured, forward-looking dialogue between HMRC and taxpayers, focusing on the effectiveness of tax governance, risk management and the robustness of internal controls. A positive outcome can lead to a lower risk rating, which in turn means fewer interventions and a more collaborative relationship with HMRC. Conversely, gaps in documentation, unclear processes or reactive compliance can result in a higher risk rating and increased scrutiny.

Emerging audit-led initiatives

We are also aware that HMRC is seeking to introduce a new audit-led programme targeting how large businesses manage and generate their tax positions. Initially targeting the automotive, retail and insurance sectors, this involves multi-day onsite assessments focused on governance, controls and data flows across key tax areas. Businesses must provide detailed evidence of how new entities are integrated into tax processes, with particular emphasis on control effectiveness and accountability.

Proactive preparation for this initiative strengthens compliance with Senior Accounting Officer and Business Risk Review requirements, and demonstrates a commitment to transparency and best practice. As HMRC promotes cooperative compliance, the new programme reinforces the need for robust tax control frameworks and proactive risk management. No doubt we will hear more about this in due course.

In the meantime, for organisations impacted by a Business Risk Review, this is not just a compliance exercise but also an opportunity to demonstrate transparency and commitment to best practice. Regular internal reviews, clear documentation of tax processes and evidence of proactive risk management are all critical to achieving a favourable outcome. By treating the Business Risk Review as a chance to showcase a mature tax control framework – rather than a box-ticking exercise – businesses can build trust with HMRC, securing the benefits of lighter-touch oversight and greater certainty.

Aneeta Samra, Tax Director at Sotheby's, captures this well: 'A strong Business Risk Review outcome is earned by everyday behaviours – complete records, timely responses and a good working relationship with HMRC. Our aim is simple: ensure we have strong tax governance and a robust tax risk framework which complements and reflects internal communication – so HMRC has confidence that we proactively identify tax issues as they arise and that they don't linger.'

2026: from transformation to endurance

When I spoke to Miranda Chamberlain, Head of Tax at Mace, at the start of 2025, she described the year ahead as bringing 'Winds of Change' – a fitting reference, as 2025 was the Chinese Year of the Snake, symbolising transformation. As she observed last year: 'The tax director must be able to robustly demonstrate a responsible tax agenda providing certainty in a climate of uncertainty.'

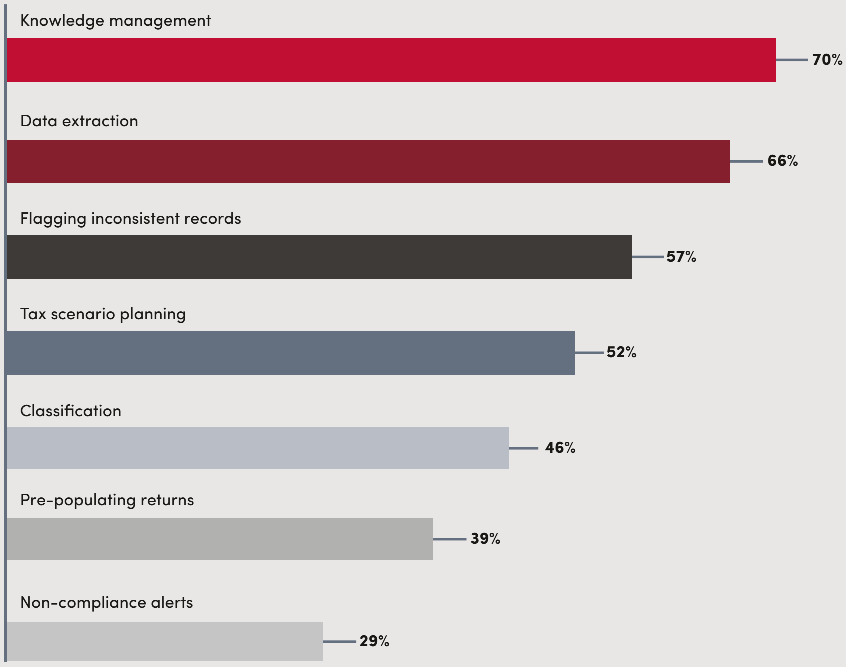
Looking ahead, 2026 is the Year of the Horse and sets an apt tone: it calls for disciplined execution and sustained effort. With greater stability, tax leaders can take stock, consolidate plans and build the confidence needed to future proof their tax functions.

As Miranda says: 'A strong compliance model underpinned by clear accountability, reliable data and regular assurance – embedded in the culture of a business – creates an environment of predictability, certainty and true transparency, supporting long-term business decisions even as the external environment continues to evolve.'

Paul Whiteley, Group Head of Tax at LEK Consulting, reinforces the central element of a strong compliance model, namely management of tax risk. He reminds us that most tax risk arises not within tax or finance teams but from the wider business. It is therefore critical to ensure that everyone understands the significance of tax risk, the impact it can have on the business and the need to manage it properly: 'That goes across not just people who have tax responsibilities, but people in the broader business.'

ADOPTION OF AI

Which tasks are aided by AI at the moment in your company?



As 2026 unfolds, tax leaders must consolidate their strategies and embed robust, risk-aware operating models. Clear accountability, reliable data and regular assurance will be key to building resilience and supporting long-term decisions. Ultimately, managing tax risk is a collective responsibility across the business, ensuring stability and confidence in an ever-evolving environment.

Corporate Tax Roadmap

Last year, I highlighted the importance of the Corporate Tax Roadmap 2024. While not front-page news, it remains relevant as it sets out the government's plans for corporation tax – offering a welcome level of predictability for corporates and setting out the government's intention to keep corporation tax policy stable and attractive for investment.

The roadmap confirmed that key elements – such as the headline corporation tax rate, current R&D relief rates and the core capital allowance structure – would remain unchanged. It also identified areas for potential reform, including providing advance certainty for major projects, expanding R&D clearances, updating international tax rules, reviewing land remediation relief, and examining the tax treatment of pre-development costs.

Several consultations on these topics took place in 2025. The Advance Tax Certainty Service is due to launch in July 2026, with a pilot on R&D certainty for SMEs planned for the Spring, although some elements – including the review of pre-development costs – have been postponed.

International issues: Pillar Two

Pillar Two remains a central workload driver. Many groups invested heavily in 2025 to collect new data points, upgrade systems and revisit global tax operating models. This continues into 2026, alongside ongoing geopolitical uncertainty around trade, tariffs and US tax reform.

As Ross Robertson, one of our Corporate International Tax partners at BDO UK, reminded me, 'the devil is in the detail'. The Pillar Two journey is far from a box-ticking exercise. Businesses must undertake detailed reviews of their structures and processes to ensure compliance and avoid costly assumptions.

The cost implications are real. Ralf Pieters, Head of Tax at AkzoNobel, explains in the *Global Tax Outlook* that: 'There was no doubt that a solution [for Pillar Two] would require quite an upfront investment, as would upskilling and perhaps adding resources to the team.' Instead, his organisation opted for outsourcing after recognising the scale of investment required – a decision that proved more cost-effective than initially expected.

This experience highlights a broader trend. Cost considerations often drive initial decisions, and the complexity of Pillar Two is prompting organisations to rethink their approach. Ian Bowden, who leads BDO's Pillar Two technology implementation, says: 'Pillar Two represents a significant data challenge, providing tax and finance teams with a compelling business case for transformation.

'Many groups are leveraging the Pillar Two requirements to drive broader changes within their organisations, particularly in the tax provision process. The interconnected nature of data has compelled groups to adopt a holistic view of their tax function operations, fostering comprehensive improvements and strategic advancements.'

The challenge – and opportunity – of AI

Technology, and particularly AI, will be a defining topic for 2026. BDO's survey shows that AI is no longer a future concept – it's already embedded in key processes: knowledge management (70%), data extraction (66%), flagging inconsistent records (57%) and tax scenario planning (52%). The immediate benefits are clear: faster turnaround times, improved data accuracy and easier access to knowledge.

The bigger question, however, is how prepared we are for AI to move beyond operational efficiency and start shaping strategic decisions. What does it mean when algorithms begin influencing judgement calls traditionally reserved for human expertise?

> **It's crucial to think about governance, ethical frameworks and the skills to interpret AI-driven results.**

In 2025, the jump in the use of AI tools has been significant, and by the end of 2026 we may find ourselves operating in a very different landscape altogether. As we adopt AI, it's crucial to think about governance, ethical frameworks and the skills to interpret AI-driven results for tax purposes. Are our organisations prepared to trust AI as a strategic adviser, not just an assistant? If so, how do we ensure transparency, accountability and alignment with our tax values?

Conclusion

As we move into 2026, the focus and hope for all tax professionals is to move from transformation and uncertainty to endurance. The turbulence of recent years has reinforced the need for resilience, robust governance and proactive risk management. With enforcement and HMRC scrutiny tightening, regulatory complexity increasing and technology – particularly AI – becoming integral to our everyday lives, organisations must embed robust tax operating models supported by reliable data and clear accountability, rather than relying on reactive solutions.

Success will depend on collaboration across the business, disciplined execution and a commitment to transparency. In an environment that remains unpredictable, endurance is not about standing still – it's about navigating change while supporting long-term strategic tax governance.

Name: James Egert
Position: National Lead Partner, Tax Risk and Governance
Employer: BDO
Email: James.egert@bdo.co.uk
Tel: 07920 591553
Profile: James is the Global and National Lead for the Tax Assurance and Risk Management team at BDO. His team won Best Specialist Tax Team at the Tolley's Taxation Awards in 2022.

Tax threshold freezes
The impact of fiscal drag

Frozen tax thresholds until 2031 will steadily raise tax bills, making proactive remuneration and income planning increasingly important for employees and employers.

by Stephen Kenny

Key Points

What is the issue?
Freezing income tax thresholds until 2031 increases tax liabilities through fiscal drag, despite no headline rise in tax rates.

What does it mean to me?
Employees and employers will face higher effective tax and NIC costs as wage growth pushes more income into higher tax bands.

What can I take away?
Careful remuneration planning – including pensions, salary sacrifice and non-cash benefits – can help to mitigate the impact of frozen thresholds.

Since the Budget, there has been much debate over whether Rachel Reeves and the Labour government have breached their manifesto pledge not to raise income tax. Whatever the political arguments, the practical position for taxpayers is clear: income tax thresholds are frozen until 2031. In this article, we will look at what that freeze means in practice for both employees and employers.

Income tax rates and thresholds have been devolved to Scotland; this article does not consider the position for Scottish taxpayers. Income tax rates but not thresholds have been devolved in a limited way to Wales but so far the Senedd has followed the UK-wide rates.

We look at which elements of income tax have been frozen, how this is likely to affect tax liabilities over the coming years, and what steps taxpayers and businesses may be able to take to help to mitigate the impact of these changes.

What did Budget 2025 do?

Chancellor Rachel Reeves confirmed an extension of existing freezes so that personal tax thresholds remain fixed in cash terms until 6 April 2031. This freeze was first announced in March 2021, meaning that by the end of the period there will have been nearly a decade without any change to the income tax bands and the personal allowance.

While taxpayers will not see an explicit change in income tax rates, extending the freeze to 2031 will intensify the effect of fiscal drag on earnings. As wages rise, a greater proportion of income is taxed and more income is pulled into higher tax bands. This may contribute to wage inflation, but for employers it also means higher costs.

The main employer National Insurance contribution (NIC) rate rose to 15% in April 2025 and the secondary threshold (the point at which employer NIC becomes payable) fell to £5,000. Together, these measures already significantly increase the marginal cost of employees' salaries.

It is important to note that some employees will also be affected by changes to pension salary sacrifice, which has long been an efficient way of making pension contributions. From April 2029, NIC relief on employee pension contributions made through salary sacrifice will be capped at £2,000 per person per year. Amounts sacrificed above £2,000 will attract both employer and employee NIC, although income tax relief remains unchanged.

While there was no change to income tax rates on earned income, the Budget introduced higher bands for savings and property income.

From April 2027, savings and property income will be taxed at rates 2% higher than currently:

- Basic rate: 22%
- Higher rate: 42%
- Additional rate: 47%.

In practice, this mirrors the pre-Budget suggestion of applying National Insurance to property income but does so more straightforwardly and with less administrative complexity.

Dividends are also affected. From April 2026, the Budget introduces a 2% increase in dividend tax rates for the basic and higher bands. The basic rate will rise from 8.75% to 10.75%, and the higher rate from 33.75% to 35.75%. The additional rate band will remain unchanged at 39.35%.

From 6 April 2027, the ordering rules will also change, so that the personal allowance and other reliefs must first be set against non-investment income (employment, trading income and pensions). Savings, dividends and property income will then be taxed afterwards using their own band.

This effectively treats investment income as the 'top slice', pushing it more frequently into higher or additional rate bands.

IMPACT OF THRESHOLD FREEZE

Starting salary 2025-26	Salary 2030-31 at 4%	Tax (frozen 2030-31)	Tax (CPI-uprated 2030-31)	Extra tax from freeze	Extra tax rate
£30,000	£36,500	£4,786	£3,802	£984	2.7%
£40,000	£48,666	£7,219	£6,235	£984	2.02%
£50,000	£60,833	£11,765	£8,667	£3,097	5.09%
£60,000	£72,999	£16,632	£11,624	£5,008	6.86%
£80,000	£97,332	£26,365	£21,357	£5,008	5.15%
£110,000	£133,832	£47,056	£44,003	£3,052	2.28%

What does this mean in practice?

The table above models the effect of the threshold freeze and fiscal drag through to 2031. It assumes that pay grows by 4% a year and compares the tax payable based on frozen thresholds with the tax payable if thresholds had been uprated in line with the Consumer Price Index (CPI).

ICAEW's analysis of Office for Budgetary Responsibility (OBR) figures indicates that by 2030-31 the personal allowance would be around £4,920 higher and the higher rate threshold around £20,120 higher than the frozen values. The additional rate threshold is assumed to remain unchanged, in order to focus on the key bands where fiscal drag is most keenly felt.

Based on the modelling, several key points stand out:

Pension contributions remain a powerful tool for structuring employment packages efficiently.

- The freeze raises the total tax most for households pushed across the higher-rate threshold – the 'cliff' where 40% tax begins.
- At higher incomes, the difference narrows, largely due to the personal allowance taper (which removes the allowance altogether by £125,140) and the fixed additional rate threshold.

While this analysis focuses only on income tax, the freeze is likely to have more of a bite when combined with higher employer NIC, the changes to dividend, saving and property rates, and the high income child benefit charge.

Mitigating the impact

To combat the effects of the freeze, employers will increasingly be looking for ways to reward employees in the most efficient way – without inadvertently dragging them into higher rate tax bands.

With employer NIC at 15% and the secondary threshold down to £5,000, pure cash awards have a steeper marginal cost. As a result, employers are likely to focus more heavily on ways they can reward employees in a tax-efficient manner.

We have outlined some of the options below. Converting a portion of annual pay increases into employer pension contributions, electric vehicle leasing or universal benefits is likely to become more common. These options are particularly valuable for those in the £50,000 to £60,000 range, who are amongst the hardest hit by fiscal drag.

Pension optimisation

Pension contributions remain a powerful tool for structuring employment packages efficiently.

The cap on NIC relief for employee salary sacrifice does not take effect until April 2029. Until then, maximising pension contributions through salary sacrifice can still deliver full NIC and income tax saving.

Even after April 2029, salary sacrifice will remain attractive. Income tax relief continues to apply, though NIC relief is only available on the first £2,000 of contributions every year for both employees and employers. As income tax relief will continue to apply, for employees in the 'taper zone' of £100,000 to £125,140 well-sized pension contributions can restore the personal allowance and significantly reduce the effective marginal tax rate. A similar approach applies for those affected by the high income child benefit charge.

Crucially, ordinary employer pension contributions remain fully exempt from NIC after April 2029. This is likely to impact how remuneration packages are structured going forward. That being said, while pension contributions are a fantastic way to save for the future, they do not address people's immediate cost-of-living pressures.

Electric vehicles via salary sacrifice

The tax-efficient provision of company cars can materially reduce the pressure of household costs.

The benefit-in-kind rates for company cars are still at a very low rate. The rate on pure electric vehicles is 3% in 2025-26, rising gradually to 9% by

2029-30. Even with higher employer NIC, electric vehicles salary sacrifice arrangements typically leave employees materially better off than comparable personal leases, while also helping employers to meet net-zero and ESG targets.

The Budget's per-mile levy from 2028 is modest in the early years and does not fundamentally alter the salary sacrifice mechanics.

Universal, tax-efficient non-cash benefits

While the range of tax-free benefits that can be given to employees has been restricted over recent years, several options remain. Some of these benefits can also support employers' desires to increase office attendance.

For example, where a canteen or meal facility is made available to all employees at a location and provided on a reasonable scale, the benefit is exempt from income tax and NIC. Care must be taken to ensure that the benefit is not delivered through salary sacrifice, which would disapply the exemption.

This can be a simple way to boost the total reward without triggering a tax liability. It can also help to create a pleasant working environment at a time when many employers are pushing to attract employees back to the office.

Cycle-to-work schemes and other cycle provision made generally available to staff, and used mainly for qualifying journeys, remains beneficial. E-bikes are included. Despite pre-Budget speculation about caps, the scheme continues unchanged and is an efficient, cost-effective way to support health and sustainable commuting while protecting net pay.

> **While the range of tax-free benefits has been restricted over recent years, several options remain.**

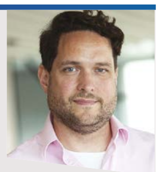
Employer-provided mobile phones also remain exempt from income tax and NIC, provided that they are supplied without transferring ownership, the contract is in the employer's name, and the exemption is limited to one phone or SIM per employee. The exemption covers the handset, line rental and private calls. While tax-efficient, some employees may be less keen on this if they feel it increases expectations of accessibility outside work hours.

Managing expectations and minimising surprise

The most corrosive element of fiscal drag is surprise: the sudden realisation that a modest pay rise has pushed someone into higher-rate tax or intensified the personal allowance tapering.

Employers should be particularly mindful of employers clustered around the £50,270 threshold and those in the £100,000 to £125,140 range, where the impacts of tax cliff edges are most keenly felt. Clear communication with these employees about the structure of their remuneration packages will be crucial.

Employers may also want to consider providing access to financial planning support for their employees, helping them to understand and navigate the impact of these changes and with ongoing planning.


Name: Stephen Kenny
Position: Partner and Head of Private Client
Firm: PKF Littlejohn
Tel: (0)20 7516 2200
Email: skenny@pfk-l.com
Profile: Stephen Kenny is a specialist in private client and has over 15 years of industry experience. His expertise covers non-domicile and residence, advice on investing in the UK, and family wealth planning, as well as support with taxes such as capital gains tax and inheritance tax.

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Meaningful VAT reform

The patchwork quilt of tax

If VAT is a simple tax, then why isn't it easier to fix?

by Gabby Donald

Key Points

What is the issue?
UK VAT has evolved into a highly complex, outdated system that no longer aligns well with the modern economy or policy objectives.

What does it mean to me?
Businesses face growing uncertainty, compliance costs and inconsistent outcomes as VAT struggles to keep pace with innovation, digitalisation and inflation.

What can I take away?
Meaningful VAT reform is needed, but it must balance simplification, revenue protection and wider economic policy to avoid harmful unintended consequences.

When VAT replaced purchase tax in 1973, following the UK's entry into what was then known as the European Economic Community (the forerunner of the European Union), we were assured that it would be a 'simple' tax. Since then, VAT has grown steadily in importance and now represents a large slice of government revenue. In 2024-25, VAT raised over £171 billion and is forecast to exceed £180 billion in 2025–26. Increased VAT receipts, driven in part by higher inflation, were identified as one of the factors reducing the fiscal deficit and enabling the government to avoid raising income taxes at the Budget.

In addition to raising revenue, VAT also functions as a tool of government social policy. This has always been the case, with exemptions for health and various other services set out in both EU and UK law. This role has, however, been brought into sharp focus by the current Labour government and its decision to tax private education.

Was VAT ever really 'simple'?

Whether VAT can ever truly have been considered a simple tax is debatable. From the outset, it contained a complex web of exemptions and carve outs. Before the UK left the European Union, the implementation of VAT was required to comply with EU principles and interpretations to ensure uniform application across the member states. This framework was further complicated by a series of derogations negotiated historically to 'grandfather' existing UK tax treatments, including zero rating for children's clothing, many food items, house building, books and newspapers.

Although the social policy rationale for many of these reliefs is clear, the UK legal provisions underpinning them were subject to EU 'stand still' provisions, meaning that neither the legislation nor its interpretation could be updated or expanded while the UK remained a member state.

Brexit and the illusion of simplicity

You would be forgiven for assuming that the picture must now be far simpler. However, following the Brexit vote and subsequent legislation – including the EU Withdrawal Act, the Retained EU Law (Revocation and Reform) Act and the Finance Act 2024 s 28 – EU principles of interpretation continue to apply, even though UK VAT law can no longer be quashed or overridden by EU law.

The resulting framework of legislation, case law and legal principles for UK VAT is arguably akin to a piece of software that has been repeatedly patched over time, but which now requires a major upgrade rather than further incremental fixes.

Straining to keep pace with the modern economy

Given this complicated history and legal framework, it is perhaps easier to understand why VAT law has not yet been subject to major reform or simplification. However, the growing disconnect that exists under the status quo between VAT law and many of the goods and services supplied in the modern economy means that change must come – and soon – if the system is to continue to function effectively and to align with broader government policy objectives.

The fractures inherent in the current legal framework are all too often on display:

- Recent disputes have arisen over whether products should be standard-rated or zero-rated for VAT purposes, including chocolate-filled or chocolate-covered biscuits, and whether turmeric shots constitute a food item – a product perhaps not anticipated when the derogation for zero rating of food was formalised in the late 1970s!
- The rise of remote working and digital nomads makes it harder than ever to determine where a business is established or most closely associated with a supply, and therefore the country in which VAT should be charged and accounted for.
- Innovation in combining financial services and the digital world have led to challenges in determining the VAT treatment and place of supply for crypto-currencies, non-fungible tokens and in-game purchases.
- VAT conundrums also arise in relation to the green economy and the drive towards net-zero. Questions raised in recent years include whether voluntary carbon and biodiversity net gain credits should be subject to VAT at the standard rate, as well as the extent to which input VAT is deductible on costs relating to long-term land preservation or remediation commitments.

Any assessment of the current VAT system must also acknowledge the impact of fiscal drag. Although the VAT registration threshold rose to £90,000 in 2024, had it risen in line with inflation it would now exceed £110,000. Many other VAT thresholds have not risen at all. The partial exemption de minimis remains frozen at £625 per calendar month and, while the planned increase to £600,000 is welcome, the £250,000 capital goods scheme threshold – above which input VAT on assets such as property must be adjusted – means that today's taxpayers become subject to greater complexity within the VAT regime much more quickly than in the past.

The case for reform – and the risks

The case for reform and simplification is therefore compelling. However, given how essential VAT is to funding government spending, the challenge lies in reforming the system without unintended consequences or adverse impacts on tax revenues.

Many think tanks and policy specialists favour a radical overhaul of the current UK VAT system, with proposals often centred on:

- significantly reducing the VAT registration threshold; and
- removing most VAT exemptions and zero- or reduced-rating reliefs.

A key argument in favour of reducing the VAT registration threshold – for example, to £40,000 (a level far closer to those seen in many EU member states) – is that it would reduce incentives for small businesses to keep turnover below the current £90,000 threshold. This 'bunching' of businesses is widely viewed as a brake on growth.

While removing barriers to growth is a laudable aim, the reality is far from straightforward. A sharp reduction in the VAT registration threshold would bring many small and micro-businesses within the scope of the VAT system, imposing additional administrative burdens and costs on taxpayers who may lack the knowledge or resources to manage them. The additional VAT revenue raised from these businesses – estimated by the Office of Tax Simplification in 2017 at around £1 billion to £1.5 billion – would be relatively modest given their low levels of turnover. This may not represent good value for money once the additional costs to HMRC of administering the tax for an estimated 400,000 to 600,000 additional taxpayers are taken into account.

Moreover, the VAT charged on goods and services supplied by these businesses would likely be passed on to consumers, creating an initial inflationary impact. The wider economic impacts must also be considered, including the effect on the ability of small businesses to compete with larger businesses already within the VAT system, and potential knock-on effects for hiring and employment. All of these factors must be carefully weighed and potential mitigations introduced before such a bold step could be taken.

Broadening the base: a delicate balancing act

Broadening the VAT base is the second commonly proposed form for modernising the UK VAT system and one which many professionals support in principle. The challenge, however, is that such a complex landscape of exemptions and other reliefs makes this a delicate exercise – akin to a metaphorical game of Jenga, where removing one block risks destabilising others.

The political challenges are equally significant. Removing reliefs will inevitably be an unpopular move with those losing out, requiring the government to navigate the resulting negative publicity. It will also need careful consideration of how VAT reliefs interact with wider government policy, such as zero-rating for construction services to support government housebuilding targets.

Ironically, however, in the current post-Brexit environment – where the UK government is now able to fundamentally change VAT law – the noisiest and most extensive lobbying has often been for new and additional reliefs, as seen recently in relation to domestic fuel and power, renovation works for existing properties and sunscreen.

Principles for a future VAT system

If future VAT policy design is to be successful, several key considerations should guide its design.

Competitiveness: VAT policy should help to create an attractive environment in which businesses choose to locate and grow. A key consideration would include lowering the standard rate of VAT if the tax base is significantly broadened.

Alternatively, this could involve more targeted measures, such as introducing options to tax financial services where VAT would generally be recoverable by business customers.

Simplification: The existing system and legal framework must be simplified to reduce the complexity in determining the VAT treatment of goods or services. This will be essential if the VAT registration threshold is significantly reduced. Competing and overlapping provisions should also be reviewed and rationalised. The motive driven anti-avoidance *Halifax* principles were safeguarded as part the post-Brexit measures in Finance Act 2024 s 28; however, this sits alongside the 2018 DASVOIT disclosure rules (Disapplication of Anti-avoidance on the Grounds that it is Inconsistent with EU VAT Law), the 2004 and 2005 Regulations dealing with listed and hallmarked schemes, and specific anti-avoidance measures built into the legislation for which no motive test applies.

Cohesive policy making: Existing and future VAT policy must be considered in the context of broader policy objectives and what the government is trying to achieve. If current or proposed VAT legislation or policy positions do not support wider policy intentions, the rationale should be questioned. Recent examples include the welcome announcement that the VAT treatment of land transfers for the construction of social housing will be explored with a view to removing VAT as a potential obstacle to housing policy. Opportunities also exist to reduce friction where tax policy intersects with growth initiatives in in the digital, technology and financial services sectors.

Technology as an enabler: Greater adoption of technology should support more efficient administration of the VAT system for both taxpayers and HMRC, while making better quality data available to HMRC and HMT to underpin future policy decisions. Recent announcements of HMRC's plans to introduce e-invoicing are a sensible step forward and could act as a catalyst for wider policy change and simplification, including reform of the special VAT accounting schemes or obscure invoicing rules.

Long-term planning and certainty: The UK VAT system is in need of significant modernisation, and this will not be a quick or easy task. Investment in detailed research, consultation and planning is necessary to develop a VAT system that is fit for the future. Taxpayers need certainty to manage their businesses and plan for the future. HMRC's recent 'Transformation Roadmap' provides a useful model – perhaps VAT policy reform and modernisation would benefit from a dedicated roadmap of its own.

In conclusion

Until this work can be done, the UK will continue to have a patchwork quilt of a VAT system – one that yields many anomalies and the occasional humorous food-related stories but offers precious few (chocolate-covered biscuit) crumbs of certainty for taxpayers. Achieving a modernised framework will require clarity of purpose and a long-term commitment to reform.

Name: Gabby Donald
Position: Partner, VAT
Firm: Blick Rothenberg
Tel: +44 (0)20 7544 8854
Email: gabby.donald@blickrothenberg.com
Profile: Gabby Donald is a VAT Partner at Blick Rothenberg and chair of the Chartered Institute of Taxation's Indirect Taxes Committee. Gabby has specialised in VAT for over 20 years and is a regular contributor to policy working groups and consultations.

Key Points

What is the issue?
Indirect tax teams face pressure to adopt AI while ensuring accuracy, governance and accountability in a high-stakes environment where judgment and defensibility remain essential.

What does it mean to me?
AI can accelerate research, support processes and highlight anomalies, but it cannot replace human judgment. Tax professionals must design guardrails, ensure auditability and integrate AI responsibly into existing controls.

What can I take away?
Use AI where it is actionable and auditable, automate only well-structured controls, and treat AI as a decision-support tool that enhances – rather than substitutes – professional expertise.

The AI conundrum

AI's role in indirect tax

AI offers powerful opportunities for indirect tax teams, but only when applied with clear controls and human judgement.

by Lucibeth Hammond

Every tax professional I speak to feels the same tension. On one hand, there's relentless pressure to 'do something with AI'. Boards are hearing about miraculous productivity gains and vendors are promising self-driving tax engines. We're being handed tools from IT with the expectation that we know when and how to use them.

On the other hand, indirect tax is not a playground. Paying tax correctly is part of your business's licence to operate and must be correct. We are dealing with high-volume, high-value transactions, rules that shift by jurisdiction and sector, and regimes that expect demonstrable governance. If things go wrong, it is the business and, in practice, the tax function that must stand behind the position taken.

And so, we have the AI conundrum for indirect tax: how do we take advantage of genuinely powerful new tools without outsourcing judgment or undermining accuracy and control?

What are we trying to use AI for?

When we think about the use cases for AI in tax, we often mix four very different needs, all of which represent different aspects of our roles:

- **Process and governance:** We're capturing, validating and routing data, documenting controls and generating audit trails.
- **Technical advice:** We're interpreting legislation, guidance and case law.
- **Tactical decisions:** We're defining the VAT treatment of particular flows or coding a new product.
- **Strategic decisions:** Finally, we're redesigning our supply chains, rebalancing our sourcing strategies and refining our operating model.

These needs sit on a spectrum between certainty and probability. Some tasks (like applying a clear VAT treatment where rules and facts are stable) are largely deterministic. Others are inherently judgmental. We're weighing ambiguous facts, competing authorities, historic experience and commercial risk appetite.

The latest AI tools excel at pattern recognition and content generation. They can synthesise vast amounts of text and spot anomalies in large data sets far more quickly than a human. But they still struggle with context, risk appetite and accountability – precisely the things that dominate high-value indirect tax work.

Our use of AI needs to add real, incremental value. It needs to protect our businesses and our reputation.

The role of AI in technical advice

In the technical sphere, modern AI models are already very good at research and interpretation. They can search legislation, judgments and guidance, extract the relevant parts and summarise them in plain language. For the busy practitioner, this can be a genuine time-saver, especially when combined with a well-curated internal knowledge base.

However, that does not mean AI can replace the formation of a technical view. When we apply law to facts, we are not simply matching keywords. We're assessing the quality of evidence, interpreting grey areas and mapping positions to our individual business's cultures and appetite for risk. AI can outline possible arguments and suggest comparable precedents. But it does not understand commercial context, reputational risk or the reality of dealing with a particular tax authority. It cannot, in any meaningful sense, 'own' the judgment.

The same is true for scenario analysis. AI can model 'what if' situations (for example, different territorial footprints or supply chains) and estimate the VAT impact, provided the inputs are structured and of reasonable quality. Yet the moment a scenario involves policy trade-offs, stakeholder dynamics or regulatory uncertainty, you are back in human territory.

And when it comes to judgement and accountability, deciding what we think, documenting why and being prepared to stand behind that advice, AI is fundamentally weak. It has no skin in the game, no professional status to uphold and no mechanism for responsibly balancing risk and reward. Those belong, and will continue to belong, to us – the human professionals.

The message here is not that AI has no place in technical work. It does, as an accelerator and a challenger. We can be a naturally sceptical bunch, and I think that is right given where the technology is just now. We should challenge, question and hold ourselves to account on using AI tools responsibly.

The role of AI in process and governance

Where AI is more obviously ready for primetime is in the world of process and governance. Its ability to create quality first drafts of process and governance documentation, or even tax strategies, is impressive.

Indirect tax is awash with documents and structured data from invoices and purchase orders to customs entries and general ledger postings. Here, mature optical character recognition (OCR) and machine-learning models can capture and classify information with impressive accuracy, drastically reducing manual keying and re-work. Once the data is in the system, process automation can drive consistent treatment. Rules-based engines, enhanced with AI where appropriate, can apply VAT codes, route exceptions and trigger alerts when transactions fall outside expected patterns.

AI shines at decision support. Given a large volume of transactions, it can surface anomalies or trends that a human might never spot, such as suppliers whose coding behaviour changes over time, or jurisdictions where recovery rates systematically differ from expectations.

But again, there are caveats. Off-the-shelf AI systems struggle with explainability and governance. If a model flags an invoice as 'high risk' or suggests a particular treatment, can we see why? Can we show a tax authority the evidence considered, the thresholds used and the human-in-the-loop activity?

Without training these models for the needs of our roles, we may end up with faster processes but weaker control, a situation no Head of Tax wants to defend.

Two pillars: actionability and auditability

To turn AI from a clever toy into a defensible component of our control framework, I find it useful to think in terms of two pillars: actionability and auditability.

Actionability: Actionability is about whether AI outputs drive real, measurable decisions.

- Do they integrate with our existing workflows and systems?
- Do they trigger clear next steps, or do they just sit in dashboards?
- Have we defined how exceptions are handled and who has the authority to override?

Auditability: Auditability is about whether we can explain and defend those AI-assisted decisions.

- Do we log data inputs, model versions and rationale?
- Can we map AI-enabled steps to our existing control frameworks (for example, VAT governance, SOX compliance or internal tax policies)?
- Can we reconstruct the decision path for a specific transaction months or years later?

High-quality AI in tax must score well on both. Actionable but unauditable AI is a regulatory time-bomb. Auditable but unactionable AI is a glossy report that no one uses.

Turning auditability into practice

So, what does auditability look like in practice? To get there, tax and technology teams need to log every decision – not only the final VAT code, but also the key data points and logic applied.

They must design explainability checkpoints that require the system to produce a 'because…' statement before an outcome is accepted, and they should embed human review loops so that, at defined risk points such as new flows, high-value transactions or new jurisdictions, a human reviews and either accepts or declines the AI's suggestion.

It is also important to align AI-enabled steps within existing control frameworks, mapping them to the control objectives that internal and external auditors already understand.

Finally, teams must store the reasoning alongside outcomes so that, when the tax authority asks, 'Why was this treated this way?', the organisation can offer a substantiated explanation rather than simply saying 'the system said so'.

Done well, this approach does not just make AI safer; it can actually enhance your ability to evidence good governance.

Turning actionability into practice

On the actionability side, practical steps include integrating AI outputs into core systems – such as enterprise resource planning (ERP) platforms, workflow tools or robotic process automation – so that suggested VAT codes, risk scores or anomaly flags appear where people already work.

Organisations should define clear exception paths that set out when humans must intervene, what options they have and how their decisions are recorded. They also need to set measurable thresholds that link AI insights to KPIs such as error-rate reduction, time saved or audit findings, enabling them to demonstrate incremental value.

Closing the feedback loop is equally important, feeding user actions – whether they accept, amend or reject a suggestion – back into the model so that it learns where its suggestions are helpful and where they are off the mark.

Finally, every AI-supported decision must still have a named human owner. The 'system' is never an appropriate control owner. If AI is not changing decisions, reducing effort or improving control, then it is, at best, an experiment – and at worst, it is an added layer of complexity without meaningful benefit.

A practical test…

A simple question I encourage tax teams to ask is: 'Which control would we be comfortable automating tomorrow?' First, is the control automation-ready?

- Are the inputs structured and consistent enough for a system to handle reliably?

- Are the decision criteria explicit and relatively stable over time?
- Would automation improve, or at least preserve, the audit trail?

If the answer is 'no' to these, you do not yet have a technology problem, you have a process and data problem. Only then should you ask whether the control is AI-ready.

- Does it require nuanced human judgment or contextual understanding?
- Do you have enough historic data (including examples of 'good' and 'bad' decisions) to train or calibrate a model?
- Crucially, could you still explain the 'why' behind outcomes to an auditor or authority?

Many high-volume, low-complexity VAT controls will pass both tests. These are your early candidates for AI-enabled automation and improvements. Higher-risk, judgment-heavy decisions will sit further out on the horizon, where they're appropriate for decision support, but not yet decision replacement.

What does this mean for the tax profession?

For tax professionals, all of this has two important implications.

First, our core skills remain central. The market may be excited by AI's ability to draft memos and summarise legislation, but the real value in indirect tax lies in structuring transactions, articulating defensible positions, making judgments and building governance that can withstand scrutiny. AI does not reduce the need for that work; if anything, it makes it more visible.

Second, we have a new design responsibility. As tax professionals, we can no longer be passive recipients of technology. We need to be involved in designing the decision flows, guardrails and audit trails that determine how AI is actually used. If we are not, others will make those choices for us, and we will still be the ones signing off the returns.

That means asking awkward questions of vendors, collaborating closely with finance and IT, and being precise about which parts of our work we are willing to automate and on what terms.

In conclusion

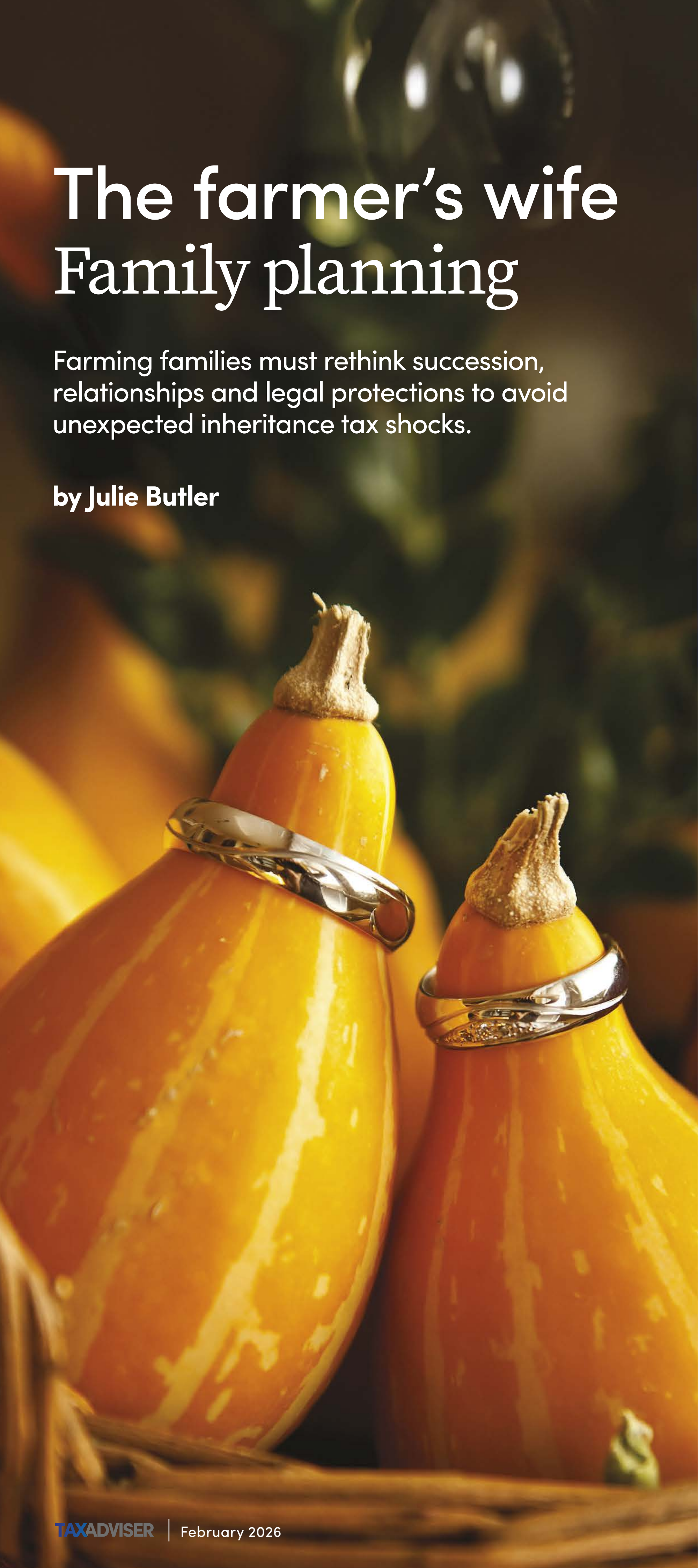
AI will not, in the foreseeable future, deliver a push-button, fully autonomous indirect tax function, but nor should we dismiss it as hype. Used thoughtfully, it can help us process more data, spot more issues and explain our decisions more clearly than ever before. It can even take on the aspects of our roles we enjoy the least – now wouldn't that be nice!

The conundrum is resolved when we stop asking whether AI can 'do tax' and start to ask some more grounded questions:

- What decisions are we trying to support?
- How will AI outputs become actionable in real workflows?
- Can we audit and explain those decisions months or years later?

If we can answer those questions with confidence, AI becomes not a threat to professional judgement but a tool that amplifies it, enabling indirect tax teams to be not just faster, but more controlled, more transparent and ultimately more valuable to the organisations we serve.


Name: Lucibeth Hammond
Position: Co-Founder
Company: ilumis
Tel: +44 (0) 7964 773988
Email: lucibeth@ilumis.co.uk
Profile: Lucibeth Hammond is co-founder of ilumis, a tax-tech consulting group built to help in-house tax teams. She works directly with clients to design and implement solutions from tax determination to compliance and e-invoicing.



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The farmer's wife
Family planning

Farming families must rethink succession, relationships and legal protections to avoid unexpected inheritance tax shocks.

by Julie Butler

Key Points

What is the issue?
New rules from April 2026 will cap agricultural and business property relief at £2.5 million (with a possible £2.5 million from the spouse) before dropping to 50%, making the surviving spouse exemption and formal relationship status central to farm succession planning.

What does it mean to me?
These changes place far greater tax pressure on farming families, particularly unmarried partners who lack the protections afforded to spouses.

What can I take away?
Farms must now reassess ownership structures, relationship status and legal agreements. Without proactive arrangements – such as cohabitation, nuptial or updated partnership agreements – families risk substantial inheritance tax liabilities and potential disruption to the business.

Just before Christmas, the government announced that, with effect from 6 April 2026, agricultural property relief (APR) and business property relief (BPR) would be capped – referred to in the draft legislation as an 'allowance' – at £2.5 million (increased from £1 million) and thereafter provided at 50%. The chancellor had previously confirmed in the 26 November 2025 Budget that this allowance will be transferable between spouses and civil partners, including where a spouse or partner dies before 6 April 2026.

This big tax news ties into the increased relevance of the surviving spouse exemption for inheritance tax, which from 30 October 2024 became significantly more important for farming families as they plan to maximise inheritance tax relief moving forward.

Now that the draft legislation has been published, the surviving spouse exemption is under the spotlight, as are the implications for unmarried partners on the family farm. Both factors must be considered in all farm succession planning, as must valuations. The tension between personal choice and legal protection can make these decisions considerably more complex. In particular, the legal status of a farming 'partner' (in the romantic sense) becomes a more central issue in capital tax planning.

The legal considerations of cohabitations

Despite the misleading myth of a 'common law marriage', UK law does not grant unmarried couples the same legal

COHABITATION V MARRIAGE

The legal differences between marriage and cohabitation are substantial. Married couples benefit from a comprehensive framework that provides certainty over property, inheritance, tax and financial support. Cohabiting partners, by contrast, have very limited protections, regardless of how intertwined their financial lives have become.

One of the most important distinctions concerns property. Married couples fall within a system that allows the court to redistribute assets on divorce according to fairness, taking into account both partners' needs and contributions – financial and non-financial. Homes, savings, pensions and business assets can all be shared. Unmarried couples, however, have no such safety net. Ownership depends strictly on title and any provable financial contributions. If a home is legally owned by one partner, the other may have no claim at all unless they can show evidence of a shared intention or contribution, which can be extremely difficult.

Inheritance and tax rules create even sharper contrasts. Spouses inherit automatically under intestacy rules, and transfers between them are fully exempt from inheritance tax. They also benefit from transferable allowances, including the nil-rate band, residence nil-rate band and, from 2026, the full £2.5 million APR/BPR allowance. Cohabiting partners receive none of these protections. Without a legal will, they may inherit nothing (subject to a claim for reasonable financial provision under the Inheritance (Provision for Family and Dependants) Act 1975). Any transfer of assets is potentially taxable. This can result in significant financial exposure, particularly where a family home or a business is involved.

These differences illustrate why financial legal and tax planning is essential for unmarried couples. Without proactive arrangements – such as cohabitation agreements, wills and clear ownership structures – they face significant financial vulnerability that must be part of farm succession planning.

RELATIONSHIP STATUS AND TAX PLANNING

	Married or civil partners	Unmarried cohabiting partners
Inheritance tax: spouse exemption	Full spouse exemption: unlimited transfers on death or lifetime gifts between spouses are inheritance tax-free.	No spouse exemption: transfers on death are fully chargeable; lifetime gifts are taxed if death is within seven years.
Transferable nil-rate band (NRB)	Unused NRB of first spouse can be transferred to the surviving spouse, potentially doubling the allowance.	Not transferable: each partner has only their own £325,000 NRB; no uplift on death of the first partner.
Residence nil-rate band (RNRB)	Transferable between spouses; available where the home passes to direct descendants, tapering above £2 million estates.	Not transferable: an unmarried partner cannot inherit unused RNRB; it may be unavailable if not leaving to direct descendants.
APR/BPR: new £2.5 million allowance (from April 2026)	Allowance is fully transferable between spouses and civil partners. A pre-deceasing spouse can pass their unused allowance to the survivor, enabling up to £5 million at 100% relief (excess at 50%).	Not transferable: only one £2.5 million allowance is available per individual; a surviving cohabiting partner cannot inherit the deceased partner's allowance.
APR/BPR interaction with spouse exemption	Spouse exemption typically means APR/BPR allowance is preserved until second death. Allows strategic timing of claims.	Relief must be claimed immediately on the first death because no spouse exemption exists; planning flexibility is reduced.

protections as married partners. This misunderstanding can result in serious legal and financial consequences if a relationship breaks down, especially where the family farm is involved. It is therefore essential that all family members and partners should seek advice on their specific position.

Marriage can therefore provide legal clarity and stronger inheritance tax protection, both through the surviving spouse exemption and the transferable £2.5 million allowance. For some long-term cohabiting couples, formalising the relationship through marriage or civil partnership may reduce the inheritance tax liability that will arise on the death of the farm owner and possibly prevent the need to sell or reduce the size of the farm to meet the inheritance tax bill, although matters are strongly improved by the increase to £2.5 million.

Open conversations with unmarried partners – whether before moving in together or once already cohabiting – can help to clarify expectations. However, informal arrangements offer limited rights in legal terms and, given the new inheritance tax implications, these issues now need to be addressed directly. Every farming business has to be assessed on a case-by-case basis. When the allowance was only £1 million, a large amount of lifetime gifting was undertaken and that has to be incorporated into the current planning.

Cohabitation agreements

A cohabitation agreement is a legally binding document that outlines what should happen if the relationship ends. For farming families, such an agreement can be particularly valuable in giving other farming business partners confidence with regard to the protection of assets. Key benefits include:

- providing clarity regarding ownership of the farmhouse, farmland and farming assets;
- setting out financial arrangements, including each partner's contributions to the business;
- recording how each partner participates in the business – the work they do, how they are paid and their responsibilities;
- specifying how business or personal assets should be divided if the relationship breaks down; and
- addressing inheritance issues in the event that one partner dies.

It is on the death of the farmer after April 2026 – when they are the holder of relevant assets – that the new problem of the 50% APR and BPR structure is triggered above the £2.5 million. It is therefore likely that some cohabitation agreements within farming families will evolve into nuptial agreements, whether pre or post marriage. What is clear is the considerable benefit that the surviving spouse exemption and the transferable £2.5 million allowance at 100% provide for APR and BPR planning.

Pre and post nuptial agreements

The main advantage of a cohabitation agreement is that it reduces the risk of disputes and helps to protect family farming assets. It provides clarity for both partners and reassures the wider family that the farm is safeguarded. If the partners later marry and become eligible for the surviving spouse exemption, their legal status will change. In that case, they should consider putting a post-nuptial agreement in place – or a pre-nuptial agreement prior to marriage – to ensure the intentions of the original cohabitation agreement continue to apply. To achieve the best outcome, farmers should seek specialist legal advice from an agricultural solicitor with family law expertise who understands the nuances of both the farm and the change to the relief, including the spouse angle.

Farming partnership agreements

Historically, farms were often owned just by the father of the farming family, while the mother typically was not a farming partner but would inherit everything under the farmer's will – on the assumption that 'she can sort out the children'. Changing social patterns have shifted this dynamic, with fewer marriages, more cohabiting couples and far more spouses actively involved in running the farm in a more formal capacity.

For a spouse to utilise their own £2.5 million allowance for 100% APR and BPR, they must be genuinely involved in the business and able to evidence that involvement. As a result, spouses will need to be considered in a 'fresh tax planning light' following the Budgets of 2024 and 2025 and the latest government announcement.

To achieve tax efficiency under the reduced APR and BPR rates – dropping to 50% after the first £2.5 million from April 2026 – every farm will require full or at least updated succession planning. This demands difficult emotional and technical conversations about all members of the farming partnership and their partners, including:

A cohabitation agreement reduces the risk of disputes and helps to protect the family farming assets.

- life expectancy;
- marriage suitability and the tax advantages of achieving surviving spouse exemption, potentially transitioning from cohabitation;
- valuations of the farm to calculate potential inheritance tax liabilities where the surviving spouse exemption and the £2.5 million allowance may not be enough;
- identifying weak areas of inheritance tax exposure under the 50% APR and BPR regimes; and
- creating a potential 'hit list' of assets that could be sold to pay the possible inheritance tax bill and developing a 'war chest' to support farmers through future challenges.

The increase to £2.5 million has meant that some farms are covered by the government 'U-turn' to £2.5 million and the 'hit list' and lifetime gifting that was taking place in 2025 are not so key in 2026; however, each position must be carefully re-evaluated with strong valuation.

Every farm is different: each has its own physical characteristics, its own partnership structure, its own trading activity and aspirations, and often widely differing attitudes to tax planning risk. As a result of all the Labour government's changes, the role of the spouse must be fully understood. Substantial, targeted individual tax planning will be required to integrate with the broader strategy for all farm partners. The months ahead will be extremely busy for valuers, tax planners and agricultural solicitors – and perhaps even an increase in marriage celebrations as more spouses join the farming partnership.

There will also need to be predictions of future inheritance tax liabilities and consideration of practical tax planning options on death. As mentioned, the 'hit list' of assets to sell will be high on the list of priorities as appropriate, with careful attention paid to any capital gains tax consequences. However, after a turbulent 2024 and 2025, farmers and their advisers must be prepared to act swiftly. With the prospect of a 'mansions tax' on the horizon, downsizing the main farmhouse may become part of tax planning discussions, especially with principal private residence relief for capital gains tax. That topic will be explored in future articles as the practical implications evolve.

Name: Julie Butler FCA
Position: Founding Director
Company: Butler & Co Chartered Accountants
Tel: 01962 735544
Email: j.butler@butler-co.co.uk
Profile: Julie Butler is a farm and equine tax specialist. Her articles are published in the national accountancy and tax press and she is the author of *Tax Planning for Farm and Land Diversification* (Bloomsbury Professional), *Equine Tax Planning* and *Stanley: Taxation of Farmers and Landowners* (LexisNexis).


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Red card! Football finances

HMRC is intensifying its crackdown on tax non-compliance across football.

by Ingrid McCleave and Oliver Jackson

> **Key Points**
>
> **What is the issue?**
> HMRC has intensified investigations into football, challenging unpaid taxes, image-rights arrangements, agent-fee structures and historic avoidance schemes. Enforcement is now broader, tougher and aimed at long-standing industry practices.
>
> **What does it mean to me?**
> Anyone involved in football faces greater scrutiny, with routine arrangements now at real risk of reclassification and back-tax claims. Financial exposure, penalties and reputational damage are far more likely.
>
> **What can I take away?**
> Review image-rights contracts, agent-fee splits, PSC arrangements and past schemes immediately. Strong documentation and clear commercial justification are essential to avoid costly HMRC challenges.

In September 2025, former England and Liverpool footballer John Barnes was declared bankrupt following a petition by HMRC. The bankruptcy order was made in the High Court on 23 September 2025, after Barnes' company, John Barnes Media Limited, went into liquidation in March 2023 owing more than £1.5 million.

Liquidator reports showed that the company owed £776,878 to HMRC in unpaid VAT, PAYE and National Insurance, and a further £461,849 to unsecured creditors. Earlier Insolvency Service findings also recorded unpaid corporation tax between 2018 and 2020.

As a result of the company's failure to pay its taxes, Barnes accepted a three-and-a-half-year director-disqualification undertaking in April 2024. Announcing the disqualification, Mike Smith, Chief Investigator at the Insolvency Service, said that Barnes' failure to ensure that taxes were paid 'should serve as a deterrent to other directors'.

The petition forms part of HMRC's broader and increasingly assertive investigation into tax avoidance across professional football.

The wider HMRC probe into football

HMRC has significantly escalated enforcement activity across the football sector. Since its probe into tax avoidance schemes in football began in 2015, clubs, players and agents have been told to hand over £888 million to HMRC. In the most recent season alone, this includes £90 million, comprising £73 million from clubs, £15 million from players, and £2 million from agents.

Over the last five years, HMRC has collected £384 million in unpaid taxes from the football sector, including £67.5 million in the year to March 2024. In many cases, this is due to players' limited understanding of their tax responsibilities. However, tax avoidance schemes have also spread quickly within the football industry, and HMRC cites incorrect or fraudulent repayment claims as the main reason for underpayment of tax. HMRC currently has 397 investigations ongoing: 32 involving clubs, 277 involving players, and 88 involving agents.

HMRC is also investigating several anti-avoidance schemes which relate to image rights, 'dual representation' agent fees and film finance schemes.

Image rights investigations

It is common for players to establish image rights companies (usually a limited company) to manage and profit from the commercial use of their name, image, likeness or personal brand, including payments from sponsors. These structures allow income to be taxed as corporation tax – generally at lower rates than higher rate income tax – and in some cases in low tax jurisdictions rather than the UK.

A footballer might have a contract of employment with their club (for playing football), and a separate contract between the club and the player's image-rights company, allowing the club to use the player's image in advertising, merchandising and media.

HMRC's position is that many of these arrangements lack commercial substance and are used principally to obtain a tax advantage, making them vulnerable to challenge under anti-avoidance legislation and transfer pricing rules. Under Employment Income Manual EIM738, HMRC states that there must be 'commercial justification for differentiating between payment for performance of the duties of the employment and the promotional services'.

However, in the Overview of tax legislation and rates following Budget 2025, the government has stated that it will introduce legislation in a future Finance Bill to clarify the tax treatment of image rights to ensure that all image rights payments related to an employment are treated as taxable employment income and subject to income tax and NICs. This change will take effect from April 2027.

Dual representation agent fees

In May 2024, HMRC published new guidelines targeting tax evasion through dual-representation contracts (see 'Help with football agents' fees and dual representation contracts') where an agent is purported to represent both the club and the player in a transfer negotiation. Under these arrangements, the agent's fee is usually split between club and player, often referred to as 'dual representation'. The split value of payment must reflect the commercial reality – requiring audit trails, evidence and documentation – and HMRC has stated that it does not accept a 50/50 split as the 'default position'.

Where a club pays a significant proportion of the agent's fee (or pays the agent directly for both its player and club services), HMRC considers this a benefit in kind provided to the player, subject to income tax and Class 1A NIC – and the tax at stake is significant. If VAT was paid, the club would not be able to reclaim it because the payment would be treated as a benefit in kind, not a business cost.

HMRC maintains that, in practice, agents act for the player not the club. Their job is to connect the player with clubs, manage contract negotiations, find sponsorship and generally advance the player's career, and agents are paid by receiving a percentage of the player's remuneration.

HMRC asserts that dual-representation arrangements have, in some cases, been deliberately engineered to shift tax liabilities. The football governing body FIFA reports that $3.5 billion was paid to agents between 2011 and 2020, illustrating the financial scale of the issue. HMRC now requires clubs to provide clear evidence that the agent was genuinely working on their behalf; otherwise, the full fee will be deemed to be paid in its entirety by the player.

Where fees are wholly allocated to the club or split so as to be likely to benefit the player, this significantly increases the potential for an Employer Compliance Check.

Film finance schemes

Another failed model that has caused significant financial harm to football players and other high net worth individuals are film finance schemes. These arrangements were heavily promoted in the early 2000s and 2010s as tax-efficient investments under the government's original policy to encourage private funding of the UK film industry.

Players were encouraged to invest in film productions through complex partnerships or limited liability companies. The schemes were designed to show an artificial trading loss on film production costs, which could then be used to claim tax relief against the player's other income, effectively deferring their personal tax payments.

However, following investigations under the Disclosure of Tax Avoidance Schemes regime, HMRC later determined that many of these film partnerships were artificial tax avoidance schemes, designed to create losses for tax planning purposes. It successfully argued that the schemes were not trading with a view to profit, meaning the tax reliefs claimed were invalid. The schemes were ruled invalid, leaving players facing large tax demands when HMRC reclaimed the disallowed reliefs – sometimes reaching back several years.

Other areas of concern

In parallel, many clubs have come under scrutiny from HMRC for claiming R&D tax relief on activities such as performance analytics, training techniques and sport science programmes that HMRC believes do not meet the qualifying criteria.

HMRC has also investigated clubs for the misclassification of staff – particularly medical and backroom staff – as self-employed contractors, rather than employees, a practice often intended to lower employers' NICs. HMRC have issued stop notices to those engaged in the promotion of these schemes.

If found guilty of anti-avoidance, both clubs and players engaged in these schemes have had to repay the tax reliefs claimed, pay interest on overdue tax, and in some cases have faced severe financial penalties. In addition, many have suffered reputational damage, legal expenses and in some cases criminal proceedings.

BRYAN ROBSON LTD V HMRC

The case of *Bryan Robson Ltd v HMRC* [2025] UKFTT 56 case illustrates the widening scope of HMRC's scrutiny of how footballers and ex-players structure their earnings, particularly around image rights and personal service company (PSC) arrangements.

The case centred on a contract between Bryan Robson Ltd, the former England and Manchester United captain's PSC, and his former club. The agreement covered both ambassadorial services (such as appearances, public relations and hospitality events) and a licence to exploit Robson's image rights for promotional and commercial purposes. HMRC argued that the contract fell within the IR35 'off-payroll working' rules, meaning the income should be taxed as if Robson were a direct employee of the club, rather than as company income.

The First-tier Tribunal delivered a split outcome. It agreed with HMRC that the ambassadorial duties created a relationship equivalent to employment – and therefore those payments were subject to PAYE and National Insurance. However, it also accepted that the portion of the contract genuinely relating to licensing Robson's image for commercial exploitation was distinct and not automatically caught by IR35. The tribunal emphasised that where there is clear evidence of real commercial value – such as merchandising, marketing or sponsorship activity – image rights income can still be treated separately from employment income.

The case is significant because it shows HMRC's increasingly expansive approach: it is no longer confining its challenges to current players' image-rights structures but extending them to former players' ambassadorial, media and promotional work, and to PSC-based contracts more broadly.

Name: Ingrid McCleave
Position: Partner, Private Client
Firm: DMH Stallard
Email: ingrid.mccleave@dmhstallard.com
Tel: +44 (0) 20 7822 1632
Profile: Ingrid McCleave specialises in offering expert legal advice on tax matters for company directors and businesses facing insolvency. Her expertise includes handling disputes with HMRC, managing tax investigations and negotiating payment arrangements on behalf of her clients.

Name: Oliver Jackson
Position: Partner, Restructuring and insolvency
Firm: DMH Stallard
Email: oliver.jackson@dmhstallard.com
Tel: +44 (0) 1293 558552
Profile: Oliver Jackson is a specialist in insolvency and business recovery and advises Directors, individuals, security holders and investors on all aspects of insolvency, corporate recovery and reconstruction.

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Whether you're launching, scaling, or transitioning, we turn complex tax challenges into clear, actionable solutions - protecting value and unlocking growth.

Remote and flexible working
A complex journey

Employers must balance growing demands for overseas flexible working with the significant legal, tax and compliance risks.

by Karen Eckstein

Key Points

What is the issue?
Employers are facing growing risks and obligations as more staff request to work flexibly from abroad, with complex implications around supervision, tax, data protection, right-to-work, insurance and foreign employment law.

What does it mean to me?
Firms must treat requests reasonably and consistently, but each overseas arrangement can trigger different legal and compliance exposures, requiring careful assessment and potentially specialist advice.

What can I take away?
Have a clear, robust overseas-working policy that sets conditions, evidence requirements and limits, supported by documented risk assessments.

The changes in the way people work, combined with recent legislative changes that expand employees' rights to request flexible working, mean that employers must be prepared for a more agile working environment and the adjustments that come with it.

Those changes can bring benefits, such as a happier, more productive workforce and a reduced cost base. However, employers also need to weigh up the advantages and disadvantages that such changes create and prepare their businesses for any adjustments they choose to make or which are required by law.

When making changes, employers need to identify and manage the potential risks in advance. These risks include challenges with staff working from home, such as maintaining confidentiality away from the office, handling flexible working requests fairly, managing the impact on presence in the office, and addressing international or cross-border working issues.

In the November 2024 issue of *Tax Adviser*, our article 'Remote and flexible working: a plan for your practice' explored the domestic risks. However, once flexible working arrangements extend beyond the UK, employers face an entirely different level of complexity. This follow-up article focuses on the overseas aspects.

A recent 'thought leadership' group, led by myself and Lauren Eager, Compliance Manager at QED Legal, brought together specialists in tax, general data protection regulation (GDPR), risk, employment law and insurance for a round table in London to discuss these issues. The group agreed that there is a serious lack of clarity and guidance in the current laws and regulations. To address this, a working party is being established to advocate for clearer rules and reforms.

The right to demand flexible working

Under the Employment Relations (Flexible Working) Act 2023 and the Flexible Working (Amendment) Regulations 2023, employees now have a statutory right to request flexible working. This right applies from the first day of employment and employees can make up to two flexible working requests a year.

Employees may request changes to their working hours, working days, start and finish times and their place of work. This means that some employees might ask to work abroad, either temporarily or for a longer period, and employers need to be ready to deal with such requests appropriately.

Employers are required to consider all requests 'reasonably'. The legislation sets out a specific list of valid reasons for rejecting any request. A request can only be refused if it would result in:

- the burden of additional costs;
- an inability to reorganise work amongst existing staff;
- an inability to recruit additional staff;
- a detrimental impact on quality;
- a detrimental impact on performance;
- a detrimental effect on the ability to meet customer demand;
- insufficient work available during the periods the employee proposes to work; or
- planned structural changes to the employer's business.

A USEFUL CHECKLIST

1. Immigration and right-to-work checks:

- Confirm the employee's legal entitlement to work in the proposed location before addressing tax or other issues.
- Understand visa requirements for both short-term and long-term stays, as breaches can lead to fines, immigration penalties or reputational damage. Remember that tourist visas rarely permit work.

2. Tax and social security implications:

- Determine whether the arrangement triggers local tax obligations, payroll requirements or permanent establishment (PE) risk.
- Obtain certificates of coverage (e.g. A1 forms) to avoid dual social security contributions.
- Be aware that even short stays can create tax filing obligations in some jurisdictions.

3. Employment law and contractual impact:

- Check whether local statutory rights (e.g. working hours, holidays, dismissal protection) may override UK contract terms.
- Ensure contracts and policies explicitly address overseas working and require written authorisation before any such authorisation begins.
- For regulated roles, confirm whether working abroad is permitted by the relevant professional regulator.

4. Data protection and privacy controls:

- Check compliance with data protection regulations and international transfer rules when data is accessed from outside the UK or EEA.
- Update privacy notices, acceptable use and remote working policies to cover remote access and cross-border transfers.
- Conduct and document data security risk assessments, especially in high-risk jurisdictions or sensitive data categories.

5. Insurance and risk management:

- Notify insurers of all overseas working arrangements to ensure coverage under professional indemnity, directors and officers (D&O) and employer liability policies.
- Note that failure to disclose such changes can invalidate cover and significantly increase exposure to liability.

6. Operational and policy considerations:

- Develop a clear overseas working policy that includes: time limits (e.g. maximum consecutive days abroad); transparent approval processes involving HR, compliance and management teams; and a requirement for proof of immigration and tax advice.
- Consider the practical implications for team supervision, client service and confidentiality standards.

7. Balance flexibility with compliance:

- Weigh the commercial and wellbeing benefits of overseas working against legal, tax and reputational risks.
- Maintain records of decisions, advice obtained and risk assessments to demonstrate informed, proactive management.

Risks of staff working abroad

An increasing number of staff are seeking to work from different locations. This can include staff who wish to work remotely from abroad while retaining their UK-based role, or those who want to extend a family holiday abroad with some additional time away, and so extending their two-week holiday to a four-week stay. Between these two situations lies a wide range of other possible scenarios.

Supervision and management: The first concern is supervision – how the firm will monitor and support an employee who is based in another country. This links closely with management responsibilities, particularly where the employee has line management duties which may be difficult to carry out remotely.

Insurance: Insurance coverage also requires careful review. Employers should check whether the firm's existing insurance policies extend to work performed abroad. If so, it is essential to ensure that insurers are informed in advance – even where the employee's time overseas is expected to be relatively short.

Data protection: Data protection is another key issue. Employers must confirm that any transfer of data to another country complies with both UK data protection law and the relevant local regulations, and that security standards are maintained throughout.

Taxation: An employer may become liable for tax in the country where the employee is working, or face other adverse tax consequences depending on the length and nature of the arrangement. National Insurance and local social security obligations may also arise.

Right-to-work requirements: These also need to be considered. Employees may not have the legal right to work in their chosen country, even for a short period. Allowing an employee to work without the appropriate authorisation could expose the employer to penalties or other liabilities.

Employment law: Employers must assess whether the employee's presence abroad could bring them within the scope of foreign employment laws, and if so, what those laws are. There is also the risk of inadvertently creating a permanent establishment in that country, which could have significant legal and tax implications.

Other potential concerns include regulatory and contractual issues, particularly where the employee routinely enters into contracts on behalf of the employer. The employer will need to consider whether the employee can continue to do so whilst working overseas.

Clearly, the longer an employee spends abroad, the greater the risks. What matters most is that employers are aware of these potential pitfalls, recognise that the risks vary significantly from country to country, and have a clear policy in place to assess and manage flexible working requests from abroad in a consistent manner.

What issues should be included in a remote working abroad policy?

Where an employer intends to permit employees to work from abroad – whether for a short or extended period – it is essential to have a clear and comprehensive policy in place. The policy should address several key areas to ensure that both employers and employees understand their rights, responsibilities and potential risks.

A starting point is the employee's right to work in the chosen jurisdiction. The policy should make clear that the employee must hold the legal right to work in that country and, where applicable, confirm that any regulatory body governing their professional activities allows them to work from that jurisdiction.

The policy should also cover the tax and payroll implications that may arise. This includes potential exposure to corporate tax in the overseas country and the practical arrangements for handling payroll, national insurance and other social security contributions. It should also clarify who bears any additional costs associated with the arrangement – whether the employer or the employee – and whether the employee will be required to indemnify the employer for any unforeseen charges that result from the employer agreeing to the request.

Employers should also consider whether there is a need to review and strengthen data protection, privacy and acceptable use policies, depending on the location of the proposed remote work. Similarly, insurance coverage must be reviewed to ensure that work carried out overseas is included within existing policies, and to confirm what notifications or amendments might be required.

For cases where remote working may evolve into a more permanent arrangement, employers should consider whether a formal long-term structure is needed, particularly where the employee may acquire tax or residence status abroad. The policy might specify which staff will be eligible for the firm's support with the cost of professional advice, such as immigration or tax consultations – whether critical staff only, all employees to none, and the rationale behind that approach.

Guidance should also be provided to employees on what work may or may not be undertaken while abroad, particularly in relation to visa or permit conditions, to prevent breaches arising from unauthorised work activities.

If an employee wishes to permanently relocate abroad, employers may request that written permission is required in advance. They should explain that permanent relocation has far-reaching implications for the employer, including tax, social security and insurance obligations, which may be substantial.

Each employer will also need to decide the extent of risk they are prepared to accept in relation to shorter periods of working abroad. For example, some employers, after taking appropriate advice, may decide to permit short periods – perhaps up to two weeks – without requiring formal evidence, while others may adopt a stricter approach.

Where evidence is required, the policy should outline what documentation employees must provide, such as:

- proof of professional immigration and tax advice, ideally on a formal letterhead, to confirm the employee is legally entitled to work in the overseas location and that no adverse tax consequences will arise; and
- confirmation that the proposed arrangement does not breach the organisation's insurance or compliance obligations.

A checklist of issues can be a useful reference tool, though this should not be viewed as a substitute for professional advice. Each employer should seek tailored guidance when developing policies to handle requests to work abroad. Nevertheless, a well-drafted policy can serve as a valuable framework, helping employers to avoid the many unforeseen pitfalls that can arise when flexible working extends across borders.

If you would like to be involved in Karen's working group, please email her or Lauren Eager at Lauren.Eager@qedlegal.com.

Editor's note: On 19 November 2025, the OECD published approved updates to the OECD Model Tax Convention on Income and on Capital (the OECD Model Treaty). The updates include changes to the OECD Model Treaty's commentary on the definition of a 'fixed place of business' permanent establishment in situations of cross-border remote working.

Name: Karen Eckstein
Position: Founder
Company: Karen Eckstein Ltd
Email: karen@kareneckstein.co.uk
Tel: +44 (0) 7973 627 039
Profile: Karen Eckstein LLB, CTA, Cert IRM, is a solicitor and qualified risk management specialist. She specialises in helping professionals in all aspects of professional risk management, from guidance on engagement letters, PII issues, through to outsourced risk management, including handling and advising on complaints. She also runs a 'RiskBites' training club. Details of all services are at https://kareneckstein.co.uk

Umbrella companies
Labour supply chains

UK labour supply chains have evolved through layered tax rules, with new PAYE liability changes affecting umbrellas and agencies.

by Nichola Ross Martin

Over the last 25 years, the UK's employment tax legislation has evolved largely in response to repeated attempts by successive governments to reduce PAYE and NICs avoidance in labour supply chains. What has emerged is a complex framework of 'deeming' rules that determine who is treated as the employer for tax purposes, often with results that are difficult to navigate even for experienced advisers.

Given the sheer volume of tax and employment rights legislation now in play, it is increasingly challenging for anyone new to the 'employment game' to engage workers with confidence that everything has been done correctly. Those who understand the issues tend to understand them very well; those who do not may remain blissfully unaware until something goes wrong.

From HMRC's perspective, tax administration would be simpler if all working individuals were employed and subject to PAYE and NICs. However, such an approach would sit uneasily with the need for labour market flexibility and global competitiveness. Businesses and workers alike often value flexibility just as highly as economists value efficiency in a capitalist market. When it comes to engaging workers, there is no single model that suits every situation.

Against this background, we consider why labour supply chains operate as they do and, in particular, the practical implications of recent and forthcoming changes affecting umbrella companies – most notably the introduction of joint and several liability for PAYE and NICs from 6 April 2026.

Why HMRC is targeting umbrella companies

An umbrella company is a business that employs workers who supply their personal services to end clients through contracts with one or more agencies. It operates payroll and accounts for PAYE and NICs on the workers' pay, without itself being treated as the employer under the agency, IR35, managed service company or other employment deeming rules. Umbrella companies have become a familiar feature of modern labour supply chains. In many cases, they perform a compliance function that other parties in the chain – agencies, recruiters or clients – are unwilling or unable to fulfil, whether because of cost, volume, complexity or risk appetite.

However, umbrella companies have also been associated with significant non-compliance. A common abuse arises where an umbrella company deducts PAYE and NICs from workers' pay but fails to account for those deductions to HMRC. Although the umbrella company is legally liable for the tax debt, such entities – and often their directors – have a tendency to disappear before enforcement action can be effective.

There are additional reasons why HMRC is keen to reduce reliance on umbrella companies. Some have structured themselves as small agencies in order to claim the employment allowance or to benefit from the VAT flat rate scheme, while others have been linked to excessive expense claims or payslip fraud. From HMRC's perspective, these risks are compounded by the length and opacity of many labour supply chains.

The response has been legislative. From April 2026, where an umbrella company operates within a labour supply chain, new rules will allow liability for unpaid PAYE and NICs to move beyond the umbrella company itself.

The new joint and several liability rules from April 2026

The Finance (No.2) 2025 Bill introduces a new Chapter 11 into Income Tax (Earnings and Pensions) Act (ITEPA) 2003

Key Points

What is the issue?
UK employment tax rules for labour supply chains have become highly complex, and from April 2026 unpaid PAYE and NICs can transfer beyond umbrella companies to agencies or recruiters higher up the chain.

What does it mean to me?
Even if you do not run payroll, you may become jointly liable for PAYE failures elsewhere in the supply chain, increasing risk for agencies, recruiters and advisers.

What can I take away?
From now on, labour supply chains need active scrutiny: understand deeming rules, assess SDC properly, and carry out stronger due diligence on umbrella arrangements.

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EMPLOYER OR DEEMED EMPLOYER?

Who operates PAYE when personal services are supplied?
Direct engagement by the client: Where a worker is engaged directly by the client, this is actual employment. The client assesses employment status and operates PAYE and NICs (and/or CIS where relevant). Liability for PAYE rests with the employer.
Engagement via an agency (ITEPA 2003 Part 2 Chapter 7): The agency must consider whether the worker is subject to supervision, direction or control (SDC) or is already paid under PAYE. If so, the agency is treated as the deemed employer and must operate PAYE. Where neither applies, the agency must report gross payments and liability for PAYE may rest with the agency or the client. An umbrella may be used to avoid this.
Engagement via the worker's own personal service company (PSC) (Chapters 8 or 10): The PAYE position depends on the size of the ultimate engager. For small engagers, the PSC determines employment status and applies PAYE if IR35 applies. For medium or large engagers, the engager issues a Status Determination Statement and PAYE is operated by the engager or, where applicable, the agency. Liability for PAYE rests with the deemed employer.
Engagement via a managed service company (MSC) (Chapter 9): The MSC operates PAYE and is treated as the deemed employer. Liability for PAYE rests with the MSC.
Engagement via an umbrella company (ITEPA 2003 Part 2 Chapter 11 – from April 2026): The umbrella company acts as the employer and operates PAYE and NICs. Liability for PAYE initially rests with the umbrella, but from April 2026 joint and several liability may pass up the labour supply chain if the umbrella defaults.

Part 2. These provisions establish joint and several liability for unpaid PAYE and NICs arising in labour supply chains involving umbrella companies.

In broad terms, where an umbrella company fails to account for PAYE and NICs, liability will transfer to a 'relevant party' higher up the chain, starting with the next agency above the umbrella. Where there are overseas agencies or even overseas clients in the chain, liability will ultimately rest with the UK-based entity closest to the end client.

The policy aim is clear: to eradicate non-compliant umbrella companies by removing the ability for tax debts to die with them. The practical consequence, however, is that parties who do not operate payroll – including recruiters – may now find themselves exposed to PAYE and NICs liabilities arising elsewhere in the chain.

To understand how significant this shift is, it is necessary to revisit how labour supply chains operate and how the existing deeming rules interact.

A simple labour supply chain

In its simplest form, a labour supply chain involves a client engaging workers who supply personal services via an agency, with the work ranging from apprenticeships to senior management roles. The agency recruits the workers, supplies them to the client and is paid by the client, while the workers provide their services under the agency arrangement and the agency operates payroll, paying the workers and accounting for PAYE and NICs to HMRC.

In such straightforward arrangements, the agency must consider whether the agency rules in ITEPA 2003 Part 2 Chapter 7 apply. If they do, the agency is deemed to be the employer for tax purposes and is responsible for operating PAYE and NICs. If the agency rules do not apply, it may be because other deeming provisions apply instead. These deeming rules are central to understanding why labour supply chains – and umbrella companies – exist at all.

Deeming rules: who is treated as the employer?

An entity may be deemed to be the employer under a number of different legislative provisions, including:

- agency workers;
- employment intermediaries;
- managed service companies; and
- intermediaries to public authorities and medium or large business.

In addition (and for completeness), salaried members of LLPs are treated as employees subject to PAYE, which must be applied by the LLP (ITTOIA 2005 s 863A). Where there is no actual or deemed employer, the worker must be self-employed and may be paid gross, subject to employment status considerations.

However, the involvement of an agency brings additional obligations, including quarterly reporting under the Employment Intermediaries Regulations (The Income Tax (Pay As You Earn) (Amendment No. 2) Regulations 2015) – obligations that agencies generally prefer to avoid. At the same time, the ultimate engager faces potential exposure if PAYE is not operated correctly.

Neither party is comfortable with this uncertainty, which creates a strong incentive to introduce a third party that will apply PAYE. This is the space in which umbrella companies operate.

Agency rules and the SDC test: why umbrellas are attractive

Under the agency rules at ITEPA 2003 s 44(2), an agency is deemed to be the employer unless it can show that:

- the worker is not subject to supervision, direction or control (SDC) as to the manner in which they provide their services; or
- the worker's remuneration already constitutes employment income.

The agency rules also do not apply where the worker always works from their own home or from premises not managed by the client (unless required by the nature of the work), or where the worker provides services as an entertainer or model.

The SDC test is a legislative shorthand derived from decades of employment status case law. However, it is a cut-down test that bears little resemblance to the courts' employment status tests, as it does not consider factors such as mutuality of obligation. Despite its apparent simplicity, SDC can be difficult to assess in practice, particularly for agencies dealing with high volumes of workers or highly skilled individuals. Crucially, s 44(2)(b) provides a practical escape route: if someone else is already applying PAYE, the agency rules do not apply. This is a key reason why umbrella companies are introduced into labour supply chains.

By employing the worker and operating PAYE, the umbrella company removes the need for the agency to conduct SDC assessments or to report gross payments. From a compliance perspective, this can appear to be an efficient solution.

Complex chains: multiple agencies and umbrellas

In reality, labour supply chains are rarely simple. A client may contract with a recruiter, who in turn contracts with one or more agencies. One agency may be content to supply workers subject to SDC, while another uses an umbrella company to employ workers where SDC is uncertain or difficult to assess.

In practice, chains can be considerably longer, involving multiple agencies and varied contractual arrangements depending on the engager's recruitment policies. In some cases, engagers may contract directly with umbrella companies (under ITEPA 2003 Chapter 10) to operate their own payrolls alongside outsourced arrangements.

The result is a patchwork of contractual and tax relationships in which responsibility for PAYE is often assumed rather than actively tested.

Defining an umbrella company

From April 2026, the legislation introduces a statutory definition of an umbrella company (and includes what is called 'a purported umbrella company'). Broadly, an umbrella company exists where:

- A worker personally provides services to a client under a contract.
- The worker is employed by a third person (the umbrella company) who carries on a business of supplying labour.
- The worker does not have a material interest (5% or more) in that third person.
- The third person is not already deemed to be the employer under ITEPA 2003 Chapters 7 to 10 or ITTOIA 2005 s 863A.

A purported umbrella company is a deliberately wide anti-avoidance measure designed to capture any entity involved in 'arrangements' intended to circumvent the rules, including vehicles connected with the worker. If an entity falls within this definition, it is treated as an umbrella company for the purposes of the joint and several liability rules.

How liability moves up the chain

Where an umbrella company fails to account for PAYE and NICs, liability will pass to the relevant party immediately above it in the labour supply chain. If that party is overseas, liability moves further up until it reaches a UK-based entity.

This creates a fundamental shift in risk. Liability for PAYE debts can now rest with parties that neither employ the worker nor operate payroll – including recruiters and agencies whose role is largely commercial.

It is important to note that these rules sit alongside existing provisions under which agencies may already be liable for PAYE as deemed employers. The interaction of these regimes makes liability analysis more complex, not less.

There is also a critical caveat: if an umbrella company is found to have exercised, or had the right to exercise, SDC over a worker, it is then considered to be an agency (falling within the agency rules in Chapter 7). In that case, the new Chapter 11 rules do not apply, and liability transfers under the existing agency debt transfer provisions.

What advisers should be doing now

The introduction of joint and several liability for PAYE in labour supply chains means that those chains must be analysed more carefully than ever before.

Key questions include:

- Do the agency rules apply at any point in the chain?
- Has anyone genuinely assessed SDC, or has it simply been assumed that is the case?
- What level of due diligence is realistically possible on other parties in the chain?

One apparent solution is to avoid umbrella companies altogether. In practice, this may be unrealistic. As we have seen, umbrella companies often form a vital link in labour supply chains, existing because the tax and employment rules have created a need for them.

A more pragmatic approach may be to limit relationships to businesses that are known and trusted. Even that is likely to be challenging for large organisations operating at scale.

Umbrella companies are umbrellas by choice: they exist for commercial reasons. They perform a compliance function that others in the chain would prefer not to fulfill. It is therefore worth reflecting on whether the underlying policy objective – improving PAYE compliance – might have been addressed more directly. For example, tax compliance conditionality for agencies or earlier collection mechanisms could, in theory, have achieved similar results.

What is clear is that from April 2026, PAYE risk in labour supply chains no longer stops with the payroll provider. Advisers will need to help clients understand where that risk sits – and how it can be managed – before HMRC comes calling.

Name: Nichola Ross Martin CTA
Position: Tax consultant
Firm: 2020 Innovation Training Ltd
Tel: 01308 485050
Email: dorsettax@gmail.com
Profile: Nichola is the current President of the CIOT. She is the founder and former managing director of the Rossmartin.co.uk online tax resources and the Virtual Tax Partner support service. She is now a tax consultant with 2020 Innovation, a lecturer, writer and web innovator.

Pension death benefits

Estate planning

A major overhaul from April 2027 will bring most pension death benefits into the scope of inheritance tax.

by Simon Douglas

Key Points

What is the issue?
From April 2027, most pension death benefits will become subject to inheritance tax, removing their longstanding exemption and potentially exposing beneficiaries to combined inheritance and income tax rates exceeding 60%. This marks a major shift in estate planning, requiring individuals to reassess how pensions fit into their wider inheritance strategy.

What does it mean to me?
Pensions can no longer be relied on as an efficient means of passing on wealth, as the value of unused funds will now form part of the taxable estate. Advisors will need to help clients manage exposure by reviewing nominations, updating wills and considering alternative ways to distribute or spend pension savings during their lifetime.

What can I take away?
Proactive planning is essential, particularly for those with large pension pots, complex family arrangements or business property held within pension schemes.

At the 2024 Budget, the government announced that from 6 April 2027 inheritance tax would be extended to cover most pension death benefits. This is a significant change that will remove the effective exemption for pensions from inheritance tax. It will affect most individuals with unused benefits at the time of their death.

A consultation on the changes closed in the summer of 2025 and, following some changes announced in the recent Budget, draft legislation can now be found in the Finance (No. 2) Bill 2025-26. There are still questions regarding the operation of the new rules, and any advice at this stage must be given with the appropriate caveats. However, there are some practical steps that individuals can take to prepare for these changes.

Overview of the changes

The changes to the taxation of pensions were covered in 'Pensions and inheritance tax: revisiting assumptions' by Harriet Betteridge (*Tax Adviser*, November 2025) and readers are referred to this for a detailed account of the new rules. What follows here is a brief summary.

Most pensions provide that any unused benefits can be paid to a beneficiary after the pension holder has died. These death benefits are usually held on a discretionary trust, and it is a matter for the pension trustee to decide how the death benefits will be distributed. The pension holder can write a letter of wishes which nominates an individual to receive the death benefits but this is normally non-binding – and hence outside the pension holder's estate for inheritance tax purposes.

Death benefits paid to a beneficiary are normally taxed as the beneficiary's income (provided the pension holder was not under 75 when they died), meaning that the only tax charged is income tax at the beneficiary's marginal rate.

From 6 April 2027, the value of these death benefits will be included within the pension holder's estate. In the same way that certain interests in possession can be aggregated with a free estate, the 'pension

estate' will also be aggregated with an individual's free estate, and their nil rate band will be shared proportionately. While there will be inheritance tax on the pension fund, any remaining death benefits will still be subject to income tax when they are paid out to the beneficiary.

The combination of inheritance tax and income tax will mean that the effective rate of tax on death benefits can be significant. Take the example of an individual who dies (aged 75 or over) after 6 April 2027, and who has a free estate worth £1 million and an unused pension worth £1 million. The taxable estate is therefore worth £2 million and (after deduction of the general and residence nil rate bands worth £500,000) tax at 40% will result in inheritance tax of £600,000. Half of this tax (£300,000) will ultimately fall on the pension fund, with the other half on the free estate.

The most controversial aspect of the new rules is that the primary liability for paying the tax will fall on the personal representatives who can then seek reimbursement from the beneficiary of the pension death benefit. A change announced at the Budget is that the personal representatives will be able to compel the pension scheme administrator to retain up to 50% of the death benefits for up to 15 months – the aim being that this retained fund can be used to pay the tax attributable to the pension.

As noted above, any remaining death benefits will still be subject to income tax. In the example above, after deduction of the inheritance tax, there is still £700,000 to be paid to the beneficiary. If paid as a lump sum, this is likely to be subject to income tax at 45%, resulting in a further £315,000 of tax. From the original £1 million pension fund, the beneficiary of the death benefit may only receive around £385,000 and will suffer an effective tax rate of over 60%.

Planning for the changes

The combination of inheritance tax and income tax on death benefits means that pensions are no longer an effective vehicle for estate planning. What advice can be given to clients to mitigate the impact of these changes?

Spending and gifting

For most people, the appropriate advice will be to spend their pension to fund their retirement; they should be discouraged from leaving unused funds in their pension at the time of their death. For many, this will mean taking the slightly old-fashioned approach of using the pension to purchase an annuity. This will provide a guaranteed income and avoid leaving significant sums untouched within the pension.

Of course, not all individuals need to access their pension in order to fund their retirement, as many will have other investments and assets that they can live off. In such cases, they should still be encouraged to make withdrawals from their pension, even if only to make gifts to their children and grandchildren.

This might be done in a tax-efficient way. Pension payments are taxed as income and, if the client does not need this income to maintain their normal standard of living, then payments made to the children may constitute normal expenditure out of income. If this applies, such payments would be exempt without limit from inheritance tax.

Moreover, if the children receiving these gifts contribute the payments to their own pension funds, they may – depending on their personal circumstances – be able to claim income tax reliefs that could help to offset the income tax paid on the withdrawal.

Alternatives to making gifts to children include funding a discretionary trust or paying into a life policy that can be written into trust. Again, provided that these payments qualify as normal expenditure out of income, they should not trigger any inheritance tax.

Spousal exemption

Death benefits that are payable under a pension scheme to a member's spouse or civil partner will fall within the spousal exemption from inheritance tax. The draft rules on this are complex and further guidance from HMRC is required, particularly for cases where spouses receive limited rights, such as an interest in possession under a bypass trust. While these questions remain, it will generally be the case that if pension death benefits are paid to a surviving spouse, then no inheritance tax will be due on the pension death benefits.

Individuals should review and, if necessary, update their death benefit nomination. In most cases, it will be a simple matter of expressing a wish to leave all death benefits to a surviving spouse, but some may wish to provide more detailed instructions.

If any nil rate band remains available, the nomination may express a wish to pay an amount within that band to the children, with the balance passing to the spouse.

In addition to the spousal exemption, the charitable exemption will also apply to death benefits and again clients may wish to update their nomination letter to include charities. While it will be possible to exempt pension death benefits from inheritance tax by paying sums to charity, what is less clear is whether the reduced rate of inheritance tax can be obtained in this way. This should be possible but there is no express reference to this in the draft rules and clarification is needed from HMRC.

Residence nil rate band

Individuals will need to be mindful of the impact of the new rules on the availability of the residence nil rate band which, when combined with a spouse's unused allowance, can provide an additional £350,000 of nil rate band in a death estate. The allowance starts to be restricted for estates worth more than £2 million and is lost entirely once the estate is worth more than £2.7 million.

As pension death benefits will now be treated as part of the death estate, the value of the pension will be taken into account when determining whether the residence nil rate band is subject to tapering. Some people may have structured their affairs so that their estate falls below the £2 million threshold without taking into consideration the value of their pensions.

Where individuals are at risk of losing the residence nil rate band because of the value of their pensions, they might be encouraged to make gifts to their children, ideally from their pension fund, to bring the net value back below £2 million. While there is a risk that the payment could be taxed as a failed gift (unless it qualifies as normal expenditure out of income), this strategy can at least ensure that the residence nil rate band is preserved.

Reviewing wills

A further problem may arise where wills leave the residue of the estate to the spouse, and also provide specific gifts or pecuniary legacies to children or other non-exempt beneficiaries. Wills may have been structured in this way in the expectation that the full nil rate band will cover the specific gifts and legacies. However, as the pension death benefits will now utilise a proportion of the nil rate band, the testator may have less nil rate band available for their free estate than they initially thought.

The sharing of the nil rate band with the pension death benefits may therefore have significant consequences. Where a testator leaves a pecuniary legacy to a child with the residue passing to their spouse, if there is insufficient nil rate band to cover the legacy (because it is now shared with the pension) then the chargeable part of the legacy will need to be grossed up before it is taxed. This may leave estates with far more inheritance tax to pay than envisaged.

A better approach in such cases is not to leave a specific sum to a child, but instead to leave 'such sum as is equivalent to my available nil rate band'. A nil rate band discretionary trust may also be appropriate for clients in such cases.

Of course, the amount of nil rate band that is available to the free estate will depend upon how the pension death benefits are distributed. One option for those who wish to ensure co-ordination would be to appoint their executors as the trustees of a spousal bypass trust that receives the pension death benefits. In this way, the same individuals can decide how both funds should be distributed.

High risk cases

In addition to the planning strategies outlined above, there are certain situations that may be considered high risk in light of the changes to pension taxation. Advisors may wish to review matters carefully in the following two cases.

Divorced clients

Advisors should take particular care when advising clients who have been divorced and remarried. While divorce automatically revokes a will, it does not revoke a death benefit nomination. If a client had entered a pension scheme when married to their first spouse, that first spouse is likely to remain as the main beneficiary of the death benefits. This can often result in the first spouse receiving the pension, while a second spouse receives the free estate.

This situation is obviously unattractive for tax purposes, as the spousal exemption will not apply to the first spouse. Furthermore, this is like to result in friction between the executors and the pension trustees.

Under the rules, the starting point is that all of the tax will be paid from the free estate (i.e. at the expense of the second spouse) with the executors then needing to seek reimbursement from the beneficiary of the pension fund (i.e. the first spouse). In complex family situations, where tensions can already run high, claiming such reimbursement may prove contentious.

Where a client has been divorced, they should be encouraged to review their death benefit nomination as a matter of urgency. It would be preferable, both for tax and administrative purposes, to remove a former spouse as a beneficiary of the death benefits. If the client still wishes to make provision for a former spouse, this is better done by way of a legacy under the will.

Business property in a self-invested personal pension

For individuals with a trading business, it has been common practice to transfer property from the business into a pension fund (usually a self-invested personal pension or a small self-administered scheme). If the pension fund owns the freehold to the land on which the business is run, the business can then pay rent to the pension fund for its use. This can provide corporation tax advantages for the business, and the income and capital growth is tax free within the pension.

For older business owners who have arrangements of this nature, the proposed changes will create a significant exposure to inheritance tax. The value of the business properties held within the pension will be taxed at 40% on death, meaning that – unless there are large cash reserves to pay the tax – it may be necessary to sell the properties, potentially placing the business at risk.

No business or agricultural property relief is available for assets held within a pension. This is particularly unfortunate, as the properties might have qualified for relief had they remained within the business.

In such cases, individuals should explore whether it is possible for the properties to be purchased back from the pension and reintegrated into the business.

In conclusion

The changes to pension taxation will create several challenges for advisers and taxpayers, but there are certain steps that individuals can take to mitigate their impact. For most, the best advice will be to use their pension for its original purpose – namely, to fund their retirement. Problems will only arise where there are significant funds that remain untouched at the time of death.

Name: Simon Douglas
Position: Barrister
Chambers: 5 Stone Buildings
Email: SDouglas@5sblaw.com
Tel: 020 7242 6201
Profile: Simon Douglas, CTA, is a barrister at 5 Stone Buildings. His practice includes both contentious and non-contentious private client work, and he specialises in trusts and estates taxation.

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Trusts and settlements
Gifts with reservation of benefit

New residence-based rules mean foreign property can now fall back into charge, fundamentally reshaping the treatment of gifts with reservation of benefit.

by Emma Chamberlain

Key Points

What is the issue?
The long-term residence status of a donor will now determine whether foreign property given away with a reservation of benefit is brought back into charge, even if the gift would previously have been treated as excluded property.

What does it mean to me?
The rules change from April 2025, with only limited transitional protection for settlements created before 30 October 2024, and leaving several anomalies unresolved.

What can I take away?
The new rules significantly narrow the circumstances in which foreign property escapes the inheritance tax net, and reliance on 'excluded property' treatment is no longer straightforward. Early review is essential to avoid inadvertent tax charges under the post-April 2025 regime.

This article concludes our series on the inheritance tax reforms introduced by Finance Act 2025, turning to one of the areas most significantly affected by the shift to a residence-based regime: gifts with reservation of benefit.

Our previous articles have outlined the core architecture of the new system, explaining how long-term residence replaces domicile as the key connecting factor, how the ten-year residence test and transitional 'tail' determine exposure to inheritance tax for individuals arriving in or leaving the UK, and how these new rules operate for spouses and trusts. We also briefly consider the 2025 Budget.

This article builds on that by turning to the interaction between the long-term residence test and the gift with reservation rules in Finance Act 1986 s 102 – one of the areas most significantly altered by the move from domicile to residence. The long-term residence status of a donor will now determine whether foreign property given away with a reservation of benefit is brought back into charge on death, even if the gift would previously have been treated as excluded property. The rules change from April

2025, with only limited transitional protection for settlements created before 30 October 2024 and leaving several anomalies unresolved. Together, the three articles trace the arc of the 2025 reforms, offering practitioners a complete guide to the new inheritance tax landscape and the challenges it will pose in the years ahead.

Inheritance tax and gifts with reservation of benefit

Finance Act 1986 s 102 is the key statutory provision that underpins the 'gift with reservation of benefit' rules for inheritance tax. It is supplemented by ss 102A–102C, which give more detailed rules on what counts as 'retaining a benefit', exemptions and various exceptions.

What is a gift with reservation of benefit?

A gift with reservation of benefit arises where an individual gives away an asset but continues to enjoy, or is able to enjoy, some benefit from it. The classic example is a person who gives their house to their children but continues to live in it rent-free. Others include gifting valuable items but continuing to use them regularly, or transferring shares in a family business but retaining control over dividends or voting rights. Although legal and beneficial ownership has passed, the donor has 'reserved a benefit' in the gifted property.

For inheritance tax purposes, a gift with reservation is not treated as an effective lifetime transfer. Instead, the gifted property is treated as though the donor still owned it at death, and the full value of the asset is brought back into the donor's estate for inheritance tax. It can also still be taxed on the donee's death.

The position before 6 April 2025

HMRC accepted that no charge arose under the gift with reservation rules where the gifted property meets the definition of excluded property at the donor's death, or at the point when the reservation of benefit came to an end. For non-UK assets gifted to a settlement, the test for excluded property was, from July 2020 onwards, based on the settlor's domicile at the time the assets were added to the trust.

This meant that assets added to a trust when an individual was non-domiciled were not brought into scope of the gift with reservation provisions, regardless of the donor's domicile at death or at the time the reservation of benefit ceased.

The position from 6 April 2025

If a donor is long-term resident at the time of their death (or when the reservation of benefit ceases), non-UK property they have given away while retaining a benefit will be chargeable under the gift with reservation rules. This will be the case even if the gift was made when the donor was not a long-term resident.

Therefore, if a donor creates a settlement, say in November 2024, from which they can benefit (even if the property was settled when they were not long-term resident), the property comprised in the settlement which is, or represents, the gifted property will be chargeable under the gift with reservation rules if they are long-term resident at their death (or when the reservation ceases within seven years of death).

However, where non-UK assets became comprised in a settlement before 30 October 2024, at a time when the settlor was foreign domiciled and that settled property was then excluded property, those assets will not be subject to the gift with reservation rules even if the settlor has since become long-term resident.

> **A gift with reservation of benefits arises where an individual gives away an asset but continues to enjoy some benefit from it.**

While the settled property will fall within the relevant property regime if the settlor is a long-term resident, it will not be subject to a charge on the settlor's death even if they can benefit, or if their reservation ceases during their lifetime, provided that:

- the settled property does not become UK-situated at the date of death or earlier cessation of the reservation of benefit, though it can change in nature;
- the settled property is not UK-situated, or comprised of Schedule A1 property or otherwise non-excluded property as at 30 October 2024; and
- the settlor was not a formerly domiciled resident as at October 2024, meaning an individual born in the UK with a UK domicile of origin who acquired a foreign domicile of choice when settling the assets but who has been UK resident for more than a year.

(Schedule A1 property is a category of non-excluded property for UK inheritance tax purposes, introduced to stop certain trusts from avoiding inheritance tax by holding UK residential property through offshore structures.)

Any additions to existing settlements, or any new settlements made on or after 30 October 2024, will be subject to the gift with reservation rules and will be taxed on the settlor's death if they are then a long-term UK resident. See Finance Act 1986 Sch 13 para 13 inserting new s 7A into Finance Act 1986 s 102.

Other points

There remain anomalies in the Finance Act 2025, even though some issues were corrected at Report Stage. There are still some complex provisions concerning circumstances where a will trust settled by a settlor who was not a long-term resident left a qualifying interest in possession to a spouse who is a long-term resident. See ss 80-81B as amended.

However, the repeal of ss 82 and 82A, which dealt with resettlements, is greatly welcomed. The test for excluded property status for trusts under the relevant property regime will in future be ambulatory and will vary simply by reference to the settlor's long-term residence status; therefore, there is no need for complex anti-avoidance provisions applying to resettlements. The act of resettlement should make no difference to the inheritance tax position.

Trustees will now have to track the long-term residence status of all settlors. How the foreign executors of an individual who has emigrated – and who may have retained no UK property or connections – will be made aware of their UK inheritance tax obligations if the individual dies within ten years remains unclear.

Given their personal liability, relatives of the individual who act as executors may be particularly exposed, as they are unlikely to be aware of any continuing UK inheritance tax liability if the estate is foreign and the individual left the UK some years earlier but remains a long-term resident. The inheritance tax liability can effectively endure for 20 years if no inheritance tax form has been submitted, even if there was no deliberate attempt to defraud.

As noted earlier, there was some relief on 30 October 2024 when the Technical Note and legislation made it clear that existing excluded property trusts will not be subject to a 40% inheritance tax charge on the death of the settlor, even where the settlor is a long-term resident and able to benefit from the trust, provided that the foreign situs status of the settled property is preserved and the settlor was not a formerly domiciled resident immediately before 30 October.

By contrast, a long-term resident will be subject to inheritance tax on their free estate at death, subject to the usual reliefs such as the spouse exemption. The transitional relief allowing a shorter inheritance tax tail for foreign domiciliaries who left the UK by April 2025 was also welcomed.

However, the price of securing inheritance tax protection on death in respect of pre-October 2024 settled property is the continuation of 6% charges and the imposition of an exit charge if the settlor leaves the UK in the future and ceases to be a long-term resident. Some trustees may therefore prefer to wind up the trust sooner rather than later to minimise future exit charges. This will be easier if there is a non-resident beneficiary who can receive the funds tax free or where the temporary repatriation facility can be used.

If the deemed domiciled settlor has become non-UK resident by 6 April 2025, they may prefer the trustees to wind up the trust early in 2025-26 to minimise the inheritance tax exit charge. The downside is that the settled property will fall within the settlor's estate for inheritance tax purposes for three years until April 2028, as they are still a long-term resident. Therefore, if the settlor dies during that period there is a risk of a 40% inheritance tax charge.

Cap on relevant property charges for transitional trusts

The decision on whether to wind up an excluded property trust, particularly where the non-dom has left, has become a little more complex with the announcements in the November 2025 Budget that relevant property charges before the first 10 year anniversary will be subject to an overall cap of £125,000 per quarter up to a maximum of £5 million. So a trust worth more than about £85 million will know that its liability is now capped at up to £5 million every 10 years. This at least helps very large trusts to plan for the cost of retaining the trust. The cap is only available to those trusts that qualify for the transitional relief against a reservation of benefit.

The relief is backdated to April 2025. Those who have been considering winding up large trusts early to minimise the exit charge and to take advantage of the temporary repatriation facility, while accepting the inheritance tax disadvantage of having the property in their free estate, may now have second thoughts.

Example 1

Suzanne, born in France, set up a trust in April 2010 when she was foreign domiciled albeit UK resident. As at October 2024, she has become UK domiciled (and certainly deemed domiciled) but no changes or additions have been made to the trust since 2010, which as at October 2024 contains a portfolio of foreign situated shares and (since 2020) a BVI company holding UK residential let property. Suzanne remains in the UK in 2025/26 and beyond.

As at April 2025, the trust ceased to be excluded property and therefore became subject to the relevant property regime. The next ten year anniversary charge is in 2030. As the foreign portfolio was excluded property in October 2024, there is no inheritance tax due on Suzanne's death provided that at her death the portfolio contains no UK assets. However, the BVI company was not excluded property immediately before 30 October 2024 as it was subject to Schedule A1 and is therefore chargeable to inheritance tax at 40% on her death. Even if the trustees sell the residential property, it does not become excluded property again unless and until Suzanne ceases to be a long-term resident by leaving for more than 10 years.

However, Suzanne does have the comfort of knowing that in 2030 the 10 year charge on the foreign portfolio (not the UK property) will be a maximum of £2.5 million – which is useful if her trust is very valuable. It is, though, no use if her trust is less than about £83 million, in which case she will pay the 6% on the actual value.

Example 2

The facts are as above, except that Suzanne ceased to be UK resident from 2025/26. In April 2028, she ceased to be a long-term resident after three years under the transitional provisions referred to earlier in Finance Act 2025. The trust will be subject to an exit charge then but the amount will be capped at a maximum of £1.5 million (12 quarters x £125,000).

Example 3

Assume Suzanne has never been UK resident and set up a trust in October 2024 which held only non-UK assets. This trust also qualifies for the transitional protection against reservation of benefit and the cap under the relevant property regime. In April 2026, she becomes UK resident and a long-term resident from April 2036. Provided that she does not resettle the assets, her trust should still benefit from the two transitional protections.

Funding inheritance tax charges

Where the assets of the trust are comprised in a foreign holding company, the overall tax rate required to fund inheritance tax charges may ultimately be somewhat higher than 6%. If the trust has to pay inheritance tax but lacks liquidity at trust level, the charge can only be funded in one of the following ways:

- If the trustees have funded the holding company by way of loan, they can request repayment of that loan without incurring further tax consequences. The repaid funds can be used to pay the inheritance tax.
- If there is no loan from the trustees to the company, the company could lend funds up to the trust. This risks a deemed disposal under Sch 4B and may therefore trigger a capital gains tax charge on the settlor or expose the transaction to a possible attack under the transactions in securities rules.
- The company could pay a dividend up to the trust. Even if the settlor is not the life tenant, if they – or their spouse or civil partner – are UK resident and able to benefit, the settlor will pay 39.35% on the dividend (with a right of reimbursement). The net dividend can then be used to pay the inheritance tax.
- The trust could undertake a capital buy-back of the shares. Although this may be treated as capital in the hands of the trust, it could give rise to a gain which is taxable on the settlor if they are UK resident under s 86, provided that any of the settlor, their issue, or their spouses are able to benefit.

In conclusion

Settlors, trustees, executors and advisers must now reassess historic and future gifts of foreign property, as exposure to inheritance tax may arise unexpectedly many years after an individual has left the UK. The new rules significantly narrow the circumstances in which foreign property escapes the inheritance tax net, and reliance on 'excluded property' treatment is no longer straightforward. Early review, clear documentation and proactive advice are essential to avoid inadvertent tax charges under the post-April 2025 regime.

Name: Emma Chamberlain CTA TEP OBE
Position: Barrister
Chambers: Pump Court Tax Chambers
Email: clerks@pumptax.com
Tel: 020 7414 8080
Profile: Emma Chamberlain CTA TEP OBE is a barrister at Pump Court Tax Chambers. The much enlarged 5th edition of *Chamberlain and Whitehouse Trust Taxation and Private Client Tax Planning* was published in April 2024 and an update will be published next year. She is joint chair of the Private Client (International) Committee of the Chartered Institute of Taxation.

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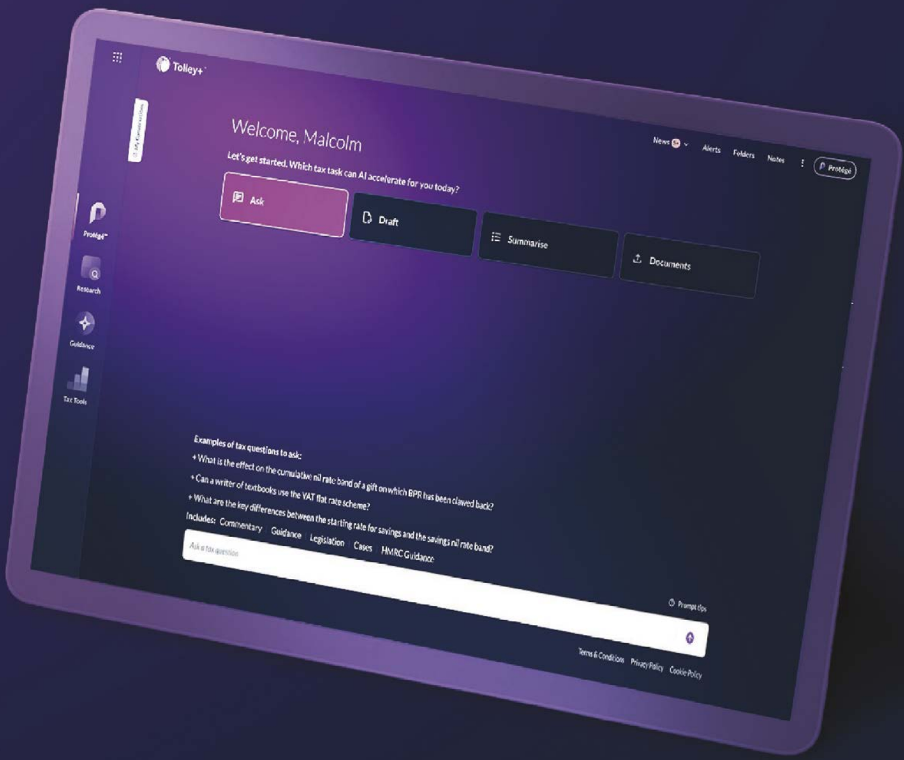

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One battle after another

A share buyback

We look at a case where HMRC determined that a share buyback was not undertaken for the benefit of a company's trade.

by Keith Gordon

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In my October 2020 article 'On the way to the forum', I looked at an unsuccessful judicial review claim reported as *R (oao Boulting) v HMRC* [2020] EWHC 2207 (Admin). In that case, Mr Boulting sought to challenge HMRC's decision to revoke a clearance that it had previously given in relation to a company's purchase of its own shares. In the clearance (given under Corporation Tax Act 2010 s 1044), HMRC confirmed that Mr Boulting's sale of his shares back to the company met the conditions in s 1033 to be treated as a capital transaction. However, following an enquiry into Mr Boulting's tax return (which unsurprisingly reported the transaction as falling within the capital gains tax rules), HMRC changed its mind.

The judicial review claim failed because of the principle that judicial review is generally a remedy of last resort. It was the judge's view that the dispute between Mr Boulting and HMRC was essentially whether the conditions were met for the share buyback to be treated as a capital transaction. That being the case, the dispute could be effectively resolved via a statutory appeal against the closure notice which HMRC issued at the end of its enquiry into Mr Boulting's tax return. As there was a viable alternative remedy, there was no need to engage the High Court through judicial review proceedings.

As a result, the appeal against the closure notice was notified to the First-tier Tribunal, and the decision in relation to that appeal is reported as *Boulting v HMRC* [2025] UKFTT 1272 (TC).

The facts of the case

Mr Boulting had been the founder and principal shareholder of a company following the management buyout of a business in 1993. Following a share-for-share exchange, the company became a 100% subsidiary of a new holding company in 1998. Over the next 15 years, the shareholdings in the holding company changed slightly but Mr Boulting retained a 50% shareholding. Nevertheless, tensions developed within the business, with the younger generation disagreeing with Mr Boulting about the future strategy of the companies. These tensions (and the acknowledgement that Mr Boulting could effectively block the decisions that he did not approve of) led to steps being taken to facilitate Mr Boulting's retirement.

Broadly speaking, Mr Boulting agreed to sell back to the holding company those shares that the company could afford to purchase and to give his son those shares that he was unable to sell. At the time, the company's cash reserves were limited to £5 million. In order to determine how many shares would be bought back by the company, Mr Boulting sought a valuation of the company. That valuation meant that the company could buy back eight shares for £4.8 million, with the remaining shares being gifted to Mr Boulting's son.

The company obtained a s 1044 clearance confirming that the transaction would qualify for capital gains tax treatment. However, following the submission of Mr Boulting's tax return for the year, HMRC considered that he had been overpaid for the shares.

HMRC therefore revoked the clearance on the basis that the company had failed to declare a material fact when obtaining clearance (namely, the 'fact' that Mr Boulting would be overpaid by the company) and concluded that Mr Boulting should instead be taxed as if he had received income of £4.8 million. HMRC considered this fact to be material because being overpaid for the shares was an indicator that the transaction did not satisfy the conditions for capital treatment but was instead a means of transferring significant funds to Mr Boulting. HMRC said that it would not have given the clearance had it known the full facts.

Key Points

What is the issue?
The case of *Boulting* concerns whether a company share buyback, supported by HMRC clearance, genuinely benefited the company's trade so as to qualify for capital gains tax treatment.

What does it mean to me?
HMRC can revisit clearances, but tribunals will look at the full commercial context and focus on the company's purpose, not just valuation or partial buybacks.

What can I take away?
Well-documented commercial reasons for a buyback – especially resolving management deadlock – can still support capital treatment, even where the buyback is only partial.

The relevant legislation

Section 1033 of the Corporation Tax Act 2010 sets out the conditions for a share buyback to be treated as a capital transaction: otherwise, the transaction is treated as a distribution and taxed on the seller as income.

First and foremost, s 1033 requires the company to be an unquoted trading company, or the unquoted holding company of a trading group (s 1033(1)(a)). There are then two principal routes to capital treatment, the most important of which (for the purposes of this case) being that the purchase is made wholly or mainly for the purpose of benefiting an ongoing trade carried on by the company or any of its 75% subsidiaries (s 1033(2)(a)), provided that a host of detailed procedural conditions are also met.

The First-tier Tribunal's decision

The case came before Tribunal Judge Anne Fairpo and Member Duncan McBride.

In order to determine whether the company buyback was made wholly or mainly for the purpose of benefiting a trade carried on by the holding company's 100% subsidiary, the tribunal looked at the wider circumstances of the case. In particular, it acknowledged the management difficulties and the fact that steps leading to Mr Boulting's retirement were being taken to remove the management deadlock within the business.

> **The company obtained a s 1044 clearance confirming that the transaction would qualify for capital gains tax treatment.**

The tribunal noted the slightly different valuation ranges put forward by the experts instructed by Mr Boulting and HMRC respectively. However, given the wider factual circumstances, the tribunal did not consider it necessary to delve into the valuation exercises. In particular, the tribunal noted that Mr Boulting (as part of his exit) was not seeking to extract a disproportionate sum for his shares but was instead seeking to sell to the company those shares that it could afford to purchase (at a fair price), with any remaining shares being given away.

The tribunal made clear that its role was not limited to considering the share buyback in isolation but extended to the wider factual picture, including the other disposals being made by Mr Boulting. HMRC's argument that the buyback had to be looked at in isolation was therefore rejected.

HMRC had also argued that a significant part of the motivation was to flatter Mr Boulting by giving the company a high valuation. However, the tribunal noted that HMRC's valuation expert had acknowledged that flattery can be used as a negotiating technique. More importantly, it recognised that Mr Boulting's personal wishes were known to the company and were used as a part of its strategy in achieving its own objectives (namely, Mr Boulting's departure from the business).

The tribunal focused on the company's reasons for entering into the transaction, rather than Mr Boulting's. It decided that the statutory test focused on 'why the company purchased the shares, not necessarily why it paid £4.8 million for them'.

Much of the argument centred on the wording of HMRC's Statement of Practice 2/82. Paragraph 2 noted: 'If there is a disagreement between the shareholders over the management of the company and that disagreement is having or is expected to have an adverse effect on the company's trade, then the purchase will be regarded as satisfying the trade benefit test provided the effect of the transaction is to remove the dissenting shareholder entirely.' Although this supported Mr Boulting's case in principle, HMRC focused on the final word 'entirely', noting that the share buyback did not involve all of his shares.

HMRC also pointed to paragraph 3 of the statement which expands upon this: 'If the company is not buying all the shares owned by the vendor … it would seem unlikely that the transaction could benefit the company's trade, so the trade benefit test will probably not be satisfied.' However, the tribunal noted the caveat that follows: 'There are exceptions, for example, where a company does not currently have the resources to buy out its retiring controlling shareholder completely but purchases as many of his shares as it can afford with the intention of buying the remainder where possible. In these circumstances, it may still be possible for the company to show that the main purpose is to benefit its trade.'

The tribunal considered that, even under HMRC's Statement of Practice, a partial sale back to the company accompanied by a gift of the remaining shares was not necessarily precluded from amounting to a disposal for the purposes of the company's trade. The tribunal reminded the parties that the Statement of Practice is guidance, rather than a definitive interpretation of the law.

The tribunal therefore concluded that the statutory conditions in s 1033 were met and that Mr Boulting was entitled to treat the receipt as falling within the capital gains tax rules. Mr Boulting's appeal was therefore allowed.

Commentary

The purpose of Mr Boulting's earlier judicial review claim was to avoid the necessity of an appeal hearing. That hearing, when it eventually took place, lasted three days and, as two expert witnesses were instructed to advise on valuation matters, clearly involved a lot of prior preparation. When I wrote my previous article, whilst I was of the view that the judicial review claim should have been permitted to proceed, I considered that the judgment might not have fully articulated why it was better for the dispute to be resolved by the tribunal instead. Now I have the benefit of the tribunal's decision, however, I feel that it only reinforces my original conclusion that the judicial review should have been allowed to go ahead.

That said, I suspect that HMRC might be disappointed by the outcome. One possible area for challenge was the tribunal's decision to focus on the company's reasoning for entering into the transaction, thereby rendering Mr Boulting's reasons and motivations less relevant. That is certainly a tenable view of the legislation (which focuses on a 'payment made by a company on the … purchase of its own shares' and the requirement that the 'purchase is made wholly or mainly for the purpose of benefiting [the relevant company's] trade'.

However, a purchase of shares is also, when looked at from another angle, a sale of shares. As a result, it is also arguable that one should take into account the seller's purposes. It will be interesting to see whether HMRC pursues that line of argument and, if so, how the Upper Tribunal views the legislation.

What to do next

The case is a good reminder that share buybacks are primarily treated as distributions for tax purposes but can, if certain conditions are met, qualify as capital transactions. Although this case focused on the benefit of a trade test, the procedural conditions should not be overlooked.

Mr Boulting benefited from the fact that the management dispute was clearly documented, as were the steps undertaken to effect his retirement. Similar documentation would be required in any other case where HMRC seeks to challenge the capital gains tax treatment (even, as seen in this case, if a clearance has previously been given).

This is a case where HMRC might challenge the tribunal's approach. We should keep an eye out for any further developments.

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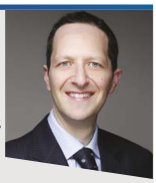
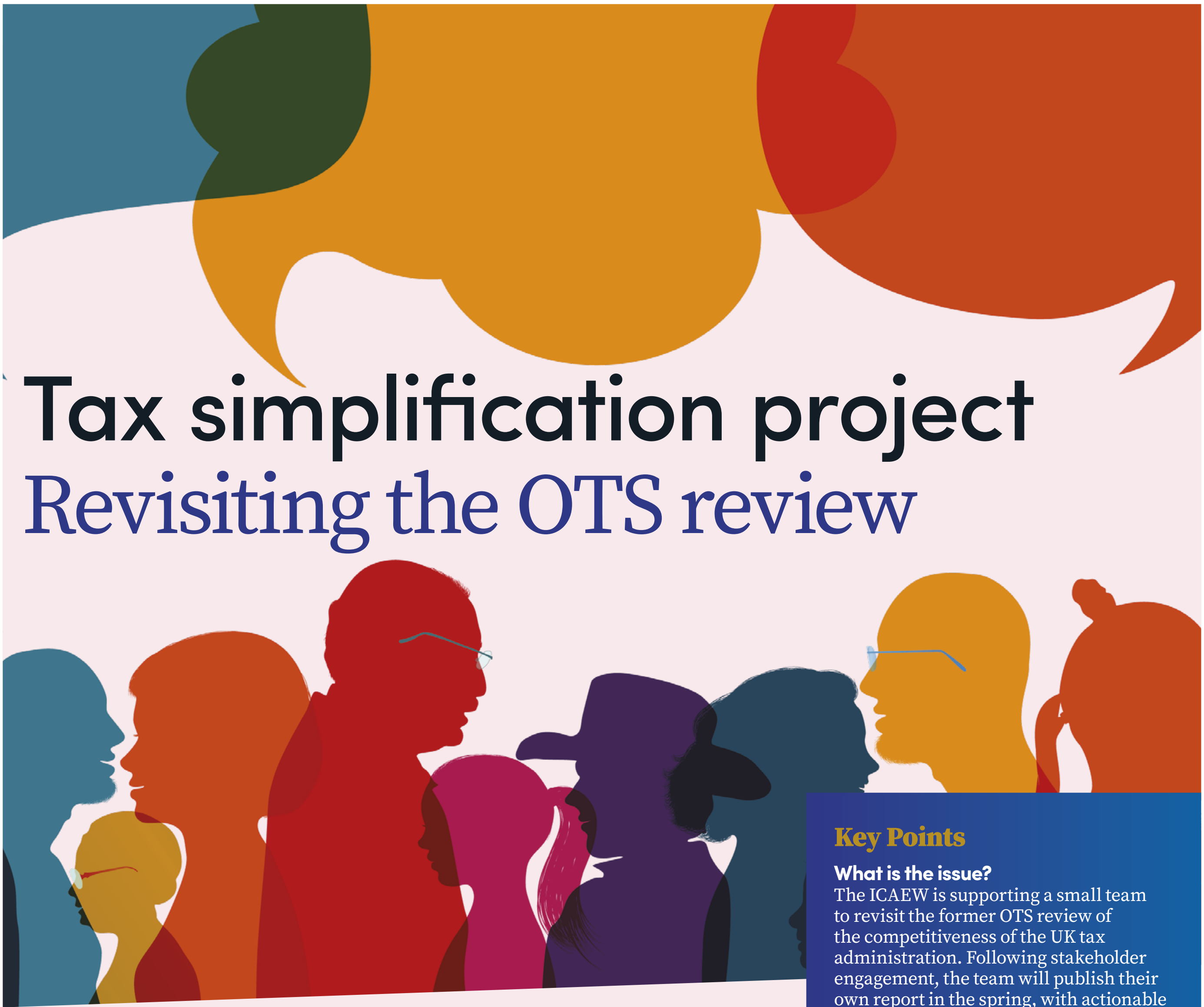


Name: Keith Gordon
Position: Barrister, chartered accountant and tax adviser
Company: Temple Tax Chambers
Tel: 020 7353 7884
Email: clerks@templetax.com
Profile: Keith M Gordon MA (Oxon), FCA CTA (Fellow) is a barrister, chartered accountant and tax adviser and was the winner in the Chartered Tax Adviser of the Year category at the 2009 Tolley Taxation awards. He was also awarded Tax Writer of the Year at the 2013 awards, and Tolley's Outstanding Contribution to Taxation at the 2019 awards.



Tax simplification project
Revisiting the OTS review

A renewed review of UK tax administration seeks evidence to simplify compliance, improve competitiveness and reduce burdens for businesses and advisers.

by Andy Richens

Key Points

What is the issue?
The ICAEW is supporting a small team to revisit the former OTS review of the competitiveness of the UK tax administration. Following stakeholder engagement, the team will publish their own report in the spring, with actionable recommendations for policymakers.

What does it mean for me?
The themes of growth and the UK's competitiveness are as important as ever. At the same time, tax complexity continues to pull in the opposite direction, increasing administrative burdens for businesses, advisers and HMRC.

What can I take away?
The original OTS report made more than 50 recommendations, all except three of which were accepted or marked as under consideration by the government of the day. But how many have actually been implemented and where are the current pinch points in the UK tax system?

In October 2014, I co-authored the former Office of Tax Simplification (OTS) report on the competitiveness of the UK tax administration. The review was commissioned by the Chancellor at the time, George Osborne, on behalf of the Coalition government, following the UK's ranking (14th place) in the World Bank's *Paying taxes* report, produced by PwC.

The ranking was based on three factors: the total tax rate; the total time taken to comply; and the number of tax payments in the year. The OTS was asked to focus on the second of these. Its report put forward more than 50 recommendations to improve the competitiveness of the UK's tax administration, with all but three accepted or marked for further consideration by the Exchequer Secretary to the Treasury (see tinyurl.com/muu6b9aa).

But how many of these recommendations have actually been implemented by successive governments since then? Or are compliance burdens now fully resolved?

Both the World Bank's annual *Paying taxes* report and the OTS itself have since been discontinued. Nevertheless, the subject of growth and the UK's competitiveness remains as important as ever, while tax compliance burdens on business continue to pull in the opposite direction.

I have long been an advocate for the continuation of the OTS's work (see my *Tax Adviser* article in February 2023 on 'Tax simplification – where is it heading now?'). I am therefore very pleased that the ICAEW is supporting a small team comprising myself, Professors Kevin McMeeking and Peter Jelfs of Bristol and Brunel universities respectively, and PhD research student Sam Sherwood, to revisit the OTS review and publish our own report in the spring, with actionable recommendations for policymakers.

Call for evidence

We are following the OTS mantra of engaging with as many stakeholders as possible, including advisers, industry representative bodies, academics, HMRC officials and, crucially, businesses themselves. For businesses in particular, it is clear that only a party independent of the government will hear the full story, without fear or favour.

We have hit the ground running and, at the time of writing, have held more than a dozen meetings across the groups above. However, we need to continue building our body of evidence. Details of how you can contribute are at the end this article. Drawing partly on the recommendations in the original report, our call for evidence focuses on ten areas, which are set out in the box ***Call for evidence***.

CALL FOR EVIDENCE

1. **Adjustments between accounting profit and taxable profit**
   - Which adjustments take a disproportionate amount of time relative to the tax at stake?
2. **Relief and incentives for capital expenditure and R&D**
3. **The 'schedular' system**
   - What are the benefits and burdens of placing income sources into separate 'buckets'?
   - What would be the obstacles to pooling income sources?
4. **Making Tax Digital (MTD): opportunities for a simpler regime?**
   - Have you been involved in the MTD for income tax pilot? If so, what simplifications could assist implementation from April 2026?
   - How helpful or unhelpful has MTD for VAT been in managing VAT obligations?
5. **Reporting and compliance processes that could be simplified**
6. **HMRC support**
   - How useful do you find HMRC guidance and online services?
   - How easy is it to contact HMRC?
   - What could be done to improve matters?
7. **Payroll and employment taxes**
   - How easy do you find managing the company payroll, employment status, benefits in kind and CIS?
8. **Simpler tax for smaller companies**
   - Could the complexity of the corporation tax computation for smaller companies be almost entirely removed, whilst retaining clear and simple incentives such as the annual investment allowance? What benefits and concerns would arise? Could smaller companies operate a cash-based system, and what problems might this create?
9. **International aspects**
   - Are there international comparisons or case studies from other regimes that have successfully implemented simplifying changes to their corporation tax systems?
10. **Priority of changes**
    - If one area of the business tax regime were to be prioritised for simplification, what would it be?

Early emerging themes

Accounting profits and adjustments

While following accounting profits would be simpler, the popularity of the annual investment allowance mean adjustments to profits will continue to be required, as concluded in the subsequent 2018 OTS review of capital allowances versus depreciation (see tinyurl.com/4648rhkk). In many cases, the issue relates to timing differences, raising the question of whether accounts could be followed more closely.

Difficulties were highlighted around private use adjustments and entertaining within travel and subsistence. Differences in definitions between accounting and tax, such as capital versus revenue, and inconsistencies between different taxes (for example, in the definition of 'business') were also seen as confusing. We would welcome further evidence on particularly time-consuming areas.

Income tax property businesses were cited as an example of where the disallowance of finance charges can result in a taxable profit even where there is an underlying economic loss arises.

Capital allowances

Certainty around the annual investment allowance being set at £1 million for the lifetime of the current parliament, as recommended in the original OTS report, has been welcomed. However, the interaction between the annual investment allowance and full expensing, and the need to track purchases separately, was seen as complex. Concerns were also raised about the policy rationale for the new 40% first-year allowance alongside a reduction in the writing-down allowance. Where land and buildings are purchased and later disposed of, with capital gains or losses arising, the system was described as confusing.

R&D tax credits

R&D tax credits have been raised at almost all our meetings. Larger businesses with access to a HMRC Customer Compliance Manger have welcomed the merged R&D scheme.

At SME level, however, businesses without such access report difficulty in determining whether their expenditure qualifies. This leads them to rely on advisers, who in turn report a lack of certainty. Although credits may be paid out early, there is concern that HMRC may later open an enquiry, creating uncertainty. The result appears, in some cases, to be a disincentive to claim, rather than an incentive to invest in R&D.

The schedular system

It is almost certain that, if starting with a blank sheet of paper, we would not design a system that places different income sources into different tax 'buckets'. Proposals for schedular reform were carried forward into the OTS corporation tax computation review, where the chancellor at the time, Philip Hammond, acknowledged this as a sensible long-term proposal and said that he would ask officials to cost and assess its impact (see tinyurl.com/yc25tu3x).

The results of that work are unclear. Similar proposals were echoed by landowner groups in the penultimate OTS report on property income (see tinyurl.com/3v7t6v94), including calls for a rural business unit for diversified agricultural businesses.

We have heard that the 2017 loss reforms may have eased some concerns around the pooling of profits and losses, but we are keen to understand what other obstacles may arise if the schedules were removed.

Making Tax Digital

Unsurprisingly, there is a nervousness around the introduction of MTD for income tax. Some have suggested that quarterly accounting could result in increased reporting of expenditure that is currently missed. We are keen to understand whether there any lessons to be learnt from the MTD for Income Tax pilot or from MTD for VAT.

Concerns were also raised that automating processes and reducing human involvement (for example, through pre-population) could lead to increased compliance time later on.

Reporting and administration

We have been told that the Corporate Interest Restriction administrative rules are particularly cumbersome and in need of an overhaul. Difficulties arise where groups do not submit an interest restriction return because they believe they are within the £2 million de minimis limit, only for the corporation tax return to be amended after the 12 month filing deadline, leaving them unable to submit the required return.

The lack of digitisation for form CT61 has also been raised. On VAT, businesses highlighted difficulties around the boundaries for different rates (such as in the food sector), and the domestic reverse charge rules for the construction sector, which are not always fully understood. On payroll and employment taxes, expansion of the trivial benefits rules have been raised, and we would like to hear more under this heading.

HMRC support

HMRC delays in answering helplines calls and post were reported as discouraging businesses from contacting them. By contrast, the corporate webchat service has been reported as being useful.

Smaller companies

For smaller companies, the possibility of a cash-basis system was cited by some as a potentially useful option, while others questioned the need for differential treatment at all, noting that too many businesses incorporate for the wrong reasons. A HMRC report from April 2025 (see tinyurl.com/5ck7jrau) found an interesting statistic that the second most common reason for incorporating (after limited liability), was simply 'don't know'. This is disappointing following improvements to guidance on gov.uk.

The need for a route to disincorporate back to sole trader or partnership status without a tax charge has again been raised. The OTS previously recommended a disincorporation relief, which was introduced in 2013, but an asset limit of £100,000 meant that it was rarely used. The relief was discontinued under a sunset clause in 2018.

International comparisons

Singapore has been cited as one example of a jurisdiction that communicates tax compliance obligations and business incentives in a comprehensive but concise and intelligible way. We are keen to hear further examples under this heading.

Contact us

If any of the above resonates with your experiences of the problems faced by UK businesses, we would be very pleased to hear from you. Contributions can be made either through a written submission or via a Teams meeting, and will help us build a robust body of evidence and frame recommendations for policymakers. Your insights will be invaluable in identifying problem areas and shaping reform proposals.

I can be contacted by email at: richensandy@aol.com.

Name: Andy Richens
Email: richensandy@aol.com
Profile: Andy is a senior technical writer and was formerly a Senior Policy Adviser to the OTS from its formation in 2010 to closure in 2022. Previously, he was Tax Technical Director at Bishop Fleming accountants, with a background in tax training, where he continues to speak on webinars and tax conferences.

Distortion of competition

The burden of proof

The UK Supreme Court decided that VAT must be applied to car parking charges at Northumbria Healthcare NHS Foundation Trust.

by Ian Harris

I wrote in the September 2024 edition of 'Tax Adviser' about the Court of Appeal's decision in *Northumbria Healthcare NHS Foundation Trust* [2024] EWCA Civ 177 and its potentially profound implications for the VAT treatment of income-generating activities carried out by public bodies. On reflection, the article's title – 'When HMRC's guidance is binding' – may have been somewhat misleading...

Under Article 13(1) of the Principal VAT Directive, implemented by Value Added Tax Act 1994 s 41A, a public body's income-generating activities fall outside the scope of VAT where:

- the activity is carried out under a special legal regime only applicable to public bodies; and
- treating the activity as non-VATable would not lead to significant distortion of competition.

Northumbria Healthcare argued that its provision of car parking at its hospitals and similar facilities met these criteria and the Court of Appeal agreed. The Supreme Court, however, has taken a fundamentally different view.

The legal framework

The Court of Appeal held that:

1. Binding guidance with which public bodies must comply unless they have good reason not to – so-called 'tertiary law' – can constitute a special legal regime, provided such guidance is issued pursuant to a statutory or regulatory power.
2. HMRC must prove any significant distortion of competition through economic analysis. Unlike the principle of fiscal neutrality, there can be no presumption of distortion merely because similar activities are carried out by public and private bodies.

This approach reflected what many VAT practitioners felt to be the correct interpretation. However, with around 70 similar appeals by NHS bodies stayed behind *Northumbria Healthcare* and approximately £100 million in VAT at stake, it is hardly surprising that HMRC sought to appeal.

What is disappointing, however, is that some aspects of the Supreme Court's reasoning seem to set back the commonly held view of how the two tests are to be applied.

Supreme Court judgment

The Supreme Court judgment [2025] UKSC 37 has unanimously allowed HMRC's appeal.

Special legal regime confined to statute

The Supreme Court rejected the Court of Appeal's conclusion that binding guidance ('tertiary law') can constitute a special legal regime.

The court held that a qualifying regime must:

- impose a legal obligation on the public body that governs the activity in question or materially affects the way that it is carried out; and
- for VAT purposes, it must have the degree of legal certainty fundamental to the VAT regime, which guidance – even when binding in practice – does not.

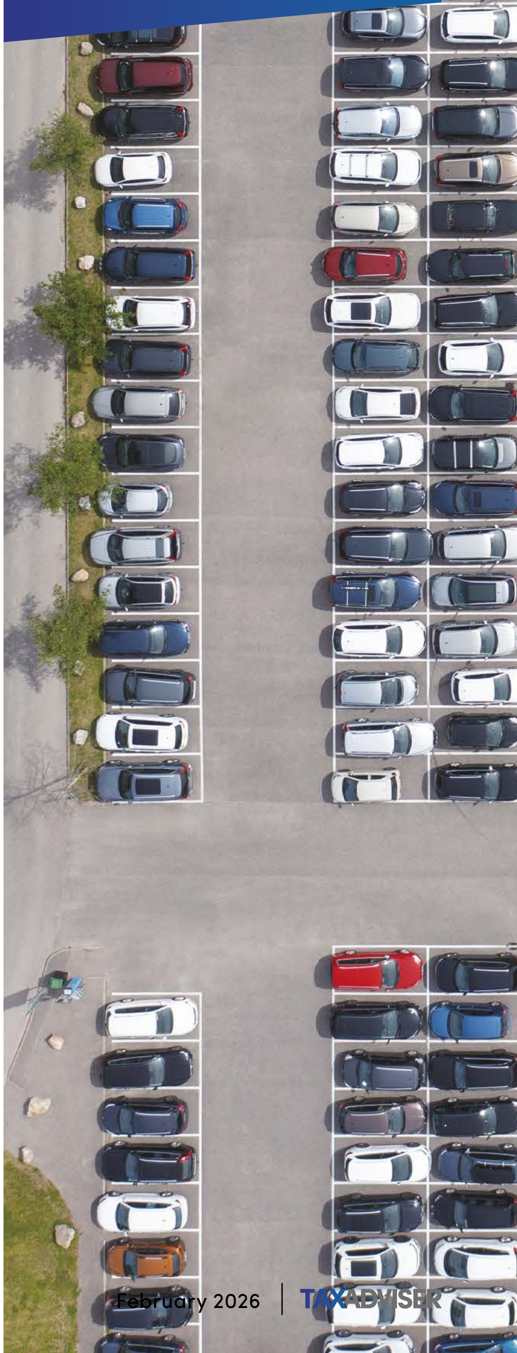
Because public bodies may depart from guidance where they have good reason, such guidance lacks the legal certainty of an imposed statutory obligation. This returns the law to HMRC's long-advocated position that only statute and statutory instruments can constitute a special legal regime.

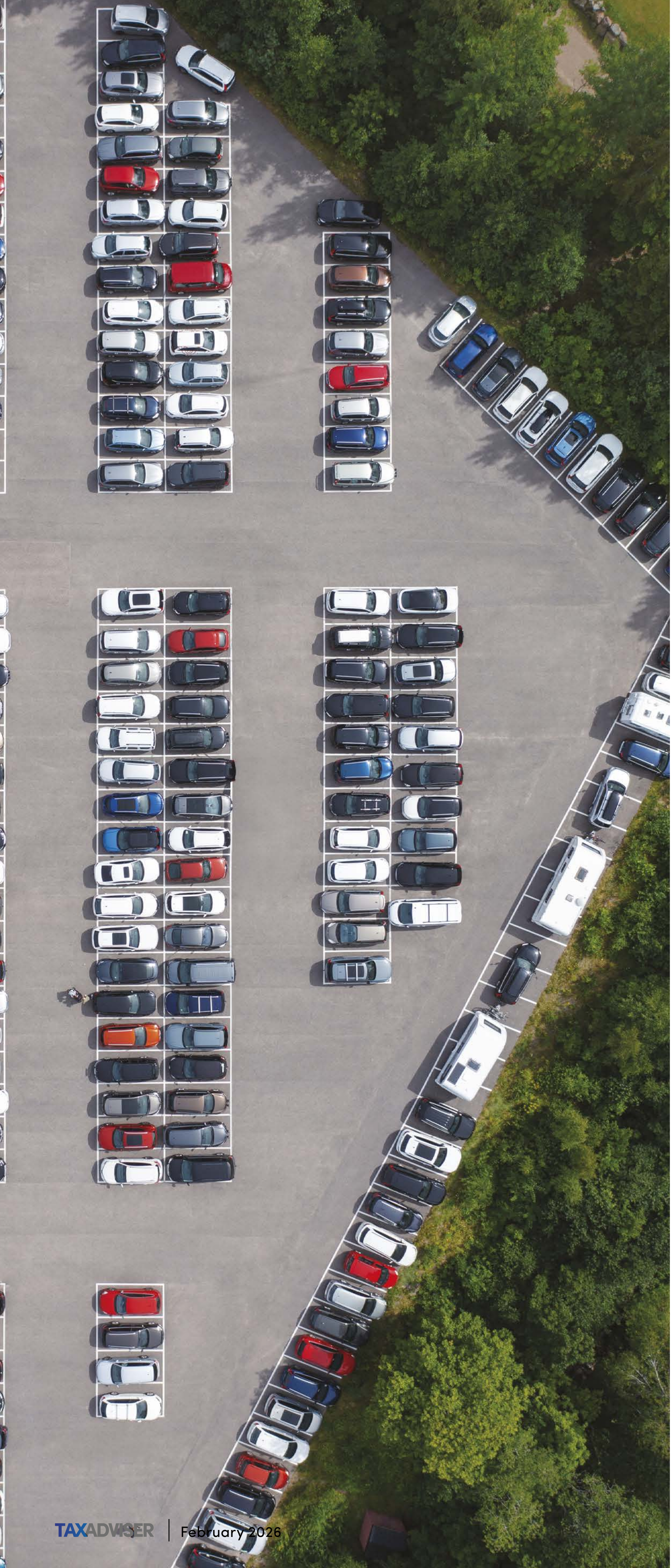
Key Points

What is the issue?
The Supreme Court has overturned the Court of Appeal's decision and held that NHS hospital parking does not fall outside the scope of VAT.

What does it mean for me?
The court held that binding guidance cannot constitute a 'special legal regime' and that, applying a fiscal neutrality approach, treating NHS parking as non-VATable would significantly distort competition with private operators.

What can I take away?
Only statute and statutory regulations can amount to a special legal regime. On significant distortion of competition, HMRC may rely on a presumption that differential VAT treatment will distort competition wherever private providers operate – effectively shifting the evidential burden onto public bodies.





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Significant distortion of competition

Although the absence of a special legal regime disposed of the appeal, the Supreme Court nevertheless addressed the question of significant distortion of competition, and in doing so reached several important conclusions.

It observed that the purpose of the significant distortion of competition condition is to guarantee fiscal neutrality by ensuring that two similar supplies are treated consistently for VAT purposes, thereby preventing private providers from being placed at a disadvantage because they are subject to VAT when public bodies are not.

Following the seminal ECJ judgment in *Isle of Wight Council and others* (Case C-288/07), the question to be addressed is whether differential VAT treatment of public and private bodies carrying out the same or similar activity would lead to a distortion of competition in the nationwide market for that activity that is more than negligible.

In *National Roads Authority v Revenue Commissioners* (Case C-344/15), the CJEU confirmed that the burden of proving a significant distortion rests with the tax authorities; and that this must be proved through an economic analysis of the nationwide market in question.

The Court of Appeal in *Northumbria Healthcare* agreed with this, noting that HMRC had not undertaken such an analysis and that – if it were to do so – the market in question must be carefully identified. It felt that the market might well be specifically 'hospital parking', rather than parking generally.

The Supreme Court rejected both these findings. Referring back to the First-Tier Tribunal [2021] UKFTT 71 (TC), the Supreme Court highlighted its finding that actual competition existed between Northumbria Healthcare's car parks and parking provided by private providers. On that basis, the tribunal held that treating Northumbria Healthcare's provision of parking as non-VATable would lead to distortion of competition that was more than negligible. The Upper Tribunal upheld this finding [2022] UKUT 267 (TCC).

The Supreme Court found the Court of Appeal's contrary conclusion difficult to understand. In its view, the First-tier Tribunal's reasoning clearly supported the conclusion that non-VATable treatment of 'hospital parking' would significantly distort competition. The Supreme Court held that the First-Tier Tribunal was correct in this regard.

The important point, held the Supreme Court, is whether a competitive disadvantage arises from differential VAT treatment of identical or similar activities meeting the same needs of the typical consumer – even where a public body chooses to maintain its pricing and therefore retains a higher net receipt by not accounting for VAT. This is, of course, a fiscal neutrality test, which the Court of Appeal had effectively dismissed.

NORTHUMBRIA HEALTHCARE: THE FACTS

Northumbria Healthcare operated car parks at its hospitals, charging members of the public. The Trust contended that NHS charging guidance – including requirements for transparency, fairness and concessionary rates – meant its parking activities were governed by a special legal regime, and that exempting the activity from VAT would not distort competition.

HMRC argued that NHS guidance is not 'law', and that private parking operators in the area were in direct competition and obliged to charge VAT, so exempting the Trust would distort competition.

The First-tier Tribunal agreed with HMRC, finding actual competition between the Trust's car parks and private operators. The Upper Tribunal upheld this. The Court of Appeal reversed both findings. The Supreme Court has now reinstated the First-tier Tribunal and Upper Tribunal decisions.

The Supreme Court accepted that the assessment of significant distortion must be supported by an economic analysis of the nationwide market. However, it did not agree that this requires a detailed economic study of how non-VATable treatment impacts the pricing or retained net receipts decisions of public bodies. Instead, it held that the First-Tier Tribunal's analysis – which simply identified the existence of private sector competitors required to charge VAT – was sufficient.

The Supreme Court thus applied a strict fiscal neutrality approach to demonstrating significant distortion of competition. Where two activities meet the same needs of the typical customer, a rebuttable presumption by HMRC that differential VAT treatment will significantly distort competition is acceptable.

Implications of this decision

While the Supreme Court's judgment comes as no great surprise – given HMRC's concern that the Court of Appeal's approach could open the floodgates to non-VATable treatment for an increasing number of public bodies' income-generating activities – it is nonetheless disappointing in several respects.

First, the court's treatment of the concept of a 'special legal regime' is troubling – in particular, its rejection of the idea that binding guidance with which public bodies must comply, without a good reason not to, can qualify as such a regime.

Many public sector VAT practitioners have long regarded this form of 'tertiary law' as capable of amounting to a special legal regime. Indeed, the Court of Appeal's own limitation – that this would apply where the guidance was issued under express statutory powers – appeared to strengthen that view.

The Supreme Court, however, in effect held that a special legal regime must be grounded in statute, or in regulations made under statutory authority, reflecting the long-held position of HMRC. In practice, few arguments for the existence of a special legal regime have relied solely on binding guidance as 'tertiary law', but such guidance has often been regarded as a supporting factor in determining how public bodies are required to undertake their activities.

Second, the Supreme Court has determined that significant distortion of competition and fiscal neutrality are not distinct tests but the same condition. To be fair, the ECJ in the seminal *Isle of Wight Council* case was clear that significant distortion of competition is a subset of fiscal neutrality.

However, this had never appeared so explicit as to mandate a strict fiscal neutrality approach, whereby the mere existence of private providers required to account for VAT gives rise to a rebuttable presumption of distortion, with only the question of whether such distortion is more than negligible – and therefore 'significant' – remaining to be determined. Yet this is now the position endorsed by the Supreme Court.

This outcome sits uneasily with the CJEU's reasoning in *National Roads Authority*, where the court emphasised that the burden lies with the tax authorities to demonstrate, on the basis of an economic analysis, that significant distortion of competition would arise. The Supreme Court's approach may therefore be seen as shifting the balance markedly in HMRC's favour.

This was the basis of the Court of Appeal's decision in *Northumbria Healthcare*; namely, that significant distortion of competition and fiscal neutrality are distinct concepts. The distortion of competition requires an economic analysis of the market with no presumption in either direction – unlike fiscal neutrality, where a breach can be presumed if differential VAT treatment applies to the same or similar activities.

The Supreme Court has, however, overturned the Court of Appeal's decision. It has rejected the conclusion that HMRC must demonstrate significant distortion of competition through an economic analysis of the relevant market, and has reinstated the First-tier Tribunal's finding that empirical evidence of private sector competitors who are obliged to account for VAT is sufficient to give rise to a presumption that competition would be significantly distorted.

The Supreme Court's reasoning – applying a strict fiscal neutrality approach – is that it is not necessary in every case to produce the kind of detailed economic evidence laid before the Court of Appeal in *Isle of Wight Council* in order to determine whether a significant distortion exists. That level of evidence was presented simply because of the way the appellant public bodies had put their case. The Supreme Court further considered that *National Roads Authority* must be understood in the context of a situation where only a purely theoretical possibility existed that private operators might enter the market.

Neither decision, therefore, established a general requirement for detailed economic analysis in all cases concerning significant distortion of competition.

This is particularly disappointing. Although the Supreme Court noted that public bodies may always adduce evidence to show that no significant distortion exists in a given case, this requires them to prove a negative – something jurisprudence generally frowns upon. It also gives HMRC latitude to take a more cursory view of the competitive landscape, assert that a significant distortion would arise, and place the burden on public bodies to rebut that assertion. In practical terms, this reverses the established position that the onus of proof lies with HMRC.

Moreover, it is difficult to see how HMRC can credibly demonstrate that a distortion of competition exists, let alone that it is significant, without undertaking more than a cursory economic analysis of the relevant market.

Conclusion

The Supreme Court has restored HMRC's preferred interpretation of Article 13(1) and s 41A, narrowing the scope for public bodies to treat income-generating activities as non-VATable. The combined effect of a restrictive special-legal-regime test and a presumption-based approach to competition means public bodies face an uphill battle. Early, robust evidence-gathering will be essential for any future claims.

Name: Ian Harris
Email: ianmharris001@gmail.com
Profile: Now retired to the North Norfolk coast, Ian Harris was previously the VAT manager at Leicester City Council for 28 years. He was a member of the CIOT Indirect Taxes Committee as well as the CIPFA VAT Committee and long-serving secretary of the Local Authority National VAT Consultative Group.


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The new CTA qualification Changes from 2028

The 2028 CTA qualification adds staged learning, modern assessments, a greater focus on ethics and professional skills.

by Kelly Sizer

Key Points

What is the issue?
CIOT has reviewed the CTA qualification to ensure that it keeps pace with change and is right for the tax adviser of the future.

What does it mean to me?
Chartered tax advisers will need to have training in different skills, such as in tax technology. From 2028, the CTA qualification will further embed skills assessment and ethical practice.

What can I take away?
A response to the consultation held by the CIOT in Spring 2025 has been published, together with a detailed CTA Qualification Handbook for 2028 onwards.

In the ever-evolving landscape of UK taxation, the Chartered Tax Adviser (CTA) qualification has signalled technical excellence and professional integrity. Yet nothing stays the same forever, with technological advances accelerating the pace of change. As the tax environment evolves, the CIOT recognises that the CTA qualification must also adapt to remain relevant and robust.

In the autumn of 2023, the CIOT therefore embarked on a comprehensive review of the CTA qualification. After carrying out initial stakeholder research and reviewing internal data, a wide-ranging 12 week public consultation was launched in April 2025 to gather views from across the profession. We are grateful to all of those who took time to respond and to engage in constructive dialogue.

The CIOT has now published:

- a response document to the consultation;
- the new CTA Qualification Handbook;
- detailed syllabus grids; and
- an initial table of exemptions.

The revised CTA qualification structure will take effect for students enrolling from September 2027, with the first exam sittings in 2028. Transitional rules will be put in place for those registering for the CTA in the meantime.

This article explores how the consultation process shaped the final proposals, what has changed from the proposal published for consultation, and what the new CTA will mean for students, employers and the wider tax community.

The consultation

The CIOT's review was a genuine invitation for stakeholders to help to shape the CTA qualification for the future. Between April and June 2025, the CIOT sought feedback on a draft new structure for the CTA, including a staged qualification model, a new Professional Skills and Competencies Framework and modernised assessment methods in some areas.

The consultation was publicised widely through the CIOT website, social media, member mailings and a well-attended live webinar. It ultimately drew 77 formal responses from a diverse array of stakeholders: students, members, employers (from small practices to the Big Four), training providers, government bodies and more.

The engagement was impressive not just in numbers, but in the depth and quality of feedback. Respondents brought a wealth of experience and a range of views on the challenges and opportunities facing the tax profession. Their input was instrumental in shaping the final proposals, and the CIOT's response document acknowledges the areas of consensus and some points of contention. The process sought to maintain CTA's rigour while ensuring it remains relevant to a changing profession.

How the CTA is changing

1. The staged qualification

At the heart of the new CTA is a staged qualification structure, designed to support progressive learning and to make the pathway to qualification accessible and flexible. The new model comprises three stages.

Although the CIOT is not regulated by Ofqual, for the purposes of reviewing the qualification we have benchmarked each stage to the Regulated Qualifications Framework levels. This gives clarity over the standard of the qualification (with the final Level 7 of the CTA being the equivalent of a Master's degree). The three stages are:

1. **Foundation (Level 5 equivalent):** An on-demand, objective-test assessment providing a broad introduction to UK taxation for those without prior experience.
2. **Technical knowledge and skills (Level 6 equivalent):** A suite of six technical modules of which candidates must sit five. These are divided by tax topic as opposed to specialism, with Income Tax and NIC being compulsory. There will also be a new Tax Landscape skills paper, in a case study format. Technical knowledge will not be a key element of this paper as it is skills-focused, but underpinning tax knowledge will be drawn from the compulsory Tax Knowledge module. Overall, this stage bridges the gap between foundational knowledge and specialist advisory work, preparing candidates for the final stage. Employers welcomed that the revised qualification will embed ethics in practice; for example, by incorporating this topic within the new skills paper.
3. **Advisory (Level 7 equivalent):** A single Advanced Technical paper and an Application and Professional Skills case study in a chosen specialism.

This structure was broadly welcomed by respondents to the consultation, who saw value in a more gradual development of knowledge and skills. The introduction of a Level 6 equivalent stage was seen as a way to support candidates who might otherwise struggle with the leap straight to the Level 7 (Master's degree equivalent) assessment.

While generally respondents noted the benefits of a progressive structure, some were worried that the inclusion of a Level 6 equivalent stage, coupled with a reduction in assessment hours at Level 7, might be perceived as lowering the overall standard of the CTA. The CIOT's response to such concerns is that, while the distribution of assessment hours is changing, the qualification as a whole remains benchmarked at the equivalent of Level 7, and the final standard is therefore undiminished.

It is worth noting for comparison purposes that the same progressive principle to be used in the future CTA is widespread in other qualifications: for example, a university Bachelor's degree culminates at Level 6, but earlier stages build knowledge and skills capability towards this eventual final assessment.

2. Recognition at Level 6: more consideration required

One of the more debated proposals was whether to offer formal recognition for candidates who complete the Level 6 equivalent stage but who do not then progress to full CTA status. While some respondents saw this as a way to enhance accessibility and reward partial achievement, others feared that it would create confusion around the CTA designation and dilute its value.

The CIOT has decided not to proceed with this idea at present, but will keep the proposal under review. Instead, the focus will be on making the qualification more flexible, such as by reviewing the expiry rules for exam passes. The CIOT will look at the possibility of removing these requirements and replacing them instead with limits on the number of attempts, possibly supported by student membership and continuous professional development requirements.

3. Breadth versus specialism: striking the right balance

Perhaps the most contentious issue in the consultation was the balance between breadth and specialism. Should the CTA require all candidates to develop a broad base of tax knowledge, or should it allow earlier and deeper specialisation?

The feedback we received was mixed, often reflecting the size and focus of the respondent's own area of practice. Some, especially from larger or more specialist firms, argued for the option to specialise earlier. Others believed that breadth of knowledge is essential for producing well-rounded advisers.

The CIOT's decision is to retain the requirement for broad tax knowledge, with limited choice at the Technical Knowledge stage and specialisation being reserved for the Advisory stage. The qualification will, however, be kept under annual review, with the possibility of introducing further specialisms in the future. The CIOT will also be looking at developing additional complementary post-CTA qualifications in specialist areas such as human capital taxes.

4. Assessment methods: modernisation and accessibility

A key theme of the consultation was the need to modernise assessment methods and improve accessibility. The new CTA will feature:

- **On-demand assessment at the Foundation level:** This was strongly supported as a way to fit study around work and personal commitments, and to allow faster progression (or resits) where needed.
- **Flexible module sittings at the Technical Knowledge stage:** Candidates will be able to sit modules individually, in groups or all together, according to their circumstances and employer preferences.
- **Case study-based assessment for skills papers:** The new Tax Landscape and Application and Professional Skills papers will use case studies, with pre-seen information to allow for more realistic, workplace-relevant assessment.
- **Open book exams (with limits):** While there was overwhelming support for open book assessments, there was no consensus on how wide the access to resources should be. The CIOT has decided to allow access to approved resources (legislation, HMRC guidance and possibly study manuals), but not to give full internet access or permit the use of AI tools. This strikes a balance between realism and fairness.

IMPLEMENTATION TIMELINE

The transition to the new CTA will be carefully managed to support both new and existing students:

Dec 2025	• New CTA qualification agreed and qualification handbook published
2026	• Preparatory work for new structure • Publication of further information, e.g. transitional arrangements
2027	• New CTA students enrolled on new qualification structure
2028	• First sittings of new exams • Transitional arrangements for existing CTA students

THE NEW CTA IN DETAIL: STRUCTURE AND SYLLABUS

The new CTA, as set out in the 2028 Qualification Handbook, is designed to be both rigorous and flexible, supporting a diverse range of candidates and career paths.

Stage 1: Foundation (Level 5 equivalent)
- **Aim:** To provide a broad introduction to UK taxation for those new to the field.
- **Modules:** Foundation Tax paper covering key aspects of Income Tax, Inheritance Tax, Chargeable Gains, Corporate Taxes, VAT, Stamp Taxes; plus separate papers in Accounting, Law and Ethics.
- **Assessment:** On-demand, objective-test questions (for example, multiple choice), auto-marked for efficiency.

Stage 2: Technical Knowledge and Skills (Level 6 equivalent)
- **Aim:** To develop essential technical knowledge across a range of tax areas, prior to specialisation, and to enable candidates to develop research, analysis and application skills.
- **Tax Knowledge modules:** Compulsory Income Tax and National Insurance, plus four electives from: Inheritance Tax, Trusts and Estates; Chargeable Gains and Stamp Taxes; Corporate Tax; VAT; and Other Indirect Taxes.
- **Skills Paper:** The new 'Tax Landscape' module, focusing on research, application, ethics, dispute resolution and the use of technology.
- **Assessment:** Tax Knowledge will be comprised of written exams (a mix of short and long-form questions), with flexible module sittings. Tax Landscape will be a case study with pre-seen information enabling research in advance of the examination.

Stage 3: Advisory (Level 7 equivalent)
- **Aim:** To develop deep expertise in a chosen specialism and the ability to apply knowledge in complex, real-world scenarios.
- **Specialisms:** Taxation of Individuals; Inheritance Tax, Trusts and Estates; Owner-Managed Businesses; Larger Companies and Groups; and Indirect Taxation.
- **Assessment:** One Advanced Technical paper (written exam) and one Application and Professional Skills case study (with pre-seen information).
- **Flexibility:** Candidates may choose to sit their Application and Professional Skills paper in a different specialism from their Advanced Technical paper, if desired.

5. Professional Skills and Competencies

The introduction of a new Professional Skills and Competencies Framework was widely welcomed as a way to define and benchmark the skills expected of a CTA. The framework covers not just technical knowledge, but also research, analysis, communication, ethical conduct and the use of technology (including AI).

There was more debate about the proposal to introduce a mandatory 'light touch' training log. While many saw this as a truer reflection of competence than a simple 'time served' requirement, concerns were raised about administrative burden and the challenges of verification, especially for self-employed candidates.

The CIOT will adopt the Professional Skills and Competencies Framework as a standard, but further consideration will be needed before any new requirements are introduced. For now, the Framework will be helpful as a tool for students and employers to understand the potential of the Chartered Tax Adviser designation, and it is being used as a tool to help develop continuous professional development activities.

6. Other notable changes and clarifications

- **Indirect Tax specialism:** The Advisory-level Indirect Tax syllabus will focus on VAT and Customs Duties, with Customs Duties examined only at the Technical Knowledge stage.
- **Human Capital Taxes:** The option to specialise in Human Capital Taxes at Advisory level will be discontinued. However, the CIOT will work towards introducing a complementary post-CTA qualification in this specialist area.
- **Reduction in Advanced Technical papers:** The number of Advanced Technical papers at Advisory level is reduced from two to one, with the option for post-qualification certification in additional specialisms. This means that if, for example, a student had sat the Individuals Advanced Technical paper as part of their CTA qualification, they might choose to sit another paper (such as Owner-Managed Businesses) to gain post-qualification certification in this area. Respondents felt this could be helpful in some circumstances; for example, on looking to move into a different area of specialism.
- **Administrative improvements:** Many respondents gave feedback on the existing software used in the CTA examinations, with requests for improved functionality. Since the consultation, the CIOT has announced that a new software provider will be used from November 2026, with enhanced features such as use of native Word and Excel in answering questions.

A note on the ACA/CTA and CA/CTA joint programmes

One query raised during the consultation related to how the ACA/CTA and CA/CTA joint programmes – which the CIOT runs with the ICAEW and ICAS respectively – will be impacted by the changes to the new qualification.

Many readers will be aware that these joint programmes were already redesigned in 2025. The changes made to them were implemented with a view to being complementary to the proposed new CTA structure. There will therefore be no further changes, except that alterations to the syllabuses for the optional Advanced Technical and Application and Professional Skills papers will apply for joint programme candidates sitting them from May 2028 (in the same way as they will apply for all CTA students).

A qualification for the future

The new CTA qualification represents a significant evolution, balancing the need for breadth and depth in tax knowledge, modernising assessment and enhancing accessibility. It is the product of extensive consultation and careful deliberation, reflecting the views and values of the profession it serves.

The CIOT looks forward to continuing to work closely with stakeholders as we move towards the launch of the new structure – and indeed beyond – as we work on a programme of regular review and continuous improvement into the future.

Name: Kelly Sizer
Position: Head of Qualifications Development
Employer: CIOT
Email: KSizer@ciot.org.uk
Profile: Kelly Sizer is Head of Qualifications Development for the CIOT and ATT, having previously worked for CIOT as Senior Manager for the Low Incomes Tax Reform Group.

Technical newsdesk

WELCOME

Lauren Fletcher

CIOT Tax Technical Senior Manager
lfletcher@ciot.org.uk

February Technical newsdesk

I am delighted to be writing my first introduction to Technical Newsdesk, a few months into my new role as Tax Technical Senior Manager.

I joined the CIOT in November 2025, after 18 years in practice at BDO, most recently as a director heading up the Liverpool tax team. I am a corporate tax specialist by background and have spent much of my career working on M&A transactions, which required a strong understanding of the breadth of tax issues affecting businesses and shareholders. Most transactions presented at least one unexpected tax issue that had to be addressed, often emerging late in the process. This high-pressure work was challenging but helped me to develop the important skill of explaining complex tax issues in simple terms – something I will be able to draw on in this new role.

I was eager for a change and something new to get my teeth stuck into. Even in my short time at CIOT, the new role is ticking all the boxes. From a tax policy standpoint, it is an exciting and challenging time to join. One of my first tasks involved supporting our brilliant technical officers with navigating an Autumn Budget packed with new measures to analyse. It was great to see the team in action on the day, as we issued several press releases summarising the announcements and, in some cases, highlighting the impact we had in shaping them.

Next came the draft legislation in the Finance (No. 2) Bill, and the hard work continued as we prepared briefings for the Bill's passage through parliament over December and January.

I expect things to remain busy as we move through what feels like a significant moment for the tax profession. This is due not only to the various 'raising standards' measures included within the Finance (No.2) Bill, but also as HMRC moves to modernise the tax system through the implementation of the transformation roadmap.

I hope to draw on my extensive experience of working in practice to help our members understand the changes, articulate the difficulties and highlight where tax policy or administration could go further towards achieving a more efficient, less complex tax system. I look forward to speaking to as many volunteers and members as possible over the coming months.

As part of Ellen Milner's Public Policy Directorate, my role includes managing and coordinating the tax technical team and supporting the Head of Tax Technical, Victoria Todd, in her strategic work. One thing that has stood out in these first few months is the volume and pace of engagement with policymakers. This makes it more important than ever that we prioritise our technical work, whilst leveraging the valuable experience of our committees to have the greatest impact.

In the meantime, my key takeaways from the first few months include feeling privileged to be working at the cutting edge of tax policy to advance our charitable aim of improving the tax system – what a unique opportunity. Another is seeing that our efforts can influence change – I have already seen examples of measures in the Autumn Budget based on CIOT representations (in some cases from years earlier!). While major reforms may be rare, each incremental step brings us closer to a simpler tax system, and that is satisfying.

NEWSDESK ARTICLES

Contact

To contact the technical team about these pages, please email:
Sacha Dalton, Technical Newsdesk editor
sdalton@ciot.org.uk

GENERAL FEATURE

Agent Standards: Budget 2025 and Finance Bill Update

Budget 2025 and the Finance Bill (published on 4 December 2025) have seen several measures announced by the government that will affect tax agents and advisers. This article provides a short summary of those measures and the engagement CIOT and ATT have had with HMRC.

Since the publication of the draft Finance Bill in July 2025, CIOT and ATT have engaged strongly with HMRC on all the agent-related measures. This gave us the time and opportunity to raise our key concerns, particularly around definitions, the scope of the provisions, and potential unintended consequences. We are grateful to the HMRC teams for their willingness to engage and listen to us. The legislation has improved as a result of the open and frank discussions that have taken place, although some concerns remain.

The CIOT and ATT are planning to hold a webinar to update members on these proposals and will publish guidance for members in due course. Members are encouraged to look out for further information and details in future editions of *Tax Adviser* and on our websites.

Regulation of tax agents

The government announced at Budget 2025 their decision not to regulate tax advisers. This provides welcome clarity on a question that has been hanging since the previous government consulted on the matter last year.

We also welcome the opportunity to work collaboratively with HMRC going forward to address the unacceptable behaviour of the small number of bad actors in the market.

Mandatory registration of tax advisers

The government is introducing a legal requirement for tax advisers that interact with HMRC on behalf of their clients to register with HMRC and meet minimum standards. The government has also committed to investing £36 million to modernise existing registration services. The Finance Bill introduces the new legislation for this measure in Part 7: Tax Advisers.

CIOT and ATT, and their members, had significant concerns (see www.tax.org.uk/ref1553 and tinyurl.com/3pynr7mh) including but not limited to:

- the eligibility criteria set out in the previous draft legislation (published in July 2025);
- the lack of safeguards for good actors where there are breaches in the eligibility criteria;
- proposed HMRC powers crossing over into HMRC regulation of the market;
- the wide ranging powers which would sit with individual HMRC officers; and
- the timescale for implementation.

In addition to submitting comments on the draft Finance Bill, CIOT and ATT have met with HMRC on a one-to-one basis and attended 'deep dive' workshops alongside other professional bodies and key stakeholders. Between these meetings we have had a regular chain of communication with HMRC, gathering feedback on a confidential basis and regularly providing this to HMRC.

Following this engagement with HMRC, we are pleased that HMRC have made several changes to the agent registration legislation. Some concerns remain, however, particularly around what was previously named 'Condition B' (the condition that tax advisers meet any standards expected of them in their dealings with HMRC).

One key change is that the conditions around tax compliance for 'senior managers' have been reworked. The Finance Bill includes a requirement for a 'relevant individual' to be identified, and any breach in their tax compliance could potentially lead to the suspension of the wider agent firm's registration. However, the revised draft legislation also includes the safeguard that the suspension decision now sits with an authorised HMRC officer and is subject to a notification period before taking effect – including up to 60 days where the breach relates to the tax compliance of a 'relevant individual'.

The definition of a 'relevant individual' is different to that of the 'senior manager' used in the previous draft. HMRC have confirmed that the policy intention is that a 'relevant individual' is the mind and management in a firm impacting the overall tax direction of the firm. We are still in discussions with HMRC over the revised definition, as there remain concerns that it may still be interpreted more widely than that.

Although Condition B, which required the agent and senior managers to meet HMRC standards, has been removed from the agent registration conditions, a revised form of this is included in clause 229 of the Finance Bill, which provides the reasons that an authorised officer can suspend an agent. Members have expressed concern over this. We met with HMRC in late December to discuss these concerns and will follow this up in our Finance Bill briefings.

The policy paper (see tinyurl.com/3xbnsd2e) published at Budget 2025 announced that the operational start date has been changed to 1 May 2026, with at least a three-month transition period. However, CIOT and ATT remain concerned about the very short lead in time for agents to get to grips with this new legislation and prepare.

In terms of practical implementation, we have had a confidential first look at the new agent registration process and are urging HMRC to engage with us further on this as soon as possible. For existing agents, we expect there to be some type of transitional process, and we are similarly pressing HMRC to discuss this with us at the earliest opportunity. HMRC have announced that they will publish guidance in early 2026. We have stressed to HMRC the importance of issuing guidance to agents to help them navigate the legislation, and we hope HMRC will engage collaboratively on the drafting that guidance.

Conduct of tax advisers

The government is introducing a new penalty (see tinyurl.com/y29ts9bb) to tackle tax advisers who deliberately facilitate non-compliance in their clients' tax affairs. The Finance Bill does this by amending the tax agent dishonest conduct provision in FA 2012 Sch 38, which is renamed 'Tax advisers: sanctionable conduct'. HMRC will have the power to issue tax advisers with file access and conduct notices where they have a reasonable suspicion that the adviser has deliberately facilitated non-compliance in their clients' tax affairs, and to charge penalties based on the potential loss of tax revenue that has arisen due to the adviser's action. This measure comes into force on 1 April 2026 and will apply to acts and omissions on or after that date.

CIOT (see www.tax.org.uk/ref1554) and ATT (see tinyurl.com/myvamwew) had concerns about the wide definition of the type of conduct that could potentially fall within the scope of the measure, despite the government's assurance that the measure does 'not target tax advisers who make genuine one-off accidental errors or differences of legal interpretation' (see tinyurl.com/28ru2fep) and that guidance will make this clear.

As a result of our engagement with HMRC, changes were made to the draft legislation which has been published as Schedule 21 of the Finance Bill. A person engages in sanctionable conduct if 'in the course of acting as a tax adviser, the person does something with the intention of bringing about a loss of tax revenue'. A loss of tax revenue includes accounting for less tax than a client is 'required to account for by law'. However, concerns remain about whether 'intention' in the definition of 'sanctionable conduct' makes it clear enough that differences of legal interpretation are out of scope (that is that there is no explicit requirement that the adviser must know that what they are doing is wrong), potentially creating uncertainty for tax advisers about the breadth of the measure. We are expecting HMRC to share draft guidance with us shortly.

Promoters of Marketed Tax Avoidance

Following concerns raised by CIOT (see www.tax.org.uk/ref1549), ATT (tinyurl.com/yye2k47v) and other stakeholders, the government has chosen not to introduce a criminal offence of failing to notify tax avoidance arrangements to HMRC under the Disclosure of Tax Avoidance Scheme (DOTAS) rules at this time.

The CIOT reiterated its concerns when we gave evidence to the House of Lords Finance Bill committee on the measure in October (see tinyurl.com/hst3859w). We also wrote an open letter to the Exchequer Secretary to the Treasury, Dan Tomlinson (see tinyurl.com/2hbv4n3f). We argued that the proposal was poorly targeted, imposing potentially unworkable conditions on tax agents, whilst many of the 'bad actors' who were the target of the measures are based offshore, and so would be out of reach and able to continue their abuse of the system.

Instead, the government has decided to introduce an outright ban on the promotion of tax avoidance arrangements that have no realistic prospect of success (see tinyurl.com/ywvekz5m). This will be part of a new Universal Stop Regulations measure in the Finance Bill. A breach of this measure would attract a range of sanctions, including publication, financial penalties and criminal prosecution.

The CIOT and ATT support the government's continuing efforts to tackle the small number of promoters still active in the tax avoidance market, whilst at the same time we want to ensure that the measure does not undermine or disrupt the good work of the vast majority of tax advisers. Our engagement with HMRC on this measure will continue during the passage of the Finance Bill through Parliament.

Jane Mellor Jmellor@ciot.org.uk
Margaret Curran mcurran@ciot.org.uk
Lindsay Scott lscott@ciot.org.uk
Emma Rawson erawson@att.org.uk

GENERAL FEATURE MANAGEMENT OF TAXES OMB PERSONAL TAX PROPERTY TAX

Finance (No 2) Bill 2025-26: Briefing on income tax rates

CIOT and ATT submitted briefings on Finance (No 2) Bill 2025-26 clauses 1-8, raising concerns that the new rates for property, savings and dividend income will add significant complexity to an already complex income tax system and highlighting anomalies where devolved tax rates do not match those in the rest of the UK.

The CIOT and ATT have provided briefings for the Committee of Whole House on the first eight clauses of the Finance (No 2) Bill 2025-26.

CIOT's briefing focuses on clauses 4-7 and Schedule 1, which provide for:

- new rates of income tax on property income – increasing the existing rates on property income by 2 percentage points;
- increasing the rates of tax on savings income and dividend income, again by 2 percentage points, except for the dividend additional rate which remains at the current level of 39.35%;
- a new hierarchy to determine the order in which different types of income are taxed; and
- a new order for the way in which the personal allowance and general reliefs are set off against income.

These changes take effect from April 2027, except for the increase in the tax rates for dividend income, which applies from April 2026. There are multiple consequential amendments arising from the new rates including, for example, provisions that the new property basic rate of 22% will apply to distributions from real estate investment trusts and that the savings basic rate will set the rate for withholding tax on yearly interest.

CIOT's briefing also comments on clause 8 and Schedule 2, which make provision for the devolved governments of Scotland and Wales to set their own property income tax rates in line with their current income tax powers under their fiscal frameworks. These powers will only take effect from a date to be set by HM Treasury by regulation.

Clause 5 will result in different tax rates applying to savings income compared to those applicable to employment and pension income. ATT's first briefing focuses on an unintended practical consequence arising from this measure (see *Collection of tax on savings interest* below).

ATT's second briefing focuses on clause 6, 7 and 8 and Schedule 2 of the Finance Bill, which introduce the changes for income tax on property income, and, in particular, the consequential change to the relief for restricted residential property finance costs, increasing this from the current UK basic rate of 20% to the new UK property basic rate of 22%. As noted above,

INHERITANCE TAX AND TRUSTS

Finance (No 2) Bill 2025-26: update to agricultural and business property relief

As the Finance (No. 2) Bill progresses through parliament, the government has confirmed a significant amendment to the agricultural and business property relief restrictions taking effect from April 2026, increasing the allowance from £1 million to £2.5 million.

The online article in January's edition of *Tax Advisor* (tinyurl.com/2mx5cpft) provided an update about changes to agricultural and business property relief (APR/BPR) announced at the November Budget, including that the relief cap would be transferrable between spouses and civil partners. The ATT and CIOT have welcomed a further announcement, made just before Christmas, that the cap would be set at £2.5 million (increased from £1 million). This is a significant improvement.

The concession comes on the back of sustained engagement from the CIOT, ATT and other stakeholders warning of the risks facing small farms and businesses due to the initial restrictions to APR/BPR announced at the Budget in 2024.

With the increase in the allowances, spouses and civil partners will now be able to pass on up to £5 million of qualifying property on death, and every seven years for chargeable lifetime transfers.

The CIOT and ATT are busy working on further analysis, briefings and answers to technical queries and will be providing a more detailed update on agricultural and business property reliefs in next month's issue.

Our Finance Bill briefing can be read at: www.tax.org.uk/ref1619

Ruth Sadlier rsadlier@ciot.org.uk
Helen Thornley hthornley@att.org.uk

Schedule 2 extends the devolved powers of the Scottish Parliament and Welsh Senedd to permit them to introduce their own tax rates for rental property income. However, ATT notes that as tax reliefs are not devolved, the new rate of relief for restricted residential property finance costs will apply to both Scottish and Welsh taxpayers regardless of the rates their jurisdictions set.

Complexity

The CIOT's central concern with these changes is the added complexity. The new property rates add five new rates to the existing income tax rates:

- property basic rate: 22%
- property higher rate: 42%
- property additional rate: 47%
- property trust rate: 47%
- savings trust rate: 47%

The number of consequential legislative changes required to effect the new rates for property, savings and dividend income is indicative of this complexity.

A Scottish or Welsh taxpayer is also a UK taxpayer and potentially interacts with UK tax rates as well as Scottish or Welsh tax rates (and bands in Scotland), depending on their sources of income. This creates an additional layer of complexity to navigate (see further below).

In terms of administration, changes will be required, including additions and some redesign of parts of the self-assessment return, tax calculators for quarterly and end of year submissions within Making Tax Digital for income tax, and new forms. Most importantly, timely updated guidance will be needed to allow taxpayers to understand the changes and the consequences for their tax position. CIOT suggested that HMRC will need additional funding to implement these changes.

CIOT recognised that specifying the order of set-off for the personal allowance and general reliefs is to some extent a simplification, as part of the current confusion around tax calculations arises from the ability to allocate deductions in the most beneficial way across all forms of income.

The new savings rates apply to 'savings income' as defined. They will not apply to investment income included in the category of 'miscellaneous income', which will remain subject to the existing income tax rates. While this may reflect the policy intent, CIOT pointed out that the application of different rates to investment returns is a source of complexity for taxpayers.

CIOT noted that there is no explanation of why the dividend additional rate has not changed. It may be that the gap that the rate increases are intended to address (the 'gap between tax paid on work and tax paid on income from assets') is already narrow when taking into account both corporation tax and income tax on dividend income for an additional rate taxpayer. However, it would be helpful for the government to place on record the reason why the basic and higher dividend rates were changed but not the additional dividend rate.

Collection of tax on savings interest

For PAYE taxpayers who are not in self-assessment, HMRC should be able to collect tax due on bank and building society interest through an adjustment to their PAYE code. Currently, the necessary adjustments are reasonably straightforward because the tax rates applicable to savings income mirror those for non-savings income. For a basic rate taxpayer, £2,000 of savings interest would result in a £1,000 restriction to their PAYE code, having deducted their personal savings allowance. This is reasonably simple to for taxpayers to follow.

Clause 5 increases the savings rates of tax by two percentage points in all tax bands from April 2027. This will result in a mismatch between the rates of tax on savings income and those applicable to the employment and pension income from which any tax due on savings will be collected. In the example above, to collect £220 of savings tax (charged at 22% on £1,000 of savings income), a tax code adjustment of £1,100 will be required, as tax collected via PAYE will be charged at 20%. This £1,100 adjustment will not be readily recognisable to the taxpayer, even if they are aware of the personal savings allowance. The ATT is concerned that this additional complexity will make it harder for taxpayers to check and understand their PAYE codes, creating uncertainty, increasing queries to HMRC and adding to pressures on their customer service staff.

Interaction with taxpayers in Scotland and Wales

The devolved parliaments of Scotland and Wales have the power to set their own rates on all income other than savings and dividends, but do not currently have the power to apply specific rates to different types of taxable income such as property rental income. The Scottish Parliament also has the power to set tax bands for non-savings, non-dividend income.

To date, the Welsh Senedd has not exercised its power to alter tax rates. However, the Scottish Parliament has set its own income tax rates and bands.

Relief for restricted residential property finance costs is currently given at a rate of 20% across the UK, increasing to 22% to align with the new UK property basic rate. A mismatch therefore exists between the rate of relief (22%) and the rates of tax currently paid by Scottish taxpayers (19%, 20% or 21% before paying higher rate tax). This mismatch already exists with the current tax reducer rate of 20% but will come into sharper focus if separate rates of tax on property income are introduced in Scotland and Wales.

The operation and interaction of tax reliefs and reducers depend on the underlying policy intention. In its briefing, CIOT suggested that the government should carry out consultation exercises similar to those in 2012 and 2014, to clarify policy intent in relation to the complicated interaction of these new property rates, which would help ensure that the legislation operates as intended.

The ATT recommended updating relief rules by 2027/28 at the latest, to prevent further inequities when the new property rates and relief rate apply and noted that coordination between Westminster and the devolved administrations will be essential to maintain fairness and clarity.

ATT added that these changes highlight the challenges of managing a tax system within a devolved framework. As powers expand, ensuring consistency becomes more complex.

CIOT's full briefing is available here: www.tax.org.uk/ref1613.

ATT's first briefing is available here: www.att.org.uk/ref505.

ATT's second briefing is available here: www.att.org.uk/ref504.

Kate Willis kwillis@ciot.org.uk
Senga Prior sprior@att.org.uk
Lindsay Scott lscott@ciot.org.uk
David Wright dwright@att.org.uk

INTERNATIONAL TAX EMPLOYMENT TAX PERSONAL TAX

Global mobility of individuals: CIOT response to OECD consultation

The CIOT responded to the OECD's public consultation on global mobility of individuals at the end of 2025, noting that this followed recent OECD work in the area, including revisions to the OECD Model Tax Treaty.

In the CIOT response, we welcomed the OECD's focus on the global mobility of individuals and its consideration of how increasing trends in this area create complexity and challenges for businesses, employees and tax authorities. We agree that this can negatively impact growth and investment. We suggested that the focus of this work should be on creating a simplified, streamlined and modernised international approach, where possible, which would, in turn, promote tax certainty. We said that, as a general principle, alignment across jurisdictions reduces the compliance work for businesses and the administrative burden for tax authorities, and that each incidence of countries doing things differently leads to complexity. We hope that this work will lead to a global consensus on what the rules should be and, in due course, to international guidelines.

We noted that this consultation followed recent work by the OECD in this area that had resulted in revisions to the OECD Model Tax Treaty. These treaty revisions provide relevant background and illustrate how guidance can improve certainty for common mobility-related scenarios, as they clarify existing international tax rules in response to global mobility fact patterns. We also encouraged simplicity in output from the OECD, noting that the 2025 changes to the OECD Model Tax Treaty demonstrate that better administrability and proportionality are very helpful and that fundamental changes to treaty concepts may not be necessary.

Regarding the growing trends of global mobility, we noted that the possible scenarios and fact patterns are many and varied. Therefore, we said that consideration must be given to both short-term cross-border working and longer-term arrangements, across the full range of possible employee functions. We also noted that there is often a tension between tax rules and other business considerations, which vary from industry to industry but can include regulatory licensing requirements and data protection rules. In addition, from a human resources perspective, the employer must consider employee wellbeing and the potential conflict between the needs of the business and those of the employee.

Regarding personal income tax, we also noted that resolving questions around immigration and social security must be considered and can often be more challenging than income tax. We suggested that it would be very helpful if there were a generally agreed international arrangement under which home country social security continued to apply for a year, without the need to apply for clearances.

Regarding corporate income tax, we noted that concerns often arise around whether there is a permanent establishment in relation to more senior employees, or when an individual moves to another country on a permanent basis, depending on what they are doing. We highlighted that profit allocation to a permanent establishment for transfer pricing purposes is enormously complex, and that this is particularly relevant given the overlay of the global minimum tax rules.

The OECD's consultation document focussed on personal income tax and corporate income tax. Our response urged the OECD not to lose sight of other taxes that are relevant to this area and have also been impacted by increased global mobility. We noted that there are particular complexities in relation to VAT (and similar consumption taxes); for example, around establishing taxable presence as between an employer of record and a local employer agency, and in determining whether there is a local presence for excise purposes, such as local sales of alcohol where a business has remote workers in same territory.

The full CIOT response is available here: www.tax.org.uk/ref1612

Sacha Dalton sdalton@tax.org.uk

EMPLOYMENT TAX

National Insurance Contributions (Employer Pensions Contributions) Bill

The CIOT submitted a briefing to Parliament on the proposed restriction on National Insurance relief for salary sacrifice pension contributions ahead of the Bill's second reading in the House of Commons in December.

The Bill creates a power for HM Treasury to apply a primary and secondary Class 1 National Insurance contributions charge where employer pension contributions are made via salary sacrifice arrangements that exceed £2,000 per annum, with effect from 6 April 2029.

The CIOT's briefing explained that limiting pensions salary sacrifice will affect basic rate taxpayers more, pound for pound, than higher and additional rate taxpayers, while also noting that the sums involved are likely to be larger overall for higher earners.

While welcoming the fact that the government is now legislating for a change that will take effect in 2029, as it will provide more certainty, we were concerned that many of the practical details on how this change will operate have not yet been confirmed. There are significant practical issues with how the annual £2,000 limit should be applied to weekly and monthly-paid employees, and to employees with multiple employments in the tax year. For example, if there is a single annual cap, the requirement to coordinate across multiple concurrent and/or consecutive employments will be administratively challenging, as well as creating concerns over financial privacy.

We also noted that the change will bring into focus the scope of the optional remuneration arrangements legislation, and the need for a clearer understanding of which pay arrangements fall within scope of these rules. We gave examples including collective bargaining arrangements, directors' and executives' remuneration awards, bonus waivers, new employees negotiating remuneration packages, and termination packages.

We considered it imperative that there is early consultation on how this change will work in practice, with full guidance on how to implement and operate the cap on relief being published no later than April 2028, as decisions on pension salary sacrifice tend to be long term.

We also explained that the change could cause some employers to withdraw pensions salary sacrifice as an option, and that the long-term impact on provision for retirement more generally should be carefully considered.

The Bill passed its Second Reading in the House of Commons in December 2025. During the debate, the Parliamentary Secretary to the Treasury, Torsten Bell MP, described the Bill as 'short and simple'. He argued that reform was unavoidable given the rapid growth in the cost of the relief, adding that the government had opted for a cap rather than abolition, a choice he characterised as 'pragmatic' and 'balanced'. Opposition MPs warned that behavioural change would undermine the projected revenue, that the change could mean 'long-term pain for the taxpayer' if fewer people were able to support themselves in old age, and that the change would 'land businesses with yet more administrative costs'.

A full summary of the debate is available here: tinyurl.com/4ra6eybm

Matthew Brown mbrown@ciot.org.uk

INERITANCE TAX AND TRUSTS
MANAGEMENT OF TAXES OMB

New registration requirement for some trusts and investment companies

The ATT and CIOT are seeking clarity on the penalty position where a new registration requirement for some trusts and investment companies has been missed.

In December, the ATT and CIOT joined with other legal, trust and accountancy bodies to express concerns to HMRC about the lack of awareness of new requirements to register trusts and other entities which are considered financial institutions for automatic exchange of information (AEOI) purposes.

Following the introduction of the International Tax Compliance (Amendment) Regulations 2025 in July 2025, trusts and other entities classified as either UK reporting financial institutions or UK trustee-documented trusts now have a one-off requirement to provide information to HMRC through their AEOI portal. This is a separate requirement to any registration required with the trust registration service.

The deadline for registration was 31 December 2025 – a challenging deadline given both the lack of publicity around the measures and the busy self-assessment season. The ATT, CIOT and others have been working with HMRC to clarify the position on penalties where registrations are made late.

Background

As part of international transparency measures to tackle tax evasion, for some years the UK has required financial institutions – typically understood by the public as banks and investment providers – to collect information on non-residents who hold accounts with them and report this to HMRC. HMRC then exchange this information with other countries.

The two main exchange agreements are the Common Reporting Standard, under which data is exchanged with other OECD countries, and the Foreign Account Tax Compliance Act, which is the original US exchange agreement.

However, the term 'financial institution' is very broadly defined and it is possible for family trusts and other entities, including partnerships and companies, to meet the definition under the Common Reporting Standard and/or the Foreign Account Tax Compliance Act. As a result, these regulations capture a much broader range of entities than might be expected.

What is a financial institution in the context of a trust or other entity?

For the purposes of AEOI, trusts and other entities need to establish whether they meet the criteria to be considered a financial institution.

The tests are complex – detailed guidance is provided in HMRC's International Exchange of Information Manual (tinyurl.com/2vhxcfmy) – but the main test relevant to most trusts is the 'investment entity' test. This asks whether 50% or more of the trust's income comes from investments and whether the trust has a discretionary fund manager. If the answer is yes to both, then the trust is generally a reporting financial institution and will need to register with HMRC.

Alternatively, a trust with investment income may be a trustee-documented trust. Again, this requires more than 50% of the trust's income to come from investments, but in this case one of the trustees is itself a financial institution, typically a corporate trustee, which has agreed to take on reporting responsibilities for the trust. These trusts are also required to register individually with HMRC via the AEOI portal.

What has changed?

Prior to the new rules, only financial institutions which needed to make an AEOI return were required to register with HMRC. This would typically be because one or more of the settlors, trustees or beneficiaries was non-resident and received benefits from the trust.

Trustee-documented trusts did not need to register even if they had a report to make, as their corporate trustee would report for them.

Under the new rules, *all* reporting financial institutions and trustee-documented trusts need to register – even if they have nothing to report because all relevant parties are UK resident.

Deadlines

Trusts or other entities which met the definition of a financial institution in 2025 should have registered by 31 December 2025.

Going forwards, affected entities should register by 31 January following the calendar year in which the entity first becomes a reporting financial institution or trustee-documented trust.

Penalties

HMRC's manuals set out the following penalties for failure to register:

- £1,000 for failure to comply with notification requirements; and
- daily penalties of up to £300 if, after notice of the penalty has been issued, the failure continues.

Practical issues

Registration is through HMRC's AEOI portal (tinyurl.com/3wmsb7k7). Agents can register on behalf of clients, but if an agent does not already have Government Gateway credentials for the AEOI service, a new set of credentials will be needed.

Agents should also be aware that once a registration has been filed, the system will lock them out for 24 hours after each submission to allow for processing – which prevents further filings during that period. One way to manage this is to use the bulk upload facility, which allows up to 250 trust registrations to be submitted in a single filing.

HMRC have confirmed in correspondence that the requirements will apply to bare trusts but not to deceased estates during the period of administration.

Following the rule changes, charities which meet the criteria to be qualified non-profit entities can deregister from HMRC's AEOI service from 1 January 2026. HMRC will accept that any such non-profit organisation that has not registered with HMRC's AEOI service because it has never had reportable accounts is not required to register by 31 December 2025.

Discussions with HMRC

The ATT, CIOT and other interested parties have been speaking with HMRC to understand the potential penalty position for trusts where registration is completed late.

HMRC confirmed in December that penalties would not be issued automatically and that penalties would not apply where there is a reasonable excuse for missing the deadline. HMRC were keen to stress that where firms had concerns about meeting the deadline, they should email: enquiries.aeoi@hmrc.gov.uk for advice.

We will provide further updates on our respective websites as we learn more.

The joint letter to HMRC can be found here: tinyurl.com/44z34asp

Helen Thornley *hthornley@att.org.uk*
Ruth Sadlier *rsadlier@ciot.org.uk*

EMPLOYMENT TAX PERSONAL TAX

Salary sacrifice grocery schemes: summary for tax advisers

HMRC's December employer bulletin contains an important warning about these schemes.

Earlier this year, LITRG published a blog (tinyurl.com/yz26rmth) setting out a number of concerns about the growing prevalence of so-called grocery salary sacrifice schemes in the UK employment benefits market. These arrangements typically involve an employee agreeing to give up a portion of their gross salary in exchange for the employer loading an equivalent amount onto a card that can be used to purchase groceries. Providers promote these schemes as a way for employees – often lower-paid – to save on regular supermarket spending through National Insurance contribution (NIC) savings.

However, in LITRG's view, where employers provide grocery cards, vouchers or similar tokens that employees use for personal purchases, these are likely to be treated as non-cash vouchers or credit tokens. As a result, they would be liable to

Class 1 NIC on both employer and employee contributions, contrary to some providers' claims that only Class 1A NIC would apply.

Following publication of the blog, the CIOT's Employment Taxes committee wrote to HMRC seeking clarification on the tax and NIC treatment of these arrangements. This was prompted by concerns that non-compliance could lead to underpaid NIC and PAYE failures, potentially exposing employers – and in some cases, employees – to additional liabilities, interest and penalties.

In December 2025, HMRC published a statement (tinyurl.com/mumjsvj7) in its Employer Bulletin to address these concerns. HMRC warned that they are aware of third-party salary sacrifice schemes, including grocery voucher arrangements, being marketed with claims of employee NIC savings and implied HMRC endorsement – something HMRC do not provide. The update emphasised that no formal approval or endorsement is given by HMRC for such schemes as being compliant with tax and NIC legislation.

HMRC also reminded employers that the Optional Remuneration Arrangement rules, introduced in April 2017, significantly curtailed the tax and NIC advantages of many salary sacrifice arrangements. Crucially, HMRC confirmed that Class 1 NIC liability will apply in relation to grocery schemes, for the following reasons:

1. The supply of non-cash vouchers does not fall within the listed exemptions from NIC in Schedule 3 of the Social Security Contributions Regulations 2001.
2. In particular, paragraph 8 of Part 5 of Schedule 3 (see guidance at NIM02438: tinyurl.com/u3t246t2) provides that non-cash vouchers can be disregarded only where the provision has **not** been arranged or facilitated by the employer.
3. Where a card is used, it operates on the same principle as a voucher, in that it can be exchanged for goods or services. These cards also cannot be regarded as company credit cards, as they are not used for allowable business expenses or for purchases made on behalf of the employer.

HMRC's bulletin further clarified that the ultimate responsibility for compliance rests with the employer, not the third-party scheme provider. Employers must therefore satisfy themselves that any salary sacrifice arrangement complies with tax and NIC legislation and should not rely on promotional material or assurances from providers.

Implications for advisers and employer clients

- Reassess any existing grocery salary sacrifice schemes operated; do not assume NIC savings apply without robust technical analysis.
- Review payroll and PAYE processes to ensure that benefits falling within the Optional Remuneration Arrangement – particularly vouchers and cards – are correctly taxed and subject to NIC.
- Warn clients of potential exposure to retrospective NIC, interest and penalties if HMRC challenges the treatment.
- Consider broader employee benefits provision: genuine salary sacrifice advantages remain for recognised exemptions (for example, pensions and cycle-to-work schemes), but creative applications to everyday expenditure require careful scrutiny. (For example, we are also aware of salary sacrifice electronics schemes, although it is not always clear whether these constitute true salary sacrifice arrangements or something else, in which case the tax and NIC analysis may differ.)

In summary, HMRC's update sets out the Class 1 NIC treatment of grocery salary sacrifice schemes, and makes clear that HMRC do not endorse such arrangements, as some providers have suggested. We remain concerned that these schemes carry significant risks and may not be compliant. We will seek to discuss this what this might mean for employers and employees with HMRC and will share any updates. In the meantime, employers should proceed with caution and seek professional advice.

Meredith McCammond mmccammond@litrg.org.uk
Matthew Brown mbrown@ciot.org.uk

GENERAL FEATURE

Anti-money laundering consultation: CIOT and ATT responses

Members in practice, and particularly those we supervise for anti-money laundering, will be interested in forthcoming changes to supervision and the CIOT and ATT responses to the recent consultation on duties, powers and accountability.

The online article in January's edition of *Tax Adviser* (tinyurl.com/3z4jmy9c) set out the significant changes afoot for anti-money laundering (AML) supervision of tax advisers. As a reminder, on 21 October HM Treasury announced that the AML supervision of accountancy and legal firms currently supervised by the professional bodies and HMRC will move to the Financial Conduct Authority (FCA). The exact date of transfer is not yet known, but this it is not expected to be before 2028 at the earliest.

Following this announcement, HM Treasury issued a consultation entitled 'Anti-Money Laundering/Counter-Terrorist Financing Supervision Reform: Duties, Powers and Accountability' (tinyurl.com/4tw6ef3z). There was a short period of consultation with responses required by 24 December 2025. During this period, there was the opportunity to raise points of concern through roundtables, an Office for Professional Body Anti-Money Laundering Supervision (OPBAS) conference, and meetings between individual bodies and HM Treasury and OPBAS. The CIOT and ATT took a proactive part in these meetings.

Responses were submitted to the consultation by both the CIOT and ATT. The points raised included the following:

- While HM Treasury have chosen that AML supervision reform through a single professional services supervisor, this was not the CIOT or ATT's preferred option when responding to the consultation on reform. However, both bodies will work with HM Treasury, OPBAS and the FCA to ensure a smooth transition.
- As yet, there is no clear indication of the FCA supervision model, making it difficult to determine the transitional measures needed. The responses pressed for an early indication of the transition timetable and on the requirements for current supervisors in relation to the handover of information. While we are aware that supervised firms are likely to be transferred in tranches, there is currently no clear timetable indicating when particular firms will move. Similarly, we have no confirmation of the dates from which all new registrations will be dealt with by the FCA or of the final cut-off dates for CIOT and ATT supervisory visits.
- Much of the consultation focused on changes to existing regulations to ensure that the FCA have appropriate powers, which appeared sensible to ensure that effective supervision is in place going forward.
- The CIOT and ATT consider it is important that the new regime provides sufficient support and guidance, especially for tax advisers operating mainly through small firms. In general, members want to be compliant, and while there is always a place for enforcement fines and disciplinary action, both bodies consider it more proportionate and effective to work with small firms to bring them into compliance before resorting to formal enforcement action.

- It is essential that the FCA has tax and AML trained staff embedded in their AML supervisory team to enable effective supervision of tax advisers. Supervision will not be effective without sector-specific experience.
- The CIOT and ATT's AML supervisory roles work hand in hand with our roles in upholding professional standards. Information sharing will present challenges following the transition, as the FCA will require information from professional bodies to ensure that all firms requiring supervision are appropriately supervised (often referred to as 'policing the perimeter'). The information that the CIOT and ATT currently receives through professional standards activity also assists in identifying risks. The professional bodies will therefore need to receive appropriate information from the FCA, to which they will no longer have automatic access. in order to enforce professional standards. Any information sharing will require suitable legislative gateways and must not be unduly burdensome, particularly as no AML supervision fees will be in place to cover associated costs and dedicated AML staff may have left or been redeployed.
- Under the proposals, OPBAS will be wound down. The CIOT and ATT view is that no additional powers are required for OPBAS during the transitional period. The responses also indicated that both bodies considered that OPBAS is uniquely placed to work with the FCA on good supervisory practice in the accountancy sector, which has been identified (alongside points for improvement) from their supervision of the professional bodies.

The CIOT and ATT have put messaging out in weekly news about the changes and have set up dedicated webpages – CIOT (tinyurl.com/3djpwxat) and ATT (tinyurl.com/4pf4vw9n) – which will be updated as more information becomes available. If members have any additional concerns or questions, they should email standards@tax.org.uk.

The full CIOT response is available here: www.tax.org.uk/ref1616

The full ATT response is available here: www.att.org.uk/ref503

Jane Mellor jmellor@ciot.org.uk

Recent submissions

CIOT		**Date sent**
Appropriate Mechanisms for Making Changes to the Welsh Tax Acts	www.tax.org.uk/ref1570	27/11/2025
Finance Bill 2025-26 briefing: Inheritance Tax – Pension interests	www.tax.org.uk/ref1620	06/01/2026
Finance Bill 2025-26 briefing: Gambling Duties	www.tax.org.uk/ref1621	06/01/2026
ATT		
Evidence to House of Lords Finance Bill Sub-Committee	tinyurl.com/2svd823m	03/11/2025
LITRG		
Appropriate Mechanisms for Making Changes to the Welsh Tax Acts	www.litrg.org.uk/11156	27/11/2025

Finance Bill

MPs debate IHT pension concerns

CIOT and ATT warnings over the difficulties of bringing pension pots into inheritance tax were raised in Parliament.

James Wild MP
Daisy Cooper MP

Personal representatives of people who have died will face significant practical difficulties in administering estates containing pensions when inheritance tax is extended next year, ministers have been told.

CIOT and ATT warnings were cited extensively in the House of Commons during January's committee stage debate on the proposal.

Shadow Exchequer Secretary James Wild warned that personal representatives would have to 'identify every pension asset, calculate the inheritance tax due and ensure payment within six months'. This, he said, was unrealistic, particularly where multiple or illiquid pension arrangements are involved.

Liberal Democrat Treasury spokesperson Daisy Cooper set out similar criticisms, saying the clauses seek to 'shoehorn pensions legislation into tax legislation'. Also citing CIOT and ATT, she highlighted the risk that personal representatives could be personally liable for IHT on pension funds that they 'did not know about and could not reasonably know about'. She warned that this could lead to 'costly and protracted litigation'.

Both the Conservatives and Lib Dems tabled new clauses asking the government to report on the impact of the measure on personal representatives, though these were not ultimately pressed to a vote.

Responding, Economic Secretary Lucy Rigby said the changes introduced by the Bill were consistent with the existing process for administering estates and paying IHT. She pointed to changes announced at the Budget to mitigate the risks to personal representatives, including providing them with the ability to direct pension scheme administrators to withhold 50% of the pension fund until the IHT has been settled. This was something CIOT had pressed for in comments on the draft legislation, although the Institute had argued for a longer maximum period than the 15 months from the date of death provided for in the legislation.

Wild noted this in his remarks, praising both CIOT and ATT for offering 'practical solutions' to the problems with the legislation, such as extending the withholding period. He asked the minister to consider extending the period beyond 15 months for complex cases.

Wild also noted that both CIOT and ATT had criticised the government for consulting on pensions in isolation, rather than in the context of individuals' wider inheritance tax position. This had prompted him to table a new clause for debate to provide for such consultation.

The shadow minister also raised concerns that illiquid pension assets, including commercial property, might need to be sold quickly at lower prices to meet tax deadlines. He warned, again citing CIOT, that professionals may withdraw from acting as executors, leaving families with heavy administrative burdens. The complexity introduced by the measure meant that comprehensive guidance was essential, he said – a point stressed by both CIOT and ATT in briefings sent to MPs.

The Economic Secretary sought to reassure MPs, saying that HMRC guidance and helpline support would be available ahead of the implementation of this measure.

She added that the government keeps all tax policies under review through the monitoring of returns and communication with representative bodies and taxpayer groups.

Political update

CIOT, ATT and LITRG work with politicians from all parties in pursuit of better informed tax policy making.

CIOT and ATT each provided four briefings to MPs debating the Finance Bill at the Committee of Whole House, with LITRG supplying a further note to support MPs' scrutiny of the Bill. The bodies' technical and external relations teams also held oral briefings for both Conservative and Liberal Democrat frontbench Treasury teams, at which shadow ministers and their advisers raised questions on the legislation.

Points from our briefings were raised in four of the six debates at this stage of the Bill. During the debate on changes to agricultural and business reliefs for inheritance tax, Shadow Financial Secretary Gareth Davies drew attention to CIOT's warning that the changes particularly trap more elderly farmers 'who have been robbed of their ability to plan'. He also highlighted the Institute's warnings about the difficulty that some families will face in paying the levy, as well as potential issues arising from the failure to allow allowances to be allocated to specific property. Lib Dem spokesperson Charlie Maynard noted CIOT's suggestion of introducing transitional gifting rules to support older farmers who 'have done the logical thing of hanging on to their land, but are faced with penalties for doing so'.

Warnings from both ATT and CIOT about the complexity involved with adding five new income tax rates were highlighted by Lib Dem deputy leader Daisy Cooper. She also pointed to a lack of clarity around the Chancellor's promise to keep state pensioners out of income tax, noting that this issue had been highlighted by CIOT at the briefing she attended. The final issue on which our points were raised was inheritance tax on pensions, which is reported on above.

Regulation

Announcement on tax adviser regulation welcomed

ATT and CIOT have welcomed the government's decision not to regulate tax advisers and instead to work in partnership with the sector to raise standards in the tax advice market. The government made the announcement on Budget day, 26 November.

Emma Rawson, ATT's Director of Public Policy, welcomed the clarity provided by the announcement. 'With the forthcoming mandatory registration of tax agents, and the transition of anti-money laundering supervision from professional bodies to the Financial Conduct Authority, tax advisers already face significant changes over the next few years,' she observed.

Ellen Milner, Director of Public Policy at the CIOT, also welcomed the clarity provided by the decision, which she noted had been pending since the previous government consulted on this area last year.

Both bodies agreed that more needs to be done to raise standards in the tax advice market to ensure that taxpayers are not given poor advice.

'There must be a focus on raising standards and introducing safeguards in order to significantly reduce the risk of poor-quality or misleading guidance being given to taxpayers,' said Rawson. She said she looked forward to HMRC building on the introduction of the agent register and to 'future discussions about a clearer, more coherent approach to raising standards.'

Milner welcomed the opportunity 'to work collaboratively with HMRC to address the unacceptable behaviour of the small number of bad actors who cast a shadow over the excellent work of the vast majority of tax agents.' She stressed the importance 'that any measures the government introduces to raise standards are well-targeted, proportionate and do not bring in regulation by HMRC by the back door. Any future regulatory model should build on the work of professional bodies in ensuring their members meet professional standards rather than introducing a new standalone regulator.'

Both directors emphasised the importance of continued dialogue between HMRC and the profession.

Scotland

Scottish Budget reaction

The limited tax changes in January's Scottish Budget retain a system that is more generous to those on lower incomes and increasingly less so for those higher up the income scale, said CIOT.

'Ministers were limited by their commitment to leave income tax rates and bands unchanged before the Scottish elections,' observed Ellen Milner, the Institute's Director of Public Policy. 'Changing the thresholds at which different tax rates kick in was the most we could have expected to see.'

'Increasing the thresholds for the basic and intermediate rates means the point at which taxpayers start paying more income tax than someone on the same salary elsewhere in the UK will increase to £33,493,' she added.

Milner noted that the National Insurance anomaly, whereby taxpayers with earnings between the Scottish and UK higher rate thresholds pay a marginal rate of tax of 50%, compared to 28% elsewhere in the UK, remains unaddressed.

ATT noted that the Scottish Budget said little about the proposal for a new Scottish rate of property income tax, but warned that its eventual introduction could be a further complication for Scottish taxpayers.

Senga Prior, ATT Technical Officer, said: 'People in Scotland who earn money from renting properties already pay different, and sometimes higher, income tax rates because of the Scottish income tax system. Another set of tax rates will make it harder for people to understand the tax rules that apply to them, particularly if they have different types of income and need to work out whether Scottish or UK tax rates apply.'

In the news

Coverage of CIOT and ATT in the print, broadcast and online media

'People making or buying things with a view to selling at a profit and making over £1,000 of income (before expenses) each tax year need to carefully consider whether they could have tax to pay.'
ATT's Helen Thornley in The Independent, 19 December

'A piecemeal approach risks discouraging the move to electric vehicles without providing a stable long-term revenue base. More coherent, technology-neutral solutions – such as universal road pricing applied fairly to all vehicles – may need to be considered.'
ATT's Emma Rawson in Birmingham Live on fuel duty, 19 December

'The LITRG has urged the Chancellor to clarify the rules, warning that the exemption risks being unfair and adding further complexity to the tax system.'
The Daily Express on pensions breaching the tax-free allowance, 22 December

'If taxpayers cannot afford to pay everything at once, they may be able to arrange a payment plan with HMRC, known as a "time to pay arrangement". This is a good way of avoiding late payment penalties and debt collection action from HMRC, but interest charges will continue to apply.'
LITRG's Claire Thackaberry in the Daily Telegraph on possible 150% tax bills, 1 January

'The adjustment process may be confusing for some unrepresented taxpayers, while some may not realise they even need to do this. This may lead to some taxpayers inadvertently under-declaring capital gains tax, leading to penalties later down the line.'
LITRG's Laura Cumins on GB News on CGT miscalculations, 8 January

'The changes are part of the government's long-delayed MTD programme, originally announced in the 2015 Budget. The policy will affect about 850,000 people in 2026-27, according to the CIOT.'
Financial Times, 8 January

'Taken together, limited tax changes retain a system that is more generous to those on lower incomes and increasingly less so for those higher up the income scale.'
CIOT's Ellen Milner, The Times on the Scottish Budget, 13 January

Technical spotlight

Spotlight on Digital Security Working Group

The Digital Security Working Group was initially formed by HMRC in May 2025 in response to an increase in unauthorised access attempts on HMRC agent digital services, which is some cases enabled fraudulent filings to be made.

In the first half of the year, professional bodies received a significant number of concerns from members who were struggling to navigate agent account suspensions and, in some cases, dealing with the consequences of fraudulent filings. ATT and CIOT, along with other professional bodies, raised these concerns with HMRC.

To facilitate collaborative discussions on key current issues, HMRC established the Digital Security Working Group. Membership of the group includes HMRC, ATT, CIOT, LITRG and other professional bodies. The priorities of the working group are:

- raising awareness of preventative measures that agents can take to enhance online security; and
- making improvements to the process for reinstating agent accounts following unauthorised access attempts.

This group initially met on a monthly basis, with meetings now arranged every six to eight weeks as required. The group has been undertaking a range of activities:

Transparent and collaborative sharing of experiences: Professional bodies have been able to pool examples of the difficulties faced by agents when navigating agent account suspensions and share these with HMRC, including cases involving fraudulent filings. This has helped to highlight changes that could be made to communications issued by HMRC during the account suspension process, as well as potential improvements to HMRC processes and call handler guidance. HMRC has been open and transparent about the challenges it has faced in responding to agent account hacks and has provided insight into measures being developed to improve security.

HMRC communications and guidance: The group has worked collaboratively to identify what guidance would be most helpful to agents in protecting themselves against malevolent activity, and how best to communicate this information. HMRC is also due to publish agent-specific guidance, which will be accessible from the Agent Handbook once published. In addition, HMRC has published an article in Agent Update 135 on how to protect agent accounts from phishing scams.

Multi-factor authentication: The group has been working with HMRC and other stakeholders to explore the potential introduction of multi-factor authentication as an option to enhance security for agent online services, particularly for agents who do not have the proprietary security infrastructure available to larger firms. While there are a number of complexities to address in implementing multi-factor authentication, the group will continue to work with HMRC as this project progresses.

We continue to welcome feedback on unauthorised access attempts to HMRC digital services to inform ongoing discussions with HMRC. Please send any feedback to us at:
CIOT: technical@ciot.org.uk
ATT: atttechnical@att.org.uk

Annual returns

Outstanding 2025 Annual Returns

Outstanding 2025 Annual Returns are now late. Action is required!

Thank you to all our members who have submitted their annual return. If you have not yet submitted your 2025 Annual Return (which was due by 31 January 2026), it is now late. Outstanding membership subscription fees relating to 2026 are also now overdue for payment.

Annual Return completion obligations have been publicised as part of the subscription communications from the Membership team, in *Tax Adviser*, on our websites and on social media. The requirements are set out in the CIOT and ATT's Professional Rules and Practice Guidelines, relevant extracts of which are detailed below:

Completion of Annual Return

2.8.1 A member must complete and submit their Annual Return to the CIOT/ATT within the advised time limits.

Provision of information to the CIOT and ATT

2.12.1 A member must provide such information as is reasonably requested by the CIOT and ATT without unreasonable delay. A member must reply to correspondence from the CIOT and ATT which requires a response and again must do so without an unreasonable delay.

The Annual Return is a key element in our monitoring, and being seen to monitor, compliance with the high professional standards we expect our members to observe.

Please submit any outstanding 2025 Annual Returns via the portal at https://pilot-portal.tax.org.uk as a matter of urgency.

If you do not file your return in a timely manner from this point onwards, you will be fined (fines start at £350) and can be further referred to the Taxation Disciplinary Board at www.tax-board.org.uk, which has the power to impose a wide range of sanctions, including financial penalty orders.

If you have any questions or require any support to meet this membership obligation, please first review our Annual Return guidance on the websites of CIOT at www.tax.org.uk/annual-return-guidance and ATT at www.att.org.uk/annual-return-guidance, or contact us at membership@tax.org.uk using the heading 'Annual Return'.

Professional standards

The start of 2026 heralds an updated PCRT and new AI Topical Guidance

Updated Professional Conduct in Relation to Taxation

Professional Conduct in Relation to Taxation (PCRT) has been in place for a number of years and sets out the fundamental principles and standards for tax planning to which all members working in tax must adhere. The last major revision was in 2017, when the tax planning standards were added, and until last year updates had focused on format changes or ensuring links within the document are up to date.

The UK has been at the forefront of setting standards for advisers, particularly in relation to tax planning. However, there has been an increased international focus following the introduction by the International Ethics Standards Board for Accountants (IESBA) of a new ethical standard for tax planning and related services, which became effective from 1 July 2025.

While CIOT and ATT are not required to comply with IESBA standards, four of the seven PCRT bodies are required to do so as members of the International Federation of Accountants (IFAC). The PCRT bodies therefore considered collectively how best to respond to these international developments.

The PCRT bodies agreed that there was strength in all bodies adhering to a single code, rather than splitting into one PCRT for IFAC members (reflecting IESBA wording) and another for non-IFAC members retaining the historical wording. Although the spirit of the IESBA code was already closely aligned with the ethical requirements of PCRT, it was necessary to ensure that the wording was sufficiently aligned to allow IFAC members to demonstrate compliance with the IESBA code.

A considerable amount of work has been undertaken to review individual paragraphs and wording within PCRT. We do not expect the changes to place additional burdens on members, but it is important that you are aware of the revised wording and adhere to it in relation to tax work undertaken from 1 January 2026 onwards.

The updated PCRT is available on both the CIOT website (see tinyurl.com/y4wrjyes) and the ATT website (see tinyurl.com/2vyfkny7).

The latest changes to PCRT include:

- **Objectivity:** Changes to the wording on the standard on Objectivity clarify that a member should disclose the nature of any relationship with a third-party provider of tax planning services to their client. This applies whether the client asks the member to advise on a planning arrangement developed by a third party, or where the member recommends or refers the client to a third party (paragraphs 2.7 and 2.8).
- **Professional Competence and Due Care:** Clarification of the application of the standard on Professional Competence and Due Care confirms that PCRT applies where a member is engaged to provide a second opinion on a tax planning arrangement (paragraph 2.15).
- **Standards for Tax Planning:** Changes to the Standards for Tax Planning in the updated PCRT clarify the actions that a member should take where they disagree that a tax planning arrangement that a member would like to pursue has a credible basis (paragraphs 3.8 to 3.10).

The PCRT bodies have produced a webinar covering the changes in more detail (see tinyurl.com/4c3xdshf) and the accompanying slides are also available (see tinyurl.com/yc4dydd4). Use of the webinar and slides is a helpful way of ensuring that CPD for 2026 covers the PCRT changes.

Work will now proceed to update the PCRT helpsheets to reflect the revised wording in the core PCRT document and related IESBA guidance. Members should look out for updates over the coming year.

As a reminder, following PCRT helps members to protect themselves from potential disciplinary action. Where disciplinary action arises, the version of PCRT referred to by the Taxation Disciplinary Board will be the version in force at the time of the incident giving rise to the complaint. Historical copies of PCRT remain available on both the CIOT and ATT websites for reference where required.

PCRT Topical Guidance on the Use of Artificial Intelligence

The use of artificial intelligence (AI) in the provision of tax services is increasing. Technological developments have resulted in greater exposure and access to a wide range of AI tools, including publicly available models and purpose-built systems. Some members already use these tools regularly as part of the services provided to clients, whilst others may be exploring AI for the first time.

In early 2025, the PCRT group established an AI working party. Representatives were tasked with developing topical guidance to support the application of PCRT principles when AI tools are used as part of tax work.

The ethical principles set out in PCRT apply to all aspects of tax work, regardless of the tools used. However, the PCRT bodies recognised that additional guidance would be helpful in assisting members to apply these principles when using AI.

Draft guidance was issued for consultation in summer 2025. Feedback was received from committees of each body, as well as from external contacts, including members and firms who had expressed an interest in supporting the development process. Following consultation, the material was developed further and the final version of the topical guidance was published on 19 January 2026. It is available on the CIOT website (see tinyurl.com/5fh45yax) and the ATT website (see tinyurl.com/57bnctt9).

The topical guidance includes some examples of how AI is already being used in the provision of tax services, alongside sections devoted to each ethical principle. The relevant areas of PCRT are highlighted throughout, and a number of examples are included at the end of each section, illustrating real world scenarios that members may encounter.

While AI tools can offer benefits and efficiencies, there are also risks that must be identified and mitigated. It is important to ensure that the ethical principles are considered and incorporated into all aspects of tax work, including:

- maintaining integrity when AI tools are used in the services provided to clients;
- identifying and mitigating the risks of bias impacting work produced with AI assistance;
- ensuring appropriate due care is taken when reviewing AI generated content, including identifying and removing hallucinations; and
- observing client confidentiality when inputting data into AI tools.

Jane Mellor (Head of Professional Standards) and Marc Leach (Professional Standards Manager)

Members with queries about the application of PCRT or the topical guidance in their day to day work should contact the Professional Standards team at: standards@tax.org.uk.

Award

Get on top of top-up taxes with our new Pillar Two Award

The implementation of the OECD's Pillar Two initiative around the world, establishing a global minimum tax regime, represents one of the most significant developments in international tax governance in decades. It fundamentally alters how tax liabilities are calculated, reported and managed across borders. Detailed practical knowledge of the Pillar Two rules and their implications is now crucial for international corporate tax professionals and multinational firms alike.

CIOT's new Pillar Two Award, a standalone spin-off of our globally popular ADIT international tax programme, is specifically designed to guide tax professionals around the world on Pillar Two's key concepts and their practical implementation. A cutting-edge syllabus, updated annually and addressing both the source rules and how they translate into practice, will help practitioners to build their knowledge of topics ranging from GloBE to top-up taxes, gain confidence in applying the formal rules to real-world situations, and consider the wider administrative, economic and geopolitical landscape as the Pillar Two regime is rolled out.

The learning programme consists of a single module, addressing Pillar Two both in theory and in practice. Assessment is via a single exam, which is available each June and December. Tuition is available online and on demand through a range of CIOT-recognised learning providers, and the Pillar Two Award can be attained in approximately 100 hours of total learning time. A certificate will be awarded to each student who achieves the qualification, recognising their newly acquired subject knowledge and enabling employers and employees alike to demonstrate their expertise in the Pillar Two field.

By mastering Pillar Two through this new qualification, tax professionals can provide informed guidance to colleagues and clients, anticipate and respond to new legislation and regulatory developments, and help organisations navigate complex implementation requirements as they emerge and evolve.

Registration for the Pillar Two Award is open to professionals across 70 eligible countries and territories, with the first exam scheduled to take place on Friday 12 June. Student registration costs £125, followed by an additional exam entry fee of £275.

The Pillar Two Award covers a range of key topics, from the STTR to computation of global income and top-up tax liabilities.

Interest in the Pillar Two Award has been strong since we announced its launch at IFA 2025 Lisbon last October, indicating a strong appetite among international tax practitioners for professional learning and certification in this rapidly emerging subject. Whether you are a CTA, an ATT member or an ADIT qualification holder, or simply interested in learning about this crucial new area of tax practice, you can register today at www.tax.org.uk/pillar-two.

Alternatively, to find out more about how the Pillar Two Award can benefit you or your firm, email our Education Team at education@tax.org.uk.

Mid-Anglia branch

Giles Mooney delights at inaugural 'Roger Cobley Memorial Lecture'

The Mid-Anglia branch was extremely fortunate to secure the hugely entertaining and informative Giles Mooney FCA CTA, partner of The Professional Training Partnership, MD of PTP Ltd and a director of Absolute Software Ltd, to deliver the first 'Roger Cobley Memorial Lecture'. The lecture, which will become a firm annual fixture for the branch, celebrated the late Roger Cobley's long serving work and dedicated commitment to the branch – and Giles delivered it with his customary infectious enthusiasm and humour.

Giles provided us with an excellent insight into the main changes announced in the 2025 Budget, which had been delivered by Rachel Reeves only the day before! He covered a wide range of topics, including the 'freezing' of many allowances, increases in the dividend and rental income tax, changes to the capital allowance and the so-called 'mansion tax'.

Giles Mooney

Giles' superb talk once again demonstrated that face-to-face lectures really do touch parts that online lectures cannot. We all benefit from the 'social nourishment' in so many ways. Our dear friend Roger would certainly have loved it!

Peter Rayney, Chair, Mid-Anglia Branch

Fellows

New CIOT Fellows and their dissertations

CIOT is delighted to welcome and congratulate our new Fellows who were admitted to fellowship in 2025:

- Thomas Nicholls: Dissertation – Transfer of assets abroad (charges on transferors): Limitations and interpretation in light of recent litigation and changes to the legislation.
- James Davin: Dissertation – Is property in a private foundation 'settled property' for IHT purposes?

Fellows

New ATT Fellows

ATT is delighted to welcome and congratulate its new Fellows who were admitted to fellowship in 2025:

Miss Susan Andow
Miss Caroline Barrett
Mr Amir Bashir
Mr David Bradley
Mr Jonathan Brewster
Mr Simon Briton
Mrs Jennifer Brown
Mr Stefan Burgess
Mrs Charlotte Buxton
Mrs Fiona Chamberlain
Mr Bruce Connelly
Mr Paul Conroy
Mr Stephen Dakkak
Mr Oliver Dupuy
Mr David Fraser
Mrs Jenna Fyfe
Mrs Sarah Garrett
Mrs Sue Green
Miss Julie Hamilton
Mr James Heathcote
Mr Adam Hickie
Mr Darren Hubbard
Mr Glen Huxter
Miss Chloe Kirkbride
Mr Christopher Knott
Mr Graham Lamb
Mrs Michelle Lane
Mr Kurt Lee
Mr Sean Lynch
Mr Sean Madden
Mr Christopher Manley
Mr Oliver McCarthy
Mr Jamie Morrison
Mr Ibrahim Nalla
Mr Philip O'Connor
Ms Rehana Oozeerally
Mr Alan Pearce
Mrs Samantha Perkin
Miss Preethi Rai
Miss Amanda Reid
Ms Julie Rose
Miss Sylvia Rowe
Mrs Julia Savage
Mr Marc Shimmin
Miss Carla Smith
Mrs Claire Swinford
Mr Robin Sykes
Mr Edward Symons
Miss Emma Louise Talbott
Miss Rachel Taylor
Mr Garth Van Huyssteen
Miss Sarah Walls
Miss Holly Walmsley
Mr Gary Wilson
Mr James Worboys
Mr Mitchell Young

A MEMBER'S VIEW

Sayona Eyre

Vice President, Transactions Tax, Davidson Kempner

This month's CIOT member spotlight is on Sayona Eyre, Vice President, Transactions Tax, Davidson Kempner.

How did you find out about tax?

During my economics degree, I was drawn to how policy shapes real-world investment decisions. A summer internship in corporate tax at Deloitte showed me how technical analysis, structuring and commercial judgment combine to solve complex problems – I haven't looked back!

Why is the CIOT qualification important?

The CTA qualification equips you with technical depth and applied skills. It's practical – the case study element mirrors real-world scenarios. It gives you the tools to navigate cross-border issues confidently and connects you to a community that keeps you current. Holding ACA and CTA has shown me how these credentials raise the bar for the profession.

Why did you pursue a career in tax?

Within a week of my Deloitte internship, I loved it. Tax is problem-solving under pressure, where the 'right' answer must be practical. Transactions tax sits at the intersection of law, accounting and strategy; you're close to the deal, unlocking value while managing risk. Moving in-house brought me even closer to commercial decision making, which I find incredibly rewarding.

Describe yourself in three words?

Curious, pragmatic, personable.

Who has influenced you in your career so far?

Exceptional managers, mentors and family support have shaped my career. At Deloitte and DK, I've worked with leaders who have consistently modelled high standards. Senior female leaders, in particular, demonstrated what inclusive, performance driven leadership looks like. In 2020, I helped establish the *Women in Financial Investors* programme at Deloitte and joined its inaugural cohort, where my male mentor challenged me to think bigger and showed me how true allyship can drive change. And a piece of advice from my parents – 'If you don't take opportunities, someone else will' – has always stayed with me. This gave me the confidence to take a secondment to DK, a decision that led ultimately to my permanent move.

How would you advise someone doing the CIOT qualification?

Spend more time reviewing the answers to the practice questions than the questions themselves – to understand the logic behind the answers. Build a strong peer group for accountability and discussion; debating concepts makes them stick!

What are your predictions for tax advisers and the tax industry?

As AI and technology streamline routine tasks, the focus will shift to judgment-based work. Advisers and in-house tax teams will be relied on for nuanced interpretation, strategic planning and risk management. The tax adviser of the future will provide strategic insight and informed judgment – not just technical advice.

What advice would you give to your future self?

Make time to think and prioritise growth. Regularly review my five-year plan: am I moving toward my goals? Advocate for myself, seek opportunities, build visibility and align efforts with my vision.

Tell me something others may not know about you.

I volunteered for years at Special Olympics Great Britain – a charity encouraging sport for people with learning disabilities – on corporate fundraising and also at the sporting events supporting the athletes. It's a grounding reminder that behind transactions and structures are people – and the impact we create truly matters.

Contact

If you would like to take part in A member's view, please contact: Melanie Dragu at: mdragu@ciot.org.uk

CIOT
Change to the CIOT's European interests and activities

Over the course of 2025, we reviewed our European interests and activities and following discussion with Council, volunteers and other key stakeholders, we agreed to focus more of our efforts and resources on developing and strengthening our interests through our very active European branch, the International Taxes Committee and other technical committees, both direct and indirect, as well as through existing European connections.

As part of this review, consideration was given to the value and cost of remaining a member of CFE Tax Advisers Europe. CIOT's Council concluded that continued membership was no longer the best use of the Institute's charitable funds. This decision partly reflects the CFE's central focus on engagement with the institutions and policy-making processes of the European Union, which have become less relevant to CIOT following the UK's departure from the EU.

While CIOT's membership of CFE came to an end at the close of 2025, we remain in contact with the many CFE member bodies with whom we have forged strong relationships over the years. CIOT will also be hosting some of these organisations at our offices this summer as part of a conference of international tax body chief executives.

CIOT is proud to have been a founding member of CFE and wishes the organisation every success in the future.

Helen Whiteman, CEO, CIOT

Disciplinary reports

Mr Sharath Mahalinga

At hearings on 12 and 26 June 2025, the Disciplinary Tribunal of the Taxation Disciplinary Board (TDB) determined that Mr Sharath Mahalinga of Bangalore, India, a student member of the ATT, was in breach of the Professional Rules and Practice Guidelines 2018 (as amended in 2021) (PRPG). The tribunal considered the following Charges against Mr Mahalinga:

Charge 1

1.1 When sitting the ATT Paper 2: Business Taxation Examination on 6 November 2024, the defendant used a Generative Artificial Intelligence product (GENAI).

1.2 The defendant was dishonest, in that he knew at the time of the examination that such conduct was in breach of the ATT Online Examination Regulations.

1.3 Alternatively, the defendant ought to have known at the time of the examination that such conduct was in breach of the ATT Online Examination Regulations.

Charge 2

2.1 When sitting the ATT Paper 2: Business Taxation Examination on 6 November 2024, the defendant engaged in communication with another individual.

2.2 The defendant was dishonest, in that he knew at the time of the examination that such conduct was in breach of the ATT Online Examination Regulations November 2024.

2.3 Alternatively, the defendant ought to have known at the time of the examination that such conduct was in breach of the ATT Online Examination Regulations November 2024.

The tribunal found Charges 1.1, 1.2, 2.1 and 2.2 proved. It therefore did not need to consider Charges 1.3 and 2.3. The tribunal determined that that the appropriate sanction was that it recommend to ATT that Mr Mahalinga be removed from ATT's student register and that he pay the TDB's costs in the sum of £3,513.

Mr Michael Viney

At a meeting on 21 November 2025, the Interim Orders Panel of the TDB ordered that Mr Michael Viney of St Albans, a member of the ATT, be suspended from membership of the ATT until such time as the Disciplinary Tribunal determines whether any charges arising from the complaints against him have been proved or until an Interim Orders Panel or Disciplinary Tribunal orders otherwise.

Mr Naveen Velmurugan

At a hearing on 1 September 2025, the Disciplinary Tribunal of the TDB determined that Mr Naveen Velmurugan of Nottingham, a student member of the ATT, was in breach of the PRPG.

The tribunal considered the following Charges against Mr Velmurugan:

1. When sitting the ATT Paper 1: Personal Taxation Examination on 5 November 2024, and the ATT Paper 6: Business Taxation Examination on 6 November 2024 the defendant used a GENAI.
2. The defendant was dishonest, in that he knew at the time of the examinations that such conduct was in breach of the ATT Online Examination Regulations.
3. Alternatively, the defendant ought to have known at the time of the examinations that such conduct was in breach of the ATT Online Examination Regulations.

The tribunal found Charges 1 and 2 proved. It therefore did not need to consider Charge 3. The tribunal determined that that the appropriate sanction was that it recommend to ATT that Mr Velmurugan be removed from ATT's student register and that he pay the TDB's costs in the sum of £4,410.

ATT student member

At hearings on 16 and 17 June 2025, the Disciplinary Tribunal of the TDB determined that a student member of the ATT, was in breach of the PRPG.

The tribunal considered the following Charges against the student:

1. When sitting the ATT Paper 2: Business Taxation Examination on 6 November 2024, the defendant used a GENAI.
2. The defendant was dishonest, in that he knew at the time of the examinations that such conduct was in breach of the ATT Online Examination Regulations 2024.
3. Alternatively, the defendant ought to have known at the time of the examinations that such conduct was in breach of the ATT Online Examination Regulations 2024.

The tribunal found Charges 1 and 2 proved. It therefore did not need to consider Charge 3. The tribunal recommended that the student be removed from ATT's student register, and that he pay the TDB's costs in the sum of £2,520. It also ordered that the name of the student be redacted from any publicity.

A copy of the tribunal's decisions and reasons can be found on the TDB's website at www.tax-board.org.uk.


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Expert contacts:

Elaine Ashton
Scotland
In-House &
Professional Services Tax
elaine.ashton@hays.com

Gabriel Hamill
Northern Ireland
In-House &
Professional Services Tax
gabriel.hamill@hays.com

Justin Hopkins
North
In-House &
Professional Services Tax
justin.hopkins@hays.com

Mathew Donnelly
Wales
In-House &
Professional Services Tax
mathew.donnelly@hays.com

Mark White
Midlands & East
In-House Tax
mark.white@hays.com

Julie Lawrance
Midlands
Professional Services Tax
julie.lawrance@hays.com

Cara Whyte
East
Professional Services Tax
cara.whyte@hays.com

James Clark
South
In-House &
Professional Services Tax
james.clark2@hays.com

Alex Stirling
London
In-House Tax
alex.stirling@hays.com

Georgina Bird
London
Professional Services Tax
georgina.bird@hays.com

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Director

Tel: 0113 418 0767
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This is an exciting time of rapid growth for us, in both our core membership offering and expanding services. Join us as a new employee, and you'll become part of a close-knit, friendly team. It's an inclusive community with a genuine family feel, where everyone's valued for their contribution to our fast-moving, innovative business.

We are looking for qualified tax professionals (CTA, ACA, ACCA, ICAS, STEP or lawyers) with strong technical skills, excellent attention to detail, and experience working in UK accountancy firms. We are currently recruiting for the following roles:

Tax Writer

In this role, you will create and maintain content for the rossmartin.co.uk website and for our clients' marketing. You will identify relevant content, write and update tax guides, articles and help-sheets across a range of taxes, while contributing to the production of a weekly newswire. You will also work on our extensive coverage of budgets and other fiscal events. It is likely that you will already have experience in technical tax writing.

Tax Advisory

In this role, you will assist accountancy firms in providing tax advice, dealing with a wide range of technical queries and producing technical reports. A mixed tax advisory background would be ideal. You may also do tax file reviews for accountancy firms, assessing their processes, PCRT compliance and the quality of their technical work.

Tax Lecturer

In this role, you will provide CPD training to our accountancy firm members, including by presenting webinars on our public programme and for individual in-house accountancy firm clients. Covering a wide range of taxes, you will thrive on explaining complex areas and identifying practical pointers. You will likely have proven tax training experience.

At 20:20 Innovation, **we are open to applicants who would like to specialise in any of the three areas above or who would like to work across a mix of areas**. We are happy to support part-time and flexible working. Our tax team works on a largely remote basis but remain connected via Microsoft Teams and daily tax news review meetings. We meet up in person quarterly for whole-company updates and feedback sessions on company performance, strategy and areas of focus.

For further information contact Georgiana Head on georgiana@ghrtax.com and on 07957 842 402.

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