June 2026

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HMRC's Extra Support Team

How to work with the vulnerable and those with complex needs

Online platforms

How the new reporting regime will create greater compliance risks

Pension consolidation

Poorly timed withdrawals can trigger avoidable tax charges and lost protections

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HELEN WHITEMAN
JANE ASHTON

Our summer highlights

As we head into the summer, June brings a busy and exciting period for both the ATT and CIOT. From conferences and professional development opportunities to outreach work, branch events and celebrating new members joining our profession, a wide range of activities takes place across both organisations.

CIOT's Cambridge conference runs from 18 to 21 September and is now open for bookings at www.tax.org.uk/arc2026. ATT's Annual Conferences offer four events: three face-to-face and one online. The programme begins in Stirling on 3 June, followed by Liverpool on 11 June and London on 17 June, with the online conference taking place on 1 July. You can find out more and register at tinyurl.com/394wvet7.

Making Tax Digital continues to be an area where members and their clients seek additional guidance and support. The ATT has been providing monthly Zoom drop-in discussion groups, giving members the opportunity to share experiences and ask questions. These sessions were due to end in May, but due to demand they have been extended until August. You can find further information and sign up at tinyurl.com/urnvu8d5. The CIOT's LITRG team also provides excellent resources through its dedicated MTD information pages at tinyurl.com/yvjfd76b.

With public understanding of the UK tax system remaining low, there has never been a better time to get involved in outreach work. The ATT's 'Volunteer in schools' toolkit provides useful resources (tinyurl.com/5xxsazdm), with merchandise also available for events. Whether it is explaining how the tax system works and its role in society, or helping young people to explore career options, we would love you to get involved. If this is something that interests you, please contact ATT Schools Education and Careers lead Steven Pinhey at spinhey@att.org.uk.

We are also delighted to celebrate the achievements of our students and look forward to welcoming many of them into the ATT and CIOT as full members. The ATT admissions ceremony takes place on 25 June, while the CIOT's next ceremony is in Spring 2027. These events are always a highlight and an opportunity to welcome new members into both ATT and CIOT.

The CIOT's AGM takes place in person and online on 4 June at RSA House, London. This precedes the CTA Address, which this year will be delivered by David Gauke, former Treasury Minister and Lord Chancellor, now Public Policy Senior Advisor at Macfarlanes. His topic is 'Why tax simplification isn't that simple', and there will be a write-up afterwards.

The ATT AGM takes place on 9 July at 2pm, both in person at Monck Street and online. AGMs are an important part of the governance of our charities, giving members the opportunity to review performance, help shape future direction and meet incoming officers.

Alongside the AGMs, we would also encourage you to read our Annual Reports, which highlight the fantastic work carried out by both organisations during 2025. They can be found at www.att.org.uk/annual-reports and www.tax.org.uk/annual-reports.

For members in Scotland, the ATT and CIOT have jointly published five key tax priorities for the new Scottish parliament tax. While devolved tax powers have expanded significantly over the past decade, further changes will require the system to continue evolving to ensure it remains effective, transparent and aligned with policy objectives. Full details can be found at tinyurl.com/yc7ayyhp.

Finally, huge congratulations go to the TaxAid team on winning the Tolley's Award for Outstanding Contribution to Taxation in 2025-26 by a Not-for-profit Organisation. Special congratulations also go to Emma Rawson, ATT Director of Public Policy, who was joint winner of the Tolley's Award for Outstanding Contribution to Taxation in 2025-26 by an Individual, for her fantastic work on Making Tax Digital. Well done, Emma!

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Regulars

ONLINE PICKS OF THE MONTH

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PAUL APLIN
PRESIDENT

Different perspectives

> We work to help build more effective tax administration by ensuring that the voice outside the room is heard.

Paul Aplin
President
president@ciot.org.uk

Chartered Institute of Taxation.

It is traditional for incoming Presidents to share something of their career in tax in their first President's page. Before I do that though, I'd like to thank Nichola Ross Martin for the enormous amount of time and enthusiasm she put into her year as President.

I did not set out to have a career in tax. My degree was in biochemistry, but jobs in science were scarce when I graduated, so I scanned the local newspaper each week and applied for anything that looked interesting. A firm of chartered accountants in Taunton, A C Mole & Sons, offered me an interview and – happily for me – took me on. I qualified as a chartered accountant, then as a chartered tax adviser, and in 1992 became the firm's first tax partner. That, I thought, would be how I would spend the rest of my career. Up to a point, it was (I stayed with the firm for 40 years), but an event in 1997 split my career into two distinct, but inextricably linked, strands.

You can read about that event – the filing of the UK's first electronic tax return – in my AGM speech on pages 64 and 65.

One career strand was as a tax partner and the other was working with ICAEW, CIOT and HMRC.

The great thing about being the only person to have done something is that everyone looks to you as the expert, even if all you did was press a button. Someone from the Inland Revenue (as it was then) asked me to talk to them about the next steps in digitalisation. Someone at the ICAEW Tax Faculty asked me to speak at their next tax conference. I was encouraged to stand for the Tax Faculty Committee, which led to chairing the Faculty, joining ICAEW Council and ultimately becoming ICAEW President; it also led to joining the CIOT Technical Committee, then CIOT Council and now becoming CIOT President.

The voice outside the room

Another part of my life in tax has involved working with HMRC.

In 2006, Lord Carter of Coles wrote a report that was the catalyst for a step-change in the digitalisation of tax administration. HMRC invited me to join their internal project board. The first meeting was difficult for some project board members: having an outsider at the table, who saw sensitive board papers and who had an equal voice, was a new and uncomfortable experience, especially when that outsider had taken a very public stance against a key recommendation in Lord Carter's report. By the second or third meeting, however, the atmosphere was very different and my perspective was not only welcomed but actively sought, even when it amounted to 'that just won't work in practice'. I left the project board when the various elements became 'business as usual'.

I currently sit on HMRC's Administrative Burdens Advisory Board (ABAB) and as an Independent Adviser to HMRC's Closing the Tax Gap Committee.

At one ABAB meeting, I heard a minister say something that really struck me: that the walls of the Treasury were so thick that it was sometimes hard to hear the voice outside the room. In all of my roles with HMRC and at the OTS (I was a board member until it was abolished), I have tried – as have so many CIOT colleagues, both staff and volunteers, through their own interactions – to help HMRC hear that external voice.

For the public benefit

Our 20,000 members interact with many times that number of taxpayers and this gives us real, practical, human insight into the issues that taxpayers face. It reveals something that no amount of data analytics can reveal: the lived experience of tax administration and the likely and actual practical effects of tax policy. It is not just this practical insight that makes us a powerful voice, but the way in which we share it.

Our Royal Charter requires us to 'promote the sound administration of the law for the public benefit' and to 'make recommendations for the improvement or simplification of the law and practice of taxation, and to draw attention to anomalies in, and to comment on proposed changes to, the law of taxation'.

We work to help build more effective tax administration by ensuring that the voice outside the room is heard and by sharing different, informed perspectives.

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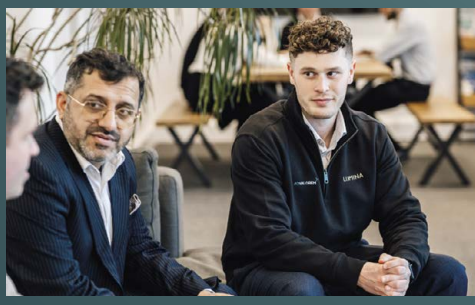

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BARRY JEFFERD
DEPUTY PRESIDENT

ATT's growing influence

> I would once again urge you to consider whether you could become more involved in the ATT yourself.

Welcome to another edition of Tax Adviser and thoughts from the ATT.

I am obviously biased, but I see the importance of the ATT growing. Throughout March, numerous media outlets contacted the ATT in relation to the forthcoming introduction of MTD. I am not a great social media devotee myself, but even I spotted numerous references to the Association. I heard Emma Rawson, our Director of Public Policy, on Money Box Live on Radio Four being the voice of reason in the run-up to MTD, against a HMRC representative who perhaps did not inspire confidence when responding to listeners' questions about the new regime. Emma is usually very calm in her media presentations, but did draw the line on BBC Three Counties Radio (Beds, Herts and Bucks) when she was introduced as somebody from 'HM Revenue and Customs'. That was going too far.

It was lovely to see that all the work Emma has done on MTD has been recognised. At the recent Tolley's Taxation Awards, Emma received an award for Outstanding Contribution to Taxation in 2025/26 by an Individual, which could not have been more deserved.

As well as Emma winning an award, we were delighted to see the ATT Technical Team shortlisted for 'Outstanding Contribution to Taxation by a Not-for-Profit Organisation', an award we last won in 2023. Unfortunately, on the night we were not the winners, but we send our congratulations to Tax Aid on its success in winning the award.

Apart from the headline appearances, our technical team works hard behind the scenes making representations on behalf of our members and taxpayers to highlight tax problem areas and offer practical solutions. This falls squarely within our charitable objective to promote the study of the administration and practice of taxation.

I was delighted last month to attend the joint CIOT/ATT reception in Edinburgh, where we were able to engage with the Scottish tax community and use the opportunity to showcase the work of the ATT. Supporting Emma, we have six technical officers. Two of these, Chris Campbell and Senga Prior, are based in Scotland, and this has led to the ATT being heavily involved in the devolved Scottish taxation system. Tax devolution remains a major Scottish issue and continues to diverge from the UK system. This work includes a contribution to the review of land and buildings transaction tax and the new Scottish building safety levy. We have also briefed the UK Parliament on the implications for Scotland of changes in the rate of tax on property income. We have also engaged with careers projects at schools and universities across Scotland.

As ever, I was made to feel very welcome by everybody I spoke to, and there was generous appreciation for the work we do.

I would once again urge you to consider whether you could become more involved in the ATT yourself. Whether it is being involved in technical matters or helping on a sub-committee of the Association or a Branch Committee, we are always keen to talk to potential volunteers. You do not have to be a 'tax expert' to volunteer. If that was the case, I would have disappeared a long time ago.

This is my last column for *Tax Adviser* as, following the AGM in July, I will no longer be Deputy President. That privilege will go to Ele Theochari, our current Vice President, who takes over from me.

The new team is featured on page 62, where you can see that Richard Freeman will be our Vice-President. Richard's unusual position for the ATT is that he works for HMRC, the first of our officers to do so. Some of you may be surprised that we have members working for HMRC, but our dedicated Branch for HMRC members is one of our most successful within the organisation and we look forward to Richard's continued contribution after many years on Council.

At the recent meeting of Council, I had the honour of being chosen to be the 2026/27 President to take effect from the 2026 AGM. This follows on from Graham Batty, who will have served as President for two different terms and will be a hard act to follow. There is a caveat to this, in that at the forthcoming AGM, I am 'retiring by rotation' and am standing for re-election to Council. Whilst Council appoints the officers, it is quite right that it is the members who elect Council.

Thank you for reading my articles and sincere thanks to those who have been in touch throughout the year regarding some of the points I have written about.

Until next time… and Ele's contribution.

Barry Jefferd
ATT Deputy President
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News

INDIRECT TAX

EV charging VAT appeal

HMRC challenges reduced-rate ruling

HMRC has confirmed that it is appealing a First-tier Tribunal decision concerning the VAT treatment of electricity supplied through public electric vehicle (EV) charging points.

The appeal follows the decision in *Charge My Street Ltd v HMRC* [2026] UKFTT 318, in which the tribunal concluded that certain supplies of electricity at public EV charging points qualified for the reduced 5% VAT rate rather than the standard 20% rate. The tribunal found that the relevant provisions in VAT Act 1994 could apply where electricity supplied at a particular location did not exceed the statutory de minimis threshold of 1,000 kilowatt hours per month.

HMRC has stated that its longstanding position remains unchanged and that electricity supplied through public EV charging infrastructure is standard-rated for VAT purposes. It has now applied for permission to appeal the decision to the Upper Tribunal.

If ultimately upheld, the tribunal's interpretation could have wider implications for EV charging operators and potentially lead to historic repayment claims in the sector. It highlights the growing complexity of VAT classification issues arising from new technologies and evolving infrastructure models.

PERSONAL TAX

Pension inheritance tax detail issued

HMRC outlines April 2027 regime

HMRC has published a technical note setting out operational detail on the extension of inheritance tax to unused pension funds and pension death benefits from 6 April 2027, following the enactment of Finance Act 2026.

It provides further detail on how the new regime will operate in practice, including the introduction of 'withholding notices', allowing personal representatives to require pension scheme administrators to retain part of a beneficiary's entitlement pending payment of inheritance tax.

HMRC has also confirmed the creation of a new 'Pensions Direct Payment Scheme', under which pension scheme administrators may be required to pay inheritance tax directly to HMRC from pension death benefits. The note also addresses valuation and information-sharing obligations.

Pension scheme administrators will be required to provide valuations and respond to notices before probate has been granted in some cases, creating significant new administrative obligations for both schemes and estates.

Draft information-sharing regulations are expected later in 2026, with fuller HMRC guidance and supporting tools due during spring 2027.

INTERNATIONAL TAX

Pillar Two reporting nears

HMRC updates implementation guidance

HMRC has updated its guidance on the OECD Pillar Two multinational top-up tax regime, as affected groups move closer to the first UK reporting and registration deadlines. The regime applies to multinational and large domestic groups with annual consolidated revenues of at least €750 million and is intended to ensure a minimum effective tax rate of 15%.

Recent HMRC updates have focused on practical compliance requirements, including registration, safe harbour provisions and the interaction between the multinational top-up tax and the UK domestic top-up tax. HMRC updated parts of its Pillar Two manual in April 2026, alongside further policy material on elections, operational changes and transitional provisions.

Treasury regulations relating to qualifying domestic top-up taxes and recognised Pillar Two territories also came into force during April 2026, forming part of the wider implementation framework for the regime.

Affected groups are generally required to register within six months of becoming subject to the rules, with the first returns due 18 months after the end of the initial accounting period within scope. HMRC has encouraged groups to begin preparations well in advance because of the complexity of the calculations and the volume of data involved.

The OECD has meanwhile continued to release administrative guidance intended to support consistent international application of the regime, particularly in relation to transitional safe harbours and deferred tax adjustments.

PERSONAL TAX

Discovery limits narrowed

Upper Tribunal restricts HMRC's approach

The Upper Tribunal has clarified the operation of extended time limits in discovery assessments in *HMRC v Harte* [2026] UKUT 112 (TCC), rejecting HMRC's attempt to apply a single finding of deliberate behaviour across multiple elements of an assessment.

The dispute concerned whether HMRC could rely on deliberate behaviour identified in one aspect of a taxpayer's return to justify applying the extended 20 year assessment time limit to unrelated adjustments within the same discovery assessment.

The Upper Tribunal held that the statutory test must instead be applied separately to each distinct loss of tax. Deliberate behaviour affecting one item did not automatically permit HMRC to rely on the extended time limit for other unrelated adjustments.

The decision overturns part of HMRC's broader interpretation of the discovery assessment rules and reinforces the need for a direct connection between the taxpayer behaviour relied upon and the specific tax loss being assessed. The ruling is likely to be particularly relevant in complex enquiries involving multiple adjustments or mixed behavioural findings.

ENVIRONMENTAL TAX

Climate Change Agreement expanded

Government updates levy relief regime

The government has published updated guidance and policy material on the Climate Change Agreements (CCA) scheme, including the extension of eligibility to additional sectors and revisions to key technical assumptions used within the regime.

CCAs allow energy-intensive businesses to obtain reduced rates of climate change levy (CCL) in return for meeting agreed energy efficiency or carbon

reduction targets. In an April 2026 policy paper, HMRC confirmed that the scope of the scheme has been widened to include additional qualifying activities, including the production of automotive-grade battery cells, the packaging of spirits and the mechanical recycling of plastics.

The updated material also revises technical parameters used in assessing performance against energy efficiency targets, including amendments to the carbon emissions factor for gas. HMRC has stated that the changes are intended to improve emissions performance calculations.

Businesses newly brought within the scope of the scheme may now be able to access reduced CCL rates, while existing participants will need to ensure that compliance and reporting processes reflect the revised assumptions and calculation methodology.

The amendments form part of the government's continuing use of tax-linked incentives to encourage industrial energy efficiency and emissions reduction. For advisers, the changes may require review of existing CCA arrangements and eligibility criteria, particularly for businesses operating in newly qualifying sectors.

GENERAL FEATURE

HMRC barred

Tribunal sanctions procedural failures

The First-tier Tribunal has barred HMRC from further participation in proceedings in *Carbon Six Engineering Ltd v HMRC* [2026] UKFTT 177 (TC), following repeated failures to comply with tribunal directions.

The dispute arose after HMRC failed on multiple occasions to meet deadlines relating to submissions and disclosure of documents. The tribunal noted that HMRC had been given several opportunities to remedy the position but had continued to miss procedural deadlines without adequate explanation.

Exercising its case management powers, the tribunal directed that HMRC be barred from further participation in the proceedings and subsequently refused HMRC's application for reinstatement. The tribunal concluded that there was no sufficient justification for the repeated failures and emphasised the importance of compliance with tribunal orders by all parties.

The decision is notable because such sanctions against HMRC remain relatively uncommon in tax litigation. The tribunal stressed that HMRC is subject to the same procedural obligations as any other litigant and that persistent non-compliance can undermine the efficient administration of justice.

EMPLOYMENT TAX

Plan 5 deductions begin

New student loan regime comes into operation

The new 'Plan 5' student loan repayment regime entered operation from April 2026, with employers now required to apply the new deduction category through PAYE.

Plan 5 applies to individuals who took out undergraduate student loans in England from August 2023 onwards. The first affected borrowers are now beginning to enter repayment, making this the first live year of payroll operation for the new regime. Repayments are collected at 9% of earnings above the relevant repayment threshold, which has been set at £25,000. The regime introduces a lower repayment threshold and longer expected repayment periods for many borrowers.

HMRC began issuing start notices to employers ahead of the April implementation date, with payroll software providers also updating systems to accommodate the additional plan type. As with existing student loan arrangements, employers must apply deductions strictly in accordance with HMRC instructions and employee notices.

The introduction of a further repayment category adds another layer of complexity to payroll administration, particularly for employers operating multiple student loan plan types across their workforce.

LARGE CORPORATE OMB

Corporation tax penalties increase

Higher late-filing charges now apply

Increased corporation tax late-filing penalties took effect from 1 April 2026, following measures introduced by Finance Act 2025.

The changes double a number of existing fixed penalties for companies that fail to submit corporation tax returns on time. The initial fixed penalty for returns filed up to three months late has increased from £100 to £200, with a further £200 penalty applying where the return remains outstanding after three months.

Higher penalties also apply for persistent non-compliance. Companies filing late for three consecutive accounting periods may face penalties of £1,000 where returns are up to three months late, rising to a further £1,000 after six months.

HMRC has confirmed that, although the new penalty rates took effect from April 2026, some notices may not immediately reflect the increased amounts because of ongoing system updates. It has stated that affected taxpayers will nevertheless remain liable for the revised statutory penalties. The changes form part of HMRC's wider focus on improving compliance and encouraging timely filing.

OMB

Free corporation tax filing ends

HMRC closes online filing service

HMRC's free online service for filing company accounts and corporation tax returns closed on 1 April 2026, requiring companies to move to commercial software for future filings.

The service had allowed companies with relatively straightforward affairs to file corporation tax returns and accounts directly with HMRC without using third-party software. HMRC announced that the closure forms part of its wider digital modernisation programme.

Companies affected by the change must now use compatible commercial software to submit corporation tax returns, accounts and computations. HMRC has stated that the decision reflects increasing complexity in filing requirements and the limitations of the existing platform.

The closure particularly affects smaller companies and unrepresented taxpayers that previously relied on HMRC's free filing option. Agents and software providers have meanwhile highlighted the additional compliance costs that some businesses may now face as a result of mandatory software use.

The move forms part of HMRC's continuing shift towards third-party software solutions and digital tax administration. The changes may prompt increased support requests from smaller corporate clients required to transition to commercial filing systems for the first time.

PAC scrutiny
Large business compliance

The Public Accounts Committee reviewed large business compliance, AI use and tax investigations.

by Bill Dodwell

The Public Accounts Committee held an evidence session with HMRC on 18 May (see tinyurl.com/yc625htz). The HMRC team was led by Permanent Secretary John-Paul Marks and included Nicole Newbury, Director of the Large Business directorate, Penny Ciniewicz, Director General Customer Compliance, and Jonathan Athow, Director General Strategy and Policy. The session discussed the performance of the Large Business directorate, following the National Audit Report in February praising HMRC's large business compliance activities (see tinyurl.com/2twn9hxv).

'Tax under consideration'

The discussion started with questions about the confusing term 'tax under consideration'. Nicole Newbury stressed that the figure is 'not a pot of money that is waiting for us to work through and secure'. Instead, it represents HMRC's estimate of the maximum amount of tax potentially recoverable from an investigation.

She said that it is 'a guide for us to prioritise our resource deployment and ensure we are focusing on the highest value'. The increase from £42 billion to £70 billion, the figure from last October, recognises that HMRC has made significant investments in recent years in spending more time with customers, carrying out risk assessments and using data from other jurisdictions and taxpayers effectively to identify tax risks.

Newbury added: 'It would not be accurate to describe that as a pot of money waiting to be converted into cash receipts. An awful lot of work needs to go in to understand to what extent that is recoverable or legally due.'

She added that about £21 billion of the £70 billion related to international issues. International work is undertaken by international tax specialists, some of whom HMRC has trained internally through trebling funding for the CIOT's Advanced Diploma in International Taxation. External recruitment of experienced specialists has also supplemented the international work.

Large business compliance

The discussion moved to the special measures regime, where HMRC can impose additional requirements on a large company or group engaged in avoidance activities – but has not actually done so. Newbury pointed to HMRC's high risk corporates programme, which she said has delivered £32 billion in additional tax revenue from 70 multinational groups that 'would otherwise have gone unpaid', while also resolving more than 4,000 risks.

She added that HMRC considers the use of special measures legislation in all cases within the programme. However, she said the programme had achieved a 96% success rate in 'shifting the behaviour into a more compliant arena', which HMRC viewed as a good outcome.

All 2,000 large groups managed by Large Business have a regular business risk review, ranking them as low, moderate, moderate-high or high risk. The reviews are conducted by customer compliance managers, 71% of whom have been in post for more than three years and 40% for more than five years. Newbury said HMRC recognises the impact of staff turnover and tries to minimise it 'wherever possible to give consistency'.

The latest statistics show that more than half of groups are classed as low risk, while only 10 are currently categorised as high risk. In those cases, HMRC actively considers the high risk corporates programme and special measures, alongside working jointly with its Fraud Investigation Service where appropriate.

Large business compliance enquiries currently take 17 months on average, a figure that has already reduced substantially and is forecast to fall further to 16 months. Newbury said HMRC is looking at 'how we can use technology, and AI in particular, to speed up the work that we are doing'.

She pointed to HMRC's work on transfer pricing and some of its international work. 'We often have to ask our multinationals for huge amounts of unstructured data and information.' HMRC is using commercially available tools, 'which we are tailoring and training with large language models, to make sure that we can extract the information and analyse – with human involvement and oversight – what that is telling us much quicker.'

Customer service and tax collection

At the end of the session, the Chair asked whether the aim of HMRC's investments through the Transformation Roadmap is to collect more tax or to provide better customer service.

JP Marks said the two aims should ultimately be aligned, seeking to help taxpayers while also supporting compliance. He said the vast majority of taxpayers are honest and 'want to get things right first time'.

As an example, he said HMRC was seeking to make compliance easier by enabling taxpayers to use their phones to view their income, national insurance, PAYE, savings income and dividends. He said this would help people understand: 'This is what I know about myself, and this is what HMRC knows about me.'

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.

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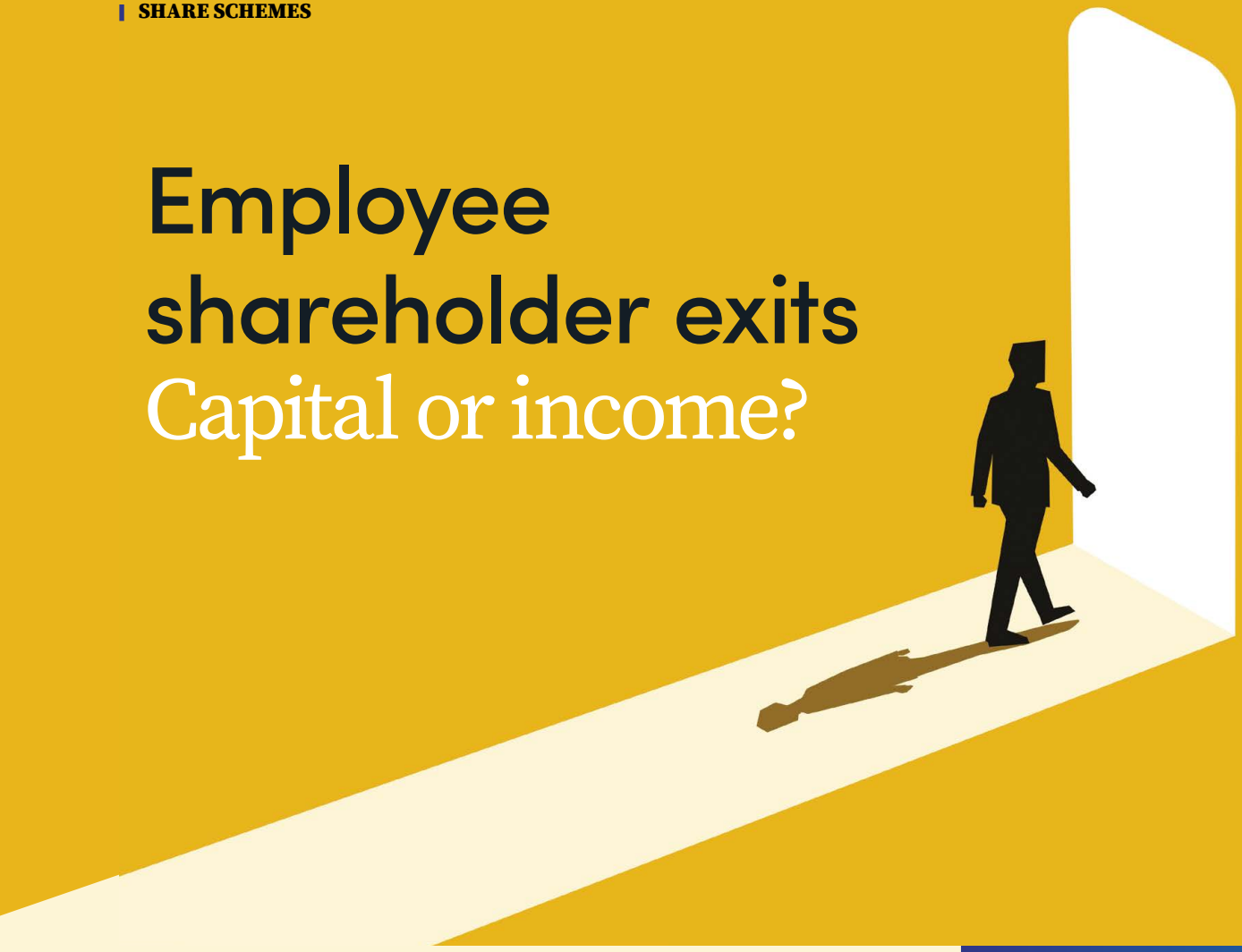

There are several ways to facilitate an employee shareholder exit, each with significant tax considerations, so planning an effective solution can be complex.

by Chris Holmes and Rachel Tucker

There are many commercial reasons why an employer would want a departing employee shareholder to give up their shares. There may no longer be any need to incentivise them, it may be inappropriate for them to continue sharing in the growth of the business while no longer contributing to it, and there may also be concerns around commercial sensitivity, given that shareholders may receive confidential information.

The employee may want an exit route that delivers value which is subject to capital gains tax (CGT) rather than being treated as income (either as employment income or a distribution). While this is not always achievable, the employer may be willing to prioritise CGT treatment provided it aligns with their commercial objectives. This article explores the various options available to facilitate the acquisition or cancellation of a leaver's shares.

Establishing a share incentive plan

When setting up a share scheme, it is essential to plan for the exit of employee shareholders. The articles of association (Articles) or shareholder agreements for the scheme will typically distinguish between different categories of leaver (for example, so-called 'good' and 'bad' leavers) and set out the pricing mechanisms that apply in each case.

However, it is equally important to consider the actual method by which leavers will dispose of their shares, ideally allowing for flexibility in how this is achieved. Addressing this at the outset is important from a tax perspective and helps to clarify expectations, reducing the risk of disputes with departing employees.

Employment-related securities

Regardless of the method of exit, a key consideration is the tax treatment of the

Key Points

What is the issue?
There are a range of ways to facilitate an employee shareholder exit but each carries different tax consequences, particularly in relation to employment-related securities, capital gains tax and income treatment.

What does it mean to me?
The chosen exit route can significantly affect the tax outcome for both employer and employee. HMRC scrutiny, especially around buy-backs and transactions in securities, means that achieving CGT treatment is not always straightforward.

What can I take away?
Planning for employee exits at the outset, understanding how the various mechanisms operate, and taking early advice are key to ensuring a tax-efficient and commercially effective outcome while managing HMRC risk.

leaver's shares under the employment-related securities (ERS) rules in Part 7 of the Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

The ERS rules can give rise to employment income tax charges in two main situations on a disposal of a leaver's shares:

1. under ITEPA 2003 Part 7 Chapter 2, where the shares were originally acquired for less than unrestricted market value and no election was made under ITEPA 2003 s 431 (an s 431 election); and
2. under ITEPA 2003 Part 7 Chapter 3D, where the employee receives consideration for the disposal in excess of the tax market value of the shares.

On the second point, HMRC usually expects the tax market value of a leaver's shares to include appropriate discounts for minority interests and non-liquidity. A sale at pro-rata value may therefore be treated as a disposal at an overvalue, giving rise to an employment tax charge.

How these ERS charges interact with the tax treatment of the different exit methods is described below, as the outcome will depend on the structure adopted. Where they do apply, they will increase the base cost for CGT purposes by the amount subject to employment income tax, ensuring that the leaver is not taxed twice.

Methods for employee shareholder exits

There are various methods that can be used to facilitate shareholder exits, as set out below.

Purchase of own shares

A purchase of own shares is often the go-to option for the exit of minority shareholders. However, for CGT treatment to apply, strict conditions must be met and the buyback must be reported to HMRC.

A purchase of own shares by a UK non-quoted company is both an income distribution and a CGT disposal, with income treatment taking priority by virtue of the Taxation of Chargeable Gains Act (TCGA) 1992 s 39. Under this provision, consideration is excluded from the CGT computation where it has been subject to income tax.

The definition of 'distribution' for income tax purposes cross-refers to Corporation Tax Act (CTA) 2010 Part 23. Essentially, the buyback is treated as a distribution to the extent that it is not a repayment of capital or is otherwise than for new consideration (case B of CTA 2010 s 1000).

Accordingly, it will not be a distribution to the extent that the nominal value is returned to the shareholder, which can in some rare circumstances be a large number. In addition, by virtue of CTA 2010 s 1025, HMRC accepts that where the shares were originally issued at a premium, that premium constitutes new consideration on a subsequent buyback, unless it has previously been used to pay up capital (see HMRC's Company Taxation Manual CTM17520). In practice, this means that an income tax charge may only apply where proceeds exceed the original subscription price.

CTA 2010 s 1033 and related sections set out the conditions under which a purchase of own shares will be treated as an exempt distribution, effectively placing the disposal wholly within CGT. Some of these conditions are practical, such as a minimum five-year holding period and a requirement that the individual's shares are reduced by at least 25%. Others are more subjective and need some consideration. These include whether the company is a trading company and whether the buyback is for the benefit of the trade (see Keith Gordon's article 'A company share buyback: the battle of *Boulting*' in *Tax Adviser* February 2026).

> **Consider the actual method by which leavers will dispose of their shares, ideally allowing for flexibility.**

The company may seek advanced statutory clearance from HMRC under CTA 2010 s 1044 to confirm that the buyback will be treated as an exempt distribution. However, this adds professional costs and an administrative burden each time shares are repurchased from a leaver.

Additionally, it has become evident that HMRC's policy on the 'benefit of the trade' test has tightened in recent practice. HMRC appears less willing to simply accept that a buyback from a small exiting shareholder will satisfy the test, though it does seem to be more accepting where the departing shareholder is a key member of management.

We await further clearance cases to determine where HMRC's thresholds on percentage ownership will fall in practice, and how these will differ depending on the circumstances. For the moment, businesses seeking CGT treatment for smaller shareholdings must be warned that a robust analysis of the benefit of the trade will be required, and that there remains a risk that clearance may not be granted even where a commercial rationale exists.

Although a clearance is not strictly required, for the distribution to be exempt the buy-back must be reported to HMRC within 60 days, together with an explanation of why it is believed to be exempt (i.e. the same information that would have been included in a clearance application). Where a clearance has been obtained, the reporting is simplified as most of the detail can be provided by enclosing a copy of the clearance correspondence.

In our experience, HMRC will accept late reporting; however, the conditions for exempt treatment have not technically been met and late reports may not be accepted.

Where the company is not UK resident, the tax treatment of the purchase of own shares (i.e. whether it is capital or income) is typically determined by reference to the law of the jurisdiction in which the company is incorporated or registered. This is a principle established by case law, notably *Rae v Lazard Investment Co Ltd* (1963) 41 TC 1.

Where the buyback results in capital treatment and ERS charges are in point, PAYE income tax, together with employee and employer NIC, will apply to a proportion of the proceeds.

In contrast, where a buyback by a UK resident company is treated as a distribution, any employment income tax arising under the ERS charges is disapplied by ITEPA 2003 s 716A, although employee and employer NIC may still arise.

Do nothing

In some cases, the employer may be less concerned that departing employees are retaining their shares, and therefore have put no formal arrangements in place for a buyout.

This is more likely where the company is listed, and therefore a market is available for the employee to sell their shares. Private companies that are registered with the Private Intermittent Securities and Capital Exchange System (PISCES) to enable trading in their shares might similarly adopt this approach.

Frozen return value

Where employees acquire shares on an understanding that they will be realised only on a planned exit event, the Articles may defer the realisation for leavers until that event. In such cases, the proceeds are typically capped at the value of the shares at the time of leaving, and leavers who retain their shares will usually lose the right to dividends and votes.

Tax and legal advice will be required to implement a mechanism for freezing

the value of shares where this has not already been addressed. In particular, this concerns the following issues:

- If the shares convert to a different class upon leaving, it will be necessary to consider whether that conversion constitutes a reorganisation under TCGA 1992 s 126 (deferring the gain) or gives rise to a chargeable disposal of shares.
- Establish whether the value freeze, and the subsequent allocation of proceeds on an exit to all shareholders, is supported by the terms of the Articles. If subsequent sale proceeds are not allocated in accordance with their rights in the Articles, this may give rise to employment income tax for other employee shareholders under ITEPA 2003 Part 7 Chapter 3D, following the principles in *Grays Timber Products Ltd v Revenue and Customs (Scotland)* [2010] UKSC 4.

Sale to other shareholders or new management

Sometimes a sale to other shareholders is possible. For example, the shareholders' agreement or Articles may include a mechanism for offering the shares to other existing shareholders, including a parent entity. Alternatively, the employer may identify other members of management to whom they wish to offer share ownership.

As this involves an actual disposal of the shares, capital gains treatment will apply. However, if the ERS charges are in point, a proportion of the proceeds will be subject to PAYE and employee and employer NIC.

Capital reduction

Where the company has sufficient share capital, it may be possible to cancel some of the shares through a capital reduction and return capital to the leaver up to the value of those shares.

For this purpose, 'share capital' comprises paid-up nominal share capital, share premium, capital redemption reserve and redenomination reserve.

In practice, it will be necessary to cancel all the nominal share capital held by the employee (in order to eliminate their holding) and, if required, share capital from one of the other sources (to cover any additional amount paid to the leaver). Where the amount paid to the employee is less than the nominal share capital cancelled, any excess will be transferred to distributable reserves.

Under general principles (case B of CTA 2010 s 1000), a repayment of capital is not treated as a distribution for tax purposes. It will therefore be a CGT chargeable disposal for the leaver.

However, it is important to consider the wider provisions of Part 23 of CTA 2010, which contains anti-avoidance rules that apply in certain situations. For example, a repayment of capital can be a distribution where a bonus issue of shares occurs before or after the capital reduction, unless that bonus issue is funded from new consideration.

It is also important to consider the transactions in securities (TIS) anti-avoidance provisions, which broadly apply where a shareholder realises an income tax advantage. HMRC may seek to counteract the transaction by effectively treating the proceeds as income, on the basis that the capital reduction is being used as a means to extract value in capital form rather than by way of an income distribution.

Nevertheless, there are circumstances in which HMRC will grant TIS clearance, under Income Tax Act 2007 s 701 – for example, where the company has no distributable reserves and so, as a matter of company law, the capital reduction is the only available mechanism to cancel the leaver's shares.

On the basis that, in the context of a purchase of own shares, an income tax charge may arise only to the extent that proceeds exceed the original subscription price (for shares issued at a premium), it can be argued that an income tax advantage from a capital reduction would arise only in the same circumstances. Hence, it should be possible to use a capital reduction to return such amounts without the TIS provisions applying, although seeking statutory clearance would be strongly recommended.

To the extent that the ERS charges apply, a proportion of the proceeds will be subject to PAYE and NIC.

Capital reductions may also be used to cancel employee shares where all rights have been forfeited, for example under bad leaver provisions. Any capital released will be credited to distributable reserves, and a capital loss would typically arise for the shareholder.

Sale to an employee benefit trust

The employer could establish an employee benefit trust (EBT) to act in a warehousing capacity to buy and sell shares with employees, essentially creating a market for leavers to dispose of their shares.

As there will be an actual disposal of shares, CGT should always apply. However, if the ERS charges apply, a proportion of the proceeds will be subject to PAYE, together with employee and employer NIC. The EBT may be funded by employer contributions, the onward sale of shares or by way of a loan. There are a number of tax and commercial considerations in relation to the establishment and operation of an EBT, and specific advice should be sought.

The same TIS considerations will need to be taken into account as those outlined above in relation to a capital reduction.

Conclusion

Employee shareholder exits require careful planning and thoughtful structuring to balance commercial objectives with tax efficiency. By anticipating leaver scenarios when establishing share plans, employers can reduce uncertainty and avoid costly disputes. The choice of exit mechanism – whether a purchase of own shares, capital reduction, sale to an EBT or fellow shareholders, or simply allowing shares to remain in issue – must be assessed in light of the ERS rules, CGT considerations, anti-avoidance provisions and, where relevant, the company's constitutional documents.

Employers should also be mindful of the fact that HMRC scrutiny in this area continues to evolve, particularly in relation to the 'benefit of the trade' test and the application of the TIS provisions. Early advice and clear planning remain key to managing employee exits efficiently and mitigating tax risk for all parties involved.

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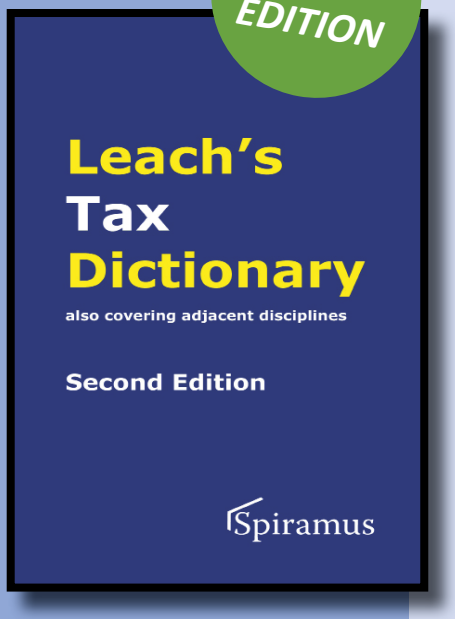

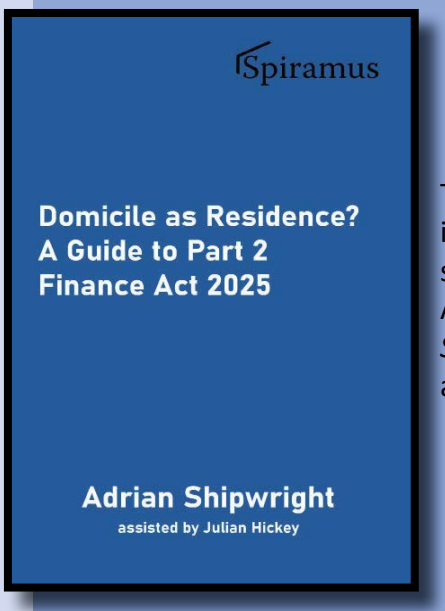

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Online platform reporting Increased HMRC scrutiny

HMRC's new online platform reporting regime gives advisers greater compliance risks, increased data matching and a narrowing disclosure window.

by Dawn Register and John Light

Digital platforms have become a normal route to market for individuals and businesses, with almost 4 million sellers using them in 2025. HMRC has recently responded by moving from ad hoc information requests to a standardised annual reporting regime for online marketplace activity. The most important change for advisers is not new tax law, but the increased scale and consistency of third-party data that HMRC can now match against tax returns.

This article focuses on what that means in practice for tax advisers: what HMRC is receiving, how HMRC is likely to use it to help close the tax gap, where the risk areas sit, and how advisers can respond where clients have undeclared or uncertain income linked to online sales businesses.

The reporting regime in brief

Since 1 January 2024, the UK has implemented OECD-style rules for reporting by platform operators through the Platform Operators (Due Diligence and Reporting Requirements) Regulations 2023. The regime requires in-scope digital platforms to carry out due diligence on sellers and report specified information to HMRC annually. The UK rules link to the Model Reporting Rules for Digital Platforms published by the OECD.

The Model Rules define a digital platform broadly as software (including apps and websites) that connects sellers with customers and where the platform holds, can calculate or can obtain the amount paid to sellers. Examples include online marketplaces, short-term accommodation platforms, food delivery, private hire and freelance marketplaces.

Of course, the underlying UK tax rules themselves have not changed. What has changed is the automatic flow of information from platforms to HMRC, and the likelihood that discrepancies will be spotted earlier and at greater scale.

Similar rules for crypto-asset platforms took effect from 1 January 2026, with the first reports to HMRC due in 2027. The Crypto-Asset Reporting Framework (CARF) involves international revenue authorities (e.g. HMRC) collecting data from resident crypto-asset intermediaries and exchanges that effect transactions for or on behalf of their customers. The data will provide details of the intermediaries' customers (individuals and entities) and their aggregate investments and crypto-asset transactions. The data will then be exchanged between national tax administrations so that each administration will receive data about the crypto-assets of taxpayers who are resident in their country.

If gathering transaction data from online platforms and crypto providers proves to be a profitable exercise for HMRC, one wonders what might come next. The government has announced greater levels of data gathering from merchant acquirers from 2028, reporting card payments between traders and their customers, which would be likely to uncover 'hidden economy' activity, and errors in tax filings, especially in an increasingly cashless society. This payment information is by supplier, not by customer.

What data HMRC is receiving (and why it matters)

Platform operators must collect and verify identification information about sellers. For individuals, HMRC's guidance includes full name, home address, date of birth and National Insurance number (or an overseas tax identification number), and property addresses where relevant. For entities, the requirements include legal name, address, registration identifiers (for example, company registration number), and relevant UK references (for example, partnership UTR or Company Registration Number) depending on the type of entity.

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Key Points

What is the issue?
HMRC is now receiving large volumes of annual data from online platforms and crypto-asset providers, giving it much greater visibility over sellers' income and activity.

What does it mean to me?
Advisers should expect more HMRC nudge letters, compliance checks and enquiries based on data matching. Clients with undeclared or incorrectly reported platform income may have only a limited opportunity to make unprompted disclosures before HMRC intervenes.

What can I take away?
Advisers should update onboarding and annual review procedures to ask specifically about online selling, platform income and crypto-assets, ensure figures are properly reconciled to the UK tax year, and consider early disclosure where historic liabilities may exist.

Reporting is based on the calendar year (1 January to 31 December), with information submitted to HMRC by 31 January following the end of that period. HMRC's seller-facing guidance gives the example that data collected for 2024 is reportable by 31 January 2025.

For advisers, that calendar-year reporting creates a predictable practical issue. Clients will often see, and sometimes share, platform summaries that do not align neatly to the UK tax year (6 April to 5 April). Without careful reconciliation, that mismatch can lead to inaccurate reporting, or to clients assuming HMRC's figures represent taxable profit rather than gross receipts. Advisers should expect more reconciliation queries and more conversations beginning with: 'Why does HMRC think…?'

The legislation also sets reporting triggers for some categories. For sales of goods, details will not be reported where a seller makes fewer than 30 sales in a calendar year and receives less than €2,000 (about £1,700) for those sales. Importantly, these are triggers for platform reporting, not tax thresholds for individual taxpayers.

For crypto-assets, four types of transaction will be reportable under the CARF in 2027:

- an exchange between a crypto-asset and fiat currency;
- exchanges between crypto-assets;
- a transfer of crypto-assets (broadly, a transfer between different crypto-asset users' accounts or addresses); and
- crypto-assets used as payment for goods and/or services exceeding $50,000.

The Freedom of Information picture

A Freedom of Information (FOI) response recently obtained by BDO provides a useful snapshot of how much data HMRC has already received and what it has done with it.

HMRC reported receiving information on 1,466,171 sellers for calendar year 2024 and 3,988,892 sellers for calendar year 2025. It also reported total 'consideration' of £25.5 billion in 2024 and £54.8 billion in 2025. HMRC noted that sellers include a mixture of individuals and entities (companies, partnerships, trusts and charities). This demonstrates a huge increase in both the number of sellers and the value of sales, with both more than doubling in one year.

The FOI response also provided context on digital platform reporting volumes. HMRC said it received 806 reports directly from UK-based platform operators for 2024 and 811 reports for 2025. It also received 13 reports from partner jurisdictions for 2024 (with the overseas deadline for 2025 not yet passed at the time of response).

The 'so what?' for advisers is the timing. As at 23 February 2026, HMRC stated that it had not yet taken compliance or enforcement action using this dataset and had not imposed penalties on platform operators in the categories queried. HMRC's explanation was operational: it was still building systems to automatically extract and analyse the data, and systems were in the final development stages.

That combination of large datasets already received, together with system capability close to delivery, strongly suggests that HMRC compliance and enforcement activity will scale quickly once automated analysis is live. Advisers should plan on the basis that platform reporting will become a routine element of HMRC's risk profiling and enquiry work.

Likely HMRC activity: what advisers should expect

HMRC's Compliance Handbook describes the 'one-to-many' approach as sending a common message designed to influence behaviour, issued directly to customers or via intermediaries such as agents. HMRC notes this is part of its 'promote, prevent, respond' approach and should be proportionate to the risks involved.

In practical terms, platform reporting provides a strong new input for that model. Once automated matching is in place, advisers should expect more instances of:

- prompts to check whether an individual should be registered for Self-Assessment or has included all relevant income streams on filed tax returns;
- nudges triggered by mismatches between platform-reported totals and amounts returned on Self-Assessment or other filings; and
- follow-up checks where HMRC needs evidence to confirm the correct treatment. HMRC notes that if it needs customers to provide additional information, it must open a compliance check under normal procedures.

This means that the window of opportunity for individuals to make unprompted disclosures of unreported income from platforms could be relatively short. With this in mind, when contacting clients for their 2025/26 tax return data, advisers should draw particular attention to the need to declare freelance or ad hoc income earned via online platforms or crypto transactions. If there is something to declare for the last year, or further back, this is something to follow up quickly in order to reduce the overall cost of putting matters right.

Key risk areas

'I'm just selling my own stuff'

HMRC's guidance distinguishes selling personal possessions, often with no income tax arising, from selling goods in a way that looks like trading, and highlights capital gains tax exposure where an item is sold for more than £6,000. HMRC's guidance aimed at 'side hustles' is direct: occasional selling of unwanted items is usually different from buying or making multiple items to sell for profit, which would instead point towards trading.

Of course, the £1,000 trading allowance threshold will exempt many small activities, although it is important to remember that the £1,000 figure is for income before expenses. The platform-reported data is unlikely to be sufficient to make such distinctions, so HMRC nudges could relate to non-trading income and it will be for advisers to verify their clients' facts and intentions.

Services and gig work

The reporting rules explicitly cover services such as food delivery, taxi and private hire, and freelance work, and HMRC's seller guidance includes providing personal services through a platform. Errors in such cases often occur not because of misunderstanding 'trade' but because of basic record-keeping issues: incomplete expense records, multiple platforms, mixed personal and business costs, and weak audit trails.

Property income and short-term letting

Both short-term accommodation and standard residential letting data is being reported. Platform reporting can highlight landlords who have never registered for Self Assessment, or whose reported property income does not reflect generated platform receipts.

Cross-border aspects

As HMRC has already received reports from partner jurisdictions, advisers should be alert to residency and overseas activity issues where a client uses a non-UK platform, travels to provide services, or rents overseas property. Even if the client has declared income overseas, if they are UK resident the reporting position and any relevant double taxation agreements still need to be reviewed.

How advisers can respond

Educate your clients

As always, the best response is to ask clients the right questions early. Even your best clients may not think of platform activity as 'business income', particularly where it is part-time or irregular. Therefore, adding a short 'platform income and cryptos' section in onboarding and annual checklists can help to surface issues early: which platforms were used, what activity took place (goods, services, property), and whether the client received a platform annual summary.

HMRC's guidance materials are a useful reference point for clients because they reflect HMRC's own categorisation of activity. HMRC has also tried to address common misunderstandings in the press and public commentary; for example, a loft or garage sale is unlikely to be taxable income, unlike a trading business. Highlighting HMRC's Guidelines for Compliance 13 (GFC 13) also reminds clients and agents of the importance of providing accurate and complete information on their tax returns. HMRC's YouTube videos 'Online sellers: understanding the reporting rules' and 'Online sellers: do you need to pay tax?' may also be useful resources.

For clients who receive a nudge letter, HMRC's one-to-many guidance can help to frame client conversations. Such letters are intended as a tool to influence behaviour, not an automatic allegation of wrongdoing. Explaining that HMRC may simply be prompting them to check their position, and that a clear, well-supported response is usually the best way to resolve uncertainty, can help to manage expectations.

Disclosures

The FOI response from HMRC suggests that mass data mining and matching is nearing completion. In that environment, bringing historic positions up to date sooner is likely to be easier than doing so once HMRC starts investigating based on matched data. HMRC will also typically apply lower penalty percentages to voluntary disclosures; i.e. where the taxpayer approaches HMRC first without any indication that HMRC is aware, or is about to become aware, of inaccuracies.

It seems unlikely that HMRC will create a specific disclosure opportunity to support this platform data campaign. It already maintains the Let Property Campaign, the Crypto-asset Disclosure Service and the Digital Disclosure Service. However, it is always important to consider the individual's specific circumstances before choosing the most appropriate disclosure route. For example, the Contractual Disclosure Facility (COP9) may be necessary where they deliberately concealed platform earnings in serious cases, or the Worldwide Disclosure Facility (WDF) where cases involve offshore income, gains or entities.

Prompt action to quantify the position (income, expenses and profit), identify the correct reporting route (amendment, late return or a suitable disclosure route), and make a clear record of why any inaccuracies arose are all essential.

Conclusion

The reporting rules are designed to give HMRC visibility over platform income comparable to more traditional business channels, including through international information exchange. The FOI response shows HMRC already holds datasets covering millions of sellers and tens of billions of pounds in reported consideration. If HMRC is as close to having automated systems to extract and analyse that information at scale as it says, advisers should prepare now for follow-up activity involving taxpayers with platform income, and the scale of the campaign may dwarf past enforcement activity.

Where a taxpayer has undisclosed historic liabilities, these must be disclosed to HMRC. The most appropriate disclosure route will depend on the taxpayer's specific circumstances and specialist tax advice is recommended. It is advantageous for taxpayers to approach HMRC without delay in order to commence the disclosure process.

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The Capital Goods Scheme
Long-term VAT recovery

The Capital Goods Scheme adjusts VAT recovery over time, creating long-term risks, particularly on property and disposals, requiring careful planning.

by Greg McNally, VITA

In 'Demystifying partial exemption: getting VAT recovery right' (March 2026, Tax Adviser), we explored the fundamentals of partial exemption – the process of determining how much VAT a business can recover when it has both taxable and exempt income. This involves an annual calculation to apportion input tax fairly over a year. However, for high-value assets with a long economic life, an annual snapshot is not enough. This is where the Capital Goods Scheme comes into play, introducing a significant, long-term complication to the VAT recovery puzzle.

The Capital Goods Scheme extends the principles of partial exemption over several years. It is a mechanism designed by HMRC to adjust the amount of VAT initially recovered on expensive assets to reflect changes in their use over time. Getting this wrong can lead to unexpected and substantial VAT bills, sometimes years after the asset was purchased.

What is the Capital Goods Scheme?

The Capital Goods Scheme provides a way to achieve a fair and reasonable attribution of VAT on major capital expenditures over the long term. It ensures that the amount of VAT recovered accurately reflects the balance between taxable and exempt use throughout the asset's life in the business.

The scheme requires a business to monitor the use of a 'capital item' and make adjustments to the initial VAT recovery. These adjustments can result in either a further reclaim of VAT from HMRC or, more commonly, a clawback of VAT that was previously recovered.

Which assets are covered?

The Capital Goods Scheme does not apply to all purchases; it is reserved for high-value assets defined as 'capital items'. Under the current rules, the main categories and their thresholds (exclusive of VAT) are:

- Land and property: An interest in land, a building or a civil engineering work where VAT-bearing capital expenditure is £250,000 or more.
- Computers and computer equipment: A single computer or item of computer equipment with a value of £50,000 or more.
- An aircraft, ship or boat where capital expenditure is £50,000 or more.

The scheme does not apply to assets acquired solely for resale or for non-business purposes.

Future changes

As part of the Spring 2025 Tax Update, the government announced significant simplifications to the Capital Goods Scheme, acknowledging that the longstanding £250,000 property threshold was overdue for an increase. The announced changes are:

- The capital expenditure threshold for land, buildings and civil engineering works will be increased from £250,000 to £600,000.
- Computers and computer equipment will be removed from the scheme entirely.

These changes are intended to reduce the administrative burden on businesses by significantly decreasing the number of assets that fall within the scheme. However, the government has only committed to making these changes 'within this Parliament', with further details to be published later. This lack of a firm implementation date or transitional rules creates uncertainty, particularly for businesses with property assets valued between £250,000 and £600,000 which are currently part-way through their Capital Goods Scheme adjustment period. I would, however, expect grandfathering rules to be introduced, and there are rumours of an update this Spring.

Key Points

What is the issue?
The Capital Goods Scheme adjusts VAT recovery on high-value assets over time, meaning changes in use (particularly between taxable and exempt activities) can trigger additional VAT reclaims or significant clawbacks, sometimes years after acquisition.

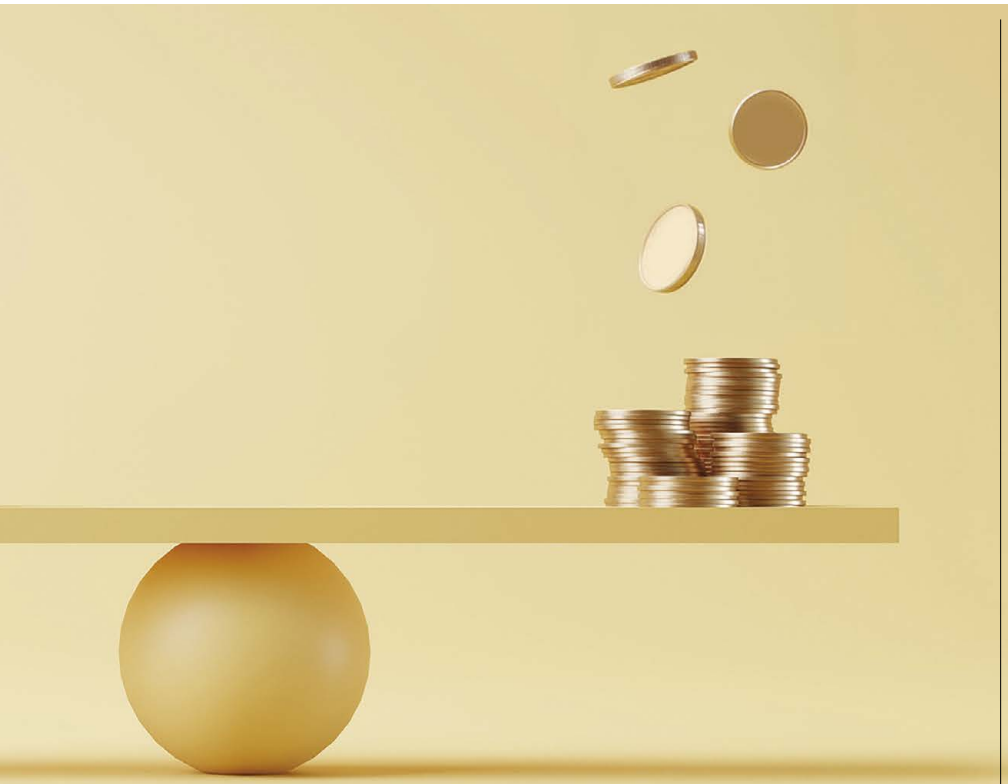
What does it mean to me?
Even fully taxable businesses can face unexpected VAT liabilities, especially on property transactions or disposals, creating hidden risks or opportunities.

What can I take away?
The Capital Goods Scheme requires long-term planning and careful monitoring of asset use. Key risks can often be managed through use of the option to tax and thorough due diligence on transactions.

The mechanics of adjustment

The Capital Goods Scheme works by establishing a 'baseline' for VAT recovery in the year that an asset is acquired, and then comparing this to its actual use in subsequent years.

The adjustment period: The use of a capital item is monitored over a set 'adjustment period' – typically ten



As part of the Spring 2025 Tax Update, the government announced significant simplifications to the Capital Goods Scheme.

years for land and property and five years for all other capital items.

Intervals: The adjustment period is divided into 'intervals'. The first interval covers the first use of the asset until the day before the start of the business's next tax year. Subsequent intervals align with the business's tax years.

Initial recovery: In the first interval, a business recovers VAT based on the extent to which it expects to use the asset for making taxable supplies. For a fully taxable business, this is 100%. For a partially exempt business, this is determined by its partial exemption method. This initial recovery percentage becomes the baseline for all future adjustments.

Subsequent adjustments: For each subsequent interval, the business calculates the percentage of taxable use for that year. It then compares this to the baseline recovery percentage. The adjustment is calculated using the following formula:

(Total VAT on the capital item ÷ Number of intervals) × (Taxable use % for the interval – Baseline recovery %)

If the result is positive, the business can reclaim more VAT. If it is negative, the business must repay VAT to HMRC.

Case Study 1: The partially exempt property investor

Let's consider a partially exempt business, DevCo Ltd, which buys a commercial property for £1 million plus £200,000 in VAT.

Initial recovery: In the year of purchase, DevCo's partial exemption recovery rate is 70%. It therefore recovers £140,000 of the VAT (£200,000 x 70%). This 70% is its baseline recovery.

Adjustment period: As this is a property, the adjustment period is 10 years. The VAT subject to annual adjustment is £200,000 ÷ 10 = £20,000.

Interval 3: Two years later, DevCo's business model changes, and its taxable use of the property increases. Its partial exemption recovery rate for that year is 90%. The adjustment amounts to:

£20,000 x (90% – 70%) = **£4,000**

DevCo can reclaim an additional £4,000 from HMRC.

Interval 5: Four years later, DevCo loses a major tenant and its taxable use drops. Its recovery rate for that year is only 40%. The adjustment amounts to:

£20,000 x (40% – 70%) = **(£6,000)**

DevCo must repay £6,000 to HMRC.

This demonstrates how the Capital Goods Scheme ensures that the total VAT recovered over the 10-year period accurately reflects the asset's journey through taxable and exempt use.

Case Study 2: The fully taxable business

The Capital Goods Scheme is not just a concern for partially exempt businesses. A business that is fully taxable can be a trap for the unwary, as the following example illustrates.

TradeCo Ltd is a fully taxable manufacturing business.

- **Year 1:** TradeCo buys a warehouse for £1 million plus £200,000 in VAT. As it uses the warehouse entirely for its taxable trade, it recovers the £200,000 of VAT in full. The Capital Goods Scheme adjustment period of 10 years begins.
- **Year 5:** Having outgrown the premises, TradeCo buys a new, larger warehouse for £2 million plus £400,000 in VAT, again recovering the VAT in full. It puts the original warehouse up for sale.
- **The sale:** The lawyers handling the sale ask if TradeCo has 'opted to tax' the original warehouse. It has not. The default VAT treatment for a commercial property sale is exempt from VAT. Without careful diligence, the sale proceeds are an exempt supply.

The consequence: The sale of the warehouse is the final use of the asset by TradeCo. Because the sale is an exempt supply, the Capital Goods Scheme treats the use of the asset for the remainder of the 10-year adjustment period as fully exempt.

The clawback: The sale of the warehouse occurred in Year 5, halfway through the 10-year period. This means that the use for the remaining five full intervals (Years 6, 7, 8, 9, and 10) is now deemed to be fully exempt, whereas the initial recovery was 100%.

The VAT per interval is £20,000 (£200,000 ÷ 10). With five remaining full intervals, this results in a total

repayment of **£100,000** simply because TradeCo made an exempt supply.

The solution: This outcome could be avoided. If TradeCo takes action before the sale to make the supply taxable, no Capital Goods Scheme clawback would have been triggered. This is achieved through an 'option to tax'.

Transfer of a going concern

The long-term nature of the Capital Goods Scheme creates a critical due diligence point when a business is bought or sold as a transfer of a going concern (TOGC). A TOGC is not a supply for VAT purposes, but the Capital Goods Scheme obligations attached to any capital items within the transfer pass to the new owner.

Under the regulations, the buyer is treated as having done everything the seller has done in respect of the capital item. The buyer inherits the Capital Goods Scheme history and must continue making adjustments for all remaining intervals in the adjustment period. This can lead to two outcomes for the buyer:

1. **An unexpected liability:** If the buyer uses the asset for more exempt purposes than the seller did, they may be required to repay VAT that the original seller recovered.
2. **A potential windfall:** If the buyer uses the asset for more taxable purposes, they may be entitled to recover additional VAT that the seller was unable to claim.

> **The nature of the Capital Goods Scheme creates a critical due diligence point when a business is bought or sold as a TOGC.**

It is therefore essential for any buyer in a TOGC transaction to confirm whether any assets are subject to the Capital Goods Scheme and to obtain a full history from the seller to understand any future VAT risks or opportunities. This is also a requirement of TOGCs, although I have significant personal experience of dealing with oversights in this area, so it is clear that this is something that requires greater awareness.

Thinking ahead

The Capital Goods Scheme is a critical and complex piece of the VAT landscape. It demonstrates that decisions made today can have financial repercussions for up to a decade. As our second case study shows, a single transaction, such as the sale of a property, can trigger a significant VAT liability if not managed correctly. Furthermore, the transfer of a business can carry hidden Capital Goods Scheme liabilities.

This brings us to a vital strategic tool in the world of property VAT: the option to tax. By exercising an option to tax, a business can turn an exempt supply into a taxable one, protecting its VAT recovery position and navigating the long-term hazards of the Capital Goods Scheme.

We will therefore demystify the option to tax in my next article, explaining what it is, how to exercise it, and how it serves as the key to addressing many of the challenges raised by both partial exemption and the Capital Goods Scheme.

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Supporting the vulnerable and those with complex needs

The role of HMRC and tax advisers

HMRC's Extra Support Team can help people with 'drivers of need' to understand their tax obligations, reduce stress and anxiety, and resolve complex or ongoing issues.

by Jason Kapranos and Meredith McCammond

Key Points

What is the issue?
Some taxpayers cannot engage effectively with HMRC due to vulnerability or complex personal circumstances and may need tailored support beyond standard services.

What does it mean to me?
HMRC's Extra Support Team (EST) can provide practical, one-to-one support to taxpayers that you cannot substantively support. You may need to encourage them to explain their circumstances to ensure they are referred appropriately.

What can I take away?
Signpost suitable taxpayers to the EST where needed, and remember that low-income taxpayers may also be able to access support from TaxAid, which can in turn liaise with a specialist EST subgroup — the Voluntary Sector Taxes Resolution Service (VSTRS).

Do any of these scenarios sound familiar?

- A friend asks you for help accessing her mum's State Pension forecast because she cannot get into her Personal Tax Account (PTA).
- A longstanding client tells you their son has messy compliance issues dating back to a spontaneous limited company registration.
- You are engaged by a trust or estate but receive an unexpected call from a beneficiary about the tax consequences of a distribution.

These scenarios are not uncommon. Most tax advisers will, at some point in their careers, be asked to help a friend or relative, or a person with a tax problem outside their immediate area of authorisation, or who cannot afford to pay for their services.

Helping in these circumstances is often straightforward. You may only need to provide reassurance that all is well or point the person towards appropriate guidance. In this respect, the LITRG website or HMRC's new Tax Confident website could be useful starting points.

However, what if the person seeking assistance cannot deal with the matter independently, needs ongoing one-to-one support, or the situation is more complicated than simple signposting alone can address?

In such cases, do not overlook HMRC. With an increasing emphasis on customer service, many straightforward issues can be resolved quickly and pragmatically through its helpline or webchat services. Inevitably, though, there will always be cases where this is not sufficient – and this is where the Extra Support Team (EST) may play a key role.

In line with the HMRC Charter, HMRC is committed to supporting taxpayers who may need extra help, including those within protected equality groups. The EST exists for taxpayers who may be vulnerable or who need additional support. Its team members are specially trained and are given more time to listen, consider tax issues holistically and, where possible, provide continuity by enabling taxpayers to speak with the same team member each time. Face-to-face appointments can also be arranged, either in community settings or in the taxpayer's home.

How the EST can help

The EST can provide help across most tax issues. It can be particularly helpful on income tax matters, including Self Assessment and tax debts, and aims to make it easier for people to meet their obligations and get back on track, where needed. See the box on the right **Case study: economic abuse**.

Further information about the remit of the EST and the types of routine work it undertakes can be found on the LITRG website at: tinyurl.com/4j8mhx4h.

How to contact the EST

Taxpayers may be referred to the EST by charities or community groups. However, taxpayers can also access the service via the standard HMRC helplines, where frontline advisers will decide – based on their interaction with the taxpayer – whether it is appropriate to transfer the case to the EST.

HMRC advisers should be sufficiently skilled and experienced to recognise when a taxpayer may need extra support, even if the taxpayer does not explicitly say so. Signs might include difficulty explaining their situation, repeated contact with HMRC or evidence of distress or confusion – any of which should be enough to trigger a referral. In other cases, the taxpayer may need to volunteer information themselves that indicates they need the EST, such as physical or mental health issues.

CASE STUDY: ECONOMIC ABUSE

Zita is a stay-at-home mother with no income. She is made a shareholder in her husband Pete's new company without her knowledge. Dividends are declared in her name to use her personal allowance and lower tax bands. However, the money is paid into an account that she cannot access or control. Pete initially files her tax returns and pays the tax, so Zita remains unaware of the arrangement.

After the relationship breaks down, Pete stops paying Zita's tax liabilities. Once Zita updates her address with HMRC, she begins receiving letters about unpaid tax on dividend income she never received, as well as a late tax return and penalties.

Although cases involving economic abuse can be complex, HMRC's Extra Support Team can coordinate support across the issues involved. This may include investigating who actually benefited from the income in practice, amending returns filed without the taxpayer's knowledge, cancelling returns or penalties where appropriate, helping taxpayers regain access to their Personal Tax Account and online records, and sharing information held by HMRC where relevant details have been withheld or correspondence intercepted by the abuser.

Importantly, HMRC can place a note on the taxpayer's record explaining that they are in an abusive situation. This means they should not have to repeat sensitive details. HMRC can also take steps to communicate safely, for example by using alternative addresses or online messaging, helping to reduce the risk of confrontation with the other party.

THOUGHTS FROM HMRC...

The positive impact of the Extra Support Team – in improving compliance, enhancing the efficiency of case handling and strengthening trust in HMRC – is recognised and supported at the highest levels of this organisation.

As demand continues to grow, the EST demonstrates the powerful impact of working together across HMRC to ensure that no taxpayer is left behind when engaging with the tax system.

This unequivocal commitment to customers who need extra help sits at the heart of HMRC's Transformation Roadmap to build a simpler, more inclusive system that works for everyone. Alongside improving digital services, we are strengthening end-to-end support across compliance and debt management. This is underpinned by investment in our adviser-led services, early identification of support needs, and close partnership with the Voluntary and Community Sector – whose insight and lived experience continue to shape how HMRC designs and delivers support for those we cannot reach alone.

Good to know

Recognising that telephone contact is not always easy for everyone, the EST also offers a webchat facility for direct support in most of the tax areas it covers (although this service is not available for agents). HMRC also scans post for key words that may indicate a taxpayer would benefit from the EST, helping to ensure that no one misses out on the support they need.

HMRC's official 'drivers for need'

HMRC uses a wide range of indicators – referred to as 'drivers for need' – in order to identify taxpayers who may require additional support from the EST. There is no income threshold for accessing the EST and, even where a taxpayer has an agent, they can still be referred.

- **Access:** This could be anything that affects or restricts an individual's access to HMRC, so they are unable to do what is needed to meet their tax or benefit obligations. This may include illness, disability, an impairment or limited access to digital services.
- **Mental or emotional state:** A person may be experiencing a mental health crisis, and feel as if they are no longer able to cope with or manage their affairs. A crisis can occur as part of ongoing mental health conditions or stressful life events such as bereavement, employment changes or financial difficulties.
- **Capability:** A person may not have the ability to understand what is required of them or be overly anxious

about making mistakes. They may be unable to complete processes online and need to move to a phone service. They may also have affairs that have become too complicated for them to deal with alone.
- **Abuse or safeguarding concerns:** A person may need specialist help and support in dealing with HMRC where they are experiencing abuse. This may include domestic abuse (including economic abuse), modern slavery or self-neglect. HMRC staff may also identify wider safeguarding concerns.

EST demand

Recent HMRC data highlights the scale of demand for the EST service:
- 2024/25 activity included telephony (48,379 calls), webchat (35,381 chats), post (15,285 items), virtual appointments via Teams (around 2,000) and face-to-face meetings (1,272).
- Around 60,000 items were converted into accessible formats for visually impaired customers.
- The team comprises 135 staff members across 17 locations, who are trained in all areas of tax and HMRC-administered benefits.

Demand for the EST is significant and is likely to continue to grow. This reflects both the increasing complexity of our personal tax affairs and the need for more tailored support. Contributory factors such as an ageing population, rising levels of self-employment and the ongoing rollout of Making Tax Digital underline the importance of accessible and flexible support for taxpayers.

It is vital that HMRC's EST remains responsive and equipped to deal with a wide range of needs, including those linked to the cost-of-living crisis. This can obviously exacerbate hardship but has also been linked to a rise in economic abuse.

LITRG, with helpful input from EST, has written a separate article about tax-related economic abuse, aimed at helping taxpayers to access essential guidance and support (see tinyurl.com/ymy4pscv). An abridged case study from that article is included in the box above.

You can read more about the EST on the GOV.UK page (see tinyurl.com/munzfwsv) and in their Corporate Report 'Principles of support for customers who need extra help' (see tinyurl.com/mukfb4ye).

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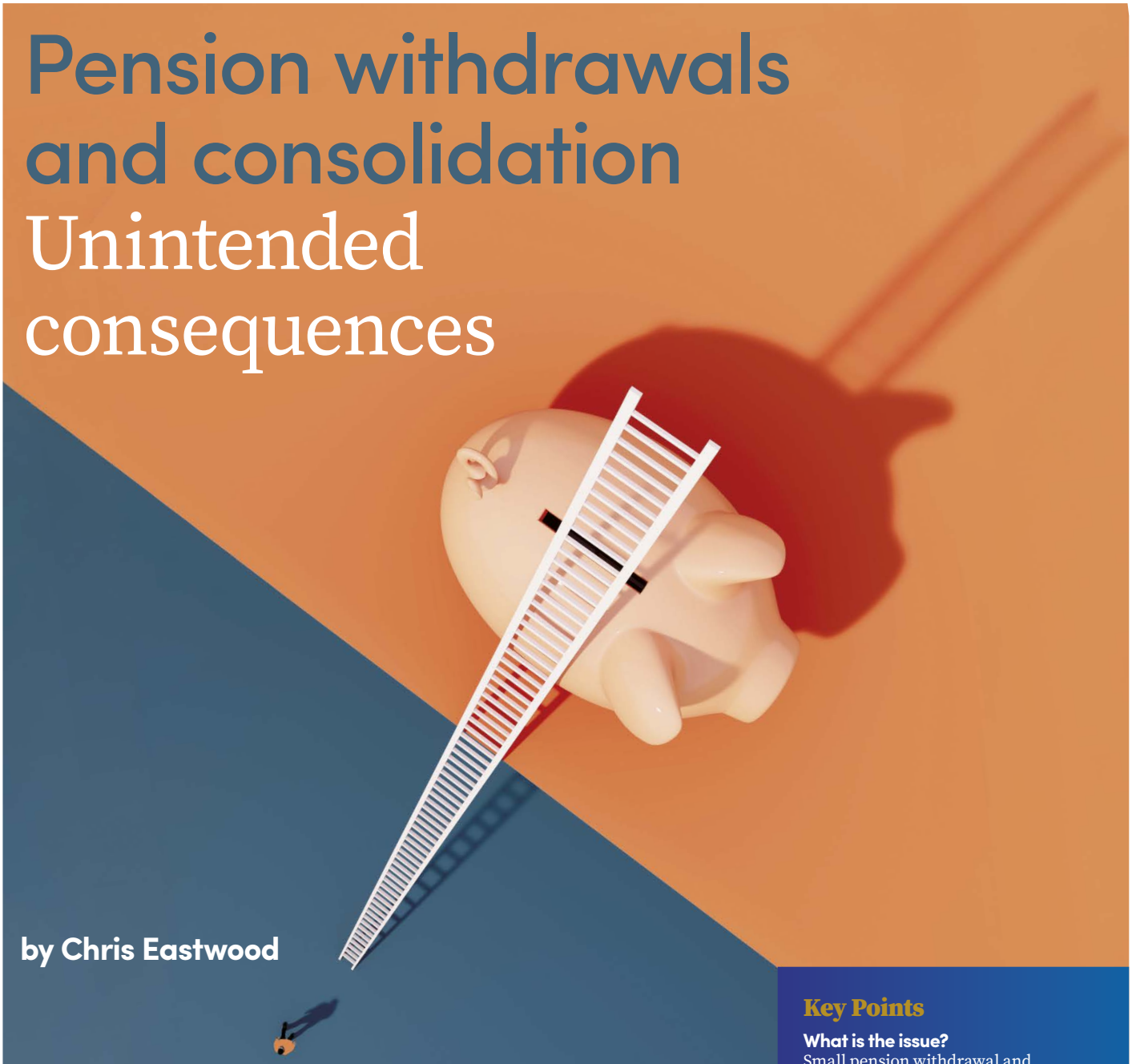
Pension withdrawals and consolidation

Unintended consequences



by Chris Eastwood

Poorly timed pension withdrawals and consolidation decisions can trigger avoidable tax charges, lost protections and long-term retirement planning problems.

The UK pensions system is designed to reward long-term saving. However, in practice, the transition from accumulation to decumulation is rarely a smooth path. The precise moment at which savers begin to access their pension, or attempt to consolidate multiple pots, is often where complexity and unintended tax consequences start to creep in. For modern financial advisers, the challenge is no longer just about helping clients to build pension wealth. It is now about navigating the mechanics of how that wealth is accessed, while avoiding a series of well-hidden trapdoors along the way.

At the same time, the industry is under growing scrutiny for 'sludge tactics': intentional friction, administrative delays and opaque processes that make it harder for savers to move or manage their money. When these operational barriers combine

Key Points

What is the issue?
Small pension withdrawal and consolidation decisions can trigger major and often irreversible tax consequences, including restrictions on future contributions, emergency PAYE overpayments and the loss of valuable legacy benefits.

What does it mean to me?
Advisers need to focus not just on pension strategy, but also on timing, administration and provider processes, as poor execution can materially damage retirement outcomes.

What can I take away?
Pension access should be treated as a long-term tax planning exercise. Careful sequencing of withdrawals, detailed checks before consolidation and up-to-date death benefit nominations are essential.

with already complex tax rules, they create an environment where poor outcomes become more likely, even where good advice has been given. The margin for error at the point of access is significantly smaller than many expect.

What follows is a practical look at how pension benefits are taxed in reality, where advisers should pay particular attention, and the common pitfalls that can derail otherwise sensible planning. By understanding the details hidden in the fine print, advisers can guide individuals on exactly how and when to act.

Withdrawal strategy: lasting consequences

One of the most persistent and dangerous myths in financial planning is that accessing pension wealth is a simple, straightforward process. In reality, how and when withdrawals are taken can materially affect a client's long-term tax position. This is an area where small, seemingly innocuous decisions have lasting and potentially painful consequences.

Perhaps the best known, yet still frequently triggered, issue is the money purchase annual allowance (MPAA). Under current rules, once the MPAA is activated, the annual allowance for defined contribution pensions plummets from £60,000 to just £10,000. Unlike the standard annual allowance, there is no carry forward of unused capacity available once the MPAA applies.

Crucially, the MPAA is only triggered by specific types of pension access. These include taking income through flexi-access drawdown or receiving uncrystallised funds pension lump sums (UFPLS). Other forms of access do not trigger it. A common scenario involves an individual taking what they might perceive to be a modest lump sum to cover a temporary expense. The individual views this as a low-impact decision, unaware that it triggers the MPAA and permanently restricts their ability to rebuild their retirement fund.

This can be particularly damaging for higher earners or individuals with fluctuating incomes who may need to make significant contributions later in life to bridge savings gaps. Even if they return to work or experience a significant boost in earnings, the opportunity for high-level pension saving has effectively been lost. For advisers, the first withdrawal decision is often the most important one. In many respects, it should be treated as irreversible.

PAYE distortions: the 'emergency tax' problem

Beyond the complex technical rules of pension legislation, the operational reality of Pay As You Earn (PAYE) often creates a difficult first experience for retirees. One of the most significant friction points in the decumulation phase is the emergency tax problem, which arises when a provider processes an individual's first withdrawal.

In the absence of a verified tax code from HMRC, pension providers are generally required to apply an emergency code on a 'Month 1' basis. This assumes that a one-off lump sum is in fact a recurring monthly payment. For example, if a client withdraws £20,000 as a one-off lump sum, the PAYE system may treat them as though they have a gross annual salary of £240,000. This projection pushes the client into the highest tax brackets virtually overnight, resulting in a substantial over-deduction of tax before the money ever reaches their bank account.

> **This is an area where small, seemingly innocuous decisions have lasting and potentially painful consequences.**

Although these funds can eventually be reclaimed using forms such as the P55 (for partial withdrawals) or P53Z (for full withdrawals), the process often introduces several layers of 'sludge' through administrative burdens, repayment delays and emotional stress. Repayments can take weeks or even months, creating cash-flow issues for individuals who may feel they have unfairly lost money to the state. This can in turn lead to frustration that can strain the adviser-client relationship.

For advisers, managing expectations early is essential. Many now recommend taking a very small initial withdrawal to trigger the issuance of the correct tax code before the individual accesses the larger sums they actually need.

Consolidation risks: unintended loss of benefits

Pension consolidation is often promoted as a vital simplification exercise. In many cases, this is entirely justified. Centralising assets onto a single modern platform can reduce fees, improve digital visibility, and streamline the decumulation process. However, ease of administration should not obscure the fact that not all pension pots are created equal.

The most significant risk in consolidation is the permanent loss of protected tax-free cash. While the standard pension commencement lump sum is typically capped at 25%, many legacy pensions, particularly those established in the 1980s or 1990s, carry entitlements significantly higher than this benchmark.

For example, an individual may consolidate several small pots into a single modern scheme for convenience, yet might inadvertently surrender a 30% tax-free cash entitlement attached to an older policy. Once the transfer is complete, this specific protection is usually lost permanently, representing a direct and irreversible loss of net wealth.

Tax-free cash is only one piece of the puzzle. Other features frequently at risk during consolidation include:

- Guaranteed annuity rates (GARs): Older policies often include contractual rights to purchase an annuity at rates far superior to those available on the open market today.
- Defined benefit entitlements: Where transfers out of a defined benefit scheme are considered, the security and inflation protection of a guaranteed income are traded for the risks of the open market.
- Scheme-specific protections: Some legacy arrangements offer unique lump sum protections or retirement ages that do not exist in modern schemes.

For advisers, administrative simplicity should never come at the expense of intrinsic value. A rigorous analysis of the underlying rules of the legacy scheme is essential before any transfer takes place. In an environment where 'sludge tactics' by some pension platforms can already make moving funds difficult, ensuring the destination is genuinely superior to the origin is a key part of the adviser's duty of care.

Timing withdrawals: income tax bands

The timing of withdrawals is another area where relatively small adjustments can produce disproportionately outsized effects – and perhaps is one of the most significant levers available to advisers. Pension income, beyond tax-free cash, is treated as earned income, and does not exist in a vacuum. Instead, it aggregates with all other taxable income streams, such as salaries, rental income and dividends.

One critical threshold is the £100,000 personal allowance taper. For every £2 of income earned above £100,000, £1 of the personal allowance is withdrawn. An individual who takes a large pension withdrawal that pushes their adjusted net income into the £100,000 to £125,140 range faces an effective tax rate of 60% on that slice of income. This is a common pitfall for high earners or business owners who

may receive a final bonus or dividend in the same year they begin taking pension income.

Many individuals instinctively favour taking a large lump sum to clear a mortgage or fund a lifestyle change upon retirement. However, taking substantial withdrawals in a single tax year can push them from the basic rate into the higher or additional rate bands.

For example, a business owner winding down their company may take a significant dividend alongside a large pension withdrawal in the same tax year. The resulting tax leakage can be considerable. Spreading withdrawals across multiple tax years, or using tax-free cash more strategically, may allow the client to maximise their use of lower tax bands.

Pension decumulation is therefore not a one-off event but a multi-year strategy that advisers must synchronise with the individual's broader tax profile in order to avoid unnecessary erosion of their retirement fund.

Death benefits: structure matters

Pensions have evolved into one of the most tax-efficient vehicles for intergenerational planning, often serving as highly effective protection from inheritance tax. As pension assets typically sit outside an individual's legal estate, they are not usually subject to the standard 40% inheritance tax charge. This will change from 6 April 2027, when pension pots (mainly defined contribution pensions) become liable to inheritance tax, subject to the usual inheritance tax reliefs, such as the spouse exemption and the £325,000 nil rate band.

One critical factor in pension succession is whether the member dies before or after age 75. If death occurs before age 75, beneficiaries can generally inherit the funds free of income tax, whether crystallised or uncrystallised, provided the funds are designated within two years. However, they remain subject to the lump sum and death benefit allowance (LSDBA), where any excess lump sum paid may be taxed at the beneficiary's marginal income tax rate.

If the member dies after 75, withdrawals by beneficiaries are taxed at their marginal income tax rates. For older individuals, it may therefore be more tax efficient for beneficiaries to take inheritance through inherited drawdown arrangements, allowing withdrawals to be spread across multiple tax years, rather than taking a single large highly taxed lump sum.

The combination of inheritance tax and income tax could result in effective tax rates on the pension value of 52% to 67%, depending on the beneficiary's income tax band.

> **Pension decumulation is not a one-off event but a multi-year strategy that advisers must synchronise with the individual's broader tax profile.**

One of the most common oversights is failing to maintain an up-to-date expression of wishes form. Pension trustees usually retain discretion over the payment of death benefits in order to ensure the funds remain outside the estate for inheritance tax purposes. Outdated or incomplete nominations can lead to disputes, delays and emotional distress for families, while potentially increasing the risk of the pension assets being drawn back into the taxable estate if trustee discretion is challenged.

Advisers should therefore verify nominations as part of any comprehensive pension review. In doing so, they act as the legal bridge to ensure that wealth passes to the intended recipients efficiently and tax effectively.

The bigger picture

Although the tax rules themselves are complex, the challenge is compounded by inconsistent processes across providers. As highlighted in the wider debate around sludge tactics, delays, manual processes and poor transfer experiences can actively undermine otherwise effective financial planning.

These barriers can range from antiquated manual processes and 'wet signature' requirements to inconsistent transfer protocols that vary wildly between providers. Delays in pension transfers or withdrawal requests are not merely administrative inconveniences. They can bring significant financial risk. A provider that takes weeks to process a 'taxed-at-source' payment may inadvertently push income into a different tax year, or cause the individual to miss a market window, potentially altering both tax liabilities and retirement outcomes.

For advisers, this creates a dual challenge. Success requires more than understanding the technical tax landscape. Advisers must also anticipate provider-side bottlenecks as part of the planning process. In an era shaped by consumer duty obligations, managing these operational barriers is just as important as delivering technically correct advice. Ensuring that timing and execution align with the underlying tax strategy is where much of the adviser's true value now lies.

In conclusion

Pensions remain one of the most powerful financial planning tools available, yet their effectiveness should never be taken for granted. The margin for error at the point of access is smaller than many individuals, and even some advisers, might expect.

The key risks are rarely dramatic or obvious. More often, they are the result of micro-decisions that carry macro-consequences: a small, early withdrawal triggering a permanent MPAA restriction, a consolidation decision made without full visibility of legacy protections, or an administrative delay that pushes a taxable payment into a higher-rate tax year.

The opportunity for tax advisers in this landscape is clear. The role has evolved from wealth accumulation into one of strategic navigation. Value lies not only in advising individuals on what to do, but also on how and when to do it, with a full understanding of the tax and operational implications. When it comes to pensions and retirement, the difference between a good outcome and a poor one is almost always hidden in the fine print.

MORE ONLINE
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Pensions and inheritance tax
Changes from April 2027 will alter the role of pensions in estate planning
tinyurl.com/ykrnp9a6

Pension death benefits
How the value of unused funds will form part of the taxable estate
tinyurl.com/2a6pb63h

Preserving heritage
Inheritance tax relief caps can threaten estate continuity
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Property commencement rules A case for an earlier start

UK property businesses may commence earlier than currently recognised under the property commencement rules, allowing earlier claims for deductions and reliefs in certain circumstances.

by David Westgate

Key Points

What is the issue?
HMRC generally treats a UK property business as commencing only when rental income is first received, which delays the point at which a company is recognised as carrying on that business for corporation tax purposes.

What does it mean for me?
This affects when deductions and reliefs, such as capital allowances and land remediation relief, can be claimed, potentially deferring tax relief on significant upfront development expenditure and affecting the timing of payments and after-tax cash flow.

What can I take away?
There is a strong statutory argument that a property business can commence earlier, once activities are sufficiently organised and directed towards generating rental income, meaning HMRC's approach may be open to challenge in appropriate cases.

This article examines HMRC's interpretation of when a UK property business commences and considers whether the statutory framework supports an alternative analysis. It focuses in particular on cases where the company is a special purpose vehicle within an established property investment or real estate investment trust (REIT) group.

The timing of commencement has important implications for the availability of certain reliefs and allowances, and for the amount of expenditure allowable in computing UK property business profits.

It is argued that, on a proper construction of the legislation, a UK property business may commence at an earlier stage than suggested by HMRC guidance, where a company has embarked on a commercially organised course of conduct directed towards the exploitation of land as a source of income.

Corporation tax commencement rules

To determine when a UK property business commences, we must first identify when a company comes within the charge to corporation tax. A company may do so either by having a source of income or by beginning to carry on a business, which in turn triggers the commencement of an accounting period for corporation tax purposes under Corporation Tax Act (CTA) 2009 s 9(1).

Under CTA 2009 s 9(2), a UK resident company comes within the charge to corporation tax when it starts to carry on business, if it would not otherwise be within the charge. Under CTA 2009 s 9(1), an accounting period begins when the company comes within that charge. One of the principal triggers is therefore when the company begins to carry on a business, even if it has not yet acquired a source of income.

Accordingly, a company may come within the charge to corporation tax before any income is arising, provided its activities have reached the point at which it can properly be said to be carrying on a business.

This position is reflected in both HMRC guidance and case law. A company may be within the charge to corporation tax where it is carrying on a business even though no income has yet arisen (see HMRC's Company Taxation Manual CTM01410 and *Walker v Centaur Clothes Group Ltd* [2000] STC 324).

The meaning of 'carrying on a business'

As there is no statutory definition of 'business', the term must be given its ordinary meaning. It is necessary to rely on judicial authority and on HMRC guidance for their view, both of which establish that 'business' is a broader concept than 'trade'. Whether a business exists is determined by the nature and scale of the activity, such that a business may commence before a trade begins.

The breadth of the concept is illustrated in the case of *American Leaf Blending Co v DGIR* [1979] AC 676, where it was observed that, in the case of a company incorporated for the purpose of making profits for its shareholders, any gainful use to which it puts any of its assets will prima facie amount to the carrying on of a business.

In *Ramsey v HMRC* [2013] UKUT 26 (TCC), the Upper Tribunal emphasised that

LIFECYCLE OF A PROPERTY BUSINESS

1. A new special purpose vehicle (UK incorporated and UK resident) is established and directors are appointed. The special purpose vehicle is typically a wholly owned subsidiary of an established property investment group, and its objectives are to make property investments.
2. The special purpose vehicle is usually funded by a mixture of third party and/or intra-group debt.
3. Group employees provide services to the new special purpose vehicle, including development management, asset management and leasing support. The employee costs are recharged on arm's length terms.
4. The special purpose vehicle acquires an interest in UK land, either from a third party or from another group company. A development scheme for commercial letting is formulated.
5. Development activity commences, including construction and associated project work.
6. During the development phase, active steps are taken to identify and engage prospective tenants, including marketing and preliminary negotiations.
7. A tenant may be identified and an agreement for lease entered into. In some cases, an agreement may be entered into at a much earlier stage, potentially before development work has commenced. In such cases, the tenant may play a role in the design and specification of the building.
8. Practical completion of the development is achieved.
9. The property is first let and rental income begins to be generated.

Under HMRC's view, commencement occurs at step 9, when the property is first let and income generated. Under the alternative interpretation outlined above, commencement may occur at an earlier stage, potentially from step 4 onwards, once the company has acquired an interest in land and embarked on an organised and commercially directed course of conduct aimed at exploiting that land as a source of income.

the question is one of fact and degree, to be assessed by reference to whether the activities display a sufficient degree of organisation, continuity and extent.

HMRC guidance adopts a similarly wide interpretation. HMRC's Property Income Manual PM120100, referring to Partnership Act 1890 s1(1), notes that a partnership is 'the relation which subsists between persons carrying on a business in common with a view of profit', and that business includes 'every trade, occupation or profession'. The guidance makes it clear that 'business' is a much wider concept than that of trade or profession. It encompasses most commercial activity, including investment activity, but a mere investment is not sufficient without the necessary degree of organisation and continuity.

Likewise, HMRC's Company Taxation Manual CTM03591 confirms that 'business' is a wider concept than 'trade' and requires active engagement rather than passive holding of assets. HMRC's Capital Gains Manual CG65715 similarly notes that, in the absence of a statutory definition in the Taxation of Chargeable Gains Act (TCGA) 1992, the term must be given its ordinary meaning and is not synonymous with 'trade'.

In summary, a company will be regarded as carrying on a business where its activities display a sufficient degree of organisation, continuity and commercial purpose, and where it has the operational or management capability necessary to pursue those activities with a view to profit.

Once it is established that a business has commenced, it is then necessary to determine whether that business is a UK property business.

UK property business framework

CTA 2009 s 205(a) and (b) together define a UK property business. A UK property business consists of:

a) every business which the company carries on for generating income from land in the UK; and
b) every transaction which the company enters into for that purpose otherwise than in the course of such a business.

'Generating income from UK land' is defined in CTA 2009 s 207 as exploiting an estate, interest or right in or over land as a source of rents or other receipts.

Taken together, these provisions define the scope of a UK property business but do not determine when a business commences for corporation tax purposes, as defined in CTA 2009 s 9(1) and (2).

For UK tax purposes, a company comes within the charge to corporation tax when it has a source of income or when it commences a business. As noted above, both HMRC guidance and case law recognise that 'business' is a broader concept than 'trade', such that a business may commence before the normal rules for the commencement of a trade are satisfied.

A trade is generally regarded as commencing once the entity has moved beyond preparatory activity and has begun operational activities directed towards profit-making, even if no sales have yet occurred (see *Mansell v HMRC* [2006] SPC 551 and *Wardle v HMRC* [2024] UKFTT 543 (TC)). The question is one of fact and degree in each case.

In the context of a UK property business, HMRC guidance typically interprets the commencement as beginning only when the first property is exploited – that is, when rent is first received (HMRC's Property Income Manual PIM2505). This interpretation tends to delay commencement and results in a significant amount of expenditure being treated as pre-commencement.

However, given that 'business' is a wider concept than 'trade', where a company has the necessary degree of organisation and continuity, activities such as undertaking a development for the purpose of exploiting land as an eventual source of rents may themselves constitute the carrying on of a business. On that basis, a UK property business may properly be regarded as having commenced at a much earlier stage than HMRC guidance suggests, and even earlier than commencement of a trade.

Tax implications of the commencement rules

The timing of commencement of a UK property business has implications across a number of tax areas. Two areas of particular significance to the property sector are the timing of claims for capital allowances and land remediation relief. In both cases, relief is only available once the business is undertaking a qualifying activity (see Capital Allowances Act (CAA) 2001 s 11 and CTA 2009 s 1147). HMRC guidance generally treats that activity as beginning only when the first property is let, thereby delaying the point at which relief may be claimed.

Land remediation relief in particular has been the subject of recent government attention as a means of incentivising brownfield development expenditure. For large development projects, there may be a significant period, potentially several years, between the commencement of development and the generation of the first rental income. During this period, substantial expenditure is incurred on financing, land remediation and construction, giving rise to considerable upfront cash outflows.

Deferring the ability to claim land remediation relief until a qualifying

property business is treated as having commenced undermines the policy objective of incentivising such expenditure. In particular, it creates a disconnect between the timing of the relief, including the availability of tax credits for qualifying land remediation losses, and the expenditure that the regime is intended to incentivise.

Alternative statutory interpretation

As noted above, 'business' is a wider concept than 'trade' and encompasses any ongoing activity conducted with a view to profit. From a statutory perspective, a business may commence before income arises where there is sufficient evidence that the activity is commercially organised and that the company has the necessary operational or management capability for commercial exploitation. Case law supports the proposition that a business can exist prior to the generation of income where there is evidence of commercial organisation and activity.

CTA 2009 s 205(a) refers to every business which the company carries on for generating income from land in the UK. The provision is framed in purposive terms: the focus is on activity carried on for the purpose of generating land income, rather than at the point at which rental receipts first arise. The statutory language directs attention to the nature, extent and organisation of the company's activities.

Nothing in the legislation requires that rents must already have arisen. The real question under s 205(a) is whether the company's activities have reached the point at which they constitute a business carried on for the purpose of generating income from land. Activities such as the acquisition of land or property, development, pre-letting activity and engagement with third parties may therefore amount to the carrying on of such a business, where they form part of an organised and commercially directed course of conduct aimed at exploiting land as a source of rents.

CTA 2009 s 205(b) refers to every transaction which the company enters into for that purpose otherwise than in the course of such a business. It operates as a supplementary provision, ensuring that transactions entered into for that purpose are brought within the UK property business even where they occur outside the ordinary course of that business.

Taken together, these provisions show that the statutory regime is intended to capture purpose-driven, income-directed commercial activity, rather than activity defined solely by the receipt of rental income. Section 205(a) sets the threshold by reference to the degree and organisation of the land-exploitation activity, while s 205(b) operates as a catch-all, bringing within the UK property business transactions undertaken for that purpose even where they fall outside its ordinary course.

Part of an established property investment group

It may reasonably be argued that the special purpose vehicle has commenced a property rental business where:

- it is incorporated within an established property investment group;
- it has entered into management and financing agreements with its parent or associated companies for the purpose of raising finance; and
- it has acquired an interest in land with a view of undertaking a development.

> **Land remediation relief in particular has been the subject of recent government attention.**

In these circumstances, the special purpose vehicle has a sufficient degree of organisation, together with the necessary operational and management capability, and is actively engaged in steps directed at exploiting land as a source of income. This goes beyond passive asset creation and constitutes active commercial exploitation of land in accordance with the statutory purpose test.

On a proper reading of s 205(a), such activity constitutes carrying on a business for generating income from land.

Application to REIT groups

Where the special purpose vehicle forms part of a REIT group, the analysis is strengthened. The group is already established as carrying on a property rental business, and the special purpose vehicle operates within an existing commercial and management infrastructure dedicated to the exploitation of that land. Its acquisition and development activities are not speculative or exploratory but form part of an organised and ongoing property rental enterprise. This context supports the characterisation of the special purpose vehicle's activities as business operations rather than preparatory steps.

This view is supported by both HMRC and the statutory framework. HMRC's Investment Funds Manual IFM24045 ('Development for own use') states: 'A company may acquire a building or land to develop it with a view to retaining the completed property as part of its investment portfolio. The value of the property as it is being developed will count as assets involved in the property rental business for the property rental business and Balance of Business Conditions, even though it is yet to generate rental income.'

In addition, CTA 2010 s 529(3) provides that the property rental businesses of the members of a group are to be treated as a single business. This reinforces the conclusion that activities undertaken by a special purpose vehicle within a REIT group should be viewed in the context of the wider group business, rather than in isolation.

Conclusion

On a proper construction of the legislation, a newly incorporated special purpose vehicle that has the commercial organisation and operational capability to undertake development activity, and that has acquired an estate, interest or right in or over land with a view to exploiting that land as a source of income, is carrying on a UK property business. The statutory test focuses on the taxpayer's purpose and the commercial exploitation of land, rather than on the mere mechanics of receiving rental income.

Where the statutory language and commercial reality indicate that the business of generating land income is already underway, the better view is that the business has commenced. In those circumstances, HMRC's interpretation, which effectively defers commencement until the point at which rental income is first received, risks placing undue weight on that factor and narrowing the statutory test beyond its natural meaning.

Accordingly, there is a a strong basis for concluding that an alternative interpretation is consistent with the statutory framework.

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Sanctionable conduct HMRC's new enforcement powers

From April 2026, HMRC's new powers expand adviser liability, lower thresholds for misconduct, increase penalties, enable greater information access and introduce mandatory public naming.

by Hayley Ives

From 1 April 2026, HMRC has enhanced enforcement powers designed to target advisers who intentionally facilitate tax losses. These are introduced by Finance Act 2026 ss 250-253 and Sch 22. Updated guidance is also included in HMRC's Compliance Handbook CH176100 to CH179600.

Tax advisers who have been practising for more than a decade might recall earlier powers introduced to tackle dishonest agents, in Finance Act 2012 Sch 38. I wrote an article about this in 2014, in which I concluded: 'Most readers are unlikely to come face to face with these provisions in practice, and the legislation will become mere legend.' There are no official statistics on how often HMRC issued dishonest conduct notices or publicly accessible lists of those named and shamed under the old regime. The consensus in professional circles is that HMRC rarely used the dishonest conduct powers, if at all.

In all too familiar fashion, the regime has been rebooted. The amendments have revamped the former 'tax agents: dishonest conduct' legislation, now to be known as 'tax advisers: sanctionable conduct'. In short, the new rules introduce a lower threshold, broader definitions and mandatory publication of sanctioned advisers.

Key Points

What is the issue?
HMRC has introduced enhanced enforcement powers from April 2026 targeting tax advisers who intentionally facilitate tax losses, replacing the old 'dishonest conduct' regime with a broader 'sanctionable conduct' framework, backed by stronger information powers, higher penalties and mandatory publication.

What does it mean for me?
The scope of who is caught is wider, the threshold for HMRC action is lower, and the consequences are more severe. Advisers face greater scrutiny of their work, increased risk of investigation through file access notices, and potential reputational damage through public naming.

What can I take away?
Advisers should review internal controls, ensure that advice is well-documented and defensible, and maintain clear, evidence-based reasoning for positions taken. Strong governance, training and risk management are critical to mitigating exposure under the new regime.

Background and rationale

HMRC describes tax advisers as the backbone of the UK tax system, ensuring that clients navigate complex rules and submit accurate returns. While most advisers act with integrity, HMRC is keen to address the minority of 'bad actors' who intentionally facilitate tax losses.

The enhanced powers are intended to address this by:

- redefining 'sanctionable conduct' and moving away from 'dishonest conduct' terminology;
- enabling HMRC to obtain information about the advice given to clients and assess the scale of any misconduct;
- encouraging co-operation and disclosure, while also penalising sanctionable conduct when it occurs; and
- increasing transparency by

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publishing details of the sanctioned adviser's misconduct online.

The regime is also underpinned by a significantly tougher penalty framework, allowing HMRC to recover greater amounts where misconduct is identified.

The policy objective is clear: to build and maintain trust in the tax system, deter deliberate misconduct, and ensure that advisers who breach professional standards face meaningful consequences. More broadly, the reforms reflect a continued shift towards greater transparency and accountability in professional services.

Who is a tax adviser?

The legislation defines a tax adviser as any individual or organisation, acting in the course of business, who assists others with their tax affairs. The regime also applies to those appointed indirectly, for example, at the request of someone other than their client, as well as former advisers.

This reclassification from 'tax agent' to 'tax adviser' deliberately broadens the scope of the rules, not least because the previous regime did not apply to organisations. According to HMRC guidance, the definition now extends to:

- sole practitioners, partnerships and companies;
- partners or employees of an accounting practice, however constituted;
- bank employees, where that person provides tax advice;
- solicitors or barristers advising on tax matters;
- valuers providing valuations for tax purposes;
- partners or employees of a 'repayment agent'; and
- business advisers.

The breadth of this definition allows HMRC to target a wide range of advisers and situations. The inclusion of business advisers seems to be deliberately vague. In practice, anyone providing advice, acting as an agent, or assisting with documents relied upon by HMRC could fall within the scope of the new rules.

Somewhat surprisingly, HMRC's guidance also sets out a number of explicit exclusions. These include individuals providing advice free of charge (such as Citizens Advice staff), lecturers and those undertaking unpaid or 'pro bono' work. In-house tax professionals acting solely for their employer, and individuals giving informal advice to family members, are also excluded.

While the regime is clearly targeted at those acting in the course of a business, the distinction is not entirely straightforward. If the underlying policy objective is to deter abusive behaviour, it is reasonable to ask why similar conduct should be treated differently simply because it is unpaid. Would HMRC be criticised for taking action against sanctionable conduct merely because it occurred in a pro bono or informal context? Those acting honestly are unlikely to object to a broader approach.

What is 'sanctionable conduct'?

The original Finance Act 2012 Sch 38 legislation required dishonest conduct with a view to bringing about a loss of revenue. This imposed a high evidential bar, as HMRC needed to establish a particular state of mind.

'Sanctionable conduct' is now defined as any act or omission by a tax adviser, in the course of acting as a tax adviser, undertaken with the intention of causing a loss of tax revenue. There are two tests to establish sanctionable conduct:

1. Was the conduct carried out in the course of acting as a tax adviser? This includes providing advice to a client, submitting documents to HMRC, or failing to submit documents.
2. Was it done with the intention of bringing about a loss of tax revenue? This is a subjective test, seeking to establish the adviser's knowledge and intentions at the time they acted. An actual loss is not required, as only intention is needed. If the adviser did not intend to bring about a loss of tax, the test is not met, even if a loss ultimately arises.

The definition casts a wide net. Crucially, however, the intention to cause a loss of tax remains a necessary element and must be evidenced.

Examples of sanctionable conduct include advising a client to claim relief to which they are not entitled (where the relevant facts are known), falsifying evidence of return submission, concealing known legal risks or deliberately submitting inaccurate information. More broadly, it may result in a taxpayer paying too little tax, paying tax late, receiving excessive relief or obtaining relief prematurely.

HMRC's guidance also gives examples of conduct that will not be regarded as sanctionable conduct. These include:

- taking a credible view of the law, even where it differs from HMRC's own view – although it will be interesting to see how this provision interacts with the new GfC13 guidance on ensuring that documents filed with HMRC are correct and complete (see tinyurl.com/4c9r2b2u);
- following published guidance, even if that guidance proves to be incorrect as a matter of law;
- relying on a published Extra-Statutory Concession; and
- making a genuine mistake or error in advice or in a document submitted to HMRC, even where this amounts to a failure to take reasonable care.

The burden is on HMRC to demonstrate sanctionable conduct on the balance of probabilities. In practice, HMRC is likely to seek to establish this through the use of a file access notice.

File access notices

What information HMRC can obtain

There are two scenarios in which HMRC can issue a 'file access notice':

- **Case A:** There are reasonable grounds to suspect that a tax adviser is engaging, or has engaged, in sanctionable conduct.
- **Case B:** A tax adviser has been convicted of a tax-related fraud or dishonesty offence after becoming a tax adviser (regardless of the capacity in which the offence was committed), and all appeal rights have been exhausted within the previous 12 months.

File access notices are a powerful tool, enabling HMRC to access an adviser's working papers and other documents used in assisting clients. A notice can relate to documents created before 1 April 2026. However, such documents cannot be used to determine the penalty for sanctionable conduct, although they could still influence HMRC's decision about whether to pursue a criminal investigation of the tax adviser.

HMRC does not require tribunal approval before issuing a formal notice to a tax adviser suspected of sanctionable conduct. In those circumstances, the recipient has a right of appeal against the notice or any requirement within it. However, if HMRC seeks and obtains prior approval from the tribunal, there is no right of appeal. The guidance states that HMRC should notify the tax adviser in advance that they are planning to seek tribunal approval and give an opportunity to make representations, which will then be summarised for the tribunal.

> **HMRC must publish details of advisers who incur penalties for sanctionable conduct exceeding £7,500.**

HMRC may also issue a file access notice to a third party who is believed to hold relevant documents. In such cases, tribunal approval is required. The third-party recipient may appeal but only on the ground that it would be unduly onerous to comply with such a notice.

Under Case A, a notice may only require documents relating to the clients in respect of whom HMRC has reasonable grounds for suspicion of sanctionable conduct. According to HMRC guidance, this requires a factual basis for believing that the adviser's actions or omissions were undertaken with the intention of bringing about a loss of tax (see HMRC's Compliance Handbook CH177060). HMRC does not need to establish that actual sanctionable conduct has occurred at this stage, as the purpose of the file access notice is to help determine that question.

That being said, HMRC cannot make speculative or 'fishing' enquiries. It must be able to identify specific grounds for suspicion. A valid Case A notice must therefore identify the relevant clients, either by name or reference to a defined class or description.

What information HMRC cannot obtain

There are limits on what can be requested under both Cases A and B notices. The main exclusions include:

- documents not in the person's possession or power;
- information relating to a pending tax appeal;
- personal records;
- journalistic material;
- documents more than 20 years old; and
- information that is legally privileged.

These exceptions are familiar and match those found in the information and inspection powers in Finance Act 2008 Sch 36.

However, there is an obvious distinction from the Sch 36 exceptions list. Under the sanctionable conduct regime, HMRC can require access to a tax adviser's working papers, as well as any documents received, created or used in the course of assisting clients with their tax affairs. This represents a wider category of material than is typically accessible under Sch 36, subject only to the specific exclusions listed above.

Penalties for non-compliance

File access notices are statutory, and failure to comply may result in penalties unless the recipient can demonstrate a reasonable excuse and remedies the failure without unreasonable delay.

There will be an initial penalty of £300 for failure to comply. Continued failure after notification of the initial penalty gives rise to daily penalties of up to £60 a day for each day the failure continues. If the failure continues for more than 30

days after daily penalties began, HMRC may apply to the tribunal to increase the daily penalty, up to a maximum of £1,000 per day.

Penalties for inaccuracies

Providing documents that contain inaccuracies may also give rise to penalties. A penalty of up to £3,000 per inaccuracy may apply where the behaviour is deliberate or arises from a failure to take reasonable care. It may also apply if the adviser knows a document is inaccurate but submits it without informing HMRC, or subsequently becomes aware of the inaccuracy and fails to take reasonable steps to notify HMRC.

It is also a criminal offence to conceal, destroy or dispose of a document required under a file access notice, meaning that recipients could be prosecuted or charged penalties.

Conduct notices

A conduct notice may be issued where HMRC determines, on the balance of probabilities, that a tax adviser is engaging, or has engaged, in sanctionable conduct. The notice must set out the grounds for that determination and be approved by an authorised HMRC officer. This gives the adviser a final opportunity to respond before penalties are imposed.

A conduct notice may be withdrawn at any time, in which case HMRC must notify the adviser. Importantly, a conduct notice is also to be treated as withdrawn if HMRC does not issue a penalty notice within the applicable time limit (see below).

Penalties for sanctionable conduct

Receipt of a conduct notice means that a penalty notice will invariably follow.

Where potential lost revenue is attributable to the sanctionable conduct, the penalty is calculated as a percentage of that amount. This starts at 70% of the potential lost revenue, subject to a cap of £1 million for a first penalty. This may be reduced to 20% or 35% where there has been voluntary or prompted disclosure.

Penalties increase significantly for repeat behaviour within a 20-year period. Where a person has received between two and five sanctionable conduct penalties, the rate increases to 85% and the maximum penalty rises to £5 million. Where there are six or more penalties, the rate increases to 100% and the maximum penalty cap is removed.

A minimum penalty of £7,500 applies where potential lost revenue cannot be determined or is nil. Where only the minimum penalty applies, HMRC will not publish the adviser's details.

HMRC may agree to a special reduction in limited circumstances. Penalties may be appealed to HMRC and ultimately to the tribunal.

Publishing details of sanctionable conduct

HMRC must publish details of advisers who incur penalties for sanctionable conduct exceeding £7,500, subject to a public interest test. The guidance describes this as a duty to publish, similar to that of the deliberate tax defaulters regime, albeit with a lower threshold reflecting the position of trust held by tax advisers.

Published information may include:

- the adviser's name, trading names and pseudonyms;
- the business in which the adviser is employed, but only if needed to make their identity clear;
- the postcode of any address used;
- other identifying information; and
- details of the penalty and the reasons for it.

There is no right of appeal against publication. However, the adviser may make representations, for which HMRC should allow a minimum of 30 days. HMRC must consider those representations and then notify the tax adviser of its decision.

HMRC must update or remove published information where circumstances change, for example, if the penalty is withdrawn, the adviser ceases to practise for five years, the adviser dies, or if publication is no longer in the public interest.

Practical implications for tax advisers

HMRC's enhanced powers mark a significant shift in the regulation of tax advisers. With tougher penalties and the prospect of public naming, the regime places greater emphasis on intent, transparency and ethical conduct.

For advisers and firms, this is a clear prompt to review compliance frameworks, strengthen training and quality assurance, and ensure that advice is carefully documented, clearly communicated and capable of being defended. While the rules are not aimed at those who make genuine mistakes or adopt credible interpretations of the law, advisers must remain alert to the risk of challenge.

Ultimately, the new regime is a wakeup call for the profession. Proactive risk management, clear client communication and high standards of integrity are essential to protect advisers, clients and reputations, as the consequences of sanctionable conduct become more severe.

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Key Points

What is the issue?
New PCRT guidance highlights how the use of AI creates ethical and professional risks, even though the underlying principles themselves have not changed.

What does it mean to me?
AI is now embedded across practice, so the PCRT standards apply more widely. Advisers remain responsible for the work produced and must ensure appropriate oversight, transparency and control.

What can I take away?
Firms should adopt a structured, firm-wide approach to AI, aligning engagement terms, internal policies and day-to-day practice, and ensuring that all AI-assisted work is properly reviewed and supported.

The ethics of AI
New PCRT guidance

PCRT's new guidance highlights AI risks, requiring advisers to maintain oversight, transparency and responsibility through firm-wide policies and controls.

by Karen Eckstein

The seven professional bodies that produce Professional Conduct in relation to Taxation (PCRT) issued updated guidance on 19 January 2026, including new material on the ethical use of artificial intelligence. While framed as an application of existing principles, the update reflects a significant shift in how professional work is carried out and how risk arises within that work.

AI is now embedded across research, analysis, communication and operational processes, often without a clear framework governing its use. The guidance does not change the underlying principles, but makes it clear that they apply fully in an AI-enabled environment. Failure to meet those standards may have professional and disciplinary consequences. This article considers what the guidance means in practice. It argues that firms should treat AI not as a technical issue, but as a firm-wide risk management matter requiring alignment of engagement terms, internal controls and day-to-day behaviour.

Why this matters beyond PCRT

PCRT sets the expected standard for members of seven professional bodies and is reflected in HMRC's Standards for Agents. In practice, it is widely treated as the benchmark for professional conduct across the tax profession. Advisers who fall short may be exposed if their conduct is challenged, whether or not they are formally bound by it.

The new AI guidance should therefore be seen as part of the evolving baseline of professional conduct. It is likely to inform the expectations of regulators, insurers and courts.

Applying PCRT standards to tax work alone, while allowing a lower standard elsewhere, is unlikely to be sustainable. It risks creating confusion for staff, inconsistency for clients and increased exposure to claims or complaints.

The guidance is best understood as having firm-wide application. It is not simply about compliance, but about establishing a consistent and robust approach to the use of AI across the practice.

How AI is being used in practice

AI is already widely used within the tax sector. Its use generally falls into four broad categories, each with distinct risks.

1. Research

AI tools are increasingly used to summarise legislation, identify relevant authorities and provide initial responses to queries.

The benefit is speed and accessibility. The risk is that material generated may be incomplete, outdated or simply wrong, including references to legislation or case law that do not exist. Without verification, there is a real danger that such material is relied upon inappropriately.

2. Data processing and document review

AI is widely used to analyse data sets, review contracts or extract key information from reports or correspondence.

This can significantly improve efficiency, particularly in areas that would otherwise be labour intensive. However, the results produced depend on input quality and underlying assumptions. Errors at either stage can lead to flawed conclusions.

3. Note-taking and analysis

AI notetakers are increasingly used to record and summarise meetings, and to generate action points. While this can reduce administrative burden, it raises issues around accuracy, tone and confidentiality. Notes may mispresent discussions if they are not carefully reviewed.

4. Automation of processes

AI is used to automate workflows, reminders and aspects of client onboarding, including elements of anti-money laundering checks and data collection. Automation can improve consistency and efficiency, but creates risk if processes are not fully understood or if the work produced is not reviewed. Care must be taken to consider the potential for bias. There is a particular danger that automated outputs are treated as inherently reliable.

Ethical principles in an AI context

The new guidance considers the use of AI through the lens of the core ethical principles underpinning PCRT. Their application in an AI context brings certain risks into sharper focus.

One of the most immediate concerns is the potential impact on integrity. There is a risk that AI-generated material may be accepted without sufficient scrutiny, particularly where it appears complete and authoritative.

Closely linked to this is the issue of transparency. Where AI plays a significant role, failure to recognise whether disclosure is appropriate may undermine trust.

Issues of professional competence and due care arise where AI outputs are relied upon without proper understanding or verification. AI responses may be persuasive but incorrect, incomplete or based on flawed assumptions. This results in a real risk that the quality of advice falls below the required standard. Despite the role of AI in the process, the duty of care remains firmly with the adviser.

Confidentiality presents further challenges, particularly when using publicly available tools. Firms must consider how client data is handled, stored and protected, and whether appropriate consent has been obtained.

There are also implications for professional behaviour. AI-generated communications may be inappropriate in tone or content if not carefully reviewed, potentially affecting relationships with clients, HMRC or other stakeholders. Careless or inappropriate use of AI has the potential to bring the profession into disrepute.

Recurring risks

Some themes arise repeatedly when considering how AI is used in practice. Transparency is a key issue. Clients may not be aware that AI is being used in the delivery of services. This is more problematic where it plays a material role in the service, particularly if the client would reasonably expect to be informed.

There is also a tendency towards over-reliance. AI-generated material often appears authoritative, even where it is incomplete or incorrect. Without careful review and verification, there is a real danger of uncritical acceptance, with consequences for the quality of advice provided.

Data handling presents further challenges. Inputting client information into AI tools, particularly publicly available ones, creates potential risks around confidentiality and data protection. These risks are not always immediately apparent.

Finally, AI is often adopted informally within firms without central oversight or clear guidance. This can lead to inconsistent practices and an increased exposure to both regulatory and professional risk.

Taken together, these issues highlight the need for a structured and deliberate approach to the use of AI, rather than reliance on ad hoc or uncoordinated practices.

Common AI risks in practice

Hallucinations and inaccurate material: AI tools can produce plausible but incorrect material, including references to legislation or case law that are inaccurate or do not exist. Sources should

AI AND ENGAGEMENT TERMS: ARE YOU COVERED?

Many of the risks arising from the use of AI can be addressed through clear engagement terms. However, standard wording alone is unlikely to be sufficient. Firms need to ensure that their terms reflect how AI is actually used in practice. The following questions provide a practical starting point.

- Have you clearly stated in your engagement terms that AI may be used, and explained this where it is fundamental to the service?
- Do you understand how AI is used across your services so that your wording is accurate?
- Are your terms clear about the extent to which you rely on information provided by the client?
- Do your terms cover AI notetakers and the review of notes?
- Have you considered where data from AI tools is stored and any data protection implications?
- What would you do if a client objected to the use of AI?
- Can you distinguish between client-facing and internal AI use?
- Do you require clients to disclose where information they provide has been generated using AI?
- Do you have processes to apply professional judgement where information appears inconsistent?

AI AND CLIENT DATA: KEY RISK QUESTIONS

- Are you entering any identifiable client information into public AI tools?
- Do you understand where that data is stored, and who may access it?
- Is anonymisation genuinely effective or could the client still be identified from context?
- Do staff understand that deleting names or obvious identifiers may not be sufficient to protect client confidentiality?
- Does your use of AI comply with GDPR, particularly where there is cross-border transfer of data?
- Do your engagement terms and client communications adequately address how data may be used?
- Are there any confidentiality agreements or NDAs in place that restrict how information can be handled?
- Do internal AI tools create risks around access to confidential information?

be checked independently using authoritative materials. Firms should also consider how these checks are recorded on file to demonstrate that appropriate verification has taken place.

Untrained or inappropriate use of AI tools: Using AI without sufficient understanding creates a clear risk to professional competence. Firms should assess training needs for each tool in use, deliver appropriate training, and retain evidence of completion to demonstrate that professional standards have been met.

Use in producing documents (e.g. tax returns): Where AI is used within automated workflows, it is important to understand how those workflows operate and where risks may arise. Inputs and results should be subject to human review before submission. Any functionality that allows documents to be submitted without review should be disabled. Testing and error logging can help to identify issues.

Client data entered into public AI tools without consent: The use of public AI tools raises risks around confidentiality and data protection. Firms should use approved non-public tools wherever possible. Where public tools are used, data should be anonymised so that clients cannot be identified. Firms should also understand where data is stored and ensure that its use complies with GDPR and internal policies.

Client data subject to NDAs or enhanced confidentiality: Additional care is required where information is subject to a non-disclosure agreement or similar restrictions. Firms should have appropriate internal processes in place to flag such restrictions and prevent inadvertent disclosure, for example through the use of alerts or information barriers.

AI-assisted client advice: AI-assisted work must comply with professional standards. Firms should ensure that staff understand the limitations of the tools they are using, and that work produced is tested against what would be expected if it were carried out without AI. All advice should be reviewed and signed off by an appropriately qualified individual.

AI-drafted correspondence: Correspondence generated with the assistance of AI must be reviewed to ensure factual accuracy, appropriate tone and compliance with professional obligations. Inappropriate wording can affect outcomes for clients and may risk breaching professional standards.

Policies, training and internal governance

Firms should implement a clear, practical AI policy. This should set out which tools may be used within the firm, the purposes for which they can be used, the type of information that may be input, and the checks that must be carried out on any AI-generated material. Importantly, the policy needs to be usable in day-to-day work.

Training is equally important. Staff need to understand how to use AI tools properly. This includes knowing how to frame questions in a way that produces useful material, how to identify potential inaccuracies or inconsistencies, and when further verification is required. Training should be documented and kept up to date.

Monitoring is essential. File reviews should be adapted to consider how AI has been used and whether the work produced has been appropriately verified.

A further practical challenge is the risk of unauthorised or undisclosed use of AI by staff. In many firms, AI tools are already being used informally, sometimes without the knowledge of those responsible for risk management. Firms need to restrict the use of AI to approved tools and to make clear that undisclosed use is unacceptable.

Choosing and controlling AI tools

AI systems should not be adopted on an ad hoc basis. Firms need to understand, at a high level, how tools operate, what data they use, where that data is processed and stored, and its key limitations. This does not require deep technical expertise, but decisions should be conscious and documented.

Use of AI within the firm should generally be restricted to approved tools rather than left to individual choice, and significant updates should be treated in the same way as the introduction of a new tool.

The key risk, however, lies not in the tool itself but in the material it produces. AI-generated material can be persuasive but flawed, and the key safeguard is review. Such material should be approached with appropriate scepticism, tested against expected outcomes and, where necessary, verified by reference to original sources. A useful working assumption is to treat AI as a junior member of the team: helpful, but requiring supervision and challenge.

Firms should also consider how their use of AI is recorded on file, including the steps taken to check and verify responses. This may include retaining relevant prompts and responses, together with a record of verification.

Particular care is required where AI is used to analyse data or generate reports, as errors may arise from misunderstood inputs or inappropriate assumptions. Similar issues can arise where tools are applied across different clients or types of work without considering whether embedded assumptions remain appropriate. Automation can also create a false sense of reliability if work generated is not subject to proper review.

Conclusion

The inclusion of AI within PCRT is a clear recognition of how fundamentally these tools are reshaping professional practice. The ethical principles themselves have not changed, but the environment in which they are applied has. AI introduces new risks, often subtle and not immediately visible, that require a more deliberate and structured response than many firms currently have in place.

What the guidance makes clear is that responsibility has not shifted. The use of AI does not dilute the adviser's duty of care, nor does it provide a defence where things go wrong. If anything, it raises expectations. Work must still be carried out with appropriate skill, care and judgement, and the presence of AI in the process makes oversight and critical assessment more important, not less.

AI is a powerful and increasingly indispensable tool. But it is not a substitute for professional judgement, and it does not reduce responsibility. The adviser remains accountable for the outcome. The challenge is to ensure that, as the tools evolve, the standards applied to their use remain just as robust.

'Topical guidance covering the application of PCRT to the ethical use of artificial intelligence tools' can be found at tinyurl.com/2xc52dzp. Further information can be found at www.kareneckstein.co.uk/riskbites

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Savings for disabled people

The case for a simpler approach

Research into UK savings options for disabled people supports the existing trust regime while proposing an additional simpler, more accessible complementary savings vehicle.

by Paul Brice

Key Points

What is the issue?
Saving for the future needs of disabled people may not be straightforward given issues such as decision-making capacity and the means testing of care and certain benefits.

What does it mean to me?
An existing disability trust regime offering specific tax treatments is available – but it may not be the right approach for more modest savings levels given cost and complexity, leaving some individuals reliant on informal and potentially risky arrangements.

What can I take away?
There is a strong case for retaining the trust regime but complementing it with a simpler, more accessible savings vehicle, drawing on international models, to broaden access to effective long-term financial planning for disabled people.

For many disabled people, and for those who support them, the ability to build up savings can be critical. Some individuals may not be able to provide for themselves; others may face significant additional costs as a result of their disability. In some cases, relatively modest funding for

training or equipment not otherwise provided by the state could make a substantial difference to their lives and prospects.

Notwithstanding current levels of public provision, parents, relatives and friends of disabled people who are unable to live independently may be anxious about the future, particularly given the prospect that the disabled person may live for many years beyond their lifetime.

Against this backdrop, in January the Tax Law Review Committee of the Institute for Fiscal Studies published a discussion paper entitled 'Tax and disability in the UK: review of trusts and other savings options'.

There are options available, but the paper argues that more can be done. Drawing on comparative analysis with disability trusts and other arrangements in Australia, Canada and the US, the paper reviews the existing UK trust-based savings regime for disabled people and explores alternative approaches, considering both tax and non-tax dimensions.

In summary, the paper recommends that:

- The existing UK trust-based regime should be preserved, albeit with some modest legislative amendments.
- The UK should consider introducing a simplified savings account for eligible disabled people to sit alongside the disability trust regime, for those for whom the cost and complexity of trusts mitigate against their use.

This article summarises the background to the paper and its key findings.

Savings and disability: the context

'Disability' is a broad-ranging term with hugely diverse implications for disabled people and those who care for and support them.

While many disabled people are able to work, live independently and provide for themselves, they may face significant additional 'costs of disability'. Others – for example, people with certain genetic syndromes – may never be able to work or provide for themselves and may require '24/7' care. Some may also lack the capacity to manage their own financial affairs.

In the UK, subject to meeting eligibility criteria, disabled people may be entitled to state-provided care and welfare benefits, in addition to public services such as healthcare. Some benefits, such as the Personal Independence Payment, are not means-tested; however, the provision of care and a number of benefits (including Universal Credit) usually are.

Against this background, parents, relatives and other benefactors may wish to set aside funds to meet future needs not otherwise covered by the state, whether as a contingency or to fund disability-related expenditure. However, there is an obvious disincentive if doing so results in the withdrawal of care or benefits because those funds are taken into account for means-testing purposes.

In practice, there are two main ways in which funds may be made available for the future care and provision of a disabled person, short of outright gifts.

The first is through a trust-based arrangement (see below). In a discretionary trust, assets are managed by trustees and do not legally belong to the disabled person, unless and until they are appointed to them as the beneficiary. They are therefore generally disregarded for means-testing purposes. Nonetheless, trusts may be relatively costly and complex to establish and operate, particularly for more modest sums.

The second is an informal arrangement, such as giving funds to a trusted relative or friend in the hope that they will use them for the benefit of the disabled person if needed. Such arrangements are inherently uncertain and carry obvious risks.

> **Benefactors may wish to set aside funds to meet future needs not otherwise covered by the state.**

The existing trust-based regime

Tax legislation has for some time provided a trust-based regime for eligible disabled people. The current provisions span inheritance tax, income tax and capital gains tax.

Broadly, gifts into eligible trusts are treated as potentially exempt transfers (PETs) for inheritance tax purposes under Inheritance Tax Act (IHTA) 1984 s 89, rather than as chargeable lifetime transfers subject to an immediate tax charge and periodic charges under IHTA 1984 s 64. Separate provisions under s 89A apply to 'self-settled' trusts, established by individuals who have, broadly, a reasonable expectation of becoming a 'disabled person' for the purposes of the legislation (see below).

In addition, trust income and capital gains can, subject to 'vulnerable beneficiary' election, broadly be treated as if they were those of the disabled beneficiary themselves, rather than being taxed at the higher rates applicable to trusts. The vulnerable beneficiary regime (which also covers eligible bereaved minors) is set out in Chapter 4 of the Finance Act 2005.

The definition of a 'disabled person' both for disability trusts for inheritance tax purposes, and for the vulnerable beneficiary regime is set out in Finance Act 2005 Sch 1A para 1. Broadly, this includes both a criterion relating to a beneficiary's mental capacity and, subsequently, eligibility for a specified range of benefits.

Since its introduction, the trust-based regime has been subject to a number of modifications. For example, the original requirements of IHTA 1984 s 89 broadly required that not less than half of the settled property applied during the lifetime of the disabled person was applied for their benefit, subject to certain exceptions.

This requirement was amended by Finance Act 2013 in relation to trusts created on or after 8 April 2013. Capital or income must now be applied for the benefit of the disabled beneficiary during their lifetime, although funds may be retained in trust and paid to a non-disabled beneficiary on death. In addition, up to the lower of £3,000 or 3% of the maximum value of the settled property during the relevant period may be appointed annually to someone other than the disabled beneficiary.

Proposed legislative amendments

Building on existing work, the discussion paper identifies a number of proposed amendments to the disability trust regime. In particular, these include:

- streamlining the approach to taxing income as if it was that of the beneficiary;
- removing the need for 'tax pool' arrangements by deeming income to be that of the beneficiary when it arises; and
- reconciling Conditions 1 and 2 in IHTA 1984 s 89A(2) and (3).

Further detail is provided at Appendix 3 of the paper.

Relationship with means testing

A key feature of discretionary disability trusts is that assets are not legally those of the beneficiary unless and until they are appointed. Accordingly, assets held within such trusts are generally disregarded for means testing purposes in relation to care and welfare benefits. However, where assets are appointed to the beneficiary (so that they become 'in funds'), they will then be taken into account.

Cost and complexity

Notwithstanding the services provided by organisations such as Mencap, establishing and administering trusts may for many people appear neither cost-effective nor straightforward. (Details of Mencap Trust Company, the services it provides and details of its charges can be found online at www.mencaptrust.org.uk.)

Many parents and relatives of disabled people already devote a huge amount of time to supporting them, including interacting with a range of authorities and service providers. Against this background, simplicity has considerable value, while vehicles such as trusts may seem simply overwhelming, particularly where the sums involved are relatively modest.

Current usage

Based on a Freedom of Information Request to HMRC, a comparatively modest number of disability trusts filed self-assessment returns in 2022-23. However, this figure cannot be seen in isolation, as many disability trusts may not be required to file returns.

The case for a simplified savings vehicle

In addition to disability trust regimes, Canada and the US operate alternative savings accounts for eligible disabled people: Registered Disability Savings Plans (RDSPs) and Achieving a Better Life Experience (ABLE) accounts respectively.

The objectives and detailed provisions of these vehicles vary. For example, while earlier withdrawals are possible, the RDSP has a later life, pensions-type focus. ABLE Account programmes are operated at state level. Broadly, both arrangements allow savings by and for eligible disabled people for a range of purposes, subject to certain specified limits, included targeted tax reliefs, and with defined 'carve out' provisions in relation to means-tested benefits. The take-up of both arrangements has been significant, with around 263,000 active RDSP beneficiaries as at December 2022 and approximately 204,000 ABLE Accounts as at 31 March 2025.

Against this background, and given the cost and complexity of trusts for many people, the discussion paper recommends consideration of a simplified UK savings account arrangement for disabled people to operate alongside the existing trust regime. Such a vehicle could be delivered through the UK financial services industry using standardised processes.

In any such arrangement, it is important to recognise how broader public provision for disabled people in Canada and the US varies compared to the UK. It is therefore vital to avoid 'cherry picking' individual features of RDSPs or ABLE Accounts without considering the wider policy context of public provision.

Policy considerations

The discussion paper highlights a number of policy considerations that would need to be addressed in advance of introducing a simplified savings account. In several areas, it adopts as a 'default setting' an approach aligned with the framework underpinning the existing trust-based regime, while also identifying reasons why alternative approaches might be appropriate.

Eligibility: Consistent with this 'default setting', eligibility for a simplified savings account could be based on the definition of a disabled person in Finance Act 2005 Sch 1A para 1. However, alternative approaches could be developed, drawing for example on the eligibility criteria used for ABLE Accounts in the US.

> **The discussion paper recommends consideration of a simplified UK savings account arrangement for disabled people.**

Relationship with means testing: As with the existing disability trust regime, the paper recommends that funds which are held within a simplified savings account should be excluded from means testing. Without such treatment, there would be little incentive for relatives or others to contribute. The treatment of withdrawals for means testing purposes would also require careful consideration. One option could be to disregard, for means testing purposes, amounts used to meet defined categories of disability-related expenditure.

Tax treatment: Again, drawing on the existing trust-based regime, the paper suggests as a starting point that income and gains arising within the simplified vehicle could be taxed at the disabled beneficiary's marginal rate, mirroring the effect of the vulnerable beneficiary rules. However, a more explicitly tax-advantaged approach could be adopted, for example along the lines of ISAs, to encourage take-up and reduce administrative burdens.

Other matters: A number of further issues would need to be considered as part of launching any simplified vehicle, including governance arrangements where the disabled person lacks capacity, appropriate investment parameters, and whether simplified savings accounts might be subject to defined financial limits.

The paper also outlines an illustrative process for establishing and operating a simplified account in practice, and emphasises the importance of engagement with disability groups and the retail financial services industry in developing a workable model.

Conclusions

There are clear reasons why people may wish to set aside money for the future provision of disabled people, particularly those who are unable to provide for themselves or who may face substantial additional 'costs of disability'. The existing, well-established trust regime offers one option, but may not be suitable for everyone on grounds of cost and complexity.

The discussion paper concludes that, building on overseas experience, there is a powerful case for introducing a simplified savings vehicle to sit alongside the trust regime. As the paper observes: 'This would mean that the peace of mind that can come from putting aside money for, say, the future of a disabled child can be available to a broad range of people, not just those who can afford the time and resources to set up and run trusts.'

The discussion paper, Tax and disability in the UK: review of trusts and other savings options, is at: tinyurl.com/86b885wm. It was written for the Tax Law Review Committee by Paul Brice, with input from members of the Committee, including Emma Chamberlain, Judith Freedman, and the law firms Withers and Bentleys (Australia). The Committee authorised its publication to inform and promote debate in this area.

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Marshmallow pies
A sticky case for VAT

We examine a case which determines the VAT rate applicable to giant marshmallows.

by Keith Gordon

The VAT treatment of food is a good example of how a simple, widely known tax rule is actually subject to considerable complexity and, consequently, much confusion.

For example, for a non-expert, it is hard to explain why a product manufactured by United Biscuits, which is biscuit-sized and sold in the biscuits section of most supermarkets, is actually treated as a cake. More importantly, it is hard to explain why the categorisation of such a product – a Jaffa Cake – is important only because it is covered on one side by chocolate.

Similarly, even if it can be understood that Strawberry Nesquik is a beverage that should attract the standard rate of VAT, it will be hard for a non-expert to explain why the chocolate flavour version is zero-rated.

The answer flows from the wording of Value Added Tax Act 1994 Schedule 8 Group 1. Whilst food for human consumption primarily qualifies for zero-rating, this is subject to a number of exceptions. One such exception is food supplied in the course of catering. Other exceptions apply to different types of food.

The Jaffa Cake case concerned Excepted Items, No. 2, which brings back into the scope of the standard rate any food which is 'Confectionery, not including cakes or biscuits other than biscuits wholly or partly covered with chocolate or some product similar in taste and appearance'.

It can therefore be seen that, whereas food is prima facie zero-rated, confectionery is prima facie standard-rated. However, if the confectionery is a cake or biscuit, it is taken back out of the list of standard-rated products and accordingly qualifies for zero-rating alongside other food. However, biscuits (as opposed to cakes) that are wholly or partly covered with chocolate (or some equivalent product) do not qualify for zero-rating and are therefore treated as standard-rated (alongside other confectionery). It is that final point which made it so important for United Biscuits to show that a Jaffa Cake was a cake and not a biscuit.

However, Item 2 cannot be read in isolation. Note (5) to the Group provides that 'for the purposes of Item 2 of the excepted items "confectionery" includes chocolates, sweets and biscuits; drained, glacé or crystallised fruits; and any item of sweetened prepared food which is normally eaten with the fingers'.

Item 2 and Note (5) have returned to the tribunals in the case of *Innovative Bites Ltd v HMRC* [2026] UKFTT 500 (TC).

The facts of the case

The taxpayer company is a wholesaler of a food product, known as 'Mega Marshmallows'. Its argument is that these products do not fall within the meaning of 'confectionery' and therefore qualify for zero-rating.

Readers who feel a sense of déjà vu can be forgiven. The company won its appeal in the First-tier Tribunal back in 2022 ([2022] UKFTT 352 (TC)), where the tribunal decided that the Mega Marshmallows were not confectionery in the ordinary sense of the word and therefore fell outside the scope of Item 2.

The company won again when HMRC appealed against that decision to the Upper Tribunal ([2024] UKUT 95 (TCC)). However, in 2025, the Court of Appeal

Key Points

What is the issue?
A First-tier Tribunal decision considered whether 'Mega Marshmallows' fall within the definition of 'confectionery' for VAT purposes, focusing on Note (5) to Value Added Tax Act 1994 Sch 8 Group 1 and whether the product is 'normally eaten with the fingers'.

What does it mean to me?
The case confirms that the extended statutory definition of 'confectionery' in Note (5) can override the ordinary meaning, and that tribunals will take a practical, evidence-based approach to questions like how a product is typically consumed.

What can I take away?
When advising on VAT liability of food, do not rely solely on everyday meaning. Carefully apply the statutory wording, especially deeming provisions like Note (5), and be prepared to analyse real-world usage to determine the correct VAT treatment.

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decided that the First-tier Tribunal had not properly applied Note (5). In particular, it concluded that 'absent absurdity or the like, Note (5) is conclusive. If, accordingly, a product is "sweetened prepared food which is normally eaten with the fingers", it is "confectionery" for the purposes of Item 2.'

As a result, the First-tier Tribunal's original conclusion that the Mega Marshmallows did not fall within the ordinary meaning of the word 'confectionery' was not determinative. Instead, it was necessary to consider whether the product came within the extended definition, as provided for by Note (5).

The case was remitted to the First-tier Tribunal to be heard by a fresh panel.

The First-tier Tribunal's decision

The case came before Tribunal Judge Amanda Brown KC (President), Tribunal Judge Matthew Donmall and Member Mohammed Farooq.

The tribunal noted that it was common ground that the Mega Marshmallows were 'sweetened prepared food'. Therefore, it needed only to be determined whether the marshmallows are normally eaten with the fingers.

The tribunal agreed with the parties that 'normally' in this context meant more often than not. It therefore proceeded to undertake a multi-factorial assessment on all the evidence, addressed to the relevant statutory test – in this case, whether the Mega Marshmallows are 'normally eaten with the fingers'.

In doing so, the tribunal had to consider a question as to the burden of proof. As is usually the case in tax disputes, it is for the taxpayer to show that the assessment under appeal is wrong. On that basis, the parties took the view that, if there was insufficient evidence to show that Mega Marshmallows are not normally eaten with the fingers, then the company's appeal must fail. However, the tribunal felt uneasy about going down this route, particularly given the earlier finding (which was not to be disturbed) that Mega Marshmallows were not confectionery in the ordinary sense of the word.

Part of the difficulty was that the Court of Appeal made clear that this remitted hearing was not to be anchored by the First-tier Tribunal's previous decision, although it was to be supplied with the same written evidence that was before the tribunal in 2022. Furthermore, neither party sought to adduce any further evidence at the remitted hearing. Accordingly, the tribunal saw no reason to depart from the findings of fact made back in 2022.

The tribunal noted that determining cases solely by reference to the burden of proof should arise only exceptionally. In most cases, it should be possible to reach a rational conclusion on the facts of the case without having to resort to the burden of proof. Only if the tribunal could not rationally decide the case one way or the other should it despatch the issue on the basis of who bears the burden of proof.

> **It needed only to be determined whether the marshmallows are normally eaten with the fingers.**

The tribunal then listed the four agreed ways of eating a Mega Marshmallow, using its own labels:

- Way A: roasted on a skewer and eaten directly from the skewer;
- Way B: roasted on a skewer, removed after having sufficiently cooled and then eaten using the fingers;
- Way C: roasted on a skewer and then inserted into the middle of two biscuits with some chocolate (the combination known as a s'more); and
- Way D: eaten straight from the pack with the fingers.

It was common ground that Way A did not constitute eating with the fingers and that Ways B and D did.

The tribunal had to resolve a dispute regarding Way C. It concluded that, when eaten as a s'more, the Mega Marshmallows are actually eaten with the biscuits (as opposed to with the fingers), even though the s'more combination itself might be eaten with the fingers. The tribunal also considered that the object being eaten under Way C is not the marshmallow but the s'more

itself. For both of those reasons (taken both independently and together), the tribunal decided that Way C does not constitute the Mega Marshmallows being eaten with the fingers.

Accordingly, the tribunal then proceeded to decide whether the following mathematical notation applies (it is found in the decision itself):

$$(A + C) > (B + D)$$

The tribunal acknowledged that the evidence available to it was slight. However, it proceeded to decide that A > B and C > D. Thus, even without numbers, it was proven (mathematically and legally) that (A + C) > (B + D).

In its determination that A > B, the tribunal noted that the texture of a heated marshmallow was more suited for eating off a skewer than with the fingers.

In its determination that C > D, the tribunal noted that any individual wanting a marshmallow snack is more likely to eat a regular-sized marshmallow than a large one. In other words, the primary reason for purchasing a Mega Marshmallow is to acquire a key ingredient for a s'more.

As a result, the company's appeal was allowed.

Commentary

Taken with the Court of Appeal's decision, the case emphasises the importance of the provision in Note (5) and how it can override the ordinary meaning of the word 'confectionery'.

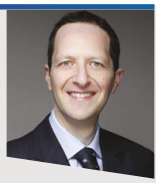
It is worth noting that, in the Court of Appeal, Males LJ was not persuaded by the original First-tier Tribunal's conclusion that the Mega Marshmallows were not confectionery in the ordinary sense. However, as there was no live challenge by HMRC against that part of the original conclusion, the only way HMRC could proceed was by reliance on Note (5). It will be interesting to see if HMRC chooses to rely in any future case on Males LJ's observations as to what was apparently common ground as to the views of 'an ordinary person' and whether 'such a person might well consider that it makes no difference that Mega Marshmallows are larger than ordinary marshmallows and that they are generally roasted before being eaten'.

For those interested, the Court of Appeal's decision shows the genesis of the wording of Item 2. It is not simply a consequence of the UK joining the then European Economic Community in 1973. The rules can in fact be traced back to the Swinging Sixties and the enactment of the Purchase Tax Act 1963 (Sch 1 Part 1).

What to do next

It is too early to know whether HMRC is going to appeal against the decision. Given four hearings so far, I suspect that the taxpayer company is hoping that the case has now reached its conclusion and that HMRC's litigators will not be asking for some more bites at the proverbial cherry (or other type of food – confectionery or otherwise).

In the meantime, this case has given tax advisers another opportunity to demonstrate that the world of tax is not entirely dry. It is undoubtedly a good case to introduce to school children about some of the work we do. It has given us plenty of food for thought.



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Traffic management under CIS

Changing lanes

HMRC's revised CIS treatment of traffic management services creates new compliance, contractor status and VAT domestic reverse charge challenges.

by Susan Ball

Key Points

What is the issue?
HMRC's revised interpretation of the Construction Industry Scheme (CIS) means that many traffic management services connected with construction operations now fall within the scope of CIS.

What does it mean to me?
Businesses providing or receiving traffic management services may now need to operate CIS, reconsider gross payment status, monitor deemed contractor thresholds and review the VAT domestic reverse charge treatment of supplies.

What can I take away?
Businesses involved in traffic management should review contracts, invoicing arrangements and compliance procedures to ensure they align with HMRC's revised approach and minimise the risk of CIS and VAT errors.

HMRC's revised approach to traffic management services under the Construction Industry Scheme (CIS), introduced from 1 March 2025, continues to create practical and compliance challenges for businesses operating in the sector.

Although the legislation itself has not changed, HMRC's revised interpretation has significantly broadened the circumstances in which traffic management services fall within the scope of CIS. More than a year on from the change taking effect, many businesses are still reviewing their position and dealing with the practical implications for CIS compliance, gross payment status (GPS) and the VAT domestic reverse charge.

The changes followed extensive discussions with HMRC's Construction Forum, of which the CIOT is a member, and form part of HMRC's continuing focus on CIS compliance and administration.

Traffic management services and CIS

Finance Act 2004 s 74(2)(f) includes within the scope of CIS 'operations which form an integral part of, or are preparatory to, or are for rendering complete such operations as are previously described'.

HMRC considers that this provision captures activities routinely undertaken as part of construction operations that are not specifically included elsewhere within Finance Act 2004 s 74(2), and are not specifically excluded by s 74(3).

HMRC's revised view is that many traffic management services supporting construction activities fall within this provision and therefore within the scope of CIS.

This represents a significant shift in approach. Historically, certain traffic management activities were generally regarded as outside the scope of CIS, including the placing of traffic cones and temporary traffic lights, as reflected in HMRC guidance in CIS340 and the Construction Industry Scheme Reform manual. HMRC had also issued differing rulings to businesses over the years on various aspects of traffic management, creating uncertainty across the sector.

HMRC has confirmed that businesses may continue to rely on previous guidance and rulings for transactions taking place before 1 March 2025. HMRC has also indicated that it may update its guidance to make this position clearer. Current guidance is contained in HMRC's Construction Industry Scheme Reform manual at CISR14305.

HMRC's revised approach means that a wide range of traffic management activities are now likely to fall within CIS where they support construction operations. Examples include:

- setting up and managing traffic systems for contractors engaged in roadworks or highway maintenance;
- installing temporary traffic lights or road signage connected with construction work;
- placing barriers or cones to create safe working areas;
- providing ongoing traffic monitoring services during the course of a project;
- pedestrian diversions and temporary crossings associated with construction-related road closures; and
- preparatory works before construction or roadworks commence, such as tree and vegetation removal, temporary white lining and temporary road repairs carried out ahead of permanent works.

Certain activities do, however, remain outside the scope of the scheme. These include traffic management services unrelated to construction operations, such as providing barriers for public events including the Notting Hill Carnival, together with delivery-only services where traffic management equipment is supplied to a construction site without installation or placement services being provided.

Impact on businesses

The revised treatment has implications both for businesses providing traffic management services and those engaging such services as part of wider construction operations. Many

businesses will need to reassess existing arrangements, particularly where previous treatment relied on historic HMRC guidance or earlier rulings.

Providers of traffic management services should assess whether the services they supply now fall within the scope of CIS and consider the cash flow implications of CIS deductions. Businesses may wish to register as subcontractors and apply for GPS where appropriate. They should also consider whether they need to register as contractors where traffic management work is subcontracted to third parties.

Recipients of traffic management services should review whether they are regarded as mainstream or deemed contractors for CIS purposes and monitor when the deemed contractor expenditure threshold of £3 million is reached. Where businesses are required to operate CIS, they should ensure that the rules are correctly applied to relevant payments and that monthly returns and payments are completed on time.

Businesses should also document the basis of their treatment both before and after 1 March 2025 in case of future HMRC review.

Given the time that has now passed since the change took effect, businesses may also wish to review whether their systems, invoicing processes and internal procedures remain aligned with HMRC's revised approach. In some cases, businesses may identify historic errors or inconsistencies in treatment that require correction.

Mainstream and deemed contractors

The term 'contractor' for CIS purposes is defined in Finance Act 2004 ss 57 and 59.

HMRC accepts that traffic management businesses will not automatically be treated as mainstream contractors. Where a traffic management business subcontracts work to third parties, whether it is acting as a mainstream contractor or deemed contractor will depend on the facts of the particular case; i.e. whether s 59(1)(a) (mainstream contractor) or s 59(1)(l) (deemed contractor) applies.

Where a business regularly supplies services connected with construction work, HMRC's view is that Finance Act 2004 s 59(1)(a) applies. In these circumstances, the business would be regarded as a mainstream contractor and required to operate CIS on payments made to subcontractors in relation to construction operations.

Where the business does not regularly supply services connected with construction work, HMRC considers that Finance Act 2004 s 59(1)(l) applies instead. In these circumstances, the business would only need to begin operating CIS once the deemed contractor expenditure threshold of £3 million is exceeded.

HMRC has also confirmed its approach to calculating the deemed contractor threshold following the change in practice. When determining whether the threshold has first been met, businesses should consider expenditure on construction operations during the previous 12 months from 1 March 2025 onwards.

However, HMRC has indicated that expenditure relating to operations previously identified in HMRC guidance as outside the scope of CIS, including temporary traffic lights and the laying of cones, should only be included from 1 March 2025.

Compliance and practical difficulties

The revised treatment was announced in HMRC Agent Update 125 and through amendments to HMRC's Construction Industry Scheme Reform manual in November 2024. The revised approach has nevertheless created practical and compliance challenges for businesses, particularly where systems and processes had historically been built around HMRC's earlier guidance. The CIOT has continued discussions with HMRC to seek further clarification on a number of issues arising from the revised treatment.

HMRC's policy team has confirmed that, in the short term, it would not generally expect compliance activity to penalise businesses that can demonstrate they were genuinely unaware of the change or had relied on earlier HMRC guidance or rulings.

However, where HMRC considers that a contractor should reasonably have been aware of the revised treatment and failed to comply with its obligations under the scheme, penalties may still arise in the normal way. Depending on the circumstances, CIS failures may also affect applications for, or retention of, GPS.

Interaction with the VAT domestic reverse charge

One of the main practical concerns that arises from the change is its interaction with the VAT domestic reverse charge.

The domestic reverse charge for building and construction services has applied since 1 March 2021 to supplies of construction services reported within CIS. Under the domestic reverse charge, the customer receiving the services accounts for the VAT due, rather than the supplier. The rules apply to standard-rated and reduced-rated construction services supplied by UK VAT-registered businesses.

The difficulty is that CIS applies by reference to payments, whereas the domestic reverse charge applies by reference to the tax point and invoice date. As a result, mismatches in treatment may arise around the transition to the revised CIS treatment from March 2025. Businesses may therefore find that invoices, payments and CIS treatment do not align neatly during the transitional period.

The CIOT has asked HMRC to provide further clarification and guidance on this issue. In the meantime, businesses should clearly document the approach they adopt and retain evidence supporting their treatment decisions.

Further guidance on the domestic reverse charge can be found in HMRC guidance: 'Check when you must use the VAT domestic reverse charge for building and construction services'.

In conclusion

HMRC's revised treatment of traffic management services has introduced additional obligations and risks for both contractors and subcontractors operating in the sector. Many businesses are still working through the practical implications of the change.

Businesses involved in traffic management should review their contracts, invoicing arrangements, CIS procedures and VAT treatment to ensure that they align with HMRC's revised interpretation. Clear documentation, robust systems and an understanding of the interaction between CIS and the VAT domestic reverse charge will be important in minimising compliance risks and avoiding disputes with HMRC.

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The landlord challenge

Adapting to MTD for Income Tax

Making Tax Digital for Income Tax will bring landlords with rental income above £50,000 into quarterly reporting, requiring behavioural change and greater adviser support.

by Rachael Adcock

Key Points

What is the issue?
MTD for Income Tax from April 2026 will bring landlords with gross rental income over £50,000 into quarterly digital reporting, many of whom have had little prior exposure to HMRC's digital regimes.

What does it mean for me?
Taxpayers who do not see themselves as 'in business', often with relatively small portfolios, may struggle with the shift to real-time record-keeping, creating increased demand for adviser support and more frequent interaction.

What can I take away?
The key challenge is behavioural rather than technical: advisers should focus on managing the transition, setting clear processes and using this as an opportunity to strengthen relationships and provide more proactive advice.

The introduction of Making Tax Digital for Income Tax from 6 April 2026 is often described as a broad reform affecting sole traders and landlords alike. In practice, however, one of the most significant and immediate impacts will be felt by landlords with rental income exceeding £50,000.

This group sits at the front line of the regime. Many are not structured like traditional businesses, do not employ finance teams and may have historically relied on relatively simple, often manual processes. As a result, the transition to quarterly digital reporting represents not just a compliance change, but a fundamental shift in how their affairs are managed.

For tax advisers, this creates both a challenge and a clear opportunity: to guide a large and diverse population of landlords through a demanding transition while strengthening long-term advisory relationships.

Why landlords are different

While MTD for Income Tax applies equally in legislative terms to sole traders and landlords, the practical starting point for many landlords is quite different.

As most residential property income constitutes an exempt supply for VAT purposes, many landlords – including

those with relatively high gross rental income – have not been required to register for VAT and have therefore fallen outside the scope of Making Tax Digital for VAT.

Unlike VAT-registered businesses, which have already been required to adopt digital record-keeping and quarterly reporting, a significant proportion of landlords are approaching MTD for Income Tax without prior exposure to HMRC's digital regimes. In practice, this is reflected in continued reliance on spreadsheets or manual processes.

The distinction is particularly evident among individuals who do not regard themselves as operating a 'business' in the conventional sense, despite generating substantial rental income.

In practical terms, the £50,000 threshold is not confined to large-scale portfolio landlords. In many parts of the UK, a portfolio of three to five residential properties will be sufficient to exceed it, while in higher-value areas (particularly London) one or two properties may generate rental income at that level. As a result, MTD for Income Tax will apply to a cohort of landlords who may not regard themselves as operating at scale and who may have had limited need for structured systems or regular reporting in the past.

For this cohort, MTD for Income Tax is not simply an extension of existing obligations, but a first substantive move into digital compliance. The challenge is therefore less about understanding the rules and more about adapting systems, processes and behaviours to meet them.

Understanding the £50,000 threshold

From 6 April 2026, landlords who have a gross rental income above £50,000 (based on their 2024-25 tax return) are required to comply with MTD for Income Tax.

As the £50,000 entry threshold is based on gross receipts rather than net taxable profit, this can be of particular relevance in the context of property income. For many landlords, deductible expenses such as mortgage interest (subject to restrictions), repairs, agent fees and other costs can substantially reduce taxable profit. As a result, landlords with relatively modest net returns may still be brought within scope.

This can be counterintuitive for taxpayers, particularly where rising interest costs or void periods have eroded profitability. It also means that some landlords who would not regard themselves as operating at a scale warranting quarterly reporting will nevertheless be required to comply.

It is worth noting that if a landlord is also self-employed, it is the total from both sources that must be used to see when MTD applies.

While the subsequent reductions in the threshold to £30,000 and £20,000 are already well signposted, the £50,000 cohort effectively serves as the first live population for the regime in a landlord context. How this group responds – in terms of compliance, behavioural change and demand for advisory support – will provide a strong indication of the challenges that will arise as the regime expands.

MTD for Income Tax in practice

In practical terms, landlords within scope must move to digital record-keeping and provide HMRC with quarterly updates via compatible software (due on 7 August, 7 November, 7 February and 7 May), followed by an end-of-year final declaration by 31 January. Late submissions fall within the points-based penalty regime, although this will not apply to quarterly updates in 2026-27.

> **Landlords with gross rental income above £50,000 are required to comply with MTD for Income Tax.**

While the compliance cycle becomes more frequent, the underlying tax payment dates remain unchanged. Income tax remains payable on 31 January and, where relevant, 31 July. Ensuring that taxpayers understand the distinction between reporting obligations and payment timings will be an important part of managing expectations.

One of the most significant practical challenges for landlords in this category is the transition year. During 2026-27, many will need to complete their 2025-26 self-assessment tax return under the existing system, while also beginning quarterly MTD reporting for 2026-27.

For landlords who are already unfamiliar with digital processes, this dual obligation creates confusion and administrative strain. There is a real risk that deadlines will be missed or that poor-quality data will be submitted simply to meet quarterly requirements.

Advisers can play a critical role here by mapping out the timeline in advance and ensuring that taxpayers understand exactly what is required and when.

Technology and the adviser's role

While MTD for Income Tax is underpinned by the requirement to use compatible software, the real challenge for landlords lies in implementation rather than selection. Many will be unfamiliar with digital record-keeping and will look to their adviser not just for an initial recommendation, but for ongoing support in embedding new processes.

However, those already using spreadsheets may find the transition easier, as they can use bridging or filing software to send their data to HMRC every quarter. For others, acquiring a software package could be the right answer. HMRC has built a software choices website to help taxpayers choose from over 50 products available, including some free and low cost software. Find software that works with Making Tax Digital for Income Tax at tinyurl.com/58j2fmm7.

For advisers, this shifts the role beyond compliance into something more operational. It involves helping taxpayers understand how to capture and categorise income and expenses correctly, ensuring that records are maintained on a timely basis and translating quarterly reporting requirements into manageable workflows.

In practice, this is likely to require a more hands-on and structured approach than under self-assessment, particularly for those taxpayers who have historically relied on informal or retrospective record-keeping. Advisers who can standardise processes and guide taxpayers towards consistent behaviours will be better placed to manage workloads and maintain reporting quality.

Jointly owned property

Joint owners need to consider their MTD position separately. For example, if total rents are £50,000, shared equally between four people, no one will need to join MTD unless their other rental or self-employment income takes them over the threshold. This is a specific easement on reporting (see the 'Compliance tips for joint property owners' on the ATT Making Tax Digital Hub at tinyurl.com/3su4c7sv.

Structuring considerations for landlords

MTD for Income Tax is already prompting some landlords to reconsider how their property interests are structured.

For those close to the £50,000 threshold, there may be scope to consider redistributing ownership between spouses to reduce individual income below the threshold. This must, of course, be approached carefully, taking into account wider tax implications including

capital gains tax, inheritance tax and stamp duty land tax.

Others may consider incorporation, although this brings its own complexities and is not always appropriate, not least because it could trigger tax charges. The administrative burden of MTD for Income Tax may be one factor in this decision, but it should not be the only driver.

More broadly, the regime is arriving at a time of significant change in the property sector. The abolition of the furnished holiday lettings regime from 5 April 2025 and ongoing regulatory developments have already increased pressure on landlords. MTD for Income Tax adds a further layer of compliance, which may influence decisions around retaining or disposing of property assets.

Finally, a point that is often overlooked is that MTD for Income Tax is not easily exited. Once a landlord is within scope, they must remain in the regime until their income falls below the threshold for three consecutive tax years. During that time, quarterly reporting obligations continue, even if income reduces significantly or ceases altogether, unless the taxpayer has ceased all self-employment and property income since the last tax return.

For landlords who are winding down their portfolios, this can create an unexpected administrative burden. Advisers should ensure that taxpayers understand these rules in advance so that they can plan accordingly.

Opportunities for advisers

While the focus is often on the challenges, MTD for Income Tax also creates clear opportunities for advisers working with landlords. First, there is a significant pool of unrepresented taxpayers. Many landlords who previously managed their own tax affairs may now seek professional support for the first time.

Second, the move to quarterly reporting naturally increases the frequency of client interaction. This creates opportunities to provide more proactive advice, including cash flow planning, tax forecasting and strategic decisions around property ownership.

Finally, advisers who invest in robust processes and systems now will be well placed to scale their services as the thresholds reduce in future years.

In summary

For landlords with rental income above £50,000, the first year of MTD for Income Tax is likely to be demanding. Many will need to adapt quickly to new systems, processes and expectations, often while continuing to meet existing obligations.

Over time, however, more regular reporting has the potential to improve accuracy and provide better visibility of tax positions. For landlords who engage fully with the regime, this may support more informed decision-making.

For advisers, the key is to recognise that this is not simply a compliance exercise. It is a shift in how taxpayers interact with their financial information and with their adviser.

By focusing on behavioural change, setting clear expectations and providing practical support, advisers can help landlords navigate the transition and build stronger, more collaborative relationships in the process.

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Beyond the numbers

Preparing for the future of tax enquiries

Tax audits are becoming data-driven and process-focused, requiring stronger data and continuous readiness to withstand HMRC scrutiny.

by John McSorley

Key Points

What is the issue?
Tax audits are becoming more data-driven, process-focused and informed by external information, with HMRC increasingly interrogating underlying data, systems and controls rather than relying on outputs or explanations.

What does it mean for me?
Tax teams must assume full visibility of their data and processes, even years after decisions are made, with enquiries becoming more targeted and demanding.

What can I take away?
Focus now on strengthening your data quality, building clear and repeatable processes, and ensuring robust digital audit trails, as audit readiness is no longer a one-off exercise but an ongoing operational capability.

For most of my career as a tax professional, I have been fascinated by the idea of doing things better, smarter and in a more technology-enabled way. Without a constant focus on improvement, work can quickly descend into late nights, fragile calculations, over-budget projects and lost audit trails.

But operational maturity is no longer just about efficiency. As tax authorities become more data-driven and technologically sophisticated, operational maturity is becoming something more fundamental: a requirement for withstanding scrutiny.

In the UK, HMRC has been clear about the direction of travel. Through initiatives such as Making Tax Digital, its 2025 roadmap and the move towards e-invoicing, it is signalling a shift to a more data-driven, technology-enabled compliance environment.

As tax authorities gain greater access to data and improve their ability to analyse it, the nature of enquiries will evolve. Reviews will move closer to the data and systems, rather than relying solely on outputs or taxpayer-prepared explanations.

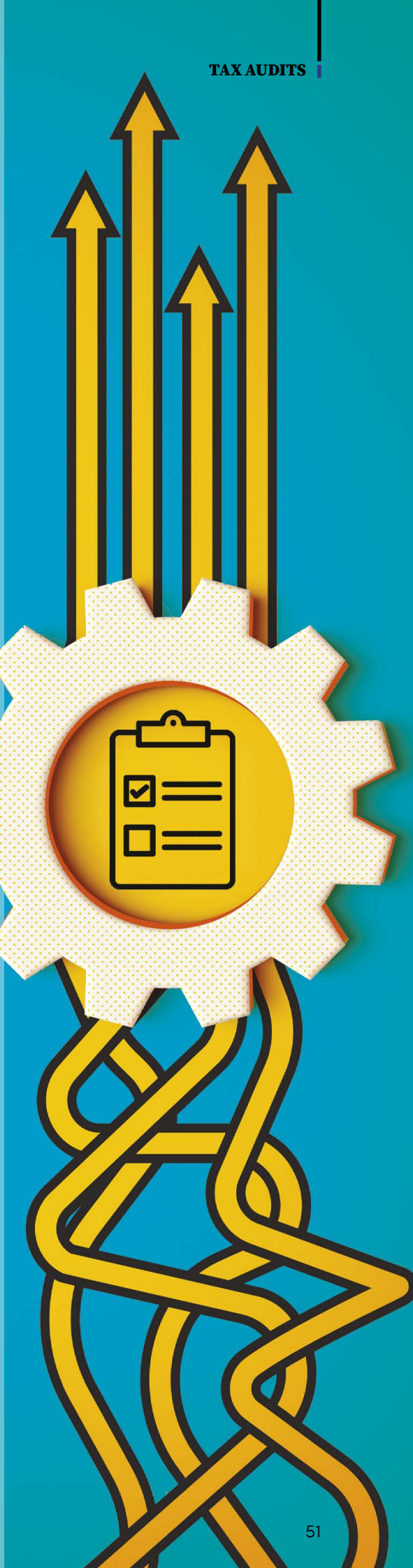
In that environment, arriving at the correct tax position will be only part of the story. Businesses will increasingly be expected to demonstrate how that position was derived, implemented and governed across their systems and data.

This article sets out a practical perspective on how tax teams can prepare for enquiries that may arise several years from now, when the data, decisions and processes may be scrutinised using far more advanced tools than those available today.

Data: the centre of the modern tax enquiry

Any discussion of the evolving audit landscape must start with data. Tax is a uniquely data-dependent function. It sits downstream of almost every other part of the business, relying on data generated by finance, procurement, R&D and beyond. In that context, it is unsurprising that 'tax data' has become something of a buzzword in recent years. While tax teams may influence how 'tax data' is managed, they are rarely fully responsible for overall creation, structure or governance.

Consider, for example, accounts payable teams responsible for capturing and validating supplier invoices to support input tax recovery, or R&D teams tracking development hours and expenditure to substantiate R&D claims. The tax function



depends heavily on data from these processes that sit squarely outside its direct control.

Historically, HMRC has explored these risks through relatively high-level enquiries, including targeted data requests, sample testing and process walkthroughs. However, this approach is changing.

Over the coming years, businesses will transmit significantly greater volumes of structured data to HMRC, particularly as initiatives such as e-invoicing and expanded digital reporting take hold. At the same time, advances in analytics and data processing mean that tax authorities will be able to interrogate that data at scale. The result is likely to be a fundamental shift in how enquiries begin.

Today, an opening request in a VAT audit might resemble: 'Please provide the top 20 invoices supporting your input tax claim for Q1.'

In the future, that same request is more likely to be framed in a far more specific and data-driven way: 'Data analysis shows that your Q1 input tax claim is supported by 518 invoices. Of these, 28 invoices account for approximately 80% of the total claim value. Within that population, seven invoices display identified anomalies…'

This may sound somewhat futuristic, but it is a relatively simple analysis to perform, requiring only two elements: appropriate analytical tools and sufficiently structured data. Neither of these is beyond the reach of modern tax authorities.

HMRC's information powers already allow it to request a wide range of data, documents and explanations as part of an enquiry. As those analytical capabilities evolve, requests are likely to focus more on underlying data, system extracts and process-level evidence.

For tax teams, the implication is clear. Scrutiny is moving closer to the data itself. Without a robust approach to data collection, management and interrogation, tax teams risk responding to enquiries using data that was never designed to withstand detailed cross-examination.

Process: building a defensible tax control environment

As the audit landscape becomes increasingly data-driven, the way in which tax processes are designed and controlled must also evolve. Historically, most tax processes have been largely outcome focused. While processes, steps and controls have always mattered, they have not typically been the primary focus of an enquiry. That is beginning to change.

Tax authorities, including HMRC, expect businesses to operate within controlled environments, where tax outcomes are supported not only by technical analysis but by clear, repeatable processes and demonstrable controls. Confidence is derived not just from the result, but also from the reliability of the process that produced it.

We are already seeing this shift reflected in audit enquiries. In recent transfer pricing enquiries, questions extend into areas such as:

- People: which teams were responsible for preparing and reviewing calculations?
- Data: what controls existed over data inputs and adjustments?
- Controls: how was consistency maintained across periods and jurisdictions?

This is closely aligned with HMRC's Guidelines for Compliance for Transfer Pricing (GfC7), which emphasise the need for businesses to operate a 'clear and effective transfer pricing compliance framework', supported by robust governance, documented processes and clearly defined responsibilities.

In practice, HMRC is no longer asking only what was done, but also how it was done – and whether that process is controlled, repeatable and consistently applied. Meeting these expectations requires both a clear narrative and evidence: the ability to explain the process and provide proof that it was followed in practice.

Without this, taxpayers should expect to invest significantly more time and effort in managing enquiries from tax authorities. Even technically correct positions may prove difficult to sustain in situations where the processes that produced them cannot be clearly articulated or evidenced.

Information: the erosion of information advantages?

Another area where tax authority behaviour is evolving is in how business information is gathered and risk is assessed.

Tax teams invest significant effort in understanding and documenting the business context underpinning their tax positions. Changes in business activity are typically monitored through business partnering, stakeholder engagement and internal reporting processes. These developments are then communicated to HMRC through periodic 'business updates', which form the basis for follow-up questions and risk assessment in key areas.

While this dynamic is unlikely to change fundamentally, the level of preparation by the tax authority is increasing – driven by advances in digital research capabilities that are narrowing traditional information asymmetries.

HMRC has long had the ability to draw on publicly available information as part of its enquiries, alongside being able to gather data from third parties and external sources in order to build an independent view of the business activities. What is changing is the ease with which large volumes of unstructured information can now be identified, aggregated and analysed.

Tools powered by advanced analytics – and increasingly by artificial intelligence – can reveal and organise vast amounts of public data in ways that used to be impractical. This includes company filings, press releases, job postings, LinkedIn data and other digital sources that provide insights into how a business is evolving.

Consider, for example, a transfer pricing enquiry where a group has recently expanded into a new market. With access to the internet and a Large Language Model (LLM), it is now possible to uncover and organise extensive insights on recent operational changes, senior hires or expansion into new markets – all of which may have implications for functional profiles, value creation and risk allocation.

With growing information at its fingertips, HMRC is more likely to enter discussions with pre-formed hypotheses based on independently sourced data, leading to more targeted and informed questioning from the outset.

This creates a further risk. HMRC may identify facts or circumstances not previously recognised by the tax team, exposing gaps in their understanding or analysis.

In this environment, traditional approaches to understanding business activity, such as business partnering and internal communication channels, remain essential but are unlikely to be sufficient on their own. Tax teams should consider how to supplement these approaches with more proactive monitoring of internal and external data sources, ensuring that their understanding of the business remains more complete than that of the tax authority.

What can tax teams do today?

Preparing for this rapidly evolving landscape will look different for every organisation. However, there are several practical principles that tax teams can follow.

Adopt a continuous improvement mindset to compliance

Compliance is evolving quickly. Keeping pace with regulatory change – from digital reporting to e-invoicing – is already driving significant technological and behavioural shifts across tax functions.

While these changes present practical challenges, they also create an opportunity to strengthen capability, identify weaknesses in data and processes, and improve audit readiness. Organisations that approach these opportunities proactively are likely not only to keep pace with evolving regulatory expectations, but also build more resilient and efficient tax functions over time.

Assume 100% visibility

Accounting standards require businesses to assume that tax authorities will examine uncertain tax treatments and have full knowledge of all relevant information. In an increasingly digital and data-driven environment, that assumption is becoming more reflective of reality. Tax teams should operate on the basis that their positions, data and processes are visible to the tax authority – and that reliance on non-detection is no longer sustainable.

Update organisational tactics

Many filing systems and approaches to process documentation were not designed for the level of scrutiny now being applied. Legacy approaches often rely on static policy documents or individuals knowing where information sits and how it fits together. However, increasingly digital audit environments demand something far more structured: searchable, traceable and with well-governed digital audit trails.

For data and documentation, this means moving beyond static folder structures and towards approaches such as digital tagging, making materials searchable and traceable back to source data and specific process steps.

For processes and evidence, this means reducing the separation between process execution and process documentation, and moving towards integrated workflows that capture both in a single environment.

Make friends with your IT teams

Digital audit readiness cannot be delivered in isolation. Tax functions are heavily reliant on enterprise systems, data architecture and digital processes. As a result, the quality of tax outcomes is often shaped upstream – by how data is structured, governed and maintained across the organisation.

Building effective relationships with IT, finance and data teams is therefore critical. Organisations that embed tax into broader IT and finance initiatives benefit from greater access to systems, knowledge and tooling, rather than relying on manual effort to bridge gaps.

Putting it all together

Collectively, these developments are reshaping what audit readiness means in practice. Audits are becoming more data-driven and process-oriented, with tax authorities interrogating underlying data, systems and controls – not just outputs. They are also becoming more continuous and granular, with deeper data requests, more targeted questions and higher expectations around transparency.

The tax audit of the future will not simply revisit past decisions. It will also test the integrity of the processes that generated them. Audit readiness is no longer a periodic exercise. It is an ongoing operational capability. The direction of travel is clear. The only real question is how prepared you are.

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WELCOME

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June Technical newsdesk

I am drafting this introduction on a sunny May day following the local, Welsh and Scottish elections. This morning's headlines are making me wonder whether, by the time you read this, we may be preparing for a change in prime minister or a shake-up of the government… Time will tell!

Whilst tax policy is generally not the key focus of local elections, we do a lot of work with the devolved administrations, so are looking forward to what the changes might mean for the work of our Welsh and Scottish Technical Committees. The CIOT/ATT Joint Presidents' Reception is in Edinburgh next week (as I write), so I am hoping we might then start to see the possible impact on Scottish devolved taxes and their administration beginning to emerge.

Across both the technical and professional standards teams, we have continued to devote significant resources to the new agent measures. We are receiving numerous queries from members, especially about getting ready for mandatory agent registration. We are sharing and discussing these with HMRC and emphasising where clarity is needed, something lacking in the legislation itself. This has been slightly helped by the statements in Hansard from the legislation's passage through Parliament, but there is still a great deal for HMRC guidance to address.

You can find out how to access HMRC's guidance, our webinar and our frequently updated FAQs in Lindsay Scott's piece on page 56. Guidance is also now available on the sanctionable conduct measure, as you can see from Margaret Curran's piece on page 55. Please do continue to let us know if the agent measures are causing practical issues, as we are having regular dialogue with HMRC on them, but we only know what is causing headaches when people tell us.

Another priority for my technical team remains HMRC service levels, and I took a road trip from the south coast to Leicester at the start of May for the Midlands Branch Conference. Along with meeting some lovely members, hearing some thought-provoking speakers and thoroughly enjoying the dinner, I was grateful to Jonathan Athow, HMRC Director General for Strategy and Policy, and Richard Hawthorn, HMRC Director for Operational Excellence, who gave up their afternoon to join me for the closing session of the day. They candidly answered questions from both the audience and me about current HMRC service levels and future HMRC transformation plans. They both stayed around afterwards to continue the conversation with anyone who wanted to pick up issues with them.

Following the successful service levels report prepared by CIOT with ICAEW in 2024 (tinyurl.com/22fs23we), the backdrop to this session was that we will shortly be launching a repeat of the project. Our aim is to compare results and continue focusing HMRC's attention, with evidence, on the issues agents are facing. Like last time, we can only do this with member support so will be looking for volunteer firms to gather data for us in the autumn. If you would like to join in or find out more, please drop me or Lindsay Scott (lscott@ciot.org.uk) a line, or keep an eye out for the launch over the summer.

Many thanks to all of you who continue to support our technical and policy work – we could not do it without you – and I look forward to speaking to many of you at summer events like the CTA Address, which are fast approaching.

NEWSDESK ARTICLES

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MANAGEMENT OF TAXES PROFESSIONAL STANDARDS

Tax advisers: sanctionable conduct

CIOT and ATT are continuing their engagement with HMRC on this new measure following lengthy discussions during the passage of the Finance Act 2026 through its consultative and parliamentary process.

Finance Act 2026 introduces a new penalty to tackle tax advisers who engage in 'sanctionable conduct' (Sch 22 ss 250-253). This is done by amending the previous tax agent 'dishonest conduct' provisions in Finance Act 2012 Sch 38. The effect is not only to widen the scope of the measure, so that it no longer applies just to conduct that is dishonest, but also to introduce significantly higher penalties based on the potential loss of tax revenue arising from the adviser's action.

HMRC have broad powers to request documents, such as working papers, from tax advisers using a file access notice where they have reasonable grounds to suspect that an adviser is engaging in, or has engaged in, sanctionable conduct. Penalties can be charged for failing to comply with a file access notice or for providing inaccurate information in response to a file access notice.

HMRC can issue an unappealable conduct notice if the evidence suggests the adviser has been engaged in sanctionable conduct. This can lead to a penalty of up to a maximum of 70% of the potential loss of tax revenue, subject to a maximum of £1 million for a first offence. In certain circumstances, HMRC must also publish the adviser's details. Second and subsequent offences attract even higher penalties. There is a minimum penalty of £7,500.

The measure came into force on 1 April 2026 and applies to acts and omissions on or after that date.

Sanctionable conduct is defined as a tax adviser doing 'something with the intention of bringing about a loss of tax revenue'. A loss of tax revenue would be brought about if clients account for less tax (or obtain more relief, account for tax later or obtain relief earlier) than required by law.

This is a wide definition which potentially could apply to any action that results in a client paying less tax than they should, regardless of whether the adviser knows what they are doing is wrong. Simply put, if you make an honest mistake when completing a client's tax return – perhaps because you have misunderstood how the law applies to your client's circumstances – and submit it believing it to be correct, arguably you have intended to bring about a loss of tax revenue as required by law. Similarly, you may have genuinely interpreted a piece of tax legislation differently to HMRC, meaning your client pays less tax as a result. This has caused concerns about the breadth of behaviour the measure could catch, and what this could mean for the tax advisory market.

HMRC's guidance, 'How HMRC deals with tax adviser sanctionable conduct' (tinyurl.com/yc63ctbh), offers some reassurance by explaining that, in HMRC's view, sanctionable conduct means 'deliberately doing the wrong thing. It does not include tax advisers who make mistakes while trying to do the right thing.' HMRC's policy document, 'Tackling tax adviser facilitated non-compliance by enhancing HMRC's powers' (tinyurl.com/4smhu9b8), also tries to clear up the uncertainty by stating that the targets of the measure are 'tax advisers who deliberately facilitate non-compliance in their client's tax affairs'. In other words, despite the broad wording of the legislation, HMRC are saying that the measure is not aimed at advisers who, for example, advise their clients to make a claim for a relief based on a different but credible interpretation of the law from HMRC's, or who make a mistake when filing a client's tax return which results in their client paying less tax than they should have done by law.

HMRC are in the process of publishing detailed guidance in their Compliance Handbook CH176000 'Sanctionable conduct by tax advisers' (tinyurl.com/m3edvfzh). The CIOT and ATT are actively engaged in commenting and providing feedback on this guidance with the aim of ensuring that it is as clear and thorough as possible in explaining the scope of the measure and how HMRC will enforce it. A key area of focus is examples of the types of conduct which are both within and outside the scope of the measure.

We are particularly pressing HMRC to include a link to the Hansard for the Public Bill Committee debate, with an explanation of why it is important. In the debate, the Minister was clear that: 'The powers will not affect advisers who act in good faith, or who take a credible view as to what the law requires of their clients, including where they use extra-statutory concessions or HMRC guidance to form that view. They also do not affect advisers who make mistakes while trying, as the vast majority do, to do the right thing' (tinyurl.com/yf4fsmhx). This would strengthen the guidance by increasing the visibility of the statement and helping to ensure it is not lost in years to come.

Clearly, it will be essential, and obvious good practice, for tax advisers to carefully document all relevant facts, discussions and decision-making at the time advice is given or a return is submitted, so that there is a detailed record available should HMRC start making enquiries down the line and the advice needs to be defended, perhaps when memories have faded or staff involved have moved on. Advisers should consider reviewing and updating their internal compliance procedures and ensure their staff receive training on the measure.

In summary, given the potentially broad scope of the statutory term 'sanctionable conduct' and the significant sanctions that can be imposed on tax advisers found to have engaged in it, CIOT and ATT members are strongly encouraged to familiarise themselves with the measure and HMRC's guidance so they understand what it might mean for both themselves and their firms.

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INHERITANCE TAX AND TRUSTS

Amendments coming to Trust Registration Service requirements this summer

The ATT and CIOT have commented on new regulations which will bring some welcome changes to the requirements of the Trust Registration Service later this year.

On 25 March, The Money Laundering and Terrorist Financing (Amendment) Regulations 2026 (tinyurl.com/crwy2rk8) were laid before Parliament. Included amongst a range of amendments to anti-money laundering measures are changes to the registration requirements relating to the Trust Registration Service (TRS). These amendments follow on from a previous consultation in 2024.

The changes include:

- a wider application of the two year 'grace' period for trusts which need to register following the death of a settlor;
- a new de minimis exemption for certain low value, non-taxable trusts;

GENERAL FEATURE

Modernising and mandating agent registration

Modernising and mandating agent registration went live from 18 May for tax advisers who interact with HMRC. CIOT and ATT are continuing their engagement with HMRC as they progress through the different registration tranches and move towards the transition of existing agents.

HMRC introduced new legislation requiring tax advisers who interact with HMRC on behalf of clients to register with HMRC and meet minimum standards. We published an article 'Tax adviser registration: modernising and mandating' (tinyurl.com/sk6y4x9z) on 23 February 2026, giving the background to the new rules. We take this opportunity to provide an update on agent registration and our ongoing work in this area.

HMRC published their first GOV.UK guidance on 17 February 2026 at 'Check if and when you need to register as a tax adviser with HMRC' (tinyurl.com/2u4dbfp8) and 'Check if you meet HMRC's conditions to register as a tax adviser' (tinyurl.com/8ee8wxjd). This included some new information on the registration tranches. We have raised with HMRC that it is not clear from the guidance that the number of relevant individuals a firm needs to identify is not capped at five, and that firms also need to consider whether employees meet the relevant individual definition. At the time of writing, HMRC have indicated to us that they are aiming to publish updated guidance, which will include a revised section on relevant individuals.

HMRC did, however, update their guidance on several points on 26 March 2026, including confirming that Import One Stop Shop Schemes do not need to register and further clarifying that those providing third-party payroll services on behalf of clients will need to register from 18 November 2026. HMRC have also separately confirmed that registration for those in the financial services sector will be deferred until 31 December 2026, with registration by 31 March 2027.

On 30 April, HMRC also published the first GOV.UK guidance on sanctions at 'What happens if you interact with HMRC when you are unregistered or suspended as a tax adviser' (tinyurl.com/36rnt7bj) and 'If you disagree with HMRC's decision about your tax adviser registration' (tinyurl.com/yrp9r2wk). This is high-level guidance, with more detail expected when HMRC publish their manuals.

CIOT has been meeting regularly with HMRC to discuss complexities including, but not limited to, the use of subcontractors, the complexities around the group undertaking exemption for structures that do not fit neatly into a corporate group, what the agent registration process will involve for overseas agents and the difficulties in identifying relevant individuals.

At the time of writing, we continue to press HMRC for detailed guidance and, as a matter of urgency, guidance on areas such as choosing relevant individuals to help firms get ready. We expect this to be published in mid-May and hope to see a draft copy from HMRC confidentially before publication.

Agents who do not have an Agent Service Account have three months from 18 May 2026 to register with HMRC and apply for an Agent Services Account. For those agents who have registered or are going through the registration process, please do get in touch if you have any feedback.

Whilst the legislative requirements are in place from 18 May, the first year is a transition year with different registration tranches depending on circumstances, with existing agents (those who have an Agent Services Account) being instructed to wait until HMRC contact them through their Agent Services Account to work together to transition across to the new register.

CIOT and ATT ran an online webinar 'Mandatory Agent Registration' on 20 April, covering who needs to register, when tax advisers need to register, the registration conditions and practicalities of registration, sanctions, the requirement to meet minimum standards and a reminder of members' PCRT obligations. For those who missed the online webinar, the recording can be accessed online for CIOT (tinyurl.com/yn54zdcc) and for ATT (tinyurl.com/mvkhpmut).

We continue to welcome members getting in touch on agent registration, as your feedback has helped us provide real-life examples of complexities that HMRC need to consider how to deal with during transition.

Please do keep an eye on our Frequently Asked Questions for CIOT (tinyurl.com/ycys4x8s) and ATT (tinyurl.com/mrx8uzsp), which we hope to continue to update as we get further clarity from HMRC.

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- the removal of stamp duty reserve tax from the list of 'relevant taxes';
- an exemption from registration for Scottish survivorship destination trusts; and
- for non-UK trusts, an extension of the registration requirements and data sharing rules to those trusts which acquired UK land prior to 6 October 2020 and are still holding it when the regulations come into force.

The new measures will take effect 21 days after the statutory instrument is signed into law. Based on the current parliamentary timetable, it is expected that the regulations will be effective by the end of June or early July.

The two biggest changes are the extension of the grace period for trusts arising on death and the new de minimis exemption for certain low value trusts.

The extended exemption for trusts arising on death is welcome. It will mean that trusts arising from deeds of variation, together with trusts which were previously exempt from registration under co-ownership arrangements or similar but which lost the exemption on the death of the settlor, will not need to register until two years after the death of the settlor.

While the new de minimis general exclusion is welcome in principle, and existing trusts which meet the condition can remove themselves from the register once the regulations take effect, it is complex and narrowly drafted. To qualify, an express trust must not:

- hold any interest in UK land;
- have held property exceeding £10,000 since it was created;
- have an annual income of more than £5,000; or
- hold assets such as art, antiques or other non-financial assets worth more than £2,000 that could increase in value over time.

Settlors will only be allowed to have one trust exempted under the de minimis exclusion, although the explanatory memorandum to the

regulations says that settlors can have trusts which are exempt from TRS registration for other reasons, as well as an exempted de minimis trust.

The ATT has fed back on some minor drafting points, and the CIOT has asked for clear guidance on the de minimis exclusions. The CIOT also continues to raise concerns about the lack of a de minimis exemption for executors, which can result in them having to register small cash balances on the TRS simply because estate administration could not be completed within two years.

We are looking forward to engaging further with HMRC, particularly on the guidance to support the new exclusion for small trusts. If you have any comments or queries about the new regulations, please let us know.

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INDIRECT TAX

Partial exemption special methods: when the answer is 'no'

When a VAT-registered business incurs VAT on costs that relate to both taxable and VAT exempt activities, it must consider a fair and reasonable recovery of the input VAT. More complex businesses may need to apply to HMRC for a bespoke calculation method to work out a fair VAT recovery position, known as a partial exemption special method.

Members of the CIOT's Indirect Taxes Committee recently met with representatives from HMRC's partial exemption team to discuss tips and best practice for the situation where a partial exemption special method (PESM) application has been rejected.

VAT notice 706 (tinyurl.com/yj6rnve2) mentions the rejection of a PESM application in paragraph 6.2 stating: 'If we decide not to approve your method we will write to you explaining the reasons why, and where appropriate, invite you to make further or modified proposals.'

If HMRC reject a taxpayer's PESM application, this means that the method of calculating input VAT recovery that the taxpayer believes to represent a fair and reasonable approach is not acceptable to HMRC. The taxpayer does, however, still need to file its VAT return and, within that, will need to take a position on whether to deduct input VAT and, if so, on what basis. The CIOT asked how taxpayers should manage this input VAT recovery risk if they apply for a PESM and are rejected. Further, how can taxpayers manage any exposure to risk where the rejection letter provides a reason, per the above statement in guidance, but does not detail other concerns that HMRC may have over the methodology proposed?

HMRC reiterated that it is the taxpayer's responsibility to self-assess a fair and reasonable recovery of input VAT incurred. Their policy is for PESM rejection letters to articulate a clear basis for the rejection. Merely stating that 'it does not provide a fair and reasonable outcome' is not sufficient under normal PESM team standards. If this were to happen, however, the taxpayer should write to ask for the reasons.

Where there are multiple issues that are unacceptable to HMRC, those considered material should all be outlined in the rejection letter. Where there are additional areas about which HMRC are uncertain, these may be raised in the letter but may not go into detail; taxpayers can ask questions about the uncertainties should they choose to engage further on the rejected PESM.

We discussed an example where a business had a PESM proposal for three sectors. If HMRC had rejected the PESM application, outlining in their rejection letter an issue concerning say sector one, could the business assume that sectors two and three were acceptable? HMRC commented that it would be best practice for the rejection letter to comment on each of the sectors independently, but if there is no comment on a particular sector it cannot be assumed that the methodology proposed is acceptable. If one sector is rejected, ultimately the whole PESM application is rejected.

The CIOT asked what businesses could do when there is a VAT return due during the period after an initial rejection, where the PESM application may be under internal review or has been resubmitted and being negotiated. HMRC commented that in the absence of a newly approved method, the business should still use its existing method, be it the standard method or an existing PESM. If the business is concerned that a difference exists between the input VAT deducted through the existing method and what it considers to be fair and reasonable, it can use either the standard method override (see section 5 of Notice 706) or, if on an existing PESM, it has the option of serving a special method override notice to override a use-based recovery from a current date (see section 8 of Notice 706). However, it should be borne in mind that HMRC may still disagree and recalculate their own view of 'use' where a special method override notice is in place. An alternative proposal to mitigate this risk would be to put specific parameters on a proposed sector calculation or discus a use-based sector with HMRC. Ultimately, as the tax is self-assessed, the decision taken should seek to minimise the risk of filing an incorrect VAT return by deducting too much or too little input VAT. An error correction notice could only be submitted where the business has the right to diverge from its existing method, either via the special method override or special method override notice.

Future engagement

HMRC have a PESM focus group that includes stakeholders from several accountancy firms and representatives from relevant professional bodies (see 'VAT: Partial special exemption methods', Tax Adviser, February 2024 tinyurl.com/ycayfwnb). The priority topic for the next meeting later this year is expected to be attribution.

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PERSONAL TAX

Government consultation: making public services work for you with your digital identity

The ATT has welcomed the government's ambition to modernise public services through the introduction of a national digital identity, while warning that poor design could increase fraud risk and fail to meet the needs of vulnerable taxpayers.

In our response to the consultation 'Making public services work for you with your digital identity' (tinyurl.com/3mufkwar), the ATT emphasised that any digital identity (ID) system needed to reflect how individuals interacted with government departments, including through professional agents, and must not disadvantage those unable to access digital services.

From a tax administration perspective, we recognise that a well-designed digital ID could reduce duplication in identity checks, streamline access to HMRC's online services and support more secure

interactions between taxpayers, agents and government departments.

Priority uses should include access to HMRC accounts, tax repayments, changes to bank details, agent authorisation and claims to benefits. In these areas, errors in identity verification can cause significant disruption and financial harm, meaning a secure digital ID could deliver real benefits if implemented carefully.

Fraud risk and system resilience

We cautioned that consolidating identity data within a single national system would make it an attractive target for criminals. Identity-related fraud already poses serious challenges, and the consequences of account compromise would be magnified if a digital ID was misused.

We highlighted that strong technical safeguards must be accompanied by clear accountability arrangements, transparent communication when breaches occur, and swift redress for individuals affected by identity fraud. Without this, confidence in both the digital ID system and HMRC's wider digital services could be undermined.

Digital exclusion and practical alternatives

A central concern highlighted was that of digital exclusion. While digital ID is described as voluntary, this must be the case in practice.

Many individuals, including those with disabilities, health conditions or limited digital capability, are unable to interact digitally or rely on others to manage their affairs. For these individuals, non-digital access routes need to be sustainable, properly resourced and equivalent to digital services in terms of both timeliness and status.

We suggested that a secure physical alternative, such as a government-issued card with a digital chip, could provide an effective option for those unable to use technology. We also pointed to a potential role for local authorities in enrolment, identity verification and user support, building on existing services.

Interoperability, data protection and next steps

We noted that it is important for any digital ID system to operate across all parts of the UK, including devolved administrations, local government and other public bodies such as Companies House, while respecting differing legal and administrative frameworks.

Data minimisation was identified as a key principle. We argue that a digital ID should contain only information strictly necessary for identity verification and should not become a repository for tax or financial data, reducing risk and helping to build public trust.

Finally, the ATT strongly supported phased pilots before any large-scale rollout. These should involve tax services, authorised agents and users with differing levels of digital capability, to ensure the system works in real-world conditions.

We concluded that digital ID could only succeed if it reduces administrative burdens while protecting vulnerable users, maintaining trust and accommodating the different ways in which individuals engage with systems.

The full ATT response is available here: www.att.org.uk/ref517

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PERSONAL TAX

National Insurance replacement credits: HMRC confirm one-year delay

The National Insurance replacement credits service is intended to help certain parents and carers fill gaps in their National Insurance record and was due to be available from April 2026. However, HMRC have now confirmed the service will not launch until April 2027.

Who might be entitled to replacement National Insurance credits?

The issue mainly affects parents and carers who:

- were eligible for Child Benefit for a child under 12 from 7 January 2013; but
- did not claim Child Benefit (for example, because of the high income child benefit charge impacting a higher-earning partner); and
- as a result, may have gaps in their National Insurance record, for example if they were not working or not entitled to National Insurance credits for any other reason.

These gaps could reduce entitlement to the state pension.

Impact of the delay

For those who do have gaps in their National Insurance record, most will not be affected by the delay to the new service, as they will still be able to apply for the replacement National Insurance credits once the service becomes available in April 2027.

However, some individuals may see a short-term impact on their state pension. This is most likely to affect people who are already receiving their state pension or who will reach state pension age before April 2027.

This is because any missing National Insurance credits may not be added to their record in time to increase their pension payments during that period.

Reporting a financial loss

HMRC have set out their complaints process through which people adversely affected by the delay can report a financial loss. HMRC say they will review each case individually and may ask for more information.

To be considered certain conditions will need to be met. These include that:

- the person was eligible for child benefit for a child under the age of 12 at any time from 7 January 2013;
- no one else has already claimed child benefit, or reported a financial loss, for the same child for the same dates;
- the person reached, or will reach, state pension age between 6 April 2016 and 6 April 2027; and
- the delay in introducing the replacement credits service will directly affect the person's state pension payments.

If HMRC agree that a person has suffered a financial loss as a result of the delay to the service, they will calculate a payment to reflect the impact on their state pension up to April 2027. Any payments are expected to be made after the replacement credits service is introduced.

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EMPLOYMENT TAX

Modernising the regulatory framework for agency work: LITRG response

LITRG has responded to the 'Make Work Pay' consultation, part of which considers how the regulatory framework should be adapted to reflect the role of umbrella companies.

The legislative framework governing the temporary labour market includes the Conduct of Employment Agencies and Employment Businesses Regulations 2003 (the Conduct Regulations). However, these Regulations pre-date the widespread use of umbrella companies, with the result that a number of protections and enforcement mechanisms do not apply directly to workers engaged through such intermediaries.

We know from our work that umbrella workers may be exposed to hidden costs, opaque deductions and uncertainty regarding their rights and pay. Particular concerns arise in relation to the elective deduction model (tinyurl.com/yca53ft6), under which individuals are treated as employed for tax purposes but self-employed for employment rights purposes. Until now, enforcement has often depended on individuals asserting their rights, which can be especially difficult for lower-paid agency workers.

The government has sought to address these issues through the Employment Rights Act 2025, which will bring umbrella companies within the scope of the Conduct Regulations. Nevertheless, in their current form, the government acknowledges that the Regulations are not well suited to regulating umbrella company activity and require adaptation.

The consultation (tinyurl.com/ytp5uatw) spans both high-level proposals – for example, preventing workers from being required to work through an umbrella company – and more detailed questions, including whether umbrella companies should be required to pay workers where funds have not been received from the agency.

In its response, LITRG draws attention to significant recent developments in the tax sphere, including Finance Bill 2026, which introduces joint and several liability to address tax non-compliance within umbrella company supply chains. LITRG supports these new provisions, which have the potential to deliver a material improvement in worker protection.

However, LITRG cautions that an overemphasis on 'choice' in relation to how workers are engaged and paid under the new regulatory regime could inadvertently encourage movement away from the strengthened umbrella framework towards less protected arrangements (for example, in-house agency PAYE). We note that workers may be at comparable risk of tax abuse from an agency as from an umbrella company. The compliance issues we see are not necessarily linked to the type of entity involved, but to the function performed, namely the payment of workers.

Our response also considers risks relating to payment. In practice, LITRG receives few, if any, queries concerning discretionary bonus payment models, which are used by some umbrella companies to mitigate the impact of agency payment default. (Where agency payment is late, the umbrella may pay the worker their basic rate while withholding any 'commission' or 'bonus' element until the relevant sum is received from the agency.) Conversely, umbrella companies generally have no independent source of income from which to pay workers; requiring payment in the absence of funds would therefore be likely to create cashflow pressures and, in some cases, business failure, an outcome that would be more detrimental to workers than delayed payment.

LITRG recommends that the elective deduction model be prohibited under the new regulatory regime, and emphasises that strong, proactive enforcement by the new Fair Work Agency will be critical. We encourage early and detailed engagement, including with HMRC, on implementation needs and practicalities, including the provision of appropriate support and expertise and the securing of adequate funding. We conclude that enforcement is not merely supplementary; rather, it is fundamental to achieving compliance, protecting workers and improving the current landscape.

The full LITRG submission is available here: www.litrg.org.uk/11208.

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PERSONAL TAX

Call for evidence: Student loans and taxation of graduates

LITRG responded to the recent Treasury Committee's call for evidence on the student loan regime.

The call for evidence questions were wide-ranging, looking at many aspects of the current income-contingent student loan system. LITRG's response focused on how the student loan system interacts with the taxation system.

Most income-contingent student loans are collected through the tax system by HMRC on behalf of the Student Loans Company. HMRC collects student loan repayments if earnings for National Insurance purposes are above the relevant repayment threshold per pay period (if an employee) and/or over the tax year if a self-assessment tax return is completed.

The repayment thresholds vary across the five different plan types and currently range from £21,000 to £33,795. The repayment rate of 9% above the repayment threshold is the same across all loan plans, except for the postgraduate loan plan, where the rate is 6%. The postgraduate loan plan also differs from the other loan types because it is paid concurrently alongside other income-contingent loans, potentially resulting in a marginal rate of loan repayments of 15%.

LITRG's response raises the question of fairness arising from elements of the collection mechanism operated by HMRC and identifies concerns relating to the calculation of loan repayments, as well as potential interactions with universal credit and minimum wage rules. For example, the increase in minimum wage rates means that some repayment thresholds are now lower than the earnings of a full-time employee on the national living wage. This is due not only to increases in the national minimum wage but also because some repayment thresholds have not risen at the same rate, such as the postgraduate loan threshold, which has remained unchanged at £21,000 since its introduction in 2016/17.

The submission also highlights areas of inconsistency in student loan repayment obligations, depending on whether the repayments are collected through the PAYE tax system or via self-assessment. An example of this relates to unearned income such as savings or rental income. Usually, student loan repayments are calculated on earned income such as employment or self-employment income. However, unearned income is also included when calculating student loan repayments under self-assessment if there is more than £2,000 of unearned income in the tax year and the total income is above the relevant repayment threshold.

The £2,000 amount is a 'cliff-edge' threshold, so if there is over £2,000 of unearned income, all of this income will be included when calculating the loan repayments. The treatment of unearned income can result in a discrepancy in the calculation of loan repayments depending on whether tax is collected through PAYE or self-assessment. This happens because not all unearned income is reported through the self-assessment system, so for those taxed only under PAYE, unearned income above £2,000 will not be included as part

of the repayment calculation. As a result, when comparing the treatment of similar amounts of unearned income, there will be lower student loan repayments if the tax is collected through PAYE than where the individual is within the self-assessment system.

The full LITRG submission is available to view here: www.litrg.org.uk/11206.

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EMPLOYMENT TAX MANAGEMENT OF TAXES

New loan charge settlement opportunity

Key updates for advisers supporting clients with unresolved loan charge issues following the McCann review.

The Finance Act 2026 introduces a new settlement opportunity for taxpayers with outstanding loan charge liabilities, following the McCann review. For many clients, the revised approach is expected to produce lower liabilities by recalculating tax for the relevant underlying years, rather than applying the 2018/19 loan charge in full.

Other key features include:

- removal of late payment interest and, in many cases, penalties;
- a £5,000 reduction; and
- write-off of inheritance tax already due.

Calculation: case study

We have updated our website guidance (tinyurl.com/2s5sb3ea) to explain all features of the new settlement opportunity. We have also published a case study (tinyurl.com/ypy8e2b2) to illustrate how the new calculation might work in practice and address areas where we have seen confusion circulating, including the treatment of promoters' fees and the inclusion of National Insurance.

While the case study is necessarily simplified and assumption-based, pending further regulations, it demonstrates that for some clients, the revised terms may materially reduce liabilities. In our example, John's liability reduces from £71,325 to £16,406. For eligible clients, this settlement opportunity may therefore represent a meaningful step towards resolving long-running loan charge issues.

Scope and eligibility considerations

Clients who are most likely to benefit are those, like John, who:

- have outstanding loan charge liabilities;
- were in a loan-based scheme between 9 December 2010 and 5 April 2019; and
- have not yet fully settled their position with HMRC.

There may also be a benefit for clients who previously agreed a settlement with HMRC but have not yet completed payment, although the scope is more limited. We understand that HMRC have written to people in this position indicating that they may wish to pause payments to maximise the amount of liability to which the new terms can be applied.

For other clients, advisers should note that the settlement opportunity:

- may not apply at all (for example, clients who have fully settled and fully paid, or who were in loan schemes entirely outside the loan charge window);
- may offer relatively limited advantage, for example, where liabilities are substantial and the £70,000 cap applies;
- may introduce additional complexity, for example where arrangements fall partly within the loan charge window or rules. This is because these clients will need to formally settle all disguised remuneration liabilities to access the new terms.

Partial cases

Where individuals have a mixture of pre-2010 and post-2010 disguised remuneration liabilities, it is likely that the non-loan charge liabilities are larger because they are older and have accrued more interest. This significantly reduces the likelihood that such individuals will be willing or able to settle.

Individuals in arrangements that moved in and out of the loan charge, depending on the scheme structure at the time (for example, the presence or absence of a third party) may also require careful analysis. An added complexity is that updated technical interpretations by HMRC may mean some loans are outside scope where they were previously assumed to be in scope.

These types of clients may need support to review their position carefully yet holistically, particularly given the finality of contract settlement.

Other practical points for advisers

HMRC are expected to contact affected taxpayers in stages, with calculations tailored to individual circumstances. In some cases, HMRC will require additional information before issuing revised figures and clients may need help to identify and gather any relevant information and documents, for example bank statements. Clients who are ready to progress can contact HMRC proactively to request that their case is prioritised.

Separately, there are indications of renewed loan recall activity. This may be connected to the new loan charge settlement opportunity, as people may potentially seek deeds of release for inheritance tax purposes to stop future liabilities accruing. If clients receive correspondence from an organisation, or its solicitors, purporting to now own their loan, or a statutory demand for payment, it is important they do not ignore it. Strict time limits apply. LITRG have previously researched and published extensive guidance on this issue, which advisers may find helpful, at: tinyurl.com/mt8yu8p.

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Other Recent Submissions

CIOT	Date sent
Large business tax compliance www.tax.org.uk/ref1604	27/03/2026
Review of Double Taxation Treaties 2026/27 www.tax.org.uk/ref1670	28/04/2026
ATT	
Introduction of Electric Vehicle Excise Duty www.att.org.uk/ref515	17/03/2026

Briefings

Scottish taxation

Call for review of tax powers

… while polling backs up the call for focus on awareness.

CIOT, ATT and LITRG published their tax priorities for the new Scottish Parliament ahead of the election on 7 May. These are:

- **greater understanding of the impact of income tax divergence** to see if changes to income tax are impacting Scotland's appeal as a place to live, work and do business;
- **better awareness of Holyrood's tax powers** among MSPs and the public;
- **consensus on council tax reform** to deliver meaningful reform to a tax that LITRG has previously described as 'detached from reality';
- **a review of the tax powers introduced by the Scottish Parliament** to assess their cost, how well they work and whether they achieve their aims; and
- **a Scottish Tax Bill** to help the Scottish Parliament update tax laws more quickly, fix anomalies and respond more flexibly to UK tax changes.

'The start of a new parliamentary session is an opportunity for MSPs to take stock of the first decade of tax divergence to understand what has worked well and what hasn't,' said Ellen Milner, CIOT's Director of Public Policy. 'That is particularly true of income tax, where more frequent data of improved quality could help us to understand the impact of divergence on Scotland's attractiveness as a place to live, work and do business.'

'Scotland's tax powers have developed significantly over the past decade, but as further devolved taxes are introduced, the system now needs to evolve further to ensure that it is working effectively, transparently and in line with its policy objectives,' added ATT Technical Officer Chris Campbell.

Alongside the priorities paper, CIOT released new polling results highlighting the need for improved awareness of the Scottish Parliament's tax powers. Findings include:

- Only 21% of people surveyed knew that income tax powers are shared between the Scottish and UK parliaments. Nearly half (47%) believed that income tax was set solely by the Scottish Parliament.
- Land and buildings transaction tax is 'consistently the least well understood tax across all waves of the survey' with a larger proportion of 'don't know' responses.
- 70% were not aware that some Scottish taxpayers can claim extra tax relief on their pension contributions, and 58% were unaware that this was also the case for Gift Aid on charity donations.

Leadership

ATT team for 2026-27

A new ATT leadership team will take up their posts on 9 July at the Association's AGM.

Barry Jefferd

ATT's new President, taking over from Graham Batty, will be **Barry Jefferd**. Barry is a Senior Partner with George Hay. He advises on the complete range of taxes, although he particularly enjoys capital gains tax, inheritance tax and property and land transactions. He is Chair of the Examination Steering Group and a former chair of the ATT-CIOT Mid-Anglia Branch.

Eleanor Theochari

Barry will be replaced as Deputy President by **Eleanor Theochari**. Ele is a corporate tax adviser, leading the R&D tax function as a Partner at Blick Rothenberg, where she is responsible for overseeing the delivery of all clients' R&D claims. She was a finalist in the Rising Star category at Tolley's Taxation Awards 2022 and 2023. She is Vice Chair of the Joint ATT-CIOT Professional Standards Committee.

Richard Freeman

Ele will in turn be replaced as Vice President by **Richard Freeman**. Richard works for HMRC as a Deputy Director Compliance in the Large Business Directorate. Prior to joining HMRC, he worked in leading legal and accounting firms. He chairs the Nominations Committee and the ATT-CIOT HMRC Branch and is a former Chair of Birmingham and West Midlands Branch.

Officers
CIOT's new team 2026-27

CIOT's new team of Officers for 2026-27 will take up their posts at the Institute's AGM on 4 June.

Paul Aplin

Paul Aplin is the new President, taking over from Nichola Ross Martin. Paul is a well-known tax writer and speaker, particularly on tax administration and technology. Formerly a tax partner at AC Mole & Sons he now advises two software developers and is an Independent Adviser to HMRC's Closing the Tax Gap Committee. He was appointed an OBE for services to the profession and for public service in 2009. Notably, he becomes the first person to have served as President of both CIOT and ICAEW. You can read his incoming speech on pages 64 and 65.

John Barnett

John Barnett, the new Deputy President, is a partner at law firm Burges Salmon. Until recently, he chaired the Institute's Technical Policy and Oversight Committee. He was a contributor to the 2020 Wealth Tax Commission and is a former chair of Presiding Judges for the STEP Private Client Awards.

Jonathan Riley

Jonathan Riley, the new Vice-President, spent the majority of his career as a partner with Grant Thornton UK LLP, where he was National Head of Tax between 2013 and 2018. He is a former chair of both LITRG and the Institute's Finance Committee, and current chair of the Institute's Nominations Committee.

Nichola Ross Martin remains on CIOT's Officers Group as Immediate Past President, while former President Charlotte Barbour has taken over as chair of the Technical Policy and Oversight Committee.

Wales
Tax message for Welsh government

CIOT wrote to the main political parties in Wales ahead of May's Senedd election, highlighting issues related to accountability and good governance in tax policymaking that it believes should be a priority for the new Welsh government over the coming term.

The letter, sent by Ellen Milner, CIOT's Director of Public Policy, set out four key areas for action:

1. Adopt a structured approach towards changing primary tax legislation
2. Improve taxpayer awareness of the devolution of Welsh rates of income tax
3. Strengthen and clarify processes for agreeing new devolved taxes
4. Adhere to robust consultation and evaluation practices

'Tax policy will play a pivotal role in determining Wales' economic future,' said Ellen. 'By focusing on accountability and good governance, the next Welsh government can help create a tax system that is effective, fair and aligned with the long-term needs of Wales.'

In the news

Coverage of CIOT and ATT in the print, broadcast and online media

'I can assure you that the various professional bodies have been busy making representations to the government as part of the consultation process, including the Chartered Institute of Taxation (CIOT) of which I am a member.'

The Daily Telegraph (Mike Warburton Tax Tips column) on inheritance tax on pensions, 24 March

'A massive change to the way tax is collected for landlords, known as Making Tax Digital, will also begin on Monday. The Chartered Institute of Taxation has in its online guidance set out which taxes will be increased from Monday, as HMRC implements rules set by Chancellor Rachel Reeves and HM Treasury.'

Daily Express, 4 April

'Freezing the personal allowance and tax rate thresholds means they are not keeping up with inflation. Where incomes rise with inflation, individuals get to keep less of any extra income they receive each year, and more taxpayers are brought into higher and additional-rate tax bands.'

ATT quoted in the Daily Mirror on new tax year changes, 7 April

'The April 2026 changes therefore uprate rates by forecast inflation and apply an additional catchup increase to reflect past inflation, as well as reflecting the government's decision to tax users of private jets more highly.'

CIOT quoted in the Daily Star on air passenger duty, 7 April

'A functioning second-hand market is essential if the government is to succeed in eventually phasing out petrol and diesel vehicles.'

ATT quoted in the Telegraph on taxing electric vehicles, 9 April

'It's over 30 years since the famous VAT case which looked at whether a Jaffa Cake is a biscuit or a cake, but we still see bizarre cases cropping up in this area. For example, a recent case on the VAT treatment of giant marshmallows saw the tribunal come up with a mathematical formula based on how a marshmallow is eaten. Overall, VAT is an area which is ripe for reform.'

Emma Rawson, ATT director of public policy, in the Financial Times on VAT reform, 19 April

President's incoming speech

Digital systems must be co-created with tax profession, says new CIOT President


John Coupe and Paul Aplin file the first ever e-return

In his speech to CIOT's Annual General Meeting on 4 June, incoming President Paul Aplin will say that 'co-creation' came late to MTD; for further digital developments it needs to be built in from the start.

A long time ago, in what now feels like a galaxy far, far away, I began my career in tax. I joined a Westcountry firm of accountants in 1980, qualified as a Chartered Accountant in 1985 and then as a Chartered Tax Adviser in 1989. Eight years later, I was involved in a moment of tax history. It changed the entire course of my career – and, indirectly, some of yours.

A moment of transition

It took place on 23 April 1997. I have a photograph of it, in which I am standing on one side of a computer that now looks like a museum piece, but which was then cutting-edge technology; on the other side stands my friend John Coupe, then an Inspector of Taxes at Taunton 2 Tax District.

It was a time of huge change in tax administration.

We were moving from an 'assessment' system, where we submitted figures on a tax return and the Inland Revenue issued an assessment based on those figures, to a Self-Assessment system in which we prepared both the return and calculation, which the Revenue then processed and – at their option – checked later. The system was being turned on its head.

And given the need to prepare the calculations as part of the return, this was when many smaller firms first began using tax software.

The photograph captures the moment of transition from Tax Administration 1.0 (a paper-based world) to Tax Administration 2.0 (a world in which forms were electronic). We had just filed the UK's first ever electronic personal tax return.

Some said that e-filing would only ever be suitable for simple cases; some objected to having to buy IT equipment; some worried about data security and others about job security. Familiar responses to digital change. But it reduced our costs, increased our efficiency, improved our client service and the size of our tax department increased.

Now, 29 years later, around 97% of personal tax returns are e-filed as a matter of course. Unsurprising then that technology has been a major theme of my career in tax. And one that I want to focus on over the coming year.

But the photograph captures something equally fundamental to the tax system and to my life – and yours – in tax: the working relationship between agents and HMRC.

The day before we filed that first electronic return, I called John and asked if he would like to see how we prepared the return and then be present when we fired it down the line.

The day after we had filed it, John invited me to his office to see what the Inland Revenue system had received. After a few phone calls, we discovered that he could not view it on his computer screen but had to request a printout from Shipley. It came in the Internal post.

Rome wasn't built in a day.

A matter of trust

My point is this: John and I both regarded it as obvious that we should see and understand the process from each other's point of view.

It involved a degree of mutual trust that was so ingrained that we didn't even think about it. Let me dwell for a moment on that theme of trust and common interest.

John and I argued regularly over tax issues: what was allowable and what wasn't; what was a reasonable stock valuation or provision and the correct treatment of a particular item. We knew when and how to fight our corner. We respected each other's professionalism.

Yes, it was easier then when we had local tax offices and knew each other personally. And perhaps what we witnessed that day in 1997 was the advent of the very technology that would – in part – facilitate a less personal, more remote relationship.

We will never go back to the world as it was in 1997. The change is irreversible. But the need to work together effectively and to respect and understand each other's roles in making the tax system work is as important now as it was then.

Complexity and simplification

The UK system has become hugely more complex over the 46 years I have been involved in tax. Remarkably, despite that increased complexity, it still enjoys – and indeed relies on – a very high level of voluntary compliance. By international standards, the UK tax gap is low.

Some taxpayers, however, really struggle with the complexity they face and the work of the tax charities, and my CIOT colleagues in the Low Incomes Tax Reform Group, to support them is vital.

The need for simplification is therefore another strand in my story. It is the topic for this evening's CTA Address, given by David Gauke, former Treasury Minister who will be joined by my former OTS Board colleagues Professor Judith Freedman and Dame Teresa Graham.

The need for simplification is not just about making it easier to comply successfully, but about helping to reduce the administrative burden of compliance – the raison d'être for HMRC's Administrative Burdens Advisory Board, which Dame Teresa chairs. For smaller businesses, that burden can be disproportionately high, in part perhaps because the challenges they face are not always understood sufficiently to be fully reflected in policy design.

So, technology, the relationship between HMRC and the profession, effective tax administration, simplification and reducing administrative burden, are all captured in that photograph.

What can we do?

What can – and do – we at CIOT actually do on these fronts?

Firstly, it is important to say that we have an obligation under our Royal

Charter – and as a charity – to speak and act in the public interest; we also have a Charter obligation to educate. Our discussion on tax simplification this evening is driven by both of those obligations.

And former CIOT President Bill Dodwell will be delivering the ICAEW Tax Faculty's Hardman Lecture on simplification at the end of this month.

Our two Institutes maintain a close working relationship – I am a member of the Tax Faculty Board – and we will be meeting over the summer to talk (amongst other things) about how we keep this ball rolling.

We will also be following up on our joint CIOT/ICAEW HMRC service standards survey and report, asking members to tell us about the issues they are facing and making practical, constructive recommendations to HMRC.

On technology, we are in the process of our annual 'refresh' of the CIOT Diploma in Tax Technology to ensure that it remains up to date. Alongside DiTT we have our short AI in Tax course. And we will continue to work to keep the PCRT (Professional Conduct in Relation to Taxation) guidance relevant in a digital world, as we have recently with additional guidance on AI and MTD. We have refreshed our education governance structure and overhauled both the CTA and our Joint Programmes with ICAEW and ICAS.

We are doing a lot more besides.

Our relationship with HMRC

I'd like to turn again to our relationship with HMRC. This is also rooted in our public interest obligations.

We need a relationship with HMRC based on trust, shared purpose and a willingness to be candid, even when it is difficult. Perhaps especially when it is difficult. Let me illustrate what I mean by that.

MTD was first announced in 2015. Until around three years ago, if anyone had asked me what we had achieved through the many, many hours of engagement with HMRC on it I would have had to say 'nothing'.

Things changed fundamentally three years ago. The dialogue opened up. There was a genuine willingness to listen to our concerns and to those of other stakeholders. The End of Period Statement was dropped, it was agreed that quarterly returns should be cumulative rather than stand-alone – avoiding the need to correct already-filed returns perhaps numerous times – and functionality was added in order to enable multiple agents to engage with HMRC.

The term 'co-creation' also began to be used, with sessions bringing together HMRC, software developers and representative bodies to look at key aspects of MTD.

Co-creation recognises that there are multiple stakeholders in tax administration and that to maximise efficiency, to minimise complexity, to minimise administrative burdens and to drive down the tax gap we all have a role to play: not a script written by any one party, but one that we write together.

Co-creation came late in the day for MTD. There were things we could change – and as I have said, did change – but other elements were too baked in to change at such a late stage.

To build better tax administration processes, the principles of co-creation, of sharing the problem rather than a partially worked-up solution, of listening to all voices at the very earliest stage and before design work starts must be hard-wired into HMRC's approach.

Optimist or pessimist?

Am I feeling optimistic? Actually, yes, I am. I was greatly reassured to hear HMRC's First Permanent Secretary J P Marks speak about 'working in the open' at last year's CIOT Cambridge conference, by hearing his HMRC Executive Committee colleague Jonathan Athow speak about the importance of 'sharing the problem' in his opening remarks at HMRC's last Stakeholder Conference, by the references to co-creation in HMRC's Transformation Roadmap and by the workshops that have been taking place over recent months to create a framework for this new way of working.

It will be critical to the success of the new digital initiatives set out in the Roadmap, initiatives that will move us beyond MTD into the world of Tax Administration 3.0.

A world where we make best use of data, closer to real time; where we make effective use of AI, which brings new challenges as well as new opportunities, and where we begin to build compliance into taxpayers' natural systems. A world where we harness the power of technology – through prompts and nudges at the point of transaction recording for example – to drive compliance upstream. Where we use technology to drive efficiency, reduce complexity, reduce administrative burdens and give taxpayers the best possible chance to navigate the tax system successfully.

Easier to get it right; harder to get it wrong.

Always remembering – and here I am going to steal a line that has appeared in several Admin Burdens Advisory Board Annual Reports – that 'tax is not and should never be the only driver for change'. The main driver for using technology should always be to increase business efficiency.

Making co-creation the normal approach to designing new digital systems can, I believe, help us to build better, faster and with greater effectiveness.

HMRC and agents – a matter of trust

There is one other aspect of our relationship with HMRC that I want to touch on.

The powers in Part 7 and Schedules 20 & 21 of the Finance Act 2026 relating to agent registration, holding as they do the potential for suspension, and the changes to Schedule 38 of Finance Act 2012, which replace the words 'dishonest conduct' with 'sanctionable conduct' and which introduce the concept of doing 'something with the intention of bringing about a loss of tax revenue' are very widely drawn.

These are powers that could be career ending.

While there are some safeguards in the legislation, we have to rely on statements by ministers and on HMRC guidance for the reassurance that these wide-ranging powers will be used with great care, by specialists, to deal with bad actors and that they will not be used against good agents who sometimes make honest mistakes.

I am grateful for the Hansard statements and for the very candid conversations we have had with HMRC. But having such strong powers in law and key safeguards in guidance feels unsatisfactory. We will be keeping a very close eye on how the powers are used in practice. A huge amount now rests on trust.

Which takes me back to my photograph. It was easy for John and I to trust each other because we knew each other. It was also easy for John and his colleagues to know who not to trust.

It is harder in this digital and less personal world. But no less important. Because no matter how far we go on the digital journey – until we start taxing robots perhaps, but I fear I may be straying back to Star Wars territory – tax is still, fundamentally, about people.

And whether we are thinking about technology, simplification, administrative burdens or powers, it is critical that we never lose sight of the individual human impacts.

This speech has been slightly edited for space reasons.

Outgoing President's Speech

Serving through the summer of tax

Outgoing CIOT President Nichola Ross Martin will share highlights of her year in office in her speech to the Institute's AGM on 4 June.

Nichola Ross Martin

It has been a great pleasure and privilege to serve as President for the past year. What a year; it went by in a flash. As president I have chaired CIOT's Council. We are all volunteers and I would like to thank each and every one of you for your enthusiasm in this role and your friendship and support.

This year we waved farewell to departing Council members Penelope Tuck, Gary Ashford and Peter Rayney. Both Gary and Peter are former presidents. I wish you all well in your future endeavours.

Future proofing the Institute

One task for CIOT and its Council is ongoing: how to future proof the Institute and its qualifications. It's a challenge second-guessing what 'the world of tax' will look like from the screen of Gen Alpha. Following extensive consultation with stakeholders last year, we have agreed a revised CTA qualification and education governance structure. The new CTA will apply to exam sittings from 2028.

This has been a challenging task and I want to say a special thank you to CIOT's Director of Education Vicky Purtill and her team for their work on the new CTA.

On our technical side, there has been a review of committees and an update in terms of governance.

Recently I attended a lunch to thank members of the advisory board of CIOT's Low Incomes Tax Reform Group. LITRG was founded in 1998 as an initiative to support people on low incomes who cannot afford tax advice. Its work remains as important and relevant as ever.

My year kicked off with our Tax Technology Conference in Birmingham. I enjoyed a lot of discussion on the shortcomings of the AI large language models. AI solutions in tax involve asking the right questions. That is difficult without having the appropriate level of tax knowledge. Of course, if you have the appropriate level of knowledge you probably don't need to ask the question. It's a 'which came first: the chicken or the egg?' type of conundrum.

Encouraging debate on tax reform

Summer 2025 was the summer of tax. Budget speculation was in the press, online and wherever I went. This made it easy to choose topics for tax debates. I chaired discussions on taxing wealth at the party conferences in Liverpool and Manchester. Joint debates with the IFS explored international tax co-operation, property tax reform and the success and failures of tax devolution. Our CTA Address looked at how we can harness technology to tackle tax crime.

A big part of the presidency is supporting the CIOT's branch network. It's been a pleasure to participate and often speak at conferences held by our East Midlands, London, Home Counties, Jersey, South West, and Somerset and Dorset branches. I played Christmas bingo in Leeds, danced late into the night in Manchester, and took part in a taxing business game in South Wales, supporting students of Cardiff and Swansea universities. Well done to all the branches and thank you for inviting me.

I handed out prizes at our admission ceremonies, recognising the brilliant achievements of our students, and visited many of the great halls of the city of London, including dining with the Worshipful Company of Tax Advisers, who do such great charity work.

A year ago, in my opening speech as President, I complained that while there is plenty of argument about rates and burdens in Parliament, there is very little about reform and design. We did our best to rectify that during the year.

A few more ideas

Here are a few more personal suggestions before I sign off as President. We could merge income tax and NIC: for me this is a no brainer. Why collect two taxes when you could do the same with one?

We could finish the job on employment rights reform: move to single worker status and line up employment rights with employment status for tax. No one understands the differences and they just serve to confuse workers, employers and HMRC.

I also believe that the purpose of a tax system is not simply punitive: why can't it be used to motivate and inspire? We need meaningful incentives to encourage entrepreneurs.

And then council tax, all economists agree that valuations need updating, and it's unfair to have bands at different levels depending on your postcode.

I also urge government to review the full tax impacts of all new policies in order to avoid any further unexpected or unintended consequences. For example, it has only just been noted that there is an SDLT consequence of the Renters Rights Act 2025: something now to be corrected with retrospective legislation. Or, in the case of landlord taxes, will driving private landlords out of the system be productive? What replaces them?

A low point in my year was finding that Parliament was willing to pass broadly drafted and unclear legislation in respect of the mandatory registration of tax advisers. I hope it will not cause significant issues in law enforcement, compliance and legal interpretation, but I fear the worst. I cannot see the point in parliamentary drafting guidance if it is not followed.

I would like to thank friends, and colleagues at 2020 Innovation, for all their support and enthusiasm.

As I hand over to Paul Aplin, and wish him well for his year, I am conscious that in just a few days' time, the first returns will be filed under MTD for income tax. This next year is going to be a testing time for all concerned.

And finally, I would like to give thanks to everyone who has done so much to support me in my year as president, including our CEO Helen and her team and my fellow members of Council.

This speech has been abridged. The full speech can be read at www.tax.org.uk/blog/1

Spotlight

Spotlight on HMRC's Representative Body Steering Group

HMRC's Representative Body Steering Group (RBSG) is the overarching forum for professional bodies and software developers. It is positioned as the most strategic of the regular forums attended by professional bodies and is chaired by HMRC's Director General for Strategy and Policy, Jonathan Athow.

RBSG's remit spans HMRC's performance, including customer service, digital strategy and the impact on agents. It also provides a good starting point to discuss cross-cutting issues and matters causing concern across the profession. The group originated in response to the need for public consultation on major policy and operational issues.

CIOT, LITRG and ATT are all represented on RBSG. Representatives respond to items raised by HMRC and other bodies, as well as requesting that items of importance are added to the agenda for discussion.

The terms of reference set out HMRC's public commitment to 'consult with customers on all major policy and operational issues and put them at the heart of everything it does'.

Regular agenda items

Meetings usually include an update on HMRC's performance, particularly where results vary against targets. Attendees are then given the opportunity to comment, ask questions and raise concerns, often relating to live operational issues which HMRC may take away for further consideration if an immediate response is not available.

For example, a recent request focused on why agents were posting screenshots on LinkedIn showing lengthy expected response times from HMRC, when headline performance figures suggested improvements and significantly shorter waits.

Between meetings, RBSG members contribute to a dashboard which tracks activities that support key initiatives, in order to monitor progress. Updates may include educational events run by professional bodies or HMRC participation in events that contribute towards the goals of the group.

Other issues raised by HMRC may include early sight of proposals for future engagement, confidential testing and discussion of plans that could impact agents or taxpayers, or matters that sit over other groups.

Some agenda items are driven by working groups, such as reports from the Agent Digital Design Advisory Group (ADDAG), while others are raised at the request of members. For example, CIOT has requested that the new policy-making process is discussed, following concerns raised at our latest Technical Policy and Oversight Committee meeting.

Engagement outside the meeting programme

RBSG is supported by a secretariat within HMRC's intermediaries team. The group provides a useful avenue for raising queries that do not have an obvious route into HMRC, involve cross-cutting or strategic concerns, or require escalation.

For example, CIOT has recently gathered feedback from staff and volunteers regarding the confidentiality levels being applied across engagement groups, a point of concern for some firm volunteers. We have prepared and submitted a paper to HMRC setting out our concerns, including inconsistent application and a lack of clarity around categorisation. HMRC is now considering the issue and is expected to return to RBSG for further discussion.

More information on RBSG

The list of participating bodies, the terms of reference and meeting notes are published by HMRC on the GOV.UK website at: tinyurl.com/4drhxwms.

Making Tax Digital

Making the most of the ATT's MTD resources

Making Tax Digital for Income Tax (MTD) became compulsory for the first wave of taxpayers this April. As MTD moves from theory into reality, members will continue to uncover questions and practical issues. To help with this, the ATT is continuing to update and extend our support and resources.

These can all be accessed from our dedicated landing page on the ATT website at: tinyurl.com/4tuyfpzm

Resources include two sets of FAQs: one covering MTD at a relatively high level, suitable for brushing up on the basics and sharing with clients; and a second set covering more complex areas. These FAQs will continue to be updated as we receive more queries and HMRC provides additional clarification.

Other resources include guidance on digital readiness and Agent Service Account (ASA) tips, tackling common misunderstandings and practical problems encountered by agents. We also have guidance on exemptions and how to apply for them, alongside deep dives into topics such as record-keeping requirements and reporting relaxations for joint property owners.

The ATT has also produced a range of explainer videos, including our 'bite size explainers' – short YouTube videos covering key aspects of MTD which can be shared with clients and contacts.

The ATT's monthly MTD peer discussion groups have been extended until August to cover the first quarterly reporting deadline. These informal sessions are facilitated by members of the ATT's Technical Team but are not traditional webinars. They are member-led discussions providing an open forum for attendees to share practical concerns around MTD, exchange ideas and support one another with tips and advice.

The sessions are open to all, although they are most likely to benefit those working in smaller firms. They are free to attend and hosted via Zoom. More information, including registration details, is at: tinyurl.com/y2bvrk4x.

Finally, we continue to engage with HMRC on practical MTD issues and encourage members encountering issues to contact us at: atttechnical@att.org.uk.

Ceremony

CIOT Admission Ceremony: Thursday 16 April 2026

The Institute's President, Council and Chief Executive were delighted to welcome new members admitted in 2025, CTA examination prizewinners and Members who have reached 50 years of membership to the April Admission Ceremony.

On Thursday 16 April, over 200 new Associates, 16 prizewinners, six members reaching 50 years of membership and two Fellows, together with their guests, enjoyed the splendid surroundings of Drapers' Hall in the City of London. This marked the second time that the ceremonies were live-streamed, enabling family and friends to join virtually.

Each year, the Institute hosts two admission ceremonies, one in the afternoon and one in the evening, for new members and their families. Details of the next ceremony will be confirmed in due course.

New Chartered Tax Advisers at the afternoon Admission Ceremony

New Chartered Tax Advisers at the evening Admission Ceremony

The President, Nichola Ross Martin, with the prizewinners from the May 2025 and November 2025 sittings for the Chartered Tax Adviser (CTA) examination.

(From left to right) Front row: Amelia Tapp (Victor Durkacz Medal, November 2025), Alice Green (Spofforth Medal and Croner-i Prize, November 2025), Nichola Ross Martin (CIOT President), Holly Chen (Wreford Voge Medal, May 2025) and Elysia Warner (Ian Walker Medal, May 2025)

Back Row: Rachel Jackson (John Beattie Medal, November 2025), Joanna Sherriff (Ronald Ison Medal, May 2025), James Shepherd (Institute Medal, May 2025), Ria Dhillon (Gilbert Burr Medal, May 2025), Oliver Flounders (John Tiley Medal, May 2025), Pratik Shah (John Beattie Medal, May 2025), Charlie Tillett (Victor Durkacz Medal, May 2025), Lauren MacLaren (Chris Jones Prize, November 2025), Daniel Rechnic Moreno (John Tiley Medal, November 2025), Susan van der Byl (Ian Walker Medal, November 2025) and Corey Jones (Gilbert Burr Medal, November 2025)

The new Fellows: James Davin and Ellen Milner with Thomas Yarwood (Wreford Voge Medal, May 2024) (first left) and Nichola Ross Martin (CIOT President)

The 50 Year Members: Peter Daveney, Elizabeth Anfield, Ian Whiteman, Nichola Ross Martin (CIOT President), Howard Fox, Christopher Stratton and Michael Percy

Notice

ATT: Notice of Annual General Meeting

The 37th Annual General Meeting of the Association of Taxation Technicians will be held on Thursday, 9 July 2026, at 14:00.

Civica has been appointed as scrutineers for the ATT AGM 2026. Access to the AGM Notice, Annual Report and Accounts, and information regarding those standing for election to Council will be provided through links in an email sent to Association members by Civica in June. The CES proxy voting site will be accessible via a link in that email.

If you prefer to receive a hard copy of the proxy form, please email: support@cesvotes.com or telephone 020 8889 9203 and a form will be sent to you with a reply-paid envelope. You have until 7 July 2026 to return the form.

A copy of the AGM Notice and Annual Report and Accounts can be found on the Association's website: www.att.org.uk.

Mentoring

Mentoring: why a targeted approach delivers better outcomes

Amanda Brown explores the benefits of different kinds of mentoring relationships.

Mentoring is widely recognised as a valuable tool for professional development. However, it is often treated as a formal, long-term commitment without sufficient clarity around purpose or expected outcomes. In practice, mentoring is most effective when it is focused, time-bound and aligned to a specific development need, objective or career transition.

A common misconception is that individuals should have a single mentor who provides broad guidance over an extended period. In reality, a portfolio approach is often more effective. Different mentors can offer expertise in distinct areas, recognising that no one individual is likely to meet every development need. It is also important to distinguish mentoring from coaching. While coaching typically focuses on facilitating self-reflection, mentoring draws on the mentor's experience and subject matter expertise.

Effective mentoring relationships are usually established to address a clearly defined gap. For example, a senior leader stepping into a new role may seek guidance from someone with direct experience of that position. In one case, a newly appointed CEO who lacked access to relevant role models within her organisation approached an established business leader for short-term mentoring support. The relationship was focused and time-limited, but delivered significant value during a critical stage of her transition.

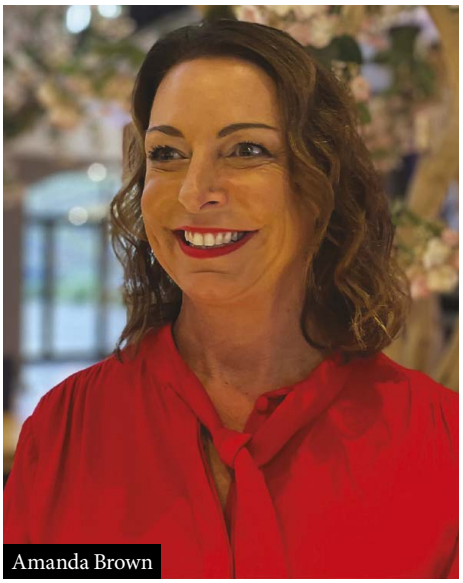
Similarly, mentoring can be used to develop specific skills. A professional looking to improve their writing, for example, may benefit from targeted input from an experienced author or communicator over a defined period. In both scenarios, clarity of purpose helps to ensure that discussions remain structured and progress can be measured.

Without this clarity, mentoring relationships risk becoming unfocused and less impactful. Establishing the rationale for the relationship at the outset – why this mentor, why now and with what objective – helps to maintain direction and maximise value.

That said, there remains a role for less structured mentoring. Individuals at an earlier stage in their careers, or those considering a change in direction, may not yet have a clearly defined objective. In such cases, mentoring can support exploration and help to shape future goals, rather than addressing a specific gap.

Another key consideration is duration. While some mentoring relationships evolve over time, many of the most effective arrangements are relatively short and concentrated. Impact is more closely linked to relevance and timing than to length of engagement.

Within organisations, mentoring can also play a broader role beyond individual development. It can increase visibility, strengthen professional networks and support career progression by connecting individuals with more experienced colleagues. These benefits can be particularly valuable in larger or more complex organisations.



Amanda Brown

For those considering mentoring, a practical starting point is self-assessment. Identifying areas for development, whether through feedback or personal reflection, can help to determine the type of support required. The next step is to identify individuals with relevant expertise and approach them with a clear and specific request.

A final barrier is often reluctance to initiate the relationship. Concerns about rejection can discourage individuals from seeking support. However, many experienced professionals are willing to share their knowledge if they are able to. Even where an approach is declined, there is no disadvantage in having asked.

In summary, mentoring is most effective when it is intentional, targeted and aligned to a defined objective. A focused approach enables individuals to accelerate their development, build relevant skills and navigate key career transitions more effectively.

Amanda Brown, Master Coach and NLP Master Practitioner

For more information about ATT Mentor Match and mentoring, please visit the ATT website at: www.att.org.uk/careers/mentoring.

Award

ATT Award in R&D Tax Relief Essentials

The ATT has partnered with The R&D Community to offer a dedicated online qualification in R&D tax relief.

Designed for those working in tax who want to learn more about R&D relief, this concise and practically focused qualification is delivered and assessed entirely online.

The award is pitched at an introductory level and is ideal for those who are not R&D specialists but who would like to gain a better understanding of the rules. It will enable you to hold more informed conversations with your clients about R&D tax relief, as well as spotting potential risks and opportunities.

No prior knowledge of R&D tax relief is required, although a decent grasp of the basic corporation tax rules will be assumed.

The award is delivered and examined entirely online. Training is provided through a combination of short, digestible videos and required reading, supported by multiple-choice quizzes to check your knowledge as you go. You'll also receive a 30 minute call with an R&D expert to discuss any questions you may have about the content and how to apply it in practice.

As content is available on-demand and can be worked through at your own pace, it can be fitted around any other commitments you may have.

Total fees, including registration and resources, are £670 + VAT. More information, including how to register for the award, is available on the ATT website at: www.att.org.uk/award-rd-tax-relief-essentials

Emma Rawson

Update

ATT May 2026 Exams

We apologise to everyone affected by the major technical issues with TestReach's exam platform for the ATT's examinations held in May. We know how much work our students put into the exams and how disappointing and frustrating this has been for candidates trying to sit the examinations. We have written to all candidates who sat the exams to inform them of the next steps and the actions we are taking.

We moved to TestReach to offer a better experience for our students. They are a leading provider in this area with a strong track record, and we undertook a rigorous selection process before proceeding with them and meticulous testing of the platform prior to the exams. We are determined to get to the bottom of what has happened and ensure it cannot happen again.

Again, apologies to everyone affected by the issues.

Jane Ashton (CEO)
Graham Batty (President) Barry Jefferd (Chair of Examination Steering Group)

Conference

Closing the tax gap: reflections from CenTax's Residential Conference

In late April, the Centre for the Analysis of Taxation (CenTax) held its first ever residential conference on Closing the Tax Gap, hosted at the University of Warwick.

Warwick is one of our two bases, alongside the London School of Economics. Around 100 delegates joined us over the two days, drawn from HMRC and HM Treasury, major firms and independent advisers, professional bodies, UK and international academics, and think tanks. The conference aimed to broaden the debate on tax compliance in the UK by combining policy, administrative, technical, legal and academic perspectives that do not often share a room. It was great to see CIOT and ATT members contributing throughout the event.

Day one focused on understanding and measuring the tax gap, opening with a panel chaired by Ellen Milner, CIOT Director of Public Policy, which considered how the UK measures the tax gap and how its methodology compares internationally. This was followed by a keynote address from Professor Annette Alstadsæter, Director of Skatteforsk, the Norwegian Centre for Tax Research, on the global picture of offshore wealth and the limitations of official estimates.

The afternoon sessions looked at small and micro-businesses, the largest single component of the tax gap. The panel was chaired by Ele Theochari, ATT Vice President and Partner at Blick Rothenberg, and included Paul Aplin, President of CIOT, alongside Professor Judith Freedman of Oxford University and Ronan McDonald from HMRC. It proved to be one of the liveliest sessions of the conference.

The formal business of the day over, delegates gathered in The Slate for a pre-dinner reception sponsored by CIOT, where John Barnett, CIOT Deputy President, spoke a few words to attendees before the after-dinner address by Dan Neidle of Tax Policy Associates.

Day two focused on the future of tax compliance and administration. Proceedings opened with a keynote from Dr Simon Price, AI Advisor to HMRC, on HMRC's use of AI and data in tax compliance, followed by a panel discussion on data and digitalisation. The closing panel considered how to build a long-term roadmap for closing the tax gap that goes beyond electoral cycles, with Emma Rawson, ATT Director of Public Policy, among the panellists.

Alongside the plenary programme, 12 breakout sessions gave delegates opportunities for smaller, more interactive discussions on specific aspects of tax compliance. Topics ranged from offshore evasion to the taxation of wealthy individuals, Making Tax Digital, the Taxes Management Act and HMRC's data science capabilities. Emma Rawson led a breakout session on HMRC capacity and service standards, while Jane Mellor, Head of Professional Standards at CIOT and ATT, co-led a session on the role of intermediaries with Chris Irwin from HMRC.

Broader reflections on the conference are on the CenTax website, but four themes emerged repeatedly across the two days:

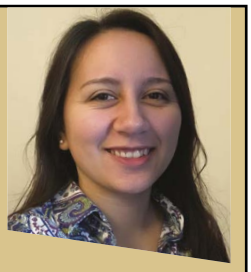
- The annual tax gap publication could be better targeted toward generating actionable insights, with deeper analysis by specific taxes, behaviours and customer groups.
- The small business tax gap comprises a range of many issues, not one, with sole traders, microbusinesses, growing companies and the cash economy each requiring different responses.
- The main constraint on the use of data and AI in tax compliance is the quality of underlying data foundations, rather than AI capability.
- Tax compliance is a coordination challenge across government, not simply an HMRC problem.

My thanks go to everyone who joined us at Warwick, and colleagues from CIOT and ATT for their contributions throughout the programme. We hope to run the conference again in two years' time, and to see the same strong level of engagement from the tax practitioner community. If you would like to know more about our work, do feel free to get in touch.

Josh Flew
Policy Fellow, CenTax
j.flew@lse.ac.uk

A MEMBER'S VIEW

Chrystal Terry



Supervisor, Wellers

This month's CIOT member spotlight is on Chrystal Terry, Supervisor at Wellers.

How did you find out about a career in tax?

It was during my accounting exams that I first considered a career specialising in tax. I loved all the moving parts – making links between the theory and the client's personal circumstances – and the need to look at things holistically to provide relevant and realistic advice.

Why is the CIOT qualification important?

The CTA qualification opens so many doors and provides constant opportunities. It gives you a strong fundamental knowledge base, while also teaching you to problem solve effectively, evaluate a lot of information and correctly apply that knowledge to an individual's situation.

Coming from a working-class family, I don't think I would have been afforded a lot of the opportunities that I have enjoyed without the time and effort that has gone into pursuing a tax career.

Why did you pursue a career in tax?

Once I finished my accounting qualification, I didn't feel that I was ready to finish my formal education. There was still so much left to learn. Tax had always been interesting, but it had also been a challenge, so I wanted to fill those gaps and put my knowledge to the test. I started self-studying the CTA exams during my year in industry and knew instantly that I needed to get back to a career in tax.

How would you describe yourself in three words?

Ambitious, resourceful and persistent.

Who has influenced you in your career so far?

I have been fortunate to have several great mentors throughout my career, who have shaped me into the person I am today. Two in particular have had the greatest influence on my tax career so far. One is Pards Mattu, who tutored me through my final APS exam and pushed me to reach the potential he saw in me (that perhaps I didn't see at the time). The other is Mike Webb, my current mentor, who has given me exposure to all things tax and helped me apply all of my theory in practice.

What advice would you give to someone thinking of doing the CIOT qualification?

Don't take it lightly. It's incredibly rewarding but requires serious commitment and time that no other set of exams will prepare you for.

What are your predictions for tax advisers and the tax industry in the future?

As we increasingly connect on social media and have access to non-expert, out of context tax advice, I believe that our role will become more important in ensuring that new legislation is accurately interpreted and applied by all of our clients.

What advice would you give to your future self?

In the pursuit of self-development, don't forget to look back at how far you've already come.

Tell me something about yourself that others may not know about you.

I studied Aerospace Engineering at university. Although I didn't end up needing it for my career, and my student loan balance seems to be going up rather than down, I have absolutely no regrets and plan to get my private pilot's licence in the next few years.

Contact

If you would like to take part in A member's view, please contact: Melanie Dragu at: mdragu@ciot.org.uk

Disciplinary reports

Mr David Quantrill

At a hearing on 18 March 2026, the Disciplinary Tribunal of the Taxation Disciplinary Board determined that Mr David Quantrill, a member of the Chartered Institute of Taxation (CIOT), had failed to respond to repeated correspondence from the CIOT.

The tribunal found that the member had breached the Professional Rules and Practice Guidelines 2018 by failing to respond to reasonable requests for information without unreasonable delay.

The tribunal ordered a censure and a fine of £3,000. The member was also ordered to pay costs of £3,690.

Ian Black

CONSENT ORDER

On 13 February 2026, with the agreement of Ian Black of Orpington, a member of the Chartered Institute of Taxation (CIOT), the Investigation Committee of the Taxation Disciplinary Board made an Order pursuant to Regulation 8.2 of the Taxation Disciplinary Scheme Regulations 2014 (as amended 2016 and 2024) that Ian Black be:

- warned as to his future conduct; and
- required to pay a sum of £730 by way of costs.

The Order was in respect of alleged breaches by Ian Black of the following Rules of the Professional Rules and Practice Guidelines 2018 (as amended 1 January 2021):

2.10 Compliance with Anti Money Laundering legislation and registration

2.10.1 A member must comply with the UK's AML legislation in force from time to time. A member must act in accordance with the Consultative Committee of Accountancy Bodies (CCAB) anti-money laundering guidance including the appendix for tax practitioners.

2.10.2 A member in practice must either be registered with the CIOT or ATT for AML supervision or, if requested, advise the CIOT and ATT of their Supervisory Authority under The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.

A copy of the decisions can be found on the TDB's website at: www.tax-board.org.uk.

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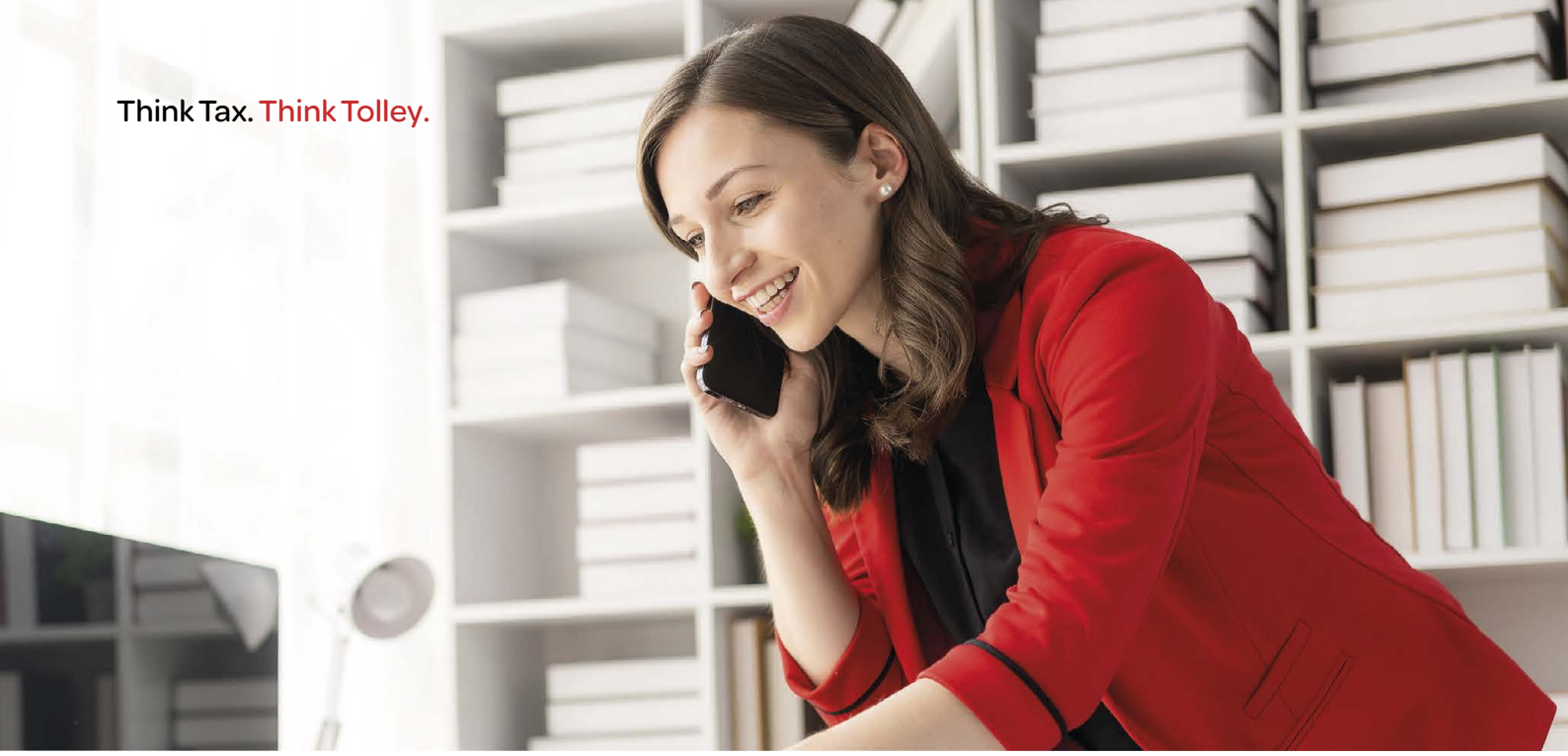

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Hays works with exceptional tax professionals building long term, trusted partnerships that, like our consultants, stand the test of time. From experienced Partners and Heads of Tax through to ACA & CTA newly qualified candidates we support talent across all tax service lines ensuring both our clients and candidates achieve their business goals and career aspirations.

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Meet Amy Hill Recruitment Resourcer

Georgiana Head Recruitment Ltd are delighted to introduce their latest team member.

Amy's career started in catering, where she learned quickly how to stay organised, stay calm, and keep things running smoothly even on the busiest days. It taught her how much she enjoys working with people and how rewarding it is to make someone's day a little easier.

From there, Amy moved to a local independent accountancy and insolvency practice based in Newton Abbot in Devon. Amy gained c 3 years' experience of accounting and tax, helping companies navigate the formal liquidation process. It was challenging, eye opening work that gave her a deep respect for the realities businesses face and the importance of handling sensitive situations with trust and integrity.

Amy now uses her practice experience to support candidates at important moments in their careers, to build relationships, and match the right talent with the right opportunities.

Outside of work, Amy enjoys spending time with her family, walking her dog Alberto, cooking and baking lots of yummy treats.

Advisory Tax Senior Manager Halifax, Huddersfield, Sheffield, St Helens

Our client is a large independent firm with offices throughout the UK. They seek an enthusiastic and technically astute tax person to support the wider Tax Advisory department in the firm, with some compliance support included. The role is to support the Tax Partners, advise, deliver and implement effective advisory planning to SME businesses and their owners, as well as high net worth and other personal tax clients across a wide range of personal and business tax projects. The position is hybrid and can be based from offices located across the North West/Yorkshire, minimum 3 days in the office. Our client is looking for someone who genuinely enjoys technical work, report writing and who has sound attention to detail. **Call Georgiana Ref: 3671**

Advisory Tax Senior Leeds – £excellent

Advisory focused practice seeks a qualified tax professional at Tax Senior, AD or junior manager level to assist with the timely and effective completion of tax projects such as corporate reorganisations, employee share incentives and incorporations etc. You will assist with the completion of the various phases of the project, in line with the detailed project plans, including the associated timelines and deliverables, ensuring compliance with current tax legislation and ethical standards. Can be based in Coventry or Leeds hybrid (4 days in the office). This role would suit someone with a genuine interest in technical tax work. **Call Amy Ref: 3669**

Transaction Tax Assistant Manager Birmingham – £excellent

Our client is a Top 10 accounting firm with a strong Transaction Tax team. They seek a qualified tax professional (CTA, ACA, ICAS or equivalent) to join their Birmingham office. You will work with a multidisciplinary team of tax advisers and lawyers, helping clients to navigate all manner of transactions including mergers, acquisitions, disposals, joint ventures, structuring etc. You will get involved in due diligence and a wide range of advisory projects. Excellent development prospects. This firm works on a hybrid basis and will consider a range of UK offices for the role. Ideal location would be Birmingham. **Call Amy Ref: 3665**

Home of Claude the Newfoundland – follow him on Instgram #iclaudiusthedog

Tax Director or Partner
Leeds or London – £excellent + bonus and benefits

Our client is an independent firm with 6 offices throughout the UK. They seek a key tax hire at Director or Partner level, ideally based in either their Leeds or London offices. In this role, you will help with the next stage of development of the tax practice, joining a small team of tax partners and focusing on advisory work for entrepreneurs and their businesses. This role would suit either an existing partner or director or someone looking for a step up. It is likely you will have a mixed tax or corporate tax background. A great opportunity to be part of the growth of this dynamic practice. **Call Georgiana Ref: 3524**

Corporate Tax Advisory
Coventry or Leeds – £65,000 to £90,000 + benefits

Advisory focused practice seeks a qualified corporate tax professional at Senior Manager level to deal with wide-ranging OMB advisory work. The focus of the work is transaction tax including structuring for MBO's, mergers, demergers, joint ventures etc, but will include all the advice across the lifecycle of a business. You will also have management responsibilities helping to develop and supervise more junior staff. This role can be hybrid worked (4 days in the office) from either Leeds or Coventry. Excellent salary and benefits package. **Call Georgiana Ref: 4000**

CT OMB Technical Tax Consultant
UK, Remote – £excellent

Our client is a leading provider of technical support services to the accountancy profession. They seek a CT qualified experienced tax professional to join their technical team. You will provide tax advice and support to firms ranging from sole practitioners to large firms. This is OMB CT advice such as: group reorganisations to include demergers, hive-ups/downs and MBO's; loan relationships and intangibles asset regime; and substantial shareholding exemption. You will need a clear interest in technical work. Full time or 4 day week considered. **Call Georgiana Ref: 3659**

Tax Investigations Consultant
UK, Remote – £excellent

Our client is a leading provider of services to accountancy firms. They are looking for a tax professional to join an existing team of over 30 advisers and consultants. The ideal candidate will have a solid grounding in general tax and specialist experience of tax investigations. It's likely you will either have a practice background or be ex-HMRC (ideally Grade 7 or above, but will consider candidates qualified by experience). You will deal with all manner of tax disputes work from full to aspect enquires. UK remote worked with some UK travel. 4 day week considered. **Call Georgiana Ref: 3667**

Partnership Tax Advisory – UK Wide
Associate Director – £excellent

Key role in a Big 4 firm for a partnership tax specialist to work on large professional partnerships. This is advisory focused and involves being the 'right hand' to a busy partner. There is plenty of scope to progress to partner in the future and a great client base of international legal practices and major international partnerships. You may be in-house and this could be the role that lures you back to the profession. Most UK offices considered, London or Leeds particularly helpful. Hybrid, part-time and flexible working available, 60% of time in the office. **Call Georgiana Ref: 3655**

Pillar 2 – New Team
London, Manchester, Birmingham, Cardiff, Belfast, Glasgow

Calling all in-house Tax Managers who have experience of getting a large organisation ready for Pillar 2. Our client is a large accountancy firm, and they seek managers and senior managers to join a new team specialising in Pillar 2 work. You will work in a multidisciplinary team managing the compliance which is prepared by other team members, dealing with the client relationships and liaising with Revenue Authorities. You will be at the forefront of a new area of tax and there is plenty of scope for progression. Hybrid and flexible working available, 60% in the office. **Call Georgiana Ref: 3672**

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PRIVATE CLIENT AM / MANAGER

LEEDS To £64,000 dep on exp

An established and growing firm that is unique both in operations and culture is seeking to recruit into its Private Client team in Leeds. This varied role offers a strong mix of client interaction, compliance oversight and advisory work. You will manage a portfolio of entrepreneurs, owner-managed businesses, high-net-worth individuals, families, trusts and estates, building long-term relationships through practical and responsive advice. This would suit someone CTA qualified who wants progression and visibility. **REF: C3890**

IN-HOUSE TAX MANAGER

HUDDERSFIELD To £80,000 plus bonus

This is a fantastic opportunity for a tax professional who wants ownership and a genuinely broad remit, balancing compliance, governance, and strategic advisory work. You will be responsible for overseeing the preparation and submission of CT returns for UK and EU entities, providing advice on R&D and Patent Box claims and providing strategic tax advice to identifying opportunities for tax savings and efficient tax structuring. **REF: R3793**

PRIVATE CLIENT ASS. DIRECTOR

MANCHESTER To £90,000 plus bens

A leading international firm is seeking an accomplished Private Client Tax Associate Director to join its growing team in the North West. This is a strategic role offering a blend of advisory, leadership and business development. You will take ownership of a diverse client portfolio, including individuals, trustees and family businesses, providing both compliance oversight and sophisticated tax planning solutions. **REF: C3782**

IN-HOUSE VAT MANAGER

BOLTON £highly competitive

A newly created role has arisen for a qualified VAT professional to join this growing in house tax team. You will be responsible for the group's UK VAT compliance and advisory workstreams, along with the opportunity to support the Head of Tax on wider tax compliance and advisory projects giving you exposure to other areas of taxation. **REF: R3792**

IN HOUSE SENIOR TAX MANAGER

CHESHIRE To £90,000 plus bens

Working as part of a large in house team, you will primarily oversee direct tax compliance and US tax reporting, manage complex European tax operations and handle key tax authority relationships. You will also support on global tax initiatives and transfer pricing as well as other tax advisory work. Strong interpersonal and communication skills are essential. Team fit is important, and our client is looking for someone who is collaborative, adaptable, and confident working with stakeholders at all levels. **REF: R3794**

TAX MANAGER

MANCHESTER To £65,000 dep on exp

An exciting opportunity has opened for an ambitious Tax Manager to join a modern, growing firm that genuinely values collaboration and long-term career development. Working closely with experienced Tax Partners, you'll support entrepreneurial and owner-managed businesses with a mix of advisory and compliance work, including business transactions, inheritance tax and estate planning. **REF: C3789**

TAX TECHNOLOGY MANAGER

MANCHESTER To £60,000 plus bens

Unique opportunity supporting UK tax teams through automation, data analytics, robotics and Gen AI, helping deliver a more modern and efficient client service. You'll be involved in supporting existing tax technology, improving day-to-day processes, assisting with MTD-related work and helping roll out new systems across the wider tax function. Candidates should have experience working within UK Corporation Tax in an accountancy practice environment, alongside a solid understanding of compliance processes, deadlines and legislative changes. **REF: C3785**

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