October 2026

TAXADVISER

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Chartered Institute of Taxation.

VAT liabilities

Why advance planning is essential when transferring a business as a going concern

What makes a dwelling?

The importance of a building's condition and the remedial work required

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How this can apply to UK practices using AI-generated outputs in the EU

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HELEN WHITEMAN
JANE ASHTON

Welcome
The autumn agenda

We hope that you have all had an enjoyable summer. In tax, change can always be relied upon. With the pace of legislative reform accelerating, the need for practical, workable guidance for advisers has never been greater.

Since Tax Update Day on 23 June and Legislation Day on 13 July, both the CIOT and ATT technical teams have been responding to consultations, draft legislation and guidance by HMRC and HM Treasury. These have covered issues including proposals for a new sanction for reckless behaviour by tax advisers and the better use of third-party data.

Our aim is to ensure that new legislation is clearly drafted, proportionate and practical to implement for both advisers and taxpayers. While we support many of the government's underlying aims, we have highlighted the need for appropriate safeguards, clear guidance and realistic timescales. Member feedback plays a crucial role in shaping our submissions, and we thank everyone who has contributed.

Readers may have seen 'Tax Breaks', the new ATT and CIOT podcast exploring how people outside government can, and have, influenced the world of tax. The first episode featured HMRC First Permanent Secretary and CEO JP Marks discussing his vision for 'working in the open'. Watch the podcast at tinyurl.com/52vuk8aw.

Staying with podcasts, DITT Talk, which complements our Diploma in Tax Technology, is now in its second series. It goes beyond asking what the latest technology can do to explore its practical, professional and strategic implications for tax. Catch up on Apple Podcasts and Spotify.

This summer, CIOT was delighted to recognise success in tax learning at undergraduate level, sponsoring awards at the University of Warwick and Swansea University for high-performing taxation students. Read more in the Briefings section.

Looking ahead, the CIOT's Indirect Taxes Conference takes place on 12 November, bringing together experts for a programme covering VAT on land, property and construction, international trade, customs, CBAM, financial services and recent VAT case law. You can register at www.tax.org.uk/indirecttaxes2026.

The autumn will also bring Chancellor John Healey's first Budget on 28 October. There have been further changes at the Treasury, with Emma Reynolds appointed Chief Secretary to the Treasury and James Murray returning as Financial Secretary to the Treasury (Tax Minister), while Dan Tomlinson remains Exchequer Secretary ut takes on the growth portfolio. We look forward to constructive engagement with the ministerial team over the coming months.

On the ATT side, members can now take advantage of a dedicated online qualification in R&D tax relief, offered in partnership with The R&D Community. The course provides a practical overview of the R&D relief schemes, including who can claim and how HMRC administers claims, and can be completed at the learner's own pace. Find out more at tinyurl.com/26s7uy6f.

The next ATT Fellows' event takes place on 8 October, with Steven Pinhey leading the keynote session on the increasing sanctions facing tax advisers, followed by discussions on Making Tax Digital, multiple agents and employment status. Invitations will be issued shortly. ATT members who have held membership for ten years can also apply for Fellowship and attend future Fellows' events.

There are further opportunities to get involved. On 13 October, Emma Rawson and Steven Pinhey will host a webinar on tax education in schools and at careers fairs, joined by members sharing their own experiences. Then, in November, ATT and AAT will present the next Sharpen Your Tax Skills conference, led by Barry Jefferd and the ATT Technical Team.

As ever, there is plenty to look forward to. Whether through contributing to our technical work, developing your professional knowledge or helping to inspire the next generation, we hope you will continue to support and engage with CIOT and ATT.

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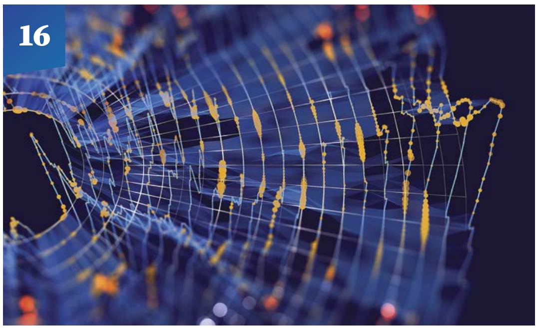

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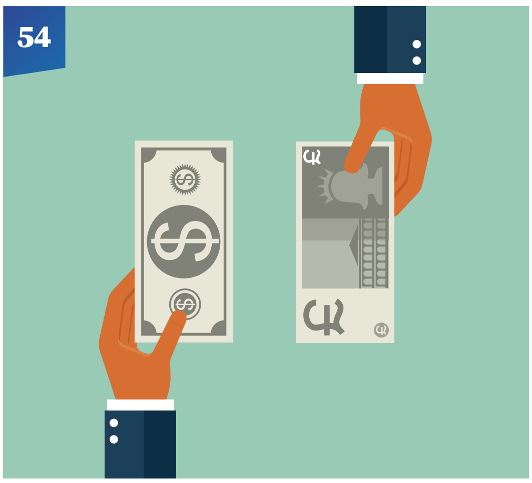

ONLINE PICKS OF THE MONTH

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Succession plans following business relief reforms
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Mergers and acquisitions: structuring the deal
How to reduce unexpected liabilities
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JONATHAN RILEY
VICE PRESIDENT

A seat at the table

> One thing I hope candidates can bring is a degree of passion for the Institute and its future.

Hello, and welcome to the Vice President's page. It was a privilege to be invited to join the Officers Team of my Institute and to be appointed at the AGM in June. I know how big the shoes are that I will endeavour to fill.

By the time you read this, I'll have just returned from chairing the Autumn Residential Conference at Cambridge. The conference is not just a great way to stay up to date technically and be entertained and informed by an outstanding group of speakers, but a chance to network with old friends and make new acquaintances.

As you'd expect given the wide range of taxation covering individuals, estates and corporates, both in the UK and abroad, the agenda is comprehensive. The topics that particularly interest me focus on agent registration and professional standards. These two matters are inextricably connected.

We know that all governments have sought to root out the bad actors who provide tax advice. It is vital that as qualified professionals we ensure that we are up to date with law and practice, can demonstrate adherence to professional standards and ensure that those standards remain appropriate and relevant, especially in a fast-moving technological world.

Although this government has stepped back from proposals for fuller regulation of tax advisers, we still have to comply with rules relating to our registration. This is not without risk for the tax profession, as assurances given in Parliament and recorded in Hansard about how the legislation will operate do not form part of the law itself. Time will tell whether those assurances hold firm.

As with the regulation of professionals in any field, it is far easier to target those who are already playing within the rules. Wouldn't it be wonderful if bodies such as HMRC far more aggressively targeted the many unqualified advisers who provide advice to the unwary, often via social media platforms? One lives in hope.

So, to return to the Autumn Conference. Our licence to practise depends on keeping our technical knowledge up to date, which is why the conference is so relevant. It is also why your support for the branch network and the technical updates it provides, alongside the CPD you source elsewhere, is so important.

Turning to my own Council journey, I joined in September 2017. Since then, I have seen the Institute undergo considerable changes. I believe that your Council has navigated the changes needed to fulfil our Royal Charter, and to do so in a way that demonstrates excellent governance and financial management, provides relevant training and examinations, and manages risk appropriately.

One of the reasons why Council is so effective is that its membership is not static. With that in mind, we will shortly start a round of recruitment to fill seats on Council. To apply you need to be a CTA and, if you are interested, look out for the adverts when they are posted on our social networks. We are also going to publish one or two 'vox pop' videos of current Council members explaining their journeys to Council and what it is really about.

As part of our recruitment process, we try to find candidates who will add diversity of thought, experience, expertise and perspectives to the work of Council. It is not about being a deep tax technician or someone with years of experience. The time commitment is manageable, and we want to ensure there are no barriers in the way of the right candidates being appointed.

One thing I hope candidates can bring is a degree of passion for the Institute and its future. I care deeply about passing on knowledge and experience, which brings me back to our branch network. I love to see the enthusiasm and fresh perspectives that less senior members bring to the network and to other committees, such as the Future Tax Professionals group. These members are considering what the Institute needs to look like to remain relevant long beyond the time I have put my tax books away.

Experience at branch level can give so many valuable insights into the future direction and day-to-day oversight of the Institute. Who knows, early and active involvement with a branch could lead you to a seat around the Council table.

Jonathan Riley
Vice President
president@ciot.org.uk

Could you help your clients *save even more tax?*

There is more than meets the eye . . .

Additional tax relief may be hidden in your clients' commercial property portfolios.

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to a firm that makes them aware of their ability to claim. They'll thank you for introducing them to Zeal!

ELE THEOCHARI
DEPUTY PRESIDENT

Brace for the Budget

> Working in tax is never life or death, so take care of yourselves.

Ele Theochari
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Hello and welcome to this month's Deputy President's page. After one of the hottest summers on record, we have finally reached autumn, my favourite time of the year! Summer is typically a quieter time for us tax professionals before the busy period really sets in from September to January, so I hope that our readers were able to get a good rest with their families.

By the time this article is published, there will only be a few weeks until Andy Burnham's first Autumn Budget. A little history lesson on the Budget: it was traditionally held in March so that tax changes could be announced prior to the beginning of the new tax year on 6 April. In 1997, Gordon Brown introduced a pre-Budget statement, thus leading to two fiscal events annually, although greater emphasis was placed on the March Budget.

In November 2016, it was decided that the UK would move to a single Autumn Budget, whereby policy would be announced in the Autumn Budget and followed by a period of consultation over the coming months. After a series of fiscal announcements during Covid and the initial energy crisis, Rachel Reeves confirmed in 2024 that she would return to a single fiscal event.

Fast forward to today and speculation is already rife about what may be on the horizon, particularly when it comes to taxes. With ongoing geopolitical tensions and bond yields soaring, the Prime Minister and Chancellor will likely have little financial room to manoeuvre in their first Budget as our cost of borrowing and inflation continue to rise beyond initial predictions. At least in the short term, the public should brace themselves for tax levers to be pulled that may be unpalatable, but I know that our dedicated technical team will be working tirelessly to digest any potential changes and let our members know what they mean for them and their clients.

We are extraordinarily lucky to have such a talented technical team. Although the Budget will keep them particularly busy for a short period, they are generous with their time all year round. In mid-September, the ATT held its first in a series of regular online drop-in sessions for ATT members working in industry or in-house, as it recognises that tax practitioners who work in-house can face very different challenges to those who act as agents in practice.

These sessions give members the chance to speak to their peers about the issues they are facing and share tips and advice, as well as providing an opportunity to engage with members of the ATT technical team and raise relevant issues with them directly. If you weren't able to make the first session, I would highly recommend signing up for the next one!

The technical team will also be giving a personal taxes refresher and an update on small company taxation on Thursday 26 November, when the ATT is bringing back its popular Sharpen Your Tax Skills Conference in conjunction with the AAT. This online session is interactive and practical, combining essential technical updates with real-life case studies, and we'll also be hearing from our President Barry Jefferd on a range of tax updates.

Keeping up to date with technical knowledge is a key part of our roles as tax advisers and isn't limited to our core day-to-day work. With that in mind, and although I'm slightly biased as it's very close to my heart, the ATT has launched a new online ATT qualification – the Award in R&D Tax Relief Essentials. This is designed for those working in tax who want to learn more about R&D relief, and this concise, practically focused qualification is delivered and assessed entirely online. The course itself is pitched at an introductory level and is ideal if you are not an R&D specialist but would like to understand more about the rules. The rules are complex and have changed a lot over the past few years, so it is well worth taking the time to either refresh your existing knowledge or to start from scratch if you've not come across the rules before.

I started by mentioning that we're about to enter a busy, pressure-filled period, which can be very stressful. It can be all too easy at this time of year to become caught up in deadlines, so do remember to make time for yourself and those around you as well. I will always remember the first partner I ever worked for reminding me that working in tax is never life or death, so take care of yourselves. Next stop: Christmas!

News

EMPLOYMENT TAX

HMRC updates benefits payrolling guidance

Further detail issued ahead of April 2027 changes

HMRC has issued further guidance on the mandatory payrolling of benefits in kind, including new information on exceptions and the treatment of Class 1A NICs.

From 6 April 2027, employers will be required to payroll company cars, car fuel, vans, van fuel and employer-provided medical benefits, reporting income tax and Class 1A contributions in real time. Mandatory payrolling will extend to most other benefits from April 2028, although the timing for employer-provided loans and accommodation has yet to be confirmed.

HMRC confirmed in its Agent Update published on 17 September that employers will be able to exclude globally mobile employees from mandatory payrolling. A new service for doing so will be available from November 2026, with existing year-end P11D and P11D(b) reporting continuing for these employees.

Where employers voluntarily payroll other benefits during the first phase, associated Class 1A contributions must also be payrolled in real time from 6 April 2027. Registration for voluntary payrolling will open in November 2026. Guidance updated on 4 September also includes new worked examples for employer-provided accommodation valued at more than £75,000.

HMRC is encouraging employers to review their benefits, payroll software and information flows. They should also prepare for a one-off cash-flow overlap in 2027, when Class 1A contributions for 2026/27 may be payable while contributions for 2027/28 are already being collected in real time. HMRC has confirmed a first-year penalty easement for non-deliberate errors in mandatory payrolling.

PERSONAL TAX

HMRC sets out new cash ISA rules

£12,000 limit for under-65s takes effect from April 2027

HMRC has published further details of changes to Individual Savings Accounts (ISAs), including anti-circumvention measures accompanying the reduction in the annual cash ISA limit.

From 6 April 2027, individuals aged under 65 will be able to subscribe up to £12,000 a year to cash ISAs, rather than £20,000. The overall annual ISA limit will remain at £20,000, while those aged 65 and over will retain a £20,000 cash ISA limit.

A Tax Information and Impact Note published on 17 September confirms measures to prevent savers circumventing the lower limit through non-cash ISAs. Transfers from these ISAs into cash ISAs will generally be prohibited for those under 65. A flat-rate 22% charge will also apply to interest and alternative finance returns on cash held within them, payable to HMRC by ISA managers.

Money Market Funds will be treated as 'cash-like' investments. They can form part of a non-cash ISA portfolio, but a portfolio consisting entirely of them will not qualify. ISA managers will also face additional reporting requirements under the new regime.

HMRC estimates that 22% of cash ISA subscribers aged under 65 put more than £12,000 into cash ISAs in 2022/23 and could be affected. Existing savings already held within cash ISAs will not be affected by the reduced limit.

INDIRECT TAX

HMRC changes overseas VAT refund rules

Previously rejected claims can be reconsidered

HMRC has changed its approach to UK VAT refund claims by non-UK businesses that are members of overseas VAT groups, potentially allowing recovery on previously rejected claims. Under the revised rules, each overseas VAT group member must claim the UK VAT it incurs, while the representative member can claim only VAT it incurs itself.

HMRC said that its previous approach, introduced from 1 January 2021 following the UK's exit from the EU, required claims to be made through the representative member. This could prevent recovery where that member was registered for UK VAT and unable to use the overseas refund scheme, even though another member of the overseas VAT group had itself incurred recoverable UK VAT.

Revenue and Customs Brief 8 (2026), published on 8 September, restores the previous position for eligible non-UK businesses inside and outside the EU, so that each group member can once again claim according to its own circumstances.

As a transitional measure, VAT incurred from 1 July 2025 to 30 June 2026 can be claimed by either the group member that incurred it or the representative member, by 31 December 2026.

HMRC will also reconsider claims for VAT incurred from 1 January 2021 that were rejected because they were not submitted by the representative member, provided that member did not subsequently claim the VAT.

Affected businesses must request reconsideration by 31 August 2027.

EMPLOYMENT TAX

Aramark loses NICs appeal

Upper Tribunal considers workers 'made available' to clients

The Upper Tribunal has dismissed an appeal by Aramark over liability for secondary Class 1 NICs on employees working at its clients' premises.

In *Aramark Ltd v HMRC* [2026] UKUT 348 (TCC), the dispute concerned the 'host employer' rules and when an employee can be regarded as having been 'made available' by their employer to another person. Aramark provides facilities management and related services using employees working at client sites. Where an employee is made available to another person and certain conditions are met, that person can be treated as the secondary contributor and become responsible for employer Class 1 NICs.

The Upper Tribunal rejected Aramark's interpretation of 'made available' and dismissed its appeal, upholding the application of the host employer provisions.

The same issue arose earlier this year in *Bilfinger UK Ltd v HMRC* [2026] UKUT 143 (TCC) and in other appeals involving businesses providing workers or services to clients. The decisions are potentially significant for outsourcing and labour supply arrangements, where the relationship between the worker, employer and client can determine responsibility for secondary Class 1 NICs. The case therefore turned on the nature of the arrangements between Aramark and its clients, rather than simply where the employees performed their work.

TAX ADMINISTRATION

HMRC starts compulsory MTD sign-up

Agents urged to check clients brought into the regime

HMRC has begun signing up taxpayers who should already be using Making Tax Digital (MTD) for Income Tax but have not registered themselves. The process, which began in September and will take place in stages over the coming months, applies to taxpayers required to use MTD for the 2026/27 tax year. This covers sole traders and landlords with qualifying income of more than £50,000 in 2024/25 who are not exempt.

HMRC will contact taxpayers after signing them up. Agents will need to check with clients whether they have received a letter or digital notification, as HMRC will not contact agents separately.

HMRC will use information from taxpayers' previous returns when carrying out the sign-up. Guidance updated on 11 September confirms that it will use information from the 2024/25 return and, where already submitted, the 2025/26 return. Taxpayers or their agents must then ensure that HMRC's records of their self-employment and property income sources are correct.

This could be particularly important where circumstances have changed, for example because a business or property income source has ceased. Agents who believe a client has been signed up incorrectly should contact HMRC's Agent Dedicated Line. Agents should therefore not assume that compulsory sign-up means HMRC holds complete and up-to-date information about the client.

HMRC said in Agent Update 147, published on 17 September, that taxpayers who have not yet received a sign-up notification can still register themselves or through their agent. Doing so allows current information to be provided rather than relying on the details already held by HMRC.

The second quarterly update deadline for taxpayers within MTD for 2026/27 is 7 November.

PERSONAL TAX

Capital reduction caught by anti-avoidance rules

Upper Tribunal rejects transactions in securities appeal

The Upper Tribunal has dismissed an appeal concerning the application of the transactions in securities rules to £10 million returned to shareholders through a reduction of capital.

In *The Executors of Paul Hunt, James Hunt and Robert Davis v HMRC* [2026] UKUT 342 (TCC), the taxpayers had received payments from Golf Holdings Ltd following the cancellation of shares in April 2015. Paul Hunt received £7.84 million, with James Hunt and Robert Davis each receiving approximately £1.08 million.

The taxpayers treated the payments as capital and subject to capital gains tax. HMRC instead issued counteraction notices under the transactions in securities legislation, which can apply where arrangements involving securities produce an income tax advantage.

The appeal centred on the wording of Income Tax Act 2007 s 685. The taxpayers argued that ITA 2007 s 685(6) excluded the capital reduction from the circumstances in which the transactions in securities rules could apply. They also argued that the references to particular subsections within ITA 2007 s 685(6) contained an obvious drafting error and should be interpreted accordingly.

The Upper Tribunal rejected both arguments. It held that a repayment of capital by a company incorporated in England and Wales did not fall within the exclusion in ITA 2007 s 685(6), and that there was no obvious drafting error that justified departing from the statutory wording. The decision upheld the First-tier Tribunal's conclusion that the capital reduction fell within the transactions in securities provisions. The taxpayers' appeal was dismissed.

TAX ADMINISTRATION

Final MFA rollout approaches

Agents urged to prepare for mandatory activation

HMRC will begin automatically activating multi-factor authentication (MFA) on remaining tax agent accounts from 28 September, with all accounts due to be switched over by 15 October.

More than 20,000 agent accounts were switched to MFA during two voluntary phases over the summer. Firms will not be told their individual activation date, so are being urged to prepare before 28 September.

Once MFA is enabled, agents logging directly into their Agent Services Account or HMRC online services for agents account will need to provide an additional access code. This does not affect authentication of software used to make MTD filings.

HMRC prefers firms to create separate login credentials for individual staff, although shared credentials can continue to be used.

The ATT confirmed on 17 September that HMRC is developing a service allowing firms using individual credentials to allocate multiple clients to staff. Testing is expected before the end of 2026, but the service will not be available before the final MFA rollout.

Where staff accounts share the same Government Gateway Identifier, MFA will be activated for linked accounts when it is switched on for the main account.

INDIRECT TAX

Domestic electricity temporarily zero-rated

Six-month VAT cut takes effect from October

HMRC has published details of the temporary zero rate of VAT for domestic electricity in Great Britain, which will apply from 1 October 2026 to 31 March 2027. The measure reduces VAT from 5% to 0% on qualifying supplies of electricity in England, Scotland and Wales. Electricity in Northern Ireland will remain subject to the 5% reduced rate.

The zero rate applies to the same supplies that currently qualify for the reduced rate. It therefore extends beyond households to qualifying supplies made to some small businesses, charities and residential care homes.

The government estimates that removing VAT from household electricity bills will save the average household

COMPLIANCE

HMRC invites Loan Charge settlements

New scheme could substantially reduce outstanding liabilities

HMRC has begun inviting individuals and employers with outstanding Loan Charge liabilities to settle under a new scheme that could substantially reduce the amounts they owe.

HMRC said in Agent Update 147, published on 17 September, that most eligible individuals could see their liabilities reduced by at least 50%, while around a third could have nothing to pay. The maximum reduction available to an individual is £70,000.

Under the scheme, liabilities are recalculated using the tax rates that would have applied in the years in which the relevant loans were received, rather than aggregating the loans and taxing them in 2018/19. The calculation also takes account of historic promoter fees and includes a further £5,000 deduction. Late payment interest is excluded from the settlement calculation and penalties will not generally be charged.

HMRC is writing to eligible individuals and employers with settlement offers, although taxpayers and their agents do not need to wait for a letter and can contact their named caseworker. Detailed guidance published on 7 September explains how offers will be calculated and how previous payments will be credited.

The settlement can also cover unpaid inheritance tax liabilities arising from the relevant disguised remuneration arrangements, including liabilities that arise within three months of the settlement offer. However, future inheritance tax charges arising after that period will not be covered, so HMRC says taxpayers may wish to consider whether any trust or other arrangement should be brought to an end.

Taxpayers unable to pay immediately can choose to pay over five years, with longer arrangements potentially available depending on their circumstances. Interest will apply where payment is made by instalments.

Accepting an offer creates a legally binding settlement with HMRC, including where the calculation leaves nothing to pay. Those who do not settle will remain liable for the full Loan Charge amount and HMRC will pursue outstanding disguised remuneration liabilities through its normal processes.

around £45 a year. Suppliers will apply the zero rate automatically.

HMRC published Revenue and Customs Brief 10 (2026) on 8 September and has updated VAT Notice 701/19 to reflect the change.

Other domestic fuels, including gas, will continue to attract VAT at 5% throughout the UK. Qualifying electricity supplies are due to return to the 5% rate from 1 April 2027.

INDIRECT TAX

Education providers can seek VAT refunds

HMRC allows claims pending Supreme Court appeal

Alternative providers of higher and further education may be able to claim refunds of VAT following a Court of Appeal ruling that certain supplies by providers that are not 'eligible bodies' can qualify for exemption.

In *St Patrick's International College and Others Ltd v HMRC* [2026] EWCA Civ 852, the Court of Appeal found in favour of the education providers, overturning earlier decisions of the First-tier Tribunal and Upper Tribunal.

Under the Value Added Tax Act (VATA) 1994 Sch 9 Group 6, supplies of education by eligible bodies can qualify for VAT exemption. HMRC's longstanding position is that education supplied by providers that do not meet the definition of an eligible body is standard rated.

However, the Court of Appeal concluded that it was bound by the earlier decision in *Leisure, Independence, Friendship and Enablement Services Ltd v HMRC* [2020] EWCA Civ 452, which established that the perspective of the typical consumer can be relevant when considering fiscal neutrality. This meant that some supplies by organisations that were not eligible bodies could nevertheless be exempt.

HMRC has been granted permission to appeal the decision to the Supreme Court and maintains its longstanding interpretation of the legislation. However, Revenue and Customs Brief 9 (2026), published on 2 September, confirms that alternative providers that believe they are in the same position as St Patrick's International College can submit VAT refund claims to protect their position pending the appeal.

HMRC will consider claims individually, taking account of issues including unjust enrichment, partial exemption and whether overdeclared VAT has been correctly accounted for throughout the supply chain.

Businesses calculating claims can proceed on the basis that supplies similar to those considered in the case may have been exempt, but must adjust for any associated input tax previously recovered and the effect of the partial exemption rules. Normal statutory requirements and time limits continue to apply.

PERSONAL TAX

Winter Fuel Payment recovery brought forward

Some taxpayers could see two payments collected simultaneously

HMRC has brought forward the recovery of Winter Fuel Payments through PAYE, meaning that some taxpayers could start repaying their 2026/27 payment from January 2027.

Individuals receiving Winter Fuel Payments in England, Wales and Northern Ireland, or Pension Age Winter Heating Payments in Scotland, must repay them if their total individual income exceeds £35,000. For PAYE taxpayers outside Self Assessment, HMRC collects the amount automatically through their tax code.

HMRC had previously said that recovery of the 2026/27 payment would begin from April 2027. In September, it confirmed that some tax codes could instead change from January 2027.

Some taxpayers could therefore temporarily repay two Winter Fuel Payments simultaneously, as HMRC may still be collecting their 2025/26 payment when recovery for 2026/27 begins. For someone receiving £200 in both years, HMRC estimates that around £30 to £33 could be deducted each month during the overlap.

From April 2027, HMRC will collect payments in advance during the same tax year in which they are received. It says taxpayers will not repay more than the payments they received.

Taxpayers within Self Assessment must continue to include the payment on their return. HMRC will pre-populate the amount for online filers where possible, but taxpayers and agents should check the figure.

There is a separate complication for taxpayers using Making Tax Digital for Income Tax. The Winter Fuel Payment charge cannot be reported through compatible software for 2025/26, so HMRC will calculate it separately and write to the taxpayer with the amount due and payment instructions. From 2026/27, the charge should be incorporated into the MTD return.

INTERNATIONAL TAX

Property developer loses treaty appeal

Trading profits treated as income from immovable property

The Upper Tribunal has dismissed an appeal by an Isle of Man property developer over the treatment of profits from developing and selling UK land under the UK/Isle of Man double taxation agreement.

In *Knights Developments Ltd v HMRC* [2026] UKUT 329 (TCC), the company acquired, developed and sold UK land. Its profits were accepted to be trading income rather than capital gains under UK domestic law.

The dispute concerned whether those profits fell within Article 6 of the 2018 UK/Isle of Man double taxation agreement, which deals with income from immovable property.

Knights Developments argued that Article 6 was limited to income from using or exploiting property, such as rents, rather than trading profits from its development and sale.

The Upper Tribunal rejected that interpretation, holding that the development and sale profits were income derived from immovable property and therefore fell within Article 6.

The tribunal also considered Article 13, which deals with gains from the alienation of immovable property. It concluded that 'gains' referred to capital gains and did not encompass trading profits.

The decision confirms that the treaty's immovable property article can extend beyond conventional property income such as rents.

PERSONAL TAX

HMRC to issue savings interest bills

Second assessments could cause confusion for taxpayers

HMRC will begin issuing tax calculations for tax due on bank and building society interest from late September, with some taxpayers potentially receiving a second Simple Assessment for 2025/26. Banks and building societies report interest paid to their customers directly to HMRC after the end of the tax year. HMRC uses this to calculate whether additional income tax is due where interest exceeds the taxpayer's available allowances.

Agent Update 147, published on 17 September, confirms that HMRC will issue P800 tax calculations or PA302 Simple Assessment notices for tax due on interest earned between April 2025 and April 2026. Some taxpayers may already have received a Simple Assessment for 2025/26 that did not include their bank or building society interest. Where HMRC subsequently receives information about that interest, it may issue a second Simple Assessment for the same tax year.

HMRC has warned that the second notice will show the total tax liability for the year, including any amount shown on the first assessment even where that amount has already been paid. Taxpayers will therefore need to deduct payments already made to establish the balance still outstanding.

Where an underpayment can be collected through PAYE, taxpayers will not normally need to take any action as HMRC will adjust their tax code. Where this is not possible, a Simple Assessment will set out the amount due and how it should be paid. Taxpayers and agents should check HMRC's figures against bank and building society records and contact HMRC if the interest figure appears incorrect.

TAX ADMINISTRATION

Agents asked for reference numbers

New HMRC security checks cause difficulties on some calls

Tax agents are being advised to have their Agent Reference Number (ARN) available when calling HMRC after some agents were unable to pass security checks without it. ATT and CIOT report that agents are increasingly being asked for their firm's ARN on some HMRC telephone lines, although it remains unclear how widely the requirement applies.

The 11-character ARN, which can be found on the front page of a firm's Agent Services Account, is linked to HMRC's Modernising and Mandating Tax Agent Registration programme. Newly registered agents awaiting an ARN should be able to use their registration application reference instead.

HMRC has previously said that ARNs should not be treated as confidential information. ATT has advised agents to locate their number before calling to avoid delays or failed security checks.

EXCISE DUTIES

New vaping duty starts in October

Businesses face new duty and stamp requirements

HMRC is urging businesses to prepare for the introduction of Vaping Products Duty and the Vaping Duty Stamps Scheme on 1 October.

The new excise duty will apply to all vaping liquids manufactured in or imported into the UK, whether or not they contain nicotine, at £2.20 per 10ml, or 22p per ml.

UK manufacturers must be approved by HMRC, while overseas manufacturers supplying the UK must appoint an approved UK representative.

Duty-liable products released onto the UK market from 1 October must carry a vaping duty stamp. Digital stamps became available on 1 September, while transitional stamps can be purchased until 30 November and affixed until 31 December. From 1 January 2027, only digital stamps can be affixed.

Retailers and wholesalers selling only duty-paid products do not need approval, but should check that new stock carries a stamp where required and retain evidence supporting legitimate unstamped stock.

Existing unstamped stock manufactured or imported before 1 October can continue to be sold until 31 March 2027. From 1 April 2027, all vaping products outside duty suspension must carry a valid stamp.

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Key Points

What is the issue?
Transfer of a going concern (TOGC) treatment is mandatory: a transaction either qualifies or it does not. The conditions are tested at the time of supply, and the position cannot be repaired retrospectively.

What does it mean to me?
VAT incorrectly charged on a TOGC is not input tax and cannot be recovered by the buyer. VAT not charged on a taxable supply can leave the seller facing an assessment, interest and penalties.

What can I take away?
The treatment of a supply is fixed at its time of supply. Ensure that VAT registration, options to tax and the necessary notifications are in place before completion, as later action cannot repair the position.

Transfer of a going concern
Certainty by design

TOGC treatment is determined at the time of supply, making advance planning essential to avoid unexpected VAT liabilities for both parties.

by Greg McNally

Most VAT reliefs must be claimed – a transfer of a going concern (TOGC) is not one of them. Where the conditions are met, the transfer is neither a supply of goods nor a supply of services, so it sits outside the scope of VAT. The attraction on a large deal is obvious: no VAT to fund between completion and recovery, no stamp tax on a VAT-inclusive price, and none of the capital goods scheme clawback that an exempt sale would trigger.

Where the TOGC conditions are met, the treatment applies irrespective of whether the parties have thought about it or want it. Where the conditions are not met, the VAT treatment that goes with a TOGC cannot be applied retrospectively, no matter how badly both sides want it. That single feature explains almost everything that goes wrong in this area, and it also explains the one piece of planning I keep coming back to.

The risk also runs both ways, which is what makes the arguments so hard to settle. Charge VAT on a transaction that satisfies the conditions and the buyer is not entitled to recover it, because it was never input tax. Fail to charge VAT on a taxable supply and HMRC can assess the seller for the VAT due. Either way, there is interest and penalties on top, and an argument about who bears them.

The TOGC conditions

The assets must be used by the buyer in carrying on the same kind of business as the seller and, where only part of a business is transferred, that part must be capable of separate operation. Most TOGC litigation turns on those words, which I will leave for another day.

Where the seller is a taxable person, the buyer must already be, or immediately become, a taxable person. Therefore, the buyer must:

- already be registered;
- be required to register at the date of transfer because the compulsory conditions are met; or
- have been accepted for voluntary registration, with that registration in place when the transfer occurs.

Then come the land conditions, which typically bite where the seller has opted to tax. However, these conditions can also apply where the seller is transferring the freehold of a building under three years old, or of an unfinished one. This can catch people out, because the supply is already standard rated in its own right and the buyer is nonetheless required to opt to tax.

Where these land conditions apply, the buyer must opt to tax, or make a real estate election, and notify HMRC by the relevant date. This is the time of supply, so usually completion, although it may be earlier if a deposit paid to the seller creates a tax point. The buyer must also notify the seller that the buyer's option to tax will not be disapplied by the anti-avoidance rules. This is known as the Article 5(2B) notification under the Value Added Tax (Special Provisions) Order 1995.

In my experience, the requirement to notify the seller is the one most often missed. It is unilateral, no form is prescribed, and it is often assumed that somebody else has done it.

The pending registration

Consider a familiar scene. The buyer's application is with HMRC and has been acknowledged but not processed. No VAT registration number has been issued, and completion is fixed. Some advisers take the view that an application is enough. I disagree, and the disagreement is live enough that you will find it argued both ways in online forums. The answer lies in the difference between the two routes open to a buyer who is not already registered.

Compulsory registration happens by operation of law. Where the transferred business generated taxable turnover above the threshold in the year before the sale, the buyer must be registered from the date of transfer, whether or not it has applied and whether or not HMRC has acted. It is a taxable person as a matter of law, with or without a VAT number. In practice, this is useful as it removes time-sensitive actions that the buyer and its advisers cannot control.

By contrast, voluntary registration only takes effect once HMRC has accepted the application, and that acceptance is a discretionary act. A discretion exercised in March was not exercised in February. The distinction is important: on the compulsory route, waiting for a VAT registration number is not critical; on the voluntary route, HMRC must have accepted the application for registration before the transfer takes place.

The counter-argument is that a registration granted with an effective date before completion means the buyer was registered at that point after all. Importantly, however, both HMRC's VAT Registration Manual and VAT Notice 700/9, 'Transfer a business as a going concern', require a voluntary registration to be in place when the transaction occurs. The application is usually made in good time, with a requested effective date before completion, so the proposed effective date is not the point. On the day of the transfer, the registration is still contingent. HMRC could refuse the application, and the buyer could withdraw it.

A seller relying on a submitted application is therefore relying on HMRC exercising its discretion to accept it and on the buyer not changing its mind. If either does not happen, it is the seller that faces an assessment.

So do not take a view. Why debate something that can be resolved by a little forward planning? HMRC accepts applications specifying an effective date up to three months ahead, including advance notification of an intended TOGC. Make use of this and delay completion until the registration is confirmed.

The history you inherit

In 'The capital goods scheme: long-term VAT recovery' (*Tax Adviser*, June 2026 edition), I explained how capital goods scheme obligations pass to the buyer when the capital goods scheme item is part of a TOGC. Most of the time, there is no practical impact, particularly where the property has been, and will continue to be, used for taxable purposes.

Practical problems can, however, arise if the buyer makes exempt supplies in the future, or if it subsequently sells the property and is asked to share its capital goods scheme records.

Inheriting the obligation is worthless without the data: the VAT on the item, the date of first use, the baseline recovery percentage, the interval reached and the adjustments already made. HMRC's capital goods scheme guidance tells the seller to provide those details and the buyer to ask for them. This is one of the most overlooked areas of property VAT.

There is also a timing problem. The adjustment period for property runs for ten years and records are habitually kept for six. Add a second transfer and you have a building part way through its adjustment period with a baseline that nobody can evidence. I see this happen a lot. Advisers who failed to collect the information when acting for the buyer find themselves being asked to provide it when acting for the seller a couple of years later.

The exposure runs both ways, and this is where the profession could be missing out. HMRC's manual states that the buyer may need to repay input tax claimed by the original owner and may equally be able to recover more than that owner claimed. Capital allowances specialists price unrealised allowances as a matter of routine. The capital goods scheme position has the same potential for liabilities or additional recovery and is almost never priced, although the contract can share it and HMRC accepts those payments as further consideration within the TOGC.

The July 2026 changes bring a trap. The increase in the capital goods scheme threshold for land and property from £250,000 to £600,000 applies to expenditure incurred from 29 July 2026. Anything already within the scheme stays there under the old £250,000 threshold. For the next decade, the question is when the expenditure was incurred, not whether it reached £600,000.

When you cannot agree, remove the question

Notice 700/9 confirms that HMRC does not give advance clearance for TOGC treatment. The parties must therefore form their own view, with no referee, a completion date in the diary, and assessments that have run to eight figures when a tribunal disagrees years later. Neither side can afford to be relaxed about it, and their exposures point in opposite directions, which is why the argument rarely resolves itself.

I have previously taken the view that, where both sides cannot reach agreement, it may be better to deliberately fail the conditions and achieve certainty that way. This might sound bizarre, but as the conditions are mechanical and cannot be repaired afterwards, they can be failed in real time, and the failure is final.

These uncertainties usually involve commercial property, and there are two ways to ensure that the land conditions are not met. The buyer can opt to tax immediately after completion instead of before the relevant date. This leaves the buyer fully taxable but puts the transaction outside the TOGC provisions, though it may have to explain its input tax claim to HMRC. Alternatively, and perhaps more cleanly, the Article 5(2B) notification can simply be withheld. In fact, I have advised on one agreement where we stated outright in the papers that it was not being given.

HMRC's guidance is explicit that where the buyer has neither opted nor made the required notifications by the relevant date, the property falls outside the TOGC provisions and VAT is due on it, regardless of any later attempt to remedy this.

The rules do not force an all-or-nothing outcome. The provision operates to the extent that the transfer consists of the relevant grant, so failing the land conditions makes the property taxable while goodwill, stock and equipment can still pass outside the scope of VAT as a TOGC.

KEY TAKEAWAYS

Transfer of a going concern conditions are mechanical and tested at a single moment. That is why they can be lost by accident, and why they can be used with intent.

Three habits prevent most of the damage I see:

1. Confirm that the buyer's VAT registration is in place rather than simply applied for.
2. Obtain the capital goods scheme history before completion and take its value into account.
3. Settle the VAT treatment at the heads of terms stage, while there is still time to change the deal.

On a property investment sale, the property is the whole transaction, so this provides certainty over the VAT treatment of the entire sale. On a trading business sale, it is arguably better, because the land is usually the only asset in dispute. This approach isolates the land while leaving the VAT treatment of the other assets unaffected.

There is also a cost to this approach which should not be ignored. VAT charged on the sale forms part of the chargeable consideration for stamp tax. The buyer pays stamp tax on the VAT-inclusive value and cannot recover that additional cost. Somebody must agree who bears it, and it usually becomes a commercial issue affecting the price.

Finally, this only works if it is designed in from the outset. Most solicitors work from standard TOGC clauses, and a contract stating that the parties intend TOGC treatment could turn a deliberately late option into a breach of warranty. Those clauses are not fixed. They can be redrafted to record what the parties have actually decided, which is what we did in the agreement above. The VAT treatment therefore needs to be considered at the heads of terms stage.

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The trouble with tax data

Getting reporting right

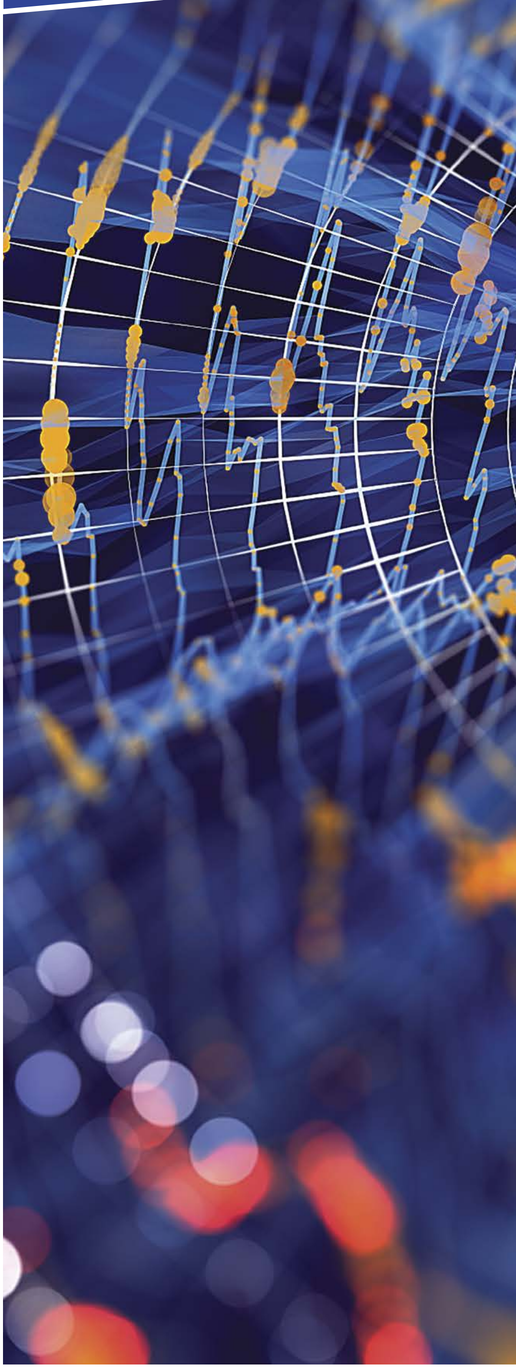
Taxpayers face inconsistent, unclear and inaccessible tax information from financial providers, highlighting the need for standardised, timely and digital reporting.

Key Points

What is the issue?
Taxpayers often receive tax information from HMRC, banks, property agents and investment platforms in inconsistent, unclear or inconvenient formats.

What does it mean to me?
Preparing a Self Assessment return can involve extra work, manual data entry and a greater risk of mistakes.

What can I take away?
Standardised reports, clearer explanations, firm deadlines and downloadable CSV files would make tax reporting quicker, easier and more accurate.



by Bill Dodwell

It's that time of year when taxpayers with complicated affairs start pulling together the details for their personal tax returns. This isn't as easy as it should be, mainly because many providers don't provide information in a helpful or usable way.

Getting the right information

Let's start with HMRC. At the time of writing (mid-August), some software can't pull PAYE information from HMRC systems as it takes several months for the batch process to run, although the information does feature in the online personal tax account and the HMRC app, as well as in online services for agents.

HMRC hasn't provided details of the taxable state pension amount in the online account or the HMRC app. However, it does prepopulate an incorrect amount (52 weeks at the current year amount, instead of 51 weeks plus one week at last year's amount) in the online Self Assessment return service and in agent services. There is now guidance on how to work out the correct amount of taxable state pension, although it is perhaps unlikely that a taxpayer would check an HMRC-supplied figure.

There is no mention of the winter fuel payment, which is now withdrawn in full through a tax charge on those with gross income over £35,000.

Banks and building societies must provide details of interest income to HMRC by the end of June. Gold star institutions provide their customers with a single document listing all accounts receiving interest in the tax year, including closed accounts. Some deliver this within a month. Others provide information by account, sometimes asking the taxpayer to submit a request for interest data. It's all too easy to forget a closed account. The timing is wildly variable, with some not providing the information until August.

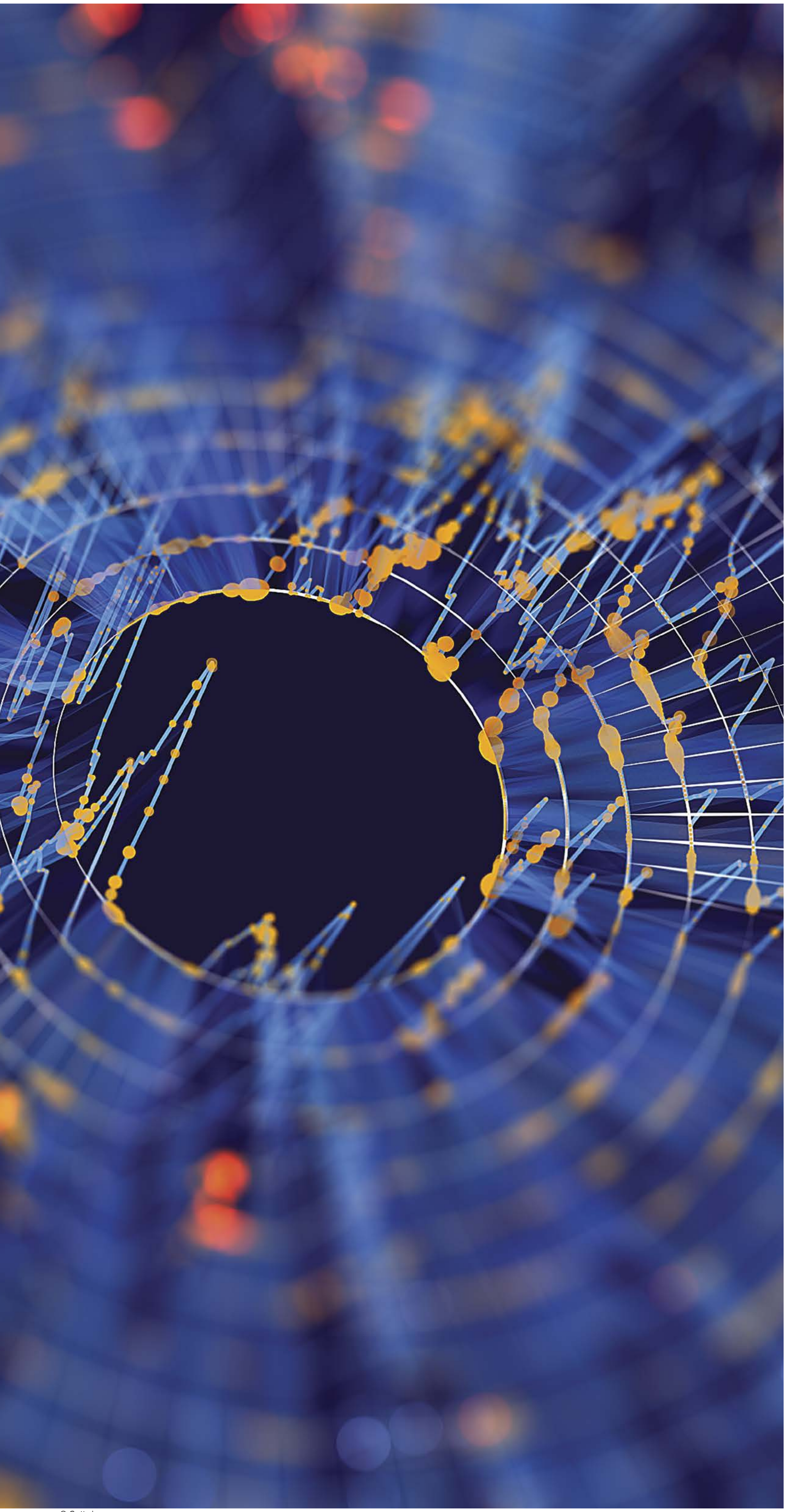
Everybody provides the information in a PDF document, which doesn't link to any form of tax return software – or even a spreadsheet. Copying data from a PDF to a spreadsheet doesn't normally work, so there is much more potential for error and no chance at all of a digital link. Many banks offer statement data in CSV files, which can easily be imported into a spreadsheet. Why can't the tax return data be offered in multiple formats?

The next port of call is managing agents or platforms for rental property. The PDF problem applies, naturally, although some do now offer CSV files, which is to be applauded. But there are other issues, too. HMRC requires that property income and expenses be categorised in a particular way (there are six income and ten expense boxes) but the agents leave this for the taxpayer to work out.

The problem with investment reporting

Let's move on to investments. There's a proliferation of new investment platforms, such as Nutmeg (now JPM Personal Investing), Wealthify, Plum, Moneybox and many others. These new offerings supplement long-established platforms, such as Hargreaves Lansdown, AJ Bell and platforms offered by many banks.

It's not always easy for investors to know what they're investing in. Is it a single fund, or is it a collection of investments advised by a manager? Most people won't realise that an accumulation fund (one which doesn't pay out dividends) can still have taxable dividends. Many apparently UK funds, for example a FTSE 100 tracker, turn out to be based overseas. Equalisation is impossible for a taxpayer to understand, mainly because the dividend voucher doesn't explain exactly what to do with it.



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What needs to change?

There's surely an opportunity for the government, advised by HMRC, to work with financial institutions to improve the information given to their customers – the taxpayers.

These are some of the improvements that would make a difference:

- Banks and building societies should automatically provide a single certificate in a standard format setting out interest income from all accounts held by the taxpayer during the tax year, including closed accounts and any one-off items. The certificate should include joint accounts and list both the gross amount paid on a joint account and the presumed 50% share per individual.
- Managing agents and real estate platforms could usefully provide their information split out according to the captions required by HMRC for disclosure. How useful this is will partly depend on how much costs are borne directly by the owner, rather than by the agent. This may not be possible for platforms, which will be using the format set out for international disclosures under the Common Reporting Standard.
- Investment managers and platforms should explain how the items disclosed are taxed and where they should go in a tax return. Having boxes for 'Gross dividends', 'Net dividends' and 'Equalisation' isn't sufficiently clear or helpful. Are the so-called 'Gross/Net dividends' taxed in full, or should the equalisation amount be taken off?
- There should be clear deadlines for providing the reports, which should be provided both as PDF files and, at the option of the taxpayer, as downloadable CSV files. All financial institutions should make it easy for their customers to find the tax data and send them an email or other communication when it is ready. Unless this sort of information is provided easily and quickly, there's no opportunity to bring forward submission of the Self Assessment return, as HMRC regularly urges.

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Beyond repair? What makes a dwelling

Severely dilapidated properties can remain dwellings for tax purposes, but recent cases demonstrate when their condition may cross the residential threshold.

by Julie Butler and Fred Butler

Key Points

What is the issue?
Two recent tribunal decisions consider when a severely dilapidated property ceases to be suitable for use as a dwelling, demonstrating the importance of the property's characteristics and the extent of work required.

What does it mean to me?
A property does not cease to be residential simply because it is uninhabitable. Advisers must consider its history, structural condition, hazards and whether the cumulative defects have fundamentally altered its residential character.

What can I take away?
The threshold for losing residential status is high but can be crossed. Contemporaneous evidence of the property's condition, structural defects, hazards and the extent of remedial works may prove crucial.

Two recent tribunal decisions involving severely dilapidated properties demonstrate just how difficult it can be to establish when a building has ceased to be suitable for use as a dwelling. They also provide some useful lessons for advisers dealing with properties in a poor state of repair.

In the case of *LMT Property Investors Ltd v Revenue Scotland* [2026] FTSTC 3, the First-tier Tribunal for Scotland (Tax Chamber) ruled that a highly dilapidated property was still legally a 'dwelling', meaning that the company was liable to pay the additional dwelling supplement.

The cases have particular relevance to farmers and landowners, who may own residential properties that have stood empty for long periods and fallen into serious disrepair. Unlike property investors deliberately acquiring 'fixer-uppers', they may find themselves dealing with old houses on a farming estate that have simply deteriorated over time.

There may also be wider tax implications. Ironically, a property that remains a dwelling for stamp tax purposes may potentially fail to qualify for agricultural property relief or business property relief if it is neither occupied for agricultural purposes nor used as part of the farming business. The interaction with inheritance tax therefore needs to be considered separately: see *HMRC v AM Brander (as Executor of the will of the late fourth Earl of Balfour)* [2010] UKUT 300 (TCC).

The case was also notable for another reason. The director of LMT Property Investors Ltd had used artificial intelligence to help prepare his arguments, resulting in inaccurate references to case law, including a non-existent case, being presented to the tribunal.

A property in need of renovation

LMT Property Investors Ltd bought a property at auction with the intention of renovating and selling it. It had been empty for approximately 12 years and the company knew that substantial renovation would be required.

The director obtained a home report but carried out no other research and did not view the property before buying it. At the time of purchase, the property had serious defects. These included a sagging ceiling caused by a faulty skylight, severe damp, dangerous electrical wiring requiring complete replacement, lead-contaminated mains drinking water, and missing or damaged windows, doors and roofing.

The company initially submitted its land and buildings transaction tax return on the basis that the property was residential. It subsequently amended the return, arguing that the property was non-residential because it was not suitable for use as a dwelling, and sought repayment of the additional dwelling supplement.

Revenue Scotland accepted that the property was unlikely to have been capable of occupation at the effective date of the transaction. However, it did not consider this to be determinative. Although work would be needed to make the property habitable, Revenue Scotland considered that it retained the characteristics of a dwelling.

The company appealed.

What makes a dwelling?

At the heart of LMT Property Investors Ltd's argument was the condition of the property at the effective date. Considered objectively, the company argued, it was neither habitable nor safe and therefore could not be suitable for use as a dwelling.

The tribunal concluded that this was not the correct test.

The Court of Appeal's decision in *Mudan v HMRC* [2025] EWCA Civ 799 had made it clear that there should not simply be a 'snapshot' of the property at the effective date. Instead, the test requires consideration of the fundamental characteristics and nature of the building over a period of time.

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Mudan is a landmark UK Court of Appeal ruling. It established that a property which has previously been used as a dwelling can remain residential for stamp duty land tax purposes even if it is severely dilapidated or vandalised when purchased. The property does not have to be 'move-in ready' on the date of completion.

The important distinction is between a building that retains the fundamental characteristics of a dwelling and requires repairs or renovation, and one where those characteristics have been lost.

In *LMT Property Investors Ltd*, the First-tier Tribunal found that the level of dilapidation had not removed the property's 'essential character' as a dwelling. The remedial works required were substantial, but none were considered so hazardous as to make the restoration unviable.

The property had also been used as residential accommodation for many years, although it was unoccupied at the time of purchase following the owner's death, and was still fully furnished when the company bought it. Its subsequent major refurbishment was undertaken at the company's choice and did not alter the property's character at the time of acquisition. It remained, in the tribunal's view, a 'fixer-upper' that was suitable for use as a dwelling. The appeal was therefore dismissed.

When the line is crossed

A subsequent decision demonstrates, however, that there is a point at which the condition of a former home can take it outside the residential property rules. In *Oakwood Great Oak Ltd v HMRC* [2026] UKFTT 1138 (TC), the First-tier Tribunal reached the opposite conclusion when applying the principles established in *Mudan*.

The question was whether the property was 'residential property' within Finance Act 2003 s 116(1)(a) at the effective date of the transaction and, in particular, whether it remained 'suitable for use as a dwelling' for the purposes of stamp duty land tax.

The tribunal considered its previous residential use and recognisable residential layout alongside its structural defects, extensive deterioration and widespread asbestos contamination. It was not sufficient to consider any one of those factors in isolation. The tribunal emphasised the importance of looking at their cumulative effect.

The judge concluded: 'This was not merely a dwelling awaiting renovation. Nor was it simply an unmodernised property requiring substantial refurbishment.' The exceptional scale and intrusive nature of the work required had fundamentally altered the character and identity of the property so that it no longer possessed the characteristics of a dwelling. The taxpayer's appeal was therefore allowed.

Comparing the two cases

The different outcomes in *LMT Property Investors Ltd* and *Oakwood Great Oak Ltd* demonstrate the importance of degree. Both properties had previously been dwellings and both required substantial work. But in *LMT Property Investors Ltd*, the defects amounted to severe dilapidation that could nevertheless be addressed through standard and viable remedial works. The property retained its essential residential character.

In *Oakwood Great Oak Ltd*, however, the combination of structural deterioration and serious hazards had gone considerably further. An accumulation of catastrophic structural failures required the dismantling and stripping of the property. Looking at the evidence cumulatively, the tribunal found that the property had 'crossed the line' identified in *Mudan* and was no longer suitable for use as a dwelling.

The distinction is therefore not simply between a habitable and an uninhabitable property. The severity of the defects, the viability of repair and the nature and extent of the work required all matter. Nor does the fact that it is theoretically possible to repair a building necessarily determine its status.

The two decisions therefore provide useful markers on either side of what remains a highly fact-sensitive boundary. Standard achievable renovation, even where extensive, will not necessarily be sufficient to take a property outside the residential rules. However, *Oakwood Great Oak Ltd* demonstrates that the threshold, although high, can be crossed where the scale and nature of the works required are so extensive that the property has lost its essential character as a dwelling.

The AI warning

There was a separate lesson for advisers in *LMT Property Investors Ltd*.

The company's director, who was unrepresented, had used AI to help prepare his case. This resulted in inaccurate references to case law and the citation of a non-existent case, as well as a number of incorrect substantive legal arguments.

The tribunal accepted that the director had acted entirely in good faith and had not attempted to mislead it. His conduct was therefore not treated as contempt of court. Nevertheless, the judge pointed out that AI could be 'unreliable' and produce 'hallucinations'.

The episode provides a useful reminder that AI-generated legal and tax research must be checked against authoritative sources. AI can assist with research and preparation, but apparently convincing citations or propositions should not be relied upon without verification.

Lessons for property owners and advisers

The decisions are particularly relevant where farms and landed estates contain houses that have stood empty or deteriorated over many years. Establishing the condition of the property at the relevant time will be crucial; the fact that it cannot immediately be occupied will not, by itself, determine its status.

Advisers should therefore consider the property's history and characteristics, the severity of any structural defects or hazards, and the scale and nature of the works required. Contemporaneous surveys, photographs and other evidence of its condition may be particularly important in demonstrating whether a former dwelling has crossed the line into non-residential property.

Ultimately, the question is not simply whether someone could move into the property on completion, but whether, considered objectively and in the round, the building still possesses the fundamental characteristics of a dwelling.

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Company investment portfolios

The loan relationship trap

Company investment portfolios can trigger unexpected corporation tax liabilities where debt-based investments fall within the loan relationship.

by Tim Woodgates

Working in practice, it is a familiar occurrence that as a successful trading company reaches maturity, substantial wealth is generated. Many owner-managed businesses eventually accumulate surplus cash. Following a business sale, or simply through sustained profitability, those funds are often invested through a managed portfolio.

As tax advisers, we can feel reassured when handling the tax matters of such investments, as the reports which are produced by investment advisers often appear clear and comprehensive. They may include a consolidated tax certificate bringing together interest and dividend details, capital gains summaries and year-end valuations. So far so good. The tax position may be rather less straightforward, however.

These reports are typically designed with *individual* investors in mind. When applied to companies, things can go awry as not all investments are equal, at least not in tax terms. Advisers may instinctively treat investments as falling within the chargeable gains regime. The term 'investment' can too readily suggest that capital treatment is the right answer, leading us to apply the relevant tax adjustments almost as second nature. That assumption is generally correct for equities.

However, many debt-based investments instead fall within the loan relationships rules contained in the Corporation Tax Act (CTA) 2009 Part 5, rather than the chargeable gains code.

What is a loan relationship?

The statutory definition is found at CTA 2009 s 302:

> 'For the purposes of the Corporation Tax Acts a company has a loan relationship if:
> a) the company stands in the position of a creditor or debtor as respects any money debt (whether by reference to a security or otherwise); and
> b) the debt arises from a transaction for the lending of money.'

To apply this definition in an investment portfolio context, let's take an investment in a bond or a gilt (UK government loan stock) as an example.

These types of investment are fundamentally loans. A monetary sum is invested (or, in the legislative terminology, is an instance of 'the lending of money'), and the company stands in the position of creditor to the entity issuing the bond or gilt. There will be an interest return on the sum invested and may also be a set date for the repayment of the initial capital.

This means that for corporation tax purposes, the taxation of this investment is dealt with under the non-trading loan relationship (NTLR) rules and, importantly, not under the chargeable gains regime. The key point is that gains or losses arising from investments that fall within the loan relationship rules are treated as 'non-trading credits' or 'non-trading deficits'.

The taxation of loan relationship credits and deficits generally follows the amounts recognised in the accounts,

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PRACTICAL STEPS FOR TAX ADVISERS

1. Obtain a complete asset listing from the IFA so that the movements during the period for each investment can be determined. This may present systemic challenges for the IFA in obtaining the relevant information automatically and will often require manual analysis by the accountant or tax adviser.
2. Accurately classify the assets between those to be treated under the chargeable gains regime and those to be treated as loan relationships. Particular care is needed where the appropriate classification may not be obvious from the terminology given to the investment.
3. Analyse the fair value movement through the profit and loss account to distinguish between unrealised gains and losses arising from loan relationships and those relating to chargeable gains. This is key to identifying which figures should be included in the corporation tax computation as NTLR credits or deficits.
4. Review the report listing disposals of assets during the period to determine which are subject to the loan relationship rules. Any such disposals should be excluded from the chargeable gains reported in the corporation tax computation.

Key Points

What is the issue?
Investment reports are often designed for individuals, but companies may be subject to different rules. Debt-based investments, including bonds and certain funds, can fall within the loan relationship regime rather than the chargeable gains regime.

What does it mean to me?
Companies need to identify which investments are loan relationships and analyse their fair value movements correctly. Unrealised gains may create taxable non-trading credits even though the company has not disposed of the investment or realised any cash.

What can I take away?
Do not rely solely on an investment manager's tax report. Obtain a complete asset listing, classify each investment correctly, analyse fair value movements and exclude investments subject to the loan relationship rules from the company's chargeable gains computation.

subject to the specific computational rules and any required tax adjustments.

Fair value movements and corporation tax

All being well, the accounts will detail the interest and dividend income arising from the investment portfolio. The management fees incurred in handling the portfolio would sit as an expense in the profit and loss account. There would also likely be recognition of a profit or loss on disposal of assets and, lastly, some form of 'fair value adjustment' to reflect how the value of the investments has increased or decreased since the last reporting period. This is because, under FRS 102 (the main accounting standard applicable in the UK and Republic of Ireland), investments such as those under discussion would usually be accounted for at fair value.

Insofar as investments within the portfolio are treated as loan relationships, this means that the fair value movement recognised through the profit and loss account may contain elements that are taxable or relievable. If an affected investment has increased in value during the accounting period, the gain (or 'non-trading credit') would be taxable, despite no actual disposal having occurred. If an affected investment has decreased in value, the fair value loss (or 'non-trading deficit') may provide some immediate tax relief. The former is certainly more problematic, as it means that a tax liability may arise without any cash having been realised.

Example: Unrealised gains

A company holds a mixed investment portfolio. The annual report from the independent financial adviser (IFA) indicates total unrealised gains for the period of £30,000. Of this, £18,000 relates to equities and £12,000 relates to a strategic bond fund within the deemed loan relationship rules.

The £12,000 cannot simply be ignored because no disposal has occurred, nor should any disposals of that particular investment be included in a chargeable gains computation. It needs to be considered under the loan relationship rules, with the £12,000 unrealised gain being taxed as an NTLR credit.

Identifying loan relationships in practice

Investment portfolios commonly contain a mix of different types of investment to help diversify risk. The difficulty lies in determining accurately from the accounts which elements of the overall fair value movement during the accounting period are relevant to the loan relationship rules, so that the correct tax treatment can be applied.

Many investment portfolio reports make this very challenging. Reports may aggregate gains or valuation movements into a single figure. Given how the loan relationship regime can apply, the fact that a tax certificate reports a gain within a 'capital gains summary' should not be taken as evidence that the same amount belongs in a company's chargeable gains computation.

Even if we assume that we have all the detail we could possibly want from the IFA, it may still prove troublesome to identify which assets fall within the NTLR regime and which do not.

Terminology is also an issue. Reports may use terms such as 'strategic bond fund', 'enhanced cash fund', 'liquidity fund', 'money market fund' or 'fixed income portfolio', to give some real-world examples. But is it clear from the terminology alone whether the NTLR regime applies?

As a rule of thumb, an investment return in the form of interest is a good indicator that a loan relationship exists. A bond, for example, is essentially a loan and will typically stipulate a set repayment date. This would therefore bring it within the definition of a loan relationship in CTA 2009 s 302.

The position is more nuanced with funds such as open-ended investment companies and unit trusts. While the investment in the fund or unit trust is not itself strictly a 'lending of money', CTA 2009 contains deemed loan relationship rules for corporate holdings in certain investment funds.

Where the relevant conditions are met, including where the fund fails the qualifying investments test because more than 60% of its investments are qualifying investments, the company's holding is treated as a creditor relationship. Broadly, the legislation seeks to ensure that holdings in funds predominantly invested in debt-based investments cannot avoid loan relationship treatment simply because those investments are held through a collective vehicle.

As a result, advisers frequently need bespoke reconciliations from investment managers or must perform their own detailed analysis.

The relevant elements will need stripping out from the reports provided. Any disposals of affected investments listed in the chargeable gains section of the relevant tax report should also be excluded from the company's chargeable gains computation.

Gilts and corporate investors

The exemption for gains on gilts is well established for individual investors. For companies, however, another part of the legislation is relevant. CTA 2009 s 464 provides that the loan relationship rules take precedence over other tax treatments.

The point is not that the gilt exemption under the chargeable gains rules disappears. Rather, for a company, the more fundamental question is whether the return is brought into account under the loan relationship rules. Where CTA 2009 Part 5 applies, s 464 gives that regime priority for corporation tax purposes, so the analysis cannot stop at the capital gains tax treatment that would apply to an individual investor.

This can present a challenge, as IFAs may promote the tax-free benefits of gilts to clients, only for the tax adviser to have to explain the different tax treatment when preparing the company's corporation tax computation.

Managing the expectation gap

This is perhaps the most challenging aspect of all, as the tax treatment may not be obvious to the typical client. The additional work required on the corporation tax aspects is also likely to affect the fees charged, which will need to be communicated clearly. There may also be a difference between the tax treatment advised by the IFA and the conclusions reached by the tax adviser. Managing the client's expectations, and the relationships between the parties, sensitively will therefore be important.

A final thought: micro-entity accounts

For some companies, adopting FRS 105 (the main accounting standard applicable to micro-entities) may alter the accounting presentation because micro-entity accounts do not recognise fair value adjustments in the same way. This may reduce some of the practical volatility, but it is not a universal answer. Eligibility to apply the standard, the wider accounting presentation and the corporation tax consequences would all need to be considered before treating this as a solution.

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When tax meets law
The legal red flags

A private client solicitor's 'red flag' guide to spotting when a tax question becomes a legal issue.

by Julie Partington

Tax advisers are often the first professionals to hear the full story. A taxpayer comes in asking about inheritance tax planning and, 45 minutes later, you know about their second marriage, the cottage they transferred to their daughter, the audacity of their eldest son's wife and the fact that nobody has spoken to Auntie Joan since Christmas 2019.

It is one of the blessings, and sometimes one of the curses, of private client work. The problem is that tax and law are rather fond of travelling together yet are often tackled by separate professions in isolation from one another. A perfectly legitimate tax question can very quickly become a question about ownership, capacity, trusts, succession, contracts, matrimonial rights or even litigation.

From the perspective of a private client lawyer, the skill is not knowing everything about the law. It is recognising the red flags that tell you when another professional needs to be brought into the conversation. So it seems appropriate to mirror that courtesy by providing a summary of when you may need a lawyer to step in.

Red flag 1: After the event

'I've already done it. Can you just tell me the tax consequences?' This is probably

Key Points

What is the issue?
Tax and law frequently overlap in private client work. Tax advisers need to recognise when a tax question depends on establishing, creating or interpreting legal rights and legal input may be required.

What does it mean to me?
Advisers should look for red flags, including uncertain ownership, undocumented family arrangements, trusts, estate disputes, questions of capacity and requests to draft or amend legal documents.

What can I take away?
The key is knowing when to involve a lawyer. Early, specific referrals can establish the legal position on which the tax analysis depends, while allowing the tax adviser to retain an important role.

the most dangerous sentence in private client work. For example, a taxpayer tells you that her father transferred his house to her three years ago, but that he still lives there. She just needs to know 'if there could be any problems later on'.

The tax answer may depend on establishing what happened legally:

- Who is registered at HM Land Registry?
- Was there a declaration of trust?
- What were the intentions of the parties?
- Was consideration paid?
- Was it intended as a gift?
- Was there an agreement allowing her father to occupy the property?
- Does her father pay a market rent?

These questions may be essential to the tax analysis, but that does not mean that the tax adviser should investigate every legal issue. Advisers cannot be expected to determine the legal validity or interpretation of a historic document, transaction or arrangement. The important thing is to recognise when the underlying legal position needs to be established before the tax analysis can safely proceed.

That may be the point to say: 'Before we finalise the tax advice, I think we should have the legal position checked.'

Red flag 2: Family arrangements

'The family says that it's all understood.' Private client lawyers are naturally suspicious of the phrase 'It's all understood.' It often means that an arrangement exists entirely in the family's collective memory, without the documentary evidence to back it up.

For example, a mother may own the family home, but her son has paid for an extension on the understanding that he will be repaid from the property after her death. Alternatively, a father may have contributed £200,000 towards his child's property purchase without documenting whether the payment was a gift or a loan.

The tax adviser needs to establish the nature of the arrangement before determining its tax treatment. Was the £200,000 a loan or a gift? Who has beneficial ownership of the property? From a legal perspective, the question is what rights actually exist. That can involve trusts, resulting trusts, constructive trusts, loans, gifts or contractual arrangements.

If family members disagree about the arrangement, tax planning can quickly become a legal dispute. The safest response is not to decide who owns what on the taxpayer's account of events alone, but to seek legal advice on the rights involved and the supporting evidence.

Occasionally, the taxpayer also wants a retrospective 'fix' to document what they say was an earlier agreement. They may say that a payment was always intended to be a loan, that someone was meant to own half of a property or that a parent appeared on the title only for convenience. They may then ask whether a declaration of trust can simply be put in place now.

The danger is that the desired tax result starts to shape the account of what happened historically. There may be entirely legitimate ways of documenting or correcting arrangements, but retrospective documentation can create significant legal and evidential issues. A lawyer can help establish what legal rights already existed, what documentation is appropriate now and whether the proposed document accurately records the parties' intentions and circumstances.

Red flag 3: Drafting documents

'Can you just change the wording?' This is a classic. A tax adviser may be helping a taxpayer to consider their overall estate planning when the conversation moves from 'Will this save inheritance tax?' to 'Could you word it so that my daughter gets the house but my son receives the equivalent value?' The next request may be: 'Can you draft something for me to sign?'

The tax adviser may understand exactly what tax outcome is being sought, but drafting the document raises different questions, including testamentary intentions, trusts, powers, conditions, interpretation and the legal effect of the wording.

Will writing is not a reserved legal activity under the Legal Services Act 2007. It is therefore important not to oversimplify the regulatory position. However, that does not make drafting a will simply an extension of tax advice. The Solicitors Regulation Authority identifies general legal advice and will writing as legal activities, even where the activity is not reserved.

In practice, the tax adviser should ask whether they are explaining the tax consequences of a document or being asked to create or amend the legal document itself. There is an important distinction between the two. Where the request moves into legal drafting, the safer course is to seek legal assistance.

Red flag 4: Trust planning

'Can I put it into a trust?' Trusts are where tax and law become particularly intertwined.

There may be perfectly good reasons for a tax adviser to recommend a trust from a tax perspective. But once the conversation turns to who will own the assets, who should benefit and when, what powers the trustees should have, or what happens on death or if circumstances change, legal advice may be needed.

Consider a taxpayer who wants to put £500,000 into trust for their grandchildren while retaining the ability to recover the money if they later need it. The tax consequences may form part of the planning discussion, but whether those objectives can be achieved together depends on the legal nature and terms of the trust. A lawyer can help translate the tax objectives into legally effective documentation and, importantly, identify where the taxpayer's tax and wider objectives may conflict.

Red flag 5: After a death

'Can you help us sort out the estate?' Death changes the landscape. An adviser who previously dealt with a taxpayer's affairs may suddenly be asked to deal with probate, interpret the will or advise on a family member's claim to property based on a promise made by the deceased. What initially appears to be a simple estate can quickly become complicated. Questions may arise about the validity or interpretation of the will, lifetime gifts, trusts, capacity, proprietary estoppel or disputes between beneficiaries.

There is also an important regulatory boundary. Probate work is a reserved legal activity in England and Wales to the extent that it involves preparing papers on which to found or oppose a grant of probate or letters of administration. This work must therefore be undertaken by, or under the supervision of, an appropriately authorised person.

The tax adviser can still play an important role in estate administration, particularly in relation to inheritance tax, capital gains tax and income tax reporting, but should be clear about where their role ends and legal advice begins.

Red flag 6: Second-hand advice

'My solicitor said the property is jointly owned. Is that all you need to know?' This is a red flag that should not be ignored. A taxpayer's recollection of legal advice may not provide enough information on which to base the tax analysis.

For example, a taxpayer may say that their solicitor confirmed that a property is 'jointly owned'. But that description can cover very different arrangements, including ownership as joint tenants or tenants in common, equal or unequal beneficial interests, or arrangements involving a declaration of trust or a life interest. The precise legal position can have very different tax consequences.

Similarly, a taxpayer may explain that a solicitor 'dealt with' a trust some years ago. That does not necessarily establish what the trust documentation provides or whether the taxpayer's understanding of it is correct.

Rather than relying on second-hand descriptions, ask to see the relevant documents. If the legal position remains unclear, seek clarification from a lawyer before relying on it for the tax analysis.

Red flag 7: Family disputes

'What if my sister and I can't agree about the estate?' Disagreement between family members is one of the clearest signs that a matter may be moving beyond tax planning. A question about the tax treatment of an estate can quickly develop into a dispute over accounts, assets or the actions of an executor or beneficiary.

Disputes involving beneficiaries, executors, trustees or the ownership of assets can rapidly become contentious legal matters. The conduct of litigation is also a reserved legal activity under the Legal Services Act 2007.

The tax adviser should not become an accidental family mediator simply because they are the professional everyone trusts enough to tell the truth to. Where a dispute is developing, it may be better to involve a lawyer before anyone takes further action.

That is not abandoning the taxpayer. It is recognising that the nature of the problem has changed.

Red flag 8: Capacity and pressure

'Should I transfer the asset if my family says it's the right thing to do?' Tax advisers can be well placed to spot signs that something may be wrong. An elderly taxpayer may suddenly want to transfer a substantial asset to a new friend, a family member may answer questions on their behalf, or the taxpayer may appear not to understand the transaction they are being asked to undertake.

These are not merely tax planning considerations. They may raise questions about mental capacity, undue influence, duress or the validity of a transaction or testamentary document.

Solicitors Regulation Authority guidance for tax advisers also identifies unusual gifts in wills and undisclosed assets in estate administration as potential warning signs.

The appropriate response is not necessarily to refuse to advise. It is to recognise when independent legal advice may be needed. A lawyer may need to speak directly to the taxpayer and, where there are concerns about their ability to make the relevant decision, consider whether a mental capacity assessment is appropriate.

WHEN TO INVOLVE A LAWYER

Tax advisers routinely need to understand legal concepts and may quite properly explain the legal framework underpinning their tax analysis. The important distinction is between explaining the tax consequences of existing legal rights and creating, determining or enforcing those rights.

A useful starting question is: Am I being asked about the tax consequences?

If so, the matter is likely to fall within the tax adviser's role. But consider involving a lawyer if the answer to any of the following questions is yes:

- Am I being asked what legal rights someone has?
- Am I being asked to create or amend those rights?
- Is there disagreement about those rights?
- Does the answer depend on a document I haven't seen or whose legal effect is unclear?
- Is litigation, property registration, probate or another reserved legal activity involved?

The aim is not to draw an artificial boundary between tax and law, but to recognise when the tax analysis depends on a legal question that needs to be resolved first.

Working together

A useful rule of thumb is that if the question is how much tax is due, think tax. If it is about who is entitled to what, think legal. Of course, the two often overlap, which is precisely why early collaboration matters.

A referral should not simply mean telling the taxpayer: 'That's legal. Speak to a solicitor.' Instead, explain why legal input is needed and how it relates to the tax advice. For example, a lawyer may need to confirm the nature and extent of the parties' beneficial interests in a property, and whether an existing declaration of trust reflects that position, before the tax analysis can be finalised.

Being specific about the legal question also makes the handover more effective. The taxpayer may already have a lawyer, or the tax adviser may be able to recommend someone or make a direct introduction.

The boundary works both ways. A lawyer should not assume that the tax adviser is merely there to calculate the tax. The best private client work is collaborative: the tax adviser may identify a planning opportunity that the lawyer has not considered, while the lawyer may identify a legal issue that fundamentally changes the tax analysis.

Good professional collaboration should feel like a smooth relay race, not a game of professional hot potato. Neither professional needs to know everything. The important thing is recognising when the other needs to be involved.

In conclusion

One final test can help to identify when that point has been reached: if changing the answer would require changing someone's legal rights, stop and think.

Whether a gift is a potentially exempt transfer for inheritance tax purposes is a tax question. Whether the taxpayer can make that gift, whether they still own the asset afterwards, whether someone else has an interest in it or whether legal documentation is needed to give effect to it are legal questions.

Tax and legal questions will inevitably overlap in private client work. The skill lies not in trying to answer every question, but in recognising when the tax analysis depends on legal rights that need to be established first.

The most expensive legal problems are often not the ones nobody saw coming. They are the ones everyone saw but assumed were somebody else's problem.

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Mergers and acquisitions

Tax due diligence

Careful tax due diligence helps advisers identify, manage and allocate transaction risks, supporting better negotiations, stronger protections and successful post-completion outcomes.

by Graeme Fox

Key Points

What is the issue?
Tax due diligence is a vital stage of any M&A transaction. It helps advisers identify historic tax liabilities, assess their commercial significance and manage risk through transaction structuring, contractual protections and post-completion planning.

What does it mean to me?
Advisers need to look beyond routine compliance and recognise issues across corporation tax, employment taxes, VAT and post-completion planning. Early identification of risks can influence negotiations, purchase price and the protections included in the Sale and Purchase Agreement.

What can I take away?
Effective tax due diligence extends beyond finding technical issues. By identifying risks early, understanding their commercial impact and monitoring post-completion obligations, advisers can help clients avoid unexpected liabilities and achieve more successful transactions.

My first article in this series, 'Mergers and acquisitions: structuring the deal' (August 2026), focused on structuring an M&A transaction to achieve the best commercial and tax outcome. Once the broad terms of a deal have been agreed, however, attention turns to the target's historic tax position and the risks that may be inherited by the purchaser.

This article examines how tax due diligence helps to identify and manage those risks, the contractual protections available to buyers and sellers, and the post-completion issues that advisers should continue to monitor.

Tax due diligence

Tax due diligence is a critical component of the M&A process. It involves a detailed review of the target's tax affairs to identify historical liabilities, compliance issues and potential risks that could affect the valuation, structure of the transaction or the terms of the Sale and Purchase Agreement (SPA).

Tax due diligence is fundamentally a process of identifying and assessing tax risk. My father spent more than 30 years in the motor trade buying and selling second-hand cars, yet even his experienced eye occasionally let him down, with a newly purchased car breaking down on the journey home.

Due diligence can never eliminate risk entirely, but it should reduce the chances of an unwelcome surprise. A purchaser is being asked to assume responsibility for the target's historic tax affairs and therefore needs to understand any liabilities, compliance failures or uncertain tax positions before the transaction completes. The objective is not to demonstrate that a business is free from errors, but to identify issues that could affect the valuation, influence negotiations or require protection through the SPA.

This is particularly important given HMRC's penalty regime, where the level of penalties and the time limits for enquiries depend heavily on the taxpayer's behaviour. Minor findings are common, but evidence of deliberate behaviour or fraud, with HMRC able to assess up to 20 years and impose tax-geared penalties, is likely to have a significant impact on the transaction.

Most reviews will consider the key taxes, including corporation tax, VAT and employment taxes, together with any ongoing disputes with HMRC. The aim is to identify historical liabilities, aggressive tax positions or compliance failures that could result in additional costs after completion. Beyond these core areas, the issues that arise will vary considerably depending on the nature and complexity of the target.

For a straightforward owner-managed business, a general tax practitioner may be able to undertake most of the review. More complex transactions, particularly those involving groups, cross-border operations or listed companies, are likely to require specialist input across areas such as international tax, transfer pricing or employment-related securities. Regardless of the size of the transaction, the findings may influence the transaction structure, purchase price or the tax warranties, indemnities and covenants included in the SPA.

Tax issues arising during due diligence

The tax issues identified during due diligence will vary according to the nature of the target and the structure of the transaction. The following examples highlight some of the more significant areas that advisers should consider during the due diligence process.

Corporate tax issues

Corporation tax is likely to be one of the first areas considered during tax due diligence. Alongside confirming that returns have been submitted correctly and liabilities settled, advisers should consider whether there are historic tax risks or planning opportunities that could affect the value or structure of the transaction.

Degrouping charges

Where a company leaves a corporate group within six years of receiving an asset on a no gain, no loss transfer, it is treated as having disposed of and immediately reacquired the asset at its market value at the time of the original transfer. This may give rise to a degrouping charge, effectively bringing the original intra-group transfer into charge as though it had been made to a third party.

This commonly occurs where assets have been rearranged within a group before a disposal, but historic transfers can also create unexpected liabilities if they fall within the six-year window.

Where the disposal qualifies for the substantial shareholding exemption (SSE), the degrouping charge may also be exempt because it is treated as additional consideration for the share disposal. Similarly, HMRC will generally not seek to impose a degrouping charge where a parent disposes of its sole wholly owned subsidiary following an intra-group transfer. Advisers should therefore identify historic intra-group transfers at an early stage so that any potential degrouping charges can be assessed before the transaction structure is finalised.

> **Employment tax compliance should form part of every due diligence exercise.**

Property and capital allowances

Where land or buildings are transferred, advisers should establish whether any plant and machinery fixtures qualify for a joint election under Capital Allowances Act 2001 s 198. They should also confirm that the statutory conditions are satisfied, including that expenditure has been pooled, a disposal value has been agreed between the parties and the election is made within the two-year time limit.

It is also important to establish whether the vendor has ever claimed Structures and Buildings Allowance. If so, advisers should identify the qualifying expenditure involved and when the claim was made. These factors may affect the purchaser's future entitlement and the overall value of the transaction.

Employment taxes

Employment tax compliance should form part of every due diligence exercise. Alongside reviewing PAYE and National Insurance compliance, advisers should consider whether employee incentives and benefits have been operated correctly, as errors can result in unexpected tax liabilities and reporting obligations after completion.

Employment-related securities

Employee share schemes require particular attention. Where share options become exercisable on a sale of the company, any discount on the acquisition of shares will be subject to income tax.

If the shares constitute readily convertible assets, as expected on a whole company sale, both employee's and employer's National Insurance contributions also arise on any discount. Depending on the terms of the option agreement, the employee may also be required to pay the employer's NI. These events can create PAYE reporting requirements for the company.

The company may also be entitled to a corporation tax deduction under Corporation Tax Act 2009 Part 12, based on the difference between the market value of the shares at the date they were acquired, and the consideration given in obtaining them. Where the consideration price includes price adjustment mechanisms linked to the company's taxable profits or losses, this could potentially have a sizeable impact.

Advisers should also confirm that all employment-related securities (ERS) returns have been submitted to HMRC. Historic grants of options or other reportable events may have been overlooked, particularly where no ERS scheme has been registered with HMRC. This can result in multiple years of outstanding returns together with late filing penalties.

Taxable benefits in kind

Even in larger businesses, taxable benefits can be overlooked. Common examples include owner-managers drawing funds through a director's loan account during the year and clearing the balance with an annual dividend, without considering whether a beneficial loan charge arises where the balance exceeds £10,000. Similarly, businesses may treat benefits as exempt on the basis that they are trivial benefits or pool cars, when the statutory conditions are not in fact met.

VAT and property taxes

VAT can easily be overlooked during tax due diligence, particularly where a transaction is structured as a share sale. Even where a trade and asset sale is intended to qualify as a transfer of a business as a going concern (TOGC), advisers should not assume the conditions are met. Where only part of a business is transferred, or the purchaser intends to make a further disposal, the availability of TOGC treatment should be considered carefully.

Property transactions require particular attention. Commercial property may be exempt from VAT, but this will not always be the case. Advisers should establish whether the property is less than three years old or subject to an option to tax, as either could result in VAT being chargeable. Where appropriate, it may be possible to revoke an option to tax before completion, removing VAT from the consideration. This may also reduce the purchaser's stamp duty land tax liability (SDLT), as SDLT would otherwise be payable on the VAT-inclusive purchase price.

Property and other qualifying assets may also fall within the scope of the Capital Goods Scheme (CGS). Where assets remain within the 10-year adjustment period, advisers should establish whether any adjustment arises for the vendor or whether responsibility for future CGS adjustments will transfer to the purchaser as part of a TOGC.

Tax warranties and indemnities

Once tax issues have been identified through due diligence, the parties must decide how they should be addressed. Minor matters, such as an outstanding return, may simply require corrective action before completion. More significant issues, or those involving uncertainty or the exercise of judgement, are more likely to become a matter of risk tolerance and therefore issues for commercial negotiation.

To mitigate such tax risks, contractual protections are commonly included in the SPA. Tax warranties provide assurances about the target's historic tax compliance, while tax indemnities offer specific protection against identified liabilities. The extent of these protections is ultimately a matter of negotiation between the purchaser and vendor and may have a direct impact on the purchase price.

Although not strictly a tax issue, advisers are often asked to assess the significance of identified risks. That judgement can help determine whether a purchaser is prepared to accept a particular risk, seek additional contractual protection or negotiate a reduction in the consideration.

Post-completion tax issues

Completion does not necessarily bring the tax adviser's role to an end. Warranties and indemnities will often remain in force for a period after the transaction, while the purchaser's first tax returns may reveal issues that were not identified during due diligence or have only become apparent once the business is under new ownership.

The first returns prepared following completion are often completed by new personnel or advisers, providing a fresh perspective on the target's historic tax affairs. Minor errors or more significant issues may therefore come to light after completion.

Where corrective action is required, it will generally fall to the purchaser to amend the relevant returns, although the contractual protections agreed in the SPA may then determine whether any resulting liability can be recovered from the vendor.

Changes to the business

Where a company changes ownership, advisers should also consider the anti-avoidance rules restricting the use of brought-forward trading losses. These may apply where, within five years of a change in ownership, there is a major change in the nature or conduct of the trade.

A major change may include changes to the products or services offered by the business, or to its customers, outlets or markets. Where the rules apply, brought-forward trading losses may no longer be available for offset against future profits, while new losses cannot be carried back to before the change.

Although a purchaser may intend to continue the target's trade unchanged, post-acquisition developments can trigger the rules unexpectedly. HMRC provides guidance on what constitutes a major change in Statement of Practice 10 (1991), but the test remains subjective. Advisers should therefore consider not only the transaction itself, but also any planned changes to the business after completion where significant trading losses are involved.

Advisers should also consider the wider tax consequences where the target ceases to trade after completion. For example, if a company moves into investment activities rather than continuing to carry on a trade, reliefs that depend on trading status may be affected. This could result in the withdrawal of Enterprise Investment Scheme (EIS) relief or disqualifying events for Enterprise Management Incentive (EMI) options.

Corporation Tax Act 2010 s 459

Most advisers will be familiar with the Corporation Tax Act (CTA) 2010 s 455 charge on loans to participators made by close companies. The related provisions in CTA 2010 s 459 are less familiar, but can create unexpected issues in M&A transactions.

CTA 2010 s 459 is intended to prevent the s 455 charge being avoided through indirect arrangements. Broadly, it applies where a close company provides funds through an intermediary, rather than making a loan directly to a participator.

Although this may appear to have little relevance to an acquisition, the rules can apply in a management buyout. A newly formed holding company may acquire the target before the target company lends funds to its new parent to finance payment to the departing shareholders. HMRC's view is that this is precisely the type of arrangement CTA 2010 s 459 is intended to catch. Although any charge can usually be avoided by ensuring the loan is settled within nine months of the end of the accounting period, advisers should ensure that the arrangement is identified early and the deadline is not overlooked. Amid the practical demands of completing a management buyout, this can easily become an unexpected post-completion issue.

Other considerations

Although much of the focus during an M&A transaction is on the vendor's tax position, advisers should not overlook the purchaser's obligations. Depending on the assets being acquired, stamp duty or SDLT may be payable, with the appropriate returns submitted and tax paid on time.

Successful transactions also depend on effective collaboration between advisers. Tax specialists should work closely with legal advisers to ensure that the agreed transaction structure, contractual protections and wider commercial objectives remain aligned throughout the process.

Finally, buyers will generally want to acquire complete control of the target. Where minority shareholders or option holders remain outside the negotiations, advisers should ensure that appropriate drag-along or tag-along provisions are considered to reduce the risk of the transaction being delayed or frustrated.

Conclusion

Tax due diligence is about far more than identifying historic liabilities. Throughout an M&A transaction, advisers must balance technical tax knowledge with commercial judgement, helping clients identify risks, negotiate appropriate protections and avoid unexpected liabilities after completion.

From the initial structuring of a transaction through to post-completion planning, early advice and careful due diligence can significantly improve both the commercial outcome and the long-term success of the transaction.

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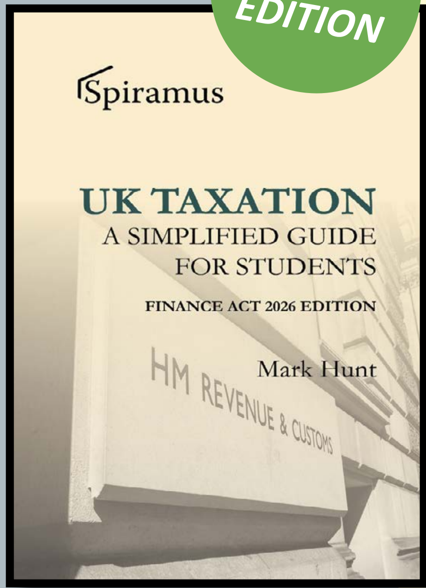

UK Taxation - a simplified taxation guide for students 2026/2027

by Mark Hunt

This book is written in a user-friendly manner for students at undergraduate level and is also suitable for ACCA, ICAEW and AAT.
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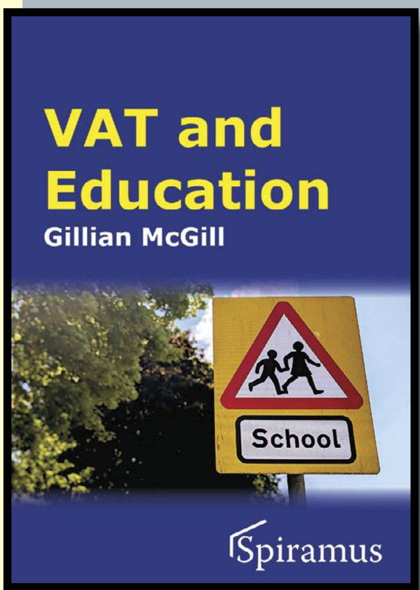

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The EU AI Act How does it apply to you?

We consider when a UK tax practice could fall within the EU's AI rules and set out eight practical steps to manage the risks.

by Karen Eckstein

Key Points

What is the issue?
The EU AI Act can apply to UK tax practices when AI-generated outputs are used in the EU. Different obligations apply according to the system's purpose and risk, with substantial penalties for non-compliance.

What does it mean to me?
Firms must determine which AI systems they deploy, where their outputs are used and whether any use is high-risk. Existing professional responsibilities for accuracy, confidentiality, transparency and human oversight continue to apply.

What can I take away?
Maintain an AI systems register, investigate EU connections, classify each use and keep qualified people in control. Protect client information, check suppliers, explain significant AI use, train staff and prepare for incidents.

Artificial intelligence is becoming part of everyday professional practice. Tax advisers may use it to research legislation, summarise documents, draft correspondence, take meeting notes or support calculations. Firms may also encounter AI in recruitment, client onboarding and other business processes.

Many UK firms nevertheless assume that the European Union's rules on AI do not concern them. After all, they are established outside the EU and may provide principally, or even exclusively, UK tax advice. That assumption needs to be tested.

Regulation (EU) 2024/1689 of the European Parliament and of the Council laying down harmonised rules on artificial intelligence (the EU AI Act) can apply to providers and deployers established outside the EU where output produced by an AI system is used in the EU. For a UK tax practice, the potential connection might arise where AI-assisted work is supplied to an EU-based client or used by an office, group company or other party in the EU.

The Act is complex and its provisions are being introduced in stages. Not every use of AI will be regulated in the same way and an EU connection does not automatically make a system high-risk. The practical task is to identify the firm's AI systems, understand where their outputs are used and apply controls proportionate to the particular use.

What is the EU AI Act?

The EU AI Act creates a common legal framework for AI across the EU. It seeks to support innovation and the EU internal market while protecting health, safety and fundamental rights. The EU AI Act takes a risk-based approach, with the applicable rules depending on the nature, purpose and potential effects of the system. See ***Understanding the risk categories***.

Most tax practices using an externally supplied AI tool without substantially changing it are likely to be 'deployers'. In broad terms, a deployer is a person or organisation using an AI system under its authority, other than for a purely personal, non-professional activity.

A firm that develops a system, markets it under its own name or makes a substantial modification may instead acquire the more demanding responsibilities of a provider and should take specialist advice.

The timing also matters. The Act entered into force on 1 August 2024, with its provisions taking effect in stages. Following the July 2026 AI Omnibus, the rules for high-risk systems listed in Annex III, including certain employment and recruitment systems, are due to apply from 2 December 2027. Rules for high-risk systems embedded in regulated products are due to apply from 2 August 2028. Some provisions, including prohibitions and transparency requirements, already apply.

When can a UK firm be caught?

The territorial scope of the Act is wider than the location of the organisation using the AI. EU AI Act Article 2(1)(c) covers providers and deployers established or located in a third country, such as the UK, where output produced by the AI system is used in the EU.

The place where the output is used is therefore crucial. A straightforward example might be a UK adviser using an AI system to help prepare an analysis that an EU-based client then uses in its business. The same concern could arise where work produced by a UK team is used by an EU office or group company. It may be less clear where an EU-based client receives advice about a purely UK matter but all material use of the AI output takes place in the UK.

The existence of an EU client, employee or job candidate should therefore prompt investigation, but residence or nationality alone should not be treated as a complete test. In particular, it would be too broad to assume that a UK firm necessarily falls within all the Act's obligations merely because an EU-based candidate applies for a UK role. The firm must consider the precise system, the people affected, where its output is used and which provision is engaged.

This distinction matters because the consequences of overstatement and understatement are both unhelpful. A firm should not ignore an EU connection, but nor should it assume that every piece of AI-assisted work for an EU client is a high-risk activity. Where the position is material or uncertain, specialist advice may be needed.

Client onboarding can provide a useful first alert. Firms could record where the client is based, as well as

where the work will be used and whether it will be shared with people or entities in the EU. However, the position can change during an engagement, so the question should also be revisited if the scope or intended recipient of the work changes.

Which uses present the greatest risk?

For most tax advisers, using generative AI to help research a UK tax question or prepare a first draft will not, by itself, make the system high-risk under the EU AI Act. Professional duties remain highly relevant, particularly accuracy, confidentiality, competence, transparency and the exercise of professional judgement, but these should not be confused with the Act's high-risk classification.

The most obvious high-risk area for many professional firms is employment. EU AI Act Annex III includes certain AI systems used to recruit or select individuals, place targeted job advertisements, filter applications, evaluate candidates, allocate tasks based on personal characteristics, or monitor and evaluate workers. If a UK firm uses such a system and its output is used in the EU, it may need to comply with the high-risk regime once the relevant provisions apply.

Not every system used in a listed area is automatically high-risk. The Act contains a limited exception where a system does not pose a significant risk of harm and does not materially influence the outcome of decision-making, although systems that profile individuals remain high-risk. Classification therefore depends on what the tool actually does, rather than the department in which it is used.

Identity verification also needs careful analysis. Remote biometric identification can be high-risk, but systems used solely to confirm that a person is who they claim to be are excluded from the relevant Annex III category. It would therefore be unsafe either to describe every anti-money laundering tool as high-risk or to assume that every tool used in client due diligence is outside the regime. Its functions must be examined.

Other professional work, including tax, corporate finance or audit, does not become high-risk simply because AI is involved. Risk can increase, however, where AI makes or materially influences decisions about individuals, particularly in fields expressly listed in Annex III. Firms should separate two questions: whether the Act applies territorially; and, if so, which obligations apply to the particular system and use.

UNDERSTANDING THE RISK CATEGORIES

- **Unacceptable risk:** AI practices presenting a clear threat to people's safety or fundamental rights are prohibited. Examples include certain forms of manipulation, social scoring and biometric categorisation.
- **High risk:** Systems used in sensitive areas, including recruitment, employment, creditworthiness and some biometric applications, are subject to extensive requirements covering risk management, records and human oversight.
- **Transparency risk:** Systems such as chatbots and some generative AI applications must meet disclosure requirements so that people know when they are interacting with AI or viewing AI-generated content.
- **Minimal or no risk:** Most everyday AI applications fall within this category and are not subject to specific requirements under the Act.
- **General-purpose AI:** GPAI is regulated separately. Most obligations fall on model providers, although firms using these models must still consider how the resulting system is deployed.

COULD YOUR USE OF AI REQUIRE CLOSER REVIEW?

- Does AI make or materially influence decisions about people?
- Is it used to recruit, select, monitor or evaluate workers?
- Are its outputs used by a client, office or other person in the EU?
- Does it process confidential or personal financial information?
- Are its outputs incorporated into tax advice, returns or calculations?
- Are staff using unapproved tools (typically publicly available ones) rather than approved internal AI tools?

One 'yes' answer does not necessarily mean that the system is high-risk or that the EU AI Act applies. It is, however, a prompt to investigate and document the position.

What does compliance involve?

Where a firm deploys a high-risk system, EU AI Act Article 26 will require appropriate technical and organisational measures to ensure that it is used in accordance with its instructions. Human oversight must be assigned to people with the necessary competence, training and authority. Input data under the deployer's control must be relevant and sufficiently representative for the intended purpose.

Deployers will also have to monitor operation of the system, keep automatically generated logs under their control for an appropriate period of at least six months and act where they identify a risk or serious incident. Depending on the use, they may have to inform workers and their representatives or tell an individual that a high-risk system is being used to make, or assist in making, a decision about them. Data protection impact assessment obligations may also be relevant.

EU AI Act Article 50 contains separate transparency requirements. For example, a person interacting directly with an AI system must generally be told that it is AI unless this is obvious from the circumstances and context. A client-facing chatbot should therefore be clearly identified as such.

These are legal obligations, but many overlap with sensible controls that firms should already be considering under data protection law, contractual duties and professional standards. The aim should be a coherent AI governance framework, rather than a separate layer of paperwork created solely for the EU AI Act.

What happens if a firm gets it wrong?

The headline maximum penalties are substantial. Breach of the prohibited practices can attract an administrative fine of up to €35 million or 7% of total worldwide annual turnover for the preceding financial year. Breaches of certain other obligations, including those applying to deployers of high-risk systems and the transparency rules, can attract up to €15 million or 3% of worldwide annual turnover. Supplying incorrect, incomplete or misleading information to notified bodies or national competent authorities in response to a request can attract a fine of up to €7.5 million or 1% of worldwide annual turnover.

Those figures require context. For an undertaking, the turnover-based maximum applies if it exceeds the fixed amount, but the Act provides that an administrative fine imposed on a small or medium-sized enterprise should not exceed the lower of the relevant percentages or fixed sums. Authorities must also consider factors including the nature, gravity and duration of the infringement, whether it was intentional or negligent, mitigation, cooperation, previous infringements and the organisation's size and economic capacity. The figures nevertheless demonstrate why firms should not leave the issue until a problem occurs.

What should tax practices do now?

The precise obligations depend on the system, its purpose and where its output is used. Firms can nevertheless improve their controls now, helping them identify possible exposure to the EU AI Act and manage wider professional risks.

1. Know which AI systems are being used

Start with an AI systems register. It should cover generative AI products, meeting assistants, document analysis and tax research systems, client onboarding products, recruitment software and AI functions embedded within existing software. Record the supplier, purpose, responsible person, intended users, data processed and any EU connection.

The register should distinguish between approved tools and those being tested, and record changes in purpose or functionality. It may also uncover 'shadow AI': staff using unapproved public tools because they are convenient.

2. Identify where outputs will be used

Build proportionate questions into client and matter onboarding. Where is the client established? Who will receive the work? Will an EU office, group company, authority or individual use an AI-generated output? The answer may not always be known at the outset, so engagement teams should revisit it when the scope changes.

Consider the whole journey of the output, not only the person instructing the firm. A UK parent may commission work that is ultimately used by an EU subsidiary. Recruitment, performance management and group-wide HR tools also deserve particular attention.

3. Classify the use, not merely the product

The same underlying technology can support very different activities. Using a general-purpose tool to suggest headings for a training note is not equivalent to using AI to screen candidates or recommend whether an individual should receive credit.

For each use, record what the AI does, whether it makes or materially influences a decision, who may be affected and whether the output is used in the EU. Check the provider's documentation rather than relying on a description such as 'low-risk tool'.

Review the assessment when the tool, data or purpose changes. A system approved for administrative support may create a different risk if it is later used to evaluate people or generate substantive advice.

4. Keep humans in control

Human oversight should be meaningful. A nominal approval stage is inadequate if the reviewer lacks the time, expertise or authority to challenge the output.

AI-generated tax returns, calculations and advice should be reviewed by appropriately qualified staff before submission or issue. Research should be checked against reliable source material, with citations opened and verified. Reviewers should understand the data and assumptions behind an output rather than checking only whether its conclusion appears plausible.

Identify who may review and approve each type of output and what evidence should be retained. Particularly important advice may justify a second review. A useful working assumption is to treat AI output as work produced by a keen but inexperienced junior: valuable, perhaps, but still requiring supervision, verification and professional judgement.

These controls also reflect the guidance on the application of Professional Conduct in Relation to Taxation to the ethical use of AI, under which members remain responsible for work produced with the assistance of AI tools.

5. Protect information and check providers

Confidential client information, personal data, tax records and payroll information should not be entered into unapproved public AI tools. Firms need clear rules about approved environments and the circumstances in which client consent or disclosure may be required.

Supplier due diligence should cover security, privacy, data location and retention, permitted use of inputs, incident arrangements and access controls. Establish whether prompts or uploaded information will be used to train the provider's models. For a high-risk system, the firm should also obtain the provider's instructions covering the system's capabilities and limitations, its expected accuracy and the human oversight measures required.

The contract should address liability, service continuity and how the firm's data can be retrieved or deleted when the relationship ends. Material changes may require reassessment.

6. Be transparent with clients

Firms should decide when and how their use of AI will be disclosed. This may be addressed in engagement letters, terms of business or specific communications where AI plays a significant part in delivering the work. Any consent required under professional standards, contract or data protection law should be obtained and recorded.

Transparency does not mean listing every routine use of automated software. The approach should reflect the tool and the significance of AI to the work. A client should not be misled about who produced substantive advice or exercised professional judgement.

Client-facing chatbots should be clearly identified as AI where required, with an accessible route to a human adviser.

7. Train staff and monitor performance

EU AI Act Article 4 requires providers and deployers to take measures supporting the AI literacy of staff and others using AI systems on their behalf. Staff therefore need practical training on permitted systems, the firm's rules, confidentiality, hallucinations and escalation routes. Training should reflect their role and the risks of the tool. Recruitment teams will need different guidance from tax staff using a research assistant.

Test outputs before adopting a system and continue to monitor accuracy, bias and quality. This might include recognised tax scenarios and comparisons with trusted sources. Monitoring should also identify use outside the approved purpose and inform decisions about continued use. Keep records of testing and review them periodically as working practices change.

8. Prepare for errors and incidents

Firms should have a clear route for reporting AI errors, unauthorised use, data leakage, misleading outputs and client complaints. Staff need to know when to stop using a system and who to contact.

The response plan should identify who will assess the problem, preserve records, contact the provider and decide whether clients, insurers, regulators or other authorities must be informed. For high-risk systems, the EU AI Act may impose specific notification and suspension requirements.

Incidents and near misses should be reviewed to identify whether the cause lies in the tool or in inadequate instructions, training, access controls or human review. Recording the response will help demonstrate that the firm took its responsibilities seriously.

Preparing for responsible use

AI can save time, reduce cost and improve services, but unexamined use is increasingly difficult to justify. Firms should know which systems they use, where outputs go and which activities need scrutiny, embedding these questions in their wider AI governance.

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Charitable trusts
The inheritance tax trap

Finance Act 2026 has created a potential inheritance tax trap for charitable trusts, making existing wills and succession planning urgently worth reviewing.

by Charles Bradley

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Key Points

What is the issue?
Finance Act 2026 has changed the inheritance tax exemption for charitable gifts made by will. Gifts on charitable trusts may no longer qualify for relief, and the absence of effective transitional provisions means the exemption may be irretrievably lost after the testator's death.

What does it mean to me?
Practitioners should review existing wills containing charitable purpose trusts, as gifts that previously qualified for exemption may no longer do so. The article also considers whether a technical argument based on the registration condition could preserve relief in some cases.

What can I take away?
Where clients have existing wills leaving assets on charitable trusts, advisers should consider whether amendments or lifetime planning are needed before death. Otherwise, valuable inheritance tax relief may be lost, despite the charitable intention remaining unchanged.

Suppose that a person wishes to leave some or all of her estate to charity. In her will, she might make a gift:

- to an existing registered charity; or
- to trustees on trust for a particular charitable purpose (or for charitable purposes generally).

Until 6 April 2026, there was no distinction in the inheritance tax treatment of these two types of gift. In either case, the deemed transfer of value on death was exempt under Inheritance Tax Act (IHTA) 1984 s 23.

The ostensible effect of amendments introduced by Finance Act 2026, however, is that only gifts to existing registered charities now qualify for exemption. More significantly, the absence of any effective transitional provisions means that nothing can be done after the testator's death to rescue exemption for a gift on charitable trusts. As a result, a significant number of existing wills may now require urgent review.

This article examines how these changes came about, why they create a potential trap for practitioners and clients, and what steps can still be taken to preserve relief.

How did we get here?

The background to the Finance Act 2026 changes lies in the rather complicated history of the inheritance tax charity exemption.

The original exemption

From its enactment, Inheritance Tax Act (IHTA) 1984 s 23(1) exempted transfers of value 'to the extent that the values transferred by them are attributable to property which is given to charities'. IHTA 1984 s 23(6) provided that property was 'given to charities' if it either became the property of charities **or** was held on trust for charitable purposes only. This mirrored the language of the capital transfer tax exemption in the Finance Act 1975 Sch 6 para 10.

The exemption therefore operated in two distinct ways. It applied where the property either became the property of charities (the first limb) or was held on trust for charitable purposes only (the second limb). This was confirmed by the Court of Appeal in *Routier v RCC* [2016] EWCA Civ 938.

The two limbs substantially overlapped. Before the changes introduced by Finance Act 2010 (discussed below), the definition of 'charity' for these purposes was the longstanding income tax definition: 'a body of persons or trust established for charitable purposes only'. As a result, a gift of property to trustees for charitable purposes would, on the face of it, satisfy both limbs. The property became the property of a trust established for charitable purposes only (limb 1), while also being held on trust for charitable purposes only (limb 2). In most, if not all cases, it was irrelevant which limb applied.

Routier exposes the distinction

The question of whether there was a material divergence between the two limbs arose in *Routier*. The deceased had left property to foreign trustees for purposes that were accepted to be charitable under English law. The gift could not be exempt from inheritance tax under the first limb because the income tax definition of 'charity' did not encompass foreign charities.

The House of Lords had previously held that the phrase 'established for charitable purposes only' contained an implicit limitation, applying only to bodies or trusts governed by the law of some part of the UK and subject to the jurisdiction of UK courts (*Camille and Henry Dreyfus Foundation Inc v IRC* [1956] AC 39).

The executors argued, however, that no equivalent limitation applied to the second limb and that gifts to foreign charitable trustees were exempt from inheritance tax. The High Court and Court of Appeal found in HMRC's favour. The Supreme Court ultimately decided the case for the taxpayers on a separate

point of EU law but expressly left this question unresolved.

The Finance Act 2010 definition

The reference to EU law brings us to the new definition of 'charity' introduced by the Finance Act 2010 Sch 6, with effect for all tax purposes, including inheritance tax, from 1 April 2012. (Although the litigation in *Routier* took place after that date, the deceased died in 2007 and the case therefore depended on the earlier law.)

A series of decisions of the CJEU, particularly *Persche v Finanzamt Lüdenscheid* (Case C-318/07), had made it clear that restricting charitable tax reliefs to charities established in the relevant member state contravened the free movement of capital. The new definition was intended to comply with EU law while retaining a degree of control over gift aid claims involving foreign charities.

The Finance Act 2010 Sch 6 definition accordingly required that for a body of persons or trust to qualify as a 'charity' for tax purposes, it must not only be established for charitable purposes only, but also meet:

- the 'jurisdiction condition': be subject to the control of the High Court, the Court of Session or the High Court in Northern Ireland in the exercise of its jurisdiction with respect to charities or be subject to the control of a court exercising a corresponding jurisdiction in an EU or EEA state;
- the 'registration condition': 'comply with any requirement to be registered' with the Charity Commission or an equivalent body outside England & Wales; and
- the 'management condition': have managers who pass a 'fit and proper persons' test.

> **The UK's departure from the EU removed the need to extand charitable reliefs to EU and EEA charities.**

The UK's departure from the EU removed the need to extend charitable tax reliefs to EU and EEA charities. Parliament could, in principle, simply have repealed Finance Act 2010 Sch 6 and reinstated the previous definition. Instead, Finance (No.2) Act 2023 narrowed the jurisdiction condition so that it could only be satisfied if the body of persons or trust was subject to the jurisdiction of the UK courts. The registration and management conditions remained unchanged.

The important point is that the Finance Act 2010 Sch 6 definition also introduced, as a by-product, a clear (rather than merely arguable) divergence between the two limbs of the exemption in IHTA 1984 s 23. A gift to a charitable company depended on the first ('property … becomes the property of charities') and therefore required the charity to satisfy the jurisdiction, registration and management conditions. By contrast, a gift to a charitable trust, whether existing or newly created, fell within the second limb ('property … is held on trust for charitable purposes only'), to which those conditions were on the face of it irrelevant. The divergence became even wider following the narrowing of the jurisdiction condition by Finance (No.2) Act 2023.

The Finance Act 2026 amendments

One might reasonably ask how much this actually mattered. For gift aid purposes, there was no question that relief was available only on donations to charities satisfying the Finance Act 2010 Sch 6 conditions. But was it really a problem that inheritance tax relief might be available on gifts to foreign charitable trusts? Or that it was available on bequests to newly established charitable trusts where the trustees had not registered with the Charity Commission before the deceased's death?

The government has evidently decided that the answer to both questions is 'yes'. The explanatory notes to the relevant clause of the Finance (No.2) Bill 2025-26 described the measure (somewhat hyperbolically) as an 'anti-avoidance change'. In substance, its purpose was to ensure that gifts to charitable trusts meet the same jurisdictional and regulatory requirements as other charities.

The effect of Finance Act 2026 s 78 is simple. The words 'or is held on trust for charitable purposes only' have been removed from Inheritance Tax Act 1984 s 23(6)(a). In other words, the second limb of the exemption has been deleted.

The transitional relief in Finance Act 2026 s 79 is very narrowly targeted. It applies only where property becomes held on trust for charitable purposes on the termination of a qualifying interest in possession. In those circumstances, relief is available if, within two years of the termination, the property becomes the property of charities meeting the Finance Act 2010 Sch 6 conditions.

The absence of equivalent provision where an individual has left property by will on trust for charitable purposes is something of a mystery. The logic is presumably that an interest in possession beneficiary or trustees may have no power to amend the remainder trusts, whereas a testator could always amend his will during his lifetime. But what if – as will inevitably happen in many cases by inadvertence – he does not? That question is considered next.

Finally, there is no change to the exemption of charitable purpose trusts from ten-year anniversary and exit charges under the inheritance tax 'relevant property' regime. Finance Act 2026 makes no amendment to IHTA 1984 s 58(1)(a), which provides that 'property held for charitable purposes only' is not 'relevant property'.

Position after death

Suppose that several years ago Anna, a long-term UK resident, made an English law will leaving the residue of her estate to UK resident trustees on trust for such charitable purposes as the trustees should, in their discretion, determine. She dies after 5 April 2026 without having changed her will.

Her trustees would satisfy the jurisdiction condition in Finance Act 2010 Sch 6 and, assuming they are fit and proper persons, the management condition. However, because the trust did not exist before Anna's death, the trustees will not have registered with the Charity Commission and so will not satisfy the registration condition. The consequence is that the residuary gift does not attract exemption from inheritance tax. Nor can the 36% inheritance tax rate, where at least 10% of an estate is left to charity, apply because that depends on the charitable gift falling within IHTA 1984 s 23(1).

The next question is whether exemption can be saved by anything done after death. Suppose that Anna's trustees either register with the Charity Commission or appoint the trust property to existing registered charities. Do any of the inheritance tax provisions allowing post-death events to be 'read back' into the deceased's will apply? The answer appears to be no.

IHTA 1984 s 144(1) applies, broadly speaking, where property settled by will is distributed within two years of death. In such cases, the Act applies as if the deceased's will had passed the property directly to the beneficiary. However, s 144(1) only applies where, within two years of death, an event occurs that would otherwise give rise to an exit charge. Property held on trust for charitable purposes remains outside the scope of the relevant property regime. Accordingly, on the facts of Anna's estate, no exit charge could arise and s 144(1) cannot apply.

IHTA 1984 s 142(1) applies where any disposition of the deceased's estate is varied, or the benefit conferred by a disposition is disclaimed, within two years of death. Again, the Act applies so as to read back the variation into the will. However, s 142 requires the variation or disclaimer to be made 'by the persons or any of the persons who benefit or would benefit from the dispositions'.

On the face of it, Anna's trustees cannot be 'persons who benefit or would benefit', since trustees do not hold trust property for their own benefit. Nor is there anyone else who could enter into an instrument of variation under s 142, because a trust for charitable purposes by its nature has no ascertainable individual beneficiaries.

> **There is no change to the exemption of charitable purpose trusts from ten-year anniversary and exit charges.**

Conundrum

The position on Anna's death, however, may not be as clear cut as it first appears, leaving room for a different conclusion. In particular, satisfying the registration condition does not require that the charitable trust is actually registered with the Charity Commission. Rather, Finance Act 2010 Sch 6 para 3(2) requires only that 'the ... trust has complied with any requirement to be registered'. This brings Charities Act 2011 s 30(2) into play. Under s 30(2)(d), a charity whose gross income does not exceed £5,000 is exempt from registration. Section 30(4)(a) provides that a charity's gross income is determined by reference to its financial year immediately preceding the relevant time.

The charitable trust in the example only comes into existence on Anna's death. It is therefore arguable that:

- the charitable trust had no financial year immediately preceding Anna's death, and therefore had no gross income exceeding £5,000;
- the charitable trust is therefore exempt from registration under Charities Act 2011 s 30(2)(a); and
- having no registration requirement to be satisfied, it had 'complied with any requirement to be registered' and thus met the registration condition.

If that argument is correct, the effect of the Finance Act 2026 amendments is, in substance, limited to denying relief (assuming it was available prior to 6 April 2026) for gifts to foreign charitable purpose trusts. The gift in Anna's will would therefore be exempt after all.

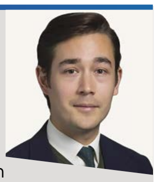
It would no doubt be optimistic to plan on the basis of this argument. However, it may provide a viable defence where an old will containing a charitable purpose trust has simply not been updated before the testator's death after 5 April 2026.

Conclusion

The long and the short of it is that, where a person dies after 5 April 2026 leaving property on trust for charitable purposes rather than to existing registered charities, exemption under IHTA 1984 is likely to be unavailable (subject to the argument considered under the 'Conundrum' above). More importantly, once the testator has died, that relief is likely to be irretrievably lost.

It is difficult to see any policy justification for this state of affairs. In particular, it is difficult to see why transitional protection, similar to the terms provided by Finance Act 2026 s 79, should not also have applied to property settled on charitable purpose trusts by will, rather than only where property becomes held on charitable purpose trusts on the termination of a qualifying interest in possession.

In the absence of legislative reconsideration, persons with existing wills containing gifts on charitable trusts seem to have two options. The first is to execute a codicil amending the will so that the property in question is left to existing registered UK charities. The second is to establish the charitable trust in question during the testator's lifetime with a nominal amount, so that the trust qualifies as a 'charity' within Finance Act 2010 Sch 6 before the testator's death. The trustees could then either register with the Charity Commission or, since registration is often a lengthy process, rely on the exemption in Charities Act 2011 s 30(2)(d). The charity may also be registered with HMRC Charities through a simpler online process.



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Goodwill shunting
A personal asset?

We consider the case of WWM (Harrogate) Ltd, where an attempt to separate goodwill from the company through which a business was conducted came unstuck.

by Keith Gordon

Key Points

What is the issue?
Goodwill may belong to an individual rather than the company carrying on the business, but *WWM (Harrogate) LLP v HMRC* demonstrates that establishing separate personal goodwill depends closely on the facts.

What does it mean to me?
Personal reputation and strong client relationships are not enough in themselves to establish personal goodwill. Restrictive covenants, regulatory requirements and an individual's ability to benefit independently from those relationships may all be significant.

What can I take away?
HMRC accepted that personal goodwill can exist separately from a company, but taxpayers must still demonstrate that the individual owns an asset capable of separate ownership and transfer.

The concept of goodwill has long caused difficulties for lawyers, accountants and tax advisers alike. As Lord MacNaghten said in *Commissioners of Inland Revenue v Muller and Co's Margarine Ltd* [1901] AC 217, it is difficult to define although very easy to describe. One particular difficulty is identifying who actually owns goodwill when the success of a business depends heavily upon the personal reputation, expertise and client relationships of a particular individual. For many years, it was HMRC's position that goodwill could be owned only by the person carrying on the business, although that position became increasingly vulnerable to challenge.

The concept of goodwill lay at the heart of the First-tier Tribunal's decision in *Smith and Corbett v HMRC* [2023] UKFTT 912 (TC). In that case, the tribunal accepted that valuable relationships and reputation associated with independent financial advisers belonged to them personally rather than to the company through which they operated. Many advisers regarded the decision as a significant endorsement of the concept of personal goodwill.

However, the extent to which *Corbett* can be relied upon has been considered in the more recent case of *WWM (Harrogate) LLP v HMRC* [2026] UKFTT 832 (TC), which is the focus of this article.

The facts of the case

Mr Len Walters established a financial advisory business in 2006. Initially, he operated as a sole trader. He started with a small number of clients who followed him from a previous employer and subsequently acquired additional clients through arrangements facilitated by St James's Place (SJP). Over time, he built a successful business based largely upon his personal reputation and client relationships.

In 2008, Mr Walters incorporated the business, transferring it to Walters Wealth Management Ltd (WWM Ltd). Goodwill of £450,000 was recognised in the company's accounts and Mr Walters declared a capital gain in respect of the transfer. From that point onwards, Mr Walters ceased to trade as a sole trader and instead acted as an employee and director of the company.

The tribunal accepted that the prosperity of the business was largely attributable to Mr Walters' efforts. New clients frequently arose through recommendations and personal introductions. Existing clients dealt principally with Mr Walters and regarded him as their trusted adviser. As he put it himself, 'people buy people'.

In 2014, acting on professional advice, Mr Walters and WWM Ltd formed WWM (Harrogate) LLP. The profit-sharing ratio was set at 80% to Mr Walters and 20% to the company. The LLP's accounts included goodwill of £860,662, which was said to represent Mr Walters' personal goodwill generated between 2008 and 2014. The value was credited to Mr Walters' capital account and amortised over ten years.

The practical consequence was that the LLP could make repayments to Mr Walters by reducing the balance standing on his capital account. HMRC challenged the arrangement and, following an enquiry into the LLP's returns, concluded that the goodwill figure should be removed from both the LLP's balance sheet and Mr Walters' capital account. The resulting dispute came before the tribunal.

The First-tier Tribunal's decision

The case came before Tribunal Judge Marilyn McKeever and Member Julian Sims.

The tribunal identified three questions:

- Was it legally possible for personal goodwill to be owned separately from the business with which it is associated?
- If so, did Mr Walters own such goodwill?
- If so, did he transfer it to the LLP?

On the first question, the tribunal accepted the appellant's case. Referring in particular to the insolvency case of *Kubrik and another (joint liquidators of Sofra Bakery Ltd) v Ucar and another* [2013] EWHC 1499 (Ch) and to *Corbett*, it concluded that goodwill associated with a business can, in principle, be owned by somebody other than the entity carrying on the business. HMRC also accepted that possibility.

The appeal therefore turned on whether Mr Walters actually owned personal goodwill in 2014.

The tribunal undertook a detailed analysis of *Corbett*. There, the tribunal had found that the advisers retained ownership of their client relationships and were free to continue advising those clients independently if they left the company. Restrictive covenants had been omitted intentionally and both advisers were personally authorised to provide financial advice. The tribunal regarded those facts as significant.

Mr Walters' circumstances were different. The tribunal considered that he had transferred the whole of his business, including its goodwill, to WWM Ltd when the company was incorporated in 2008. Thereafter, he worked solely as an employee of the company. Although he undoubtedly continued to build and maintain valuable client relationships, those activities benefited the company rather than creating a separate asset owned personally by him.

The tribunal also noted that Mr Walters lacked his own FCA authorisation. He was able to act only through the regulatory framework provided by St James's Place and WWM Ltd. Accordingly, unlike the advisers in *Corbett,* he could not simply have left the company and carried on advising clients independently.

The tribunal found additional support from the subsequent sale by WWM Ltd of part of its client book. The sale documentation provided that WWM Ltd was selling the relevant goodwill and warranted that it was entitled to do so without requiring the consent of any third party. In the tribunal's view, that was inconsistent with any suggestion that part of the goodwill belonged to Mr Walters or to the LLP.

Accordingly, the tribunal concluded that any goodwill generated after incorporation belonged to WWM Ltd. What Mr Walters retained were valuable personal relationships and contacts. However, such relationships were not themselves assets capable of ownership and transfer. As a result, there was no goodwill that could have been contributed by him to the LLP, and the appeal was dismissed.

Commentary

The significance of this decision lies not in what the tribunal rejected but in what it accepted.

HMRC did not persuade the tribunal that personal goodwill is a contradiction in terms. Indeed, by relying heavily on the *Corbett* decision, the tribunal expressly accepted the possibility that goodwill can belong to an individual rather than to the entity carrying on the business. It should be noted that despite its concession before the tribunal (which was perhaps inevitable in the light of what was said in *Kubrik*), HMRC's Capital Gains Manual at CG68030 still maintains that 'goodwill is inseparable from the business'.

Nevertheless, HMRC was held to be correct to reject Mr Walters' argument that he actually owned some of the goodwill of the business. It is here that the distinctions between *Corbett* and the present case became critical.

In *Corbett*, the advisers retained the ability to take their clients with them and continue to derive income from those relationships. They possessed not merely personal relationships but an ongoing 'ability to monetise those relationships' outside the company structure.

In the present case, however, the tribunal considered that Mr Walters had no equivalent freedom. Following incorporation, he operated only through WWM Ltd. Furthermore, because he lacked personal FCA authorisation, he could not simply leave the company and continue advising clients in his own right. Whatever value was generated from his efforts accrued to the company.

This analysis has considerable force. Nevertheless, it leaves open an interesting question. Suppose that Mr Walters had retained personal FCA authorisation and had been free to continue advising clients independently if he left the company. Would the tribunal have reached the same conclusion?

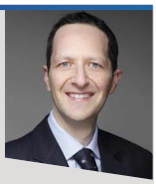
I suspect that this would have been unlikely. In 2008, Mr Walters consciously transferred his goodwill to the company and, one assumes, he obtained the tax benefits that would have attached to such a transfer. Although there is no suggestion that the tribunal was criticising Mr Walters for trying to get a double helping of the tax benefits, his argument was effectively seeking precisely that.

What to do next

Notwithstanding the wording in HMRC's manuals, advisers ought to be able to proceed on the basis that owner-managers can possess goodwill separately from their companies and can point to HMRC's express concession in this case. However, as the case shows, that will not be sufficient in every case. *Corbett* was decided on its own facts; the facts of this case are necessarily different.

The tribunal's decision demonstrates that close attention must be paid to the underlying legal and commercial arrangements. Matters such as restrictive covenants, regulatory requirements and the individual's ability to derive economic benefit independently from client relationships may prove decisive.

More fundamentally, the case serves as a reminder that it is not enough to show that clients value an individual personally. The more difficult question is whether that personal reputation and those client relationships amount to an asset capable of separate ownership and transfer. On the facts of this case, the tribunal concluded that they did not.



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Tax disputes
The convergence of risk

Tax disputes are becoming more complex, making them harder to avoid – and more important to prepare for.

by María Antonia Azpeitia and Scott H Frewing

© Getty images

For multinational businesses, tax disputes are becoming harder to contain. A position that attracts little attention in one jurisdiction may be challenged in another.

For many years, the risk of tax authority challenge – often referred to as tax controversy risk – was viewed largely as a consequence of a specific transaction, an audit or a technical disagreement with a tax authority. This is changing. Regulatory fragmentation, fiscal pressures, persistent uncertainty and the rapid digitisation of enforcement are combining to create a more contentious landscape.

The scale of the concern is reflected in Baker McKenzie's 2026 Global Disputes Forecast, which surveyed 600 senior legal, risk, compliance and tax decision-makers worldwide. It found that tax disputes were expected to be the second-greatest source of dispute risk over the coming year.

A follow-up survey, including 100 respondents in tax roles, shows what is driving that concern, including regulatory fragmentation, shifts in tax authority positioning, fiscal pressure and the digitisation of tax administration (see 'The convergence of risk: tax disputes' at tinyurl.com/4kdtz2p6).

The message is clear: tax controversy can no longer be managed as an occasional event. For tax teams, the question is not simply how to respond when a dispute arises, but how to identify and prepare for potential challenges before they do.

A more fragmented environment

Regulatory fragmentation lies at the heart of the problem. In Baker McKenzie's research, 84% of tax respondents were concerned that diverging tax rules and approaches across jurisdictions are increasing their organisation's exposure to disputes.

Multinational businesses have always had to navigate differences between tax regimes. What is changing is the extent to which jurisdictions may differ not only in their legislation, but in how tax authorities interpret and enforce existing rules.

Concepts such as beneficial ownership, economic substance and anti-abuse provisions, as well as the application of treaty benefits, are increasingly attracting different approaches from different regimes.

That presents a particular challenge for businesses that have centralised or regionalised their tax functions. A global tax team may seek to maintain a consistent position, while having to respond to different rules, interpretations and enforcement priorities in individual jurisdictions.

The answer is not to abandon centralised oversight, but to combine it with strong local intelligence. Clear escalation protocols and regular cross-border coordination can help businesses to identify developments that may affect structures, documentation or audit strategy at an early stage. Local changes can then be considered as part of the business's global tax controversy risk, rather than treated as isolated compliance issues.

Fiscal pressure and tax authority scrutiny

Alongside regulatory fragmentation, fiscal pressure is also increasing the risk of tax controversy. In the survey, 81% of tax respondents viewed fiscal pressure as a significant contributor to tax controversy risk, while 82% cited shifts in tax authority positioning.

Key Points

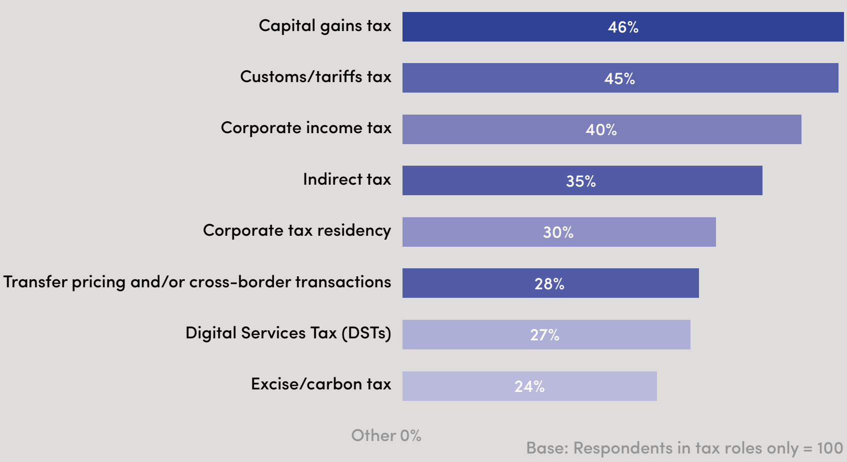
What is the issue?
Baker McKenzie's Convergence of Risk research shows that tax disputes are a significant concern for multinational businesses, driven by regulatory fragmentation, fiscal pressure, shifts in tax authority positioning and the digitisation of tax administration.

What does it mean to me?
Tax controversy is becoming harder to manage across jurisdictions, while data-driven enforcement means that technically sound positions may still be vulnerable if the underlying evidence, data and documentation cannot be readily accessed and explained.

What can I take away?
Businesses should treat dispute readiness as part of tax risk management, prioritising positions most likely to face challenge or material exposure and focusing on centralised oversight, contemporaneous documentation and defensive files.

CAUSES OF ANXIETY

Which type of tax disputes is your organisation most concerned about?



Base: Respondents in tax roles only = 100

As governments face economic and political pressure to protect revenues, tax authorities are becoming more assertive in their audit activity and more willing to challenge taxpayer positions. For tax teams, that can mean broader information requests, more aggressive interpretations of anti-avoidance rules and closer scrutiny of transactions that might previously have attracted limited attention.

A position that has not previously been challenged cannot necessarily be assumed to be low risk. Tax teams need to consider not only whether a position is technically sound, but whether it is likely to attract scrutiny and whether the evidence needed to defend it is readily available.

The particular areas of focus will vary between jurisdictions, but greater enforcement activity is being seen across both developed and emerging markets. For multinational groups, understanding where tax authority approaches are changing is becoming an important part of assessing dispute risk.

The rise of data-driven enforcement

Digitisation of tax administration is creating another source of potential dispute. Nearly three-quarters of tax respondents (73%) believe that increased digitisation is creating new dispute risks.

Tax authorities are investing heavily in analytics, automation and artificial intelligence to identify anomalies, compare taxpayer behaviour and select audit targets. Historically, many issues were brought to their attention by manual reviews or industry-focused campaigns. However, authorities are increasingly using large datasets to identify inconsistencies and decide where to investigate.

This changes what tax teams need to prepare for. A technically supportable position may not be enough if the underlying data is incomplete, inconsistent across jurisdictions or difficult to retrieve and explain. Data readiness therefore needs to begin before an audit. Tax teams should know who owns the relevant data, whether consistent standards are being applied and how quickly information can be retrieved and reconciled across jurisdictions. Documentation should also support the positions that the organisation may ultimately need to defend.

These are not simply administrative concerns. Gaps, inconsistencies or delays in producing information can make even a sound technical position more difficult to defend and may themselves give a tax authority grounds for further challenge.

The expanding scope of tax disputes

The areas giving rise to tax controversy are also becoming more diverse. Tax respondents identified capital gains tax (46%), customs and tariffs (45%), and corporate income tax (40%) as their primary areas of concern.

Transfer pricing and cross-border transactions were identified as a top dispute risk by only 28% of respondents. But that figure does not tell the whole story: transfer pricing issues are also embedded in other areas of dispute, particularly customs and tariffs and corporate income tax.

Capital gains tax

Capital gains tax was the leading area of concern, identified by 46% of respondents. Disputes are being driven by increased scrutiny of asset disposals, holding structures and the application of anti-abuse concepts as governments seek to protect tax revenues. In EMEA, tax authorities are applying anti-abuse and beneficial ownership concepts when considering participation exemptions and exit taxes. This can create particular uncertainty for private equity and venture capital structures, as well as group structures involving intermediate holding companies.

Customs and tariffs

Customs and tariff disputes were a concern for 45% of respondents, against a background of geopolitical uncertainty and evolving trade policies. These disputes can be particularly significant because they are generally based on transaction value rather than profit. Preparing for a customs audit requires a detailed understanding of the supply chain and the ability to produce supporting documentation. This can expose a practical weakness: the systems used to manage customs information may be more closely linked to internal reporting and may not have been designed with a tax authority audit in mind.

Many customs issues also now overlap with transfer pricing considerations, creating the potential for challenges from multiple authorities based on the same set of facts. When drafting intercompany agreements, businesses therefore need to evaluate not only transfer pricing and withholding tax, but also the potential customs implications.

Corporate income tax

Corporate income tax was identified as a top concern by 40% of respondents. Disputes in this area are being driven by transfer pricing, profit allocation and cross-border structuring, against an increasingly complex international tax framework.

In the US, transfer pricing remains a particular area of contention, alongside the Internal Revenue Service's application of the codified economic substance doctrine to transactions it considers tax-motivated. The potential penalties associated with both can add significantly to the exposure for corporate taxpayers.

Pillar Two

Complexity is likely to increase as the OECD's Pillar Two global minimum tax framework takes effect across more jurisdictions. As governments introduce and refine their local rules, differences in how the global minimum tax framework is applied and interpreted remain inevitable.

For multinational groups, the challenge will be managing those differences across jurisdictions. Competing interpretations and differing compliance expectations could lead to disagreements over taxing rights and how the methodologies should be applied in practice.

These areas show why tax risks cannot always be considered in isolation. A decision taken for one tax purpose may have consequences elsewhere, making it increasingly important for tax teams to understand how positions interact across different taxes and jurisdictions.

Moving to a more resilient position

A technically sound tax position is only part of the defence. Businesses also need to be able to access, organise and present the evidence supporting that position when it is challenged. That can be difficult when resources are already stretched. The survey identified resource constraints (43%), coordination difficulties (41%), jurisdictional complexity (40%) and documentation gaps (34%) as the most significant challenges associated with managing cross-border disputes.

Organisations can make the most of limited resources by prioritising the disputes and tax positions that present the greatest likelihood of challenge and the highest potential exposure. This means moving from a reactive to a risk-based approach, with centralised oversight, clear internal ownership and coordinated input from tax, legal, finance and operations.

Focusing preparedness on measures that can be used across different disputes – such as defensive files, audit playbooks and consistent documentation – can improve dispute readiness without trying to address every risk with the same intensity. Within that risk-based approach, three areas deserve particular attention.

Central oversight: Centralised oversight of audits and controversies across jurisdictions can improve coordination and help businesses maintain consistent positions. It also allows lessons learned in one jurisdiction to be applied elsewhere.

Contemporaneous documentation: This is generally more complete and accurate, as well as significantly less expensive to assemble, than documentation developed years later during an audit. Preparing it at the time of a transaction can therefore put the business in a much stronger position if that transaction is subsequently challenged.

Defensive files: These should focus on the highest-risk positions: those most likely to attract scrutiny and generate material exposure. Together with audit playbooks and consistent documentation, they can help tax teams prepare for the disputes that matter most, rather than trying to anticipate every possible challenge.

In conclusion

Tax disputes are becoming more complex and more international in scope. Tax controversy can no longer be treated simply as a response to an individual audit or transaction. For multinational businesses, identifying where challenges are most likely to arise, and ensuring that the people, evidence and documentation needed to respond are in place, should form part of day-to-day tax risk management.

We would like to thank Jorge S. Narváez-Hasfura, Allen Tan, Mounia Benabdallah and Miles Humphrey for their assistance with this article.

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Emerging technology

Reshaping client confidentiality

Emerging technologies are creating new confidentiality risks, requiring tax firms to update policies, strengthen controls and guide staff on appropriate use.

by Claire Scanlan and Mel Smith

Over recent months, a wave of well-known UK hospitality and leisure businesses has moved to restrict the use of Meta's smart glasses. Wetherspoons has barred customers from using them to record staff or other patrons without consent, while ATG Theatres will ask audiences to remove them during performances.

Their response reflects a wider concern: emerging technologies are creating new confidentiality and information security risks faster than many organisations' policies can keep pace. For tax and accountancy firms, entrusted with sensitive personal, financial and commercial information, the implications are potentially much more significant.

If businesses controlling a restaurant, theatre or event for a few hours consider the risk of covert recording serious enough to act, what should professional firms holding highly sensitive personal and commercial information for years at a time be doing?

Many firms may have given relatively little formal thought to the confidentiality risks created by emerging consumer technologies, from wearable recording devices to publicly available AI tools. The technology may be new, but the obligation to protect client confidentiality is not. Firms therefore need to understand where the risks arise, the potential legal and professional consequences, and whether their existing policies are still fit for purpose.

The changing risk landscape

Professional firms have always needed to protect sensitive information. Client files can contain financial records, personal data and commercially sensitive correspondence, with significant commercial, legal and reputational consequences if that information is compromised.

What has changed is the ease with which information can now be captured, processed and shared. Cyber security remains an obvious concern, but firms must increasingly consider technologies that staff may use routinely, and with no intention of causing harm.

The wider information security risk is already substantial. The government's 'Cyber Security Breaches Survey 2025/26' found that 43% of UK businesses had identified a cyber security breach or attack in the previous 12 months, which the report estimates is equivalent to approximately 612,000 businesses. Among professional, scientific and technical businesses, the proportion rose to 54%.

Generative AI is perhaps the clearest example of how the risk is evolving. In January 2026, the seven professional bodies that jointly prepare Professional Conduct in Relation to Taxation (PCRT), including CIOT and ATT, issued guidance on the use of AI in tax work. It warns that inputting client data into publicly available AI tools is likely to breach client confidentiality unless the client has specifically consented to its use.

The risk arises precisely because these tools can become part of everyday working practices. A member of staff might use an AI assistant to produce a template, work from a precedent or summarise information from a client file, without appreciating the confidentiality implications of entering that information into an external system.

The potential consequences were highlighted by the Upper Tribunal in *Munir v Secretary of State for the Home Department* [2026] UKUT 81 (IAC). The tribunal observed that uploading confidential documents to an open-source AI tool could place that information in the public domain, breaching client confidentiality and waiving legal privilege. It added that such conduct could warrant referral to the relevant regulator and the Information Commissioner's Office.

Although the observation was not a finding against the professional concerned, the wider warning is relevant to regulated firms. Technologies that staff can access and use informally may create risks that existing confidentiality policies were never designed to address.

> **Key Points**
>
> **What is the issue?**
> Emerging technologies, from generative AI to smart glasses, are creating new ways for confidential client information to be captured, processed or shared, often before firms' policies and working practices have adapted.
>
> **What does it mean to me?**
> Tax advisers need to consider whether existing confidentiality, data protection and acceptable-use policies adequately cover AI tools, wearable devices and other technologies that staff may use informally in everyday work.
>
> **What can I take away?**
> Firms should focus on the underlying risk rather than individual technologies, with clear rules on recording and AI use, appropriate staff training, named responsibility for oversight and regular policy reviews.

Smart glasses: a wider problem

Unlike a phone or handheld camera, smart glasses are designed to look much like ordinary eyewear, making it less obvious to those around the wearer that recording could be taking place.

Meta's smart glasses have sold in the millions since launch and retail for under £400, pointing to their emergence as mainstream consumer technology rather than a passing novelty. The challenge for firms is that technologies can become commonplace long before organisations have decided how they should be used around confidential information.

For professional firms, the broader challenge is not simply whether to ban one type of device, but how to control the use of

technologies capable of recording or transmitting confidential information in sensitive settings.

The European Data Protection Board has been examining the privacy risks and safeguards associated with smart glasses. There has been no corresponding change in UK law specifically addressing the devices, but firms do not need to wait for technology-specific legislation before considering whether their existing confidentiality and acceptable-use policies adequately address devices capable of discreetly capturing information.

Where the legal exposure sits

The legal exposure is not confined to one area. Depending on the circumstances, firms may face confidentiality and data protection obligations, employment and disciplinary questions and, in some cases, concerns about legal professional privilege.

UK GDPR requires personal data to be processed lawfully, fairly and transparently. Its transparency requirements include informing individuals about the collection and use of their personal data, which can include their image and voice. Covertly recording a client meeting, a colleague or confidential material on screen could therefore raise data protection concerns, alongside questions about the firm's supervision, training and internal controls.

The difficulty is that employment contracts, staff handbooks and bring your own device (BYOD) policies were largely drafted with laptops and mobile phones in mind. They may say little about wearable devices, publicly available AI tools or other consumer technologies capable of capturing, processing or transmitting confidential information.

Firms therefore face not only the consequences of a confidentiality or data protection breach, but scrutiny of whether their policies, training and supervision were adequate to prevent it.

Consider a routine client meeting. A member of staff attends wearing smart glasses, perhaps for their note-taking or translation features rather than with any intention to record. Partway through a discussion of sensitive financial information, the client notices the device and asks whether the conversation has been recorded.

In that moment, the issue is not simply whether a rule has been broken, but whether the client still feels able to speak freely. The client may now doubt the confidentiality of that conversation, and potentially others involving the same member of staff. A complaint or request for information about what data was captured and how it was processed can leave the firm in the difficult position of having to prove a negative: that no recording took place.

If the firm has no policy on wearable technology, no record of having briefed staff and no clear procedure for responding to such a concern, providing that reassurance becomes much harder. Even where no recording occurred, the resulting uncertainty can damage client confidence and require considerable management time to investigate and resolve.

That illustrates the practical value of establishing the rules before an incident occurs. A firm that can point to a clear policy requiring recording-capable devices to be removed, declared or disabled in client meetings, supported by appropriate staff training, is in a much stronger position to demonstrate how confidential information is protected.

What firms should do now

The answer is unlikely to be a blanket ban on smart glasses or any other single category of device. Technology will continue to evolve, so firms need policies that address the underlying risks of capturing, processing and sharing confidential information rather than individual products.

As a starting point, firms should review their bring your own device (BYOD) and acceptable-use policies to ensure that they cover wearable devices, AI tools and other recording or data-processing technologies. Employment contracts and staff handbooks should also make clear what recording is permitted on firm premises and in client meetings, and when recording-capable or AI-enabled devices must be declared or disabled.

Generative AI requires particular attention. Firms should identify which tools are approved, what uses are prohibited, whether and when client information can be entered, and where staff should seek guidance if they are unsure.

Firms should also consider how new technologies are assessed before they become embedded through informal use. Responsibility for this should sit with a named individual or group, rather than falling somewhere between IT, HR and compliance. Policies should then be reviewed regularly to ensure that they continue to reflect both technological developments and working practices.

Ultimately, the aim is not to anticipate every new device or application. It is to establish principles that enable staff to recognise when a new technology could put confidential information at risk, and to know what to do about it.

In conclusion

Smart glasses are unlikely to be the last consumer technology to create unexpected risks for professional firms. The wider lesson is that protecting client confidentiality now requires firms to think beyond conventional cyber threats and consider how everyday technologies are used in the workplace.

Technology will continue to change. The challenge for firms is to ensure that their policies, training and working practices change with it.

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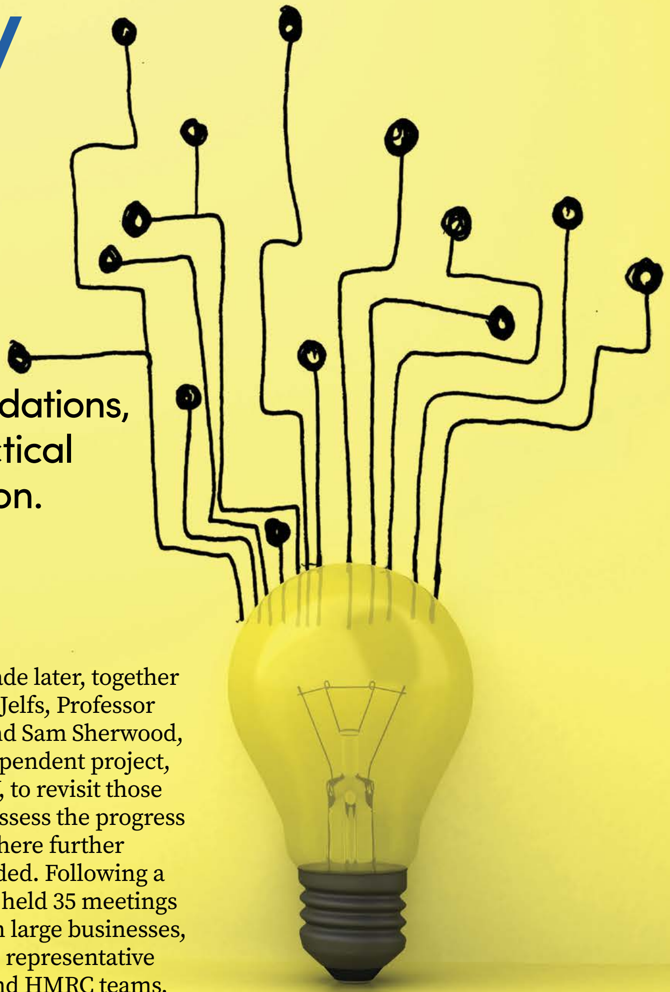
Tax complexity
Impacting UK competitiveness

An independent review revisits the Office of Tax Simplification's recommendations, assessing progress and proposing practical reforms to improve UK tax administration.

by Andy Richens



Key Points

What is the issue?
A small team revisited the former OTS review of the competitiveness of the UK tax administration. Following 35 meetings with stakeholders as part of that review, it has published its own report on 'Tax complexity: the impact on UK competitiveness and growth'.

What does it mean for me?
Its evidence and research found tax complexity to negatively impact business growth and value, with the compliance burden being highly regressive, disproportionately affecting smaller businesses.

What can I take away?
The report's 35 recommendations can be found at: http://bura.brunel.ac.uk/handle/2438/33569

How can we make the UK more competitive? It is a question that successive governments have sought to answer.

As outlined in my previous *Tax Adviser* article, 'Tax simplification project: revisiting the OTS review' (February 2026), I co-authored the former Office of Tax Simplification's (OTS) 2014 review of the competitiveness of the UK's tax administration. That review made more than 50 recommendations to reduce administrative burdens, with all but three accepted or taken forward for further consideration.

More than a decade later, together with Professor Peter Jelfs, Professor Kevin McMeeking and Sam Sherwood, we launched an independent project, supported by ICAEW, to revisit those recommendations, assess the progress made and identify where further simplification is needed. Following a call for evidence, we held 35 meetings and roundtables with large businesses, SMEs, their advisers, representative bodies, academics and HMRC teams, supported by an academic review of the impacts of tax complexity.

This article highlights the principal findings of that review. Readers interested in the background to the project, the call for evidence and our methodology can find further details in the earlier *Tax Adviser* article.

Revisiting eight key themes from the original OTS report, we set out practical recommendations that we believe could improve the competitiveness of the UK's tax system.

Innovation and growth

Innovation and growth are central to the UK's competitiveness and featured in every meeting we held. On R&D tax credits, there was broad recognition that HMRC had needed to act to prevent fraud, particularly given the uncertainty surrounding the definition of innovation and the lack of clear policing of those boundaries.

However, the situation we found, particularly for SMEs, was far removed from the original UK government policy rationale to incentivise businesses to invest in R&D. Businesses consistently told us that they lacked certainty and clarity that what they were doing qualified as R&D. Some were fearful of a recovery claim and therefore might not reinvest the tax credit in R&D, while others feared being hit unexpectedly, threatening the future of their business. We further explore how the UK government works with business, through HMRC, in our chapter on HMRC.

We make a number of recommendations to improve this position. These include making greater use of HMRC's Research and Development Expert Advisory Panel to develop guidance and case studies across all sectors, while assisting in upskilling HMRC staff on sector specifics and the advance clearance pilot. We also recommend expanding the advance information form so that, provided a business has made a full and accurate disclosure, greater certainty is given when a claim is accepted. We heard that businesses would accept an extended period of time for HMRC to respond if it resulted in greater certainty.

The patent box was seen as a bonus for the UK, but the calculation of the profits derived from the development carried out by the company is complex. We therefore recommend a review to simplify those calculations, helping to smooth the transition from claiming R&D tax credits to accessing the patent box, thereby retaining the intellectual property in the UK.

On the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS), there are multiple conditions that a company must currently satisfy for relief to apply for the investor. Errors can lead to the loss of relief, including the associated capital gains tax relief, which can occur many years later.

We were told that the requirement for companies to raise EIS investment within seven years of their first commercial sale was the most common reason why established, promising businesses failed to secure a further tranche of funding, and that removing this restriction would help to address the current lack of scaling up. Regarding the increased EIS and venture capital trust limits from April 2026, we were told by regional advisers that these changes do not apply in Northern Ireland because of the Windsor Framework – an issue that needs to be addressed.

The definition of plant remains a difficulty for capital allowances. We suggest that the Supreme Court's decision in *Orsted West of Duddon Sands (UK) Ltd v HMRC* [2026] UKSC 12 – that pre-development surveys and technical studies did not constitute plant and machinery – could provide the impetus for a wider review of how 'plant' is defined for capital allowances, with the aim of better incentivising investment.

We were told that due to their complexity, the choice of capital allowance reliefs is usually left to advisers, which may reduce the incentive for the business itself that the reliefs are intended to achieve. The annual investment allowance was strongly approved of, particularly as it is to remain at a consistent level over the Parliament.

Corporation tax and income tax computations

We were given examples of extensive administrative work that produced no tax advantage when adjusting accounting profits to arrive at profits for tax purposes. We believe that the work begun following earlier OTS recommendations to reduce the number of these adjustments, where there is no policy or compliance rationale, should be revisited. In particular, we would like work to commence on aligning the tax and accounting definitions of capital and revenue, which would help when deciding whether the replacement of an asset should be treated as capital expenditure or as a repair, an issue currently regarded as a 'grey area'.

Stakeholders also told us that complying with the anti-hybrid rules often involved disproportionate time compared to the tax at stake. We therefore recommend introducing a de minimis limit, similar to that for the corporate interest restriction.

> **There is little doubt that, if the tax system were being designed today, separate schedules for different sources of income would not form part of it.**

On the schedular system, there is little doubt that, if the tax system were being designed today, separate schedules for different sources of income would not form part of it. Separate streaming of different forms of income has become less significant since the loss relief reforms introduced in April 2017, when the rules changed to allow sideways set-off of losses.

Splitting and recombining income from different schedules takes considerable time while making a difference in a vanishingly small number of cases. We therefore recommend restarting work to align the rules for as many schedular income sources as possible, beginning with trading and property income.

For agricultural businesses, we also support the recommendation in the OTS's 2022 Property Income Review that the government work with DEFRA to explore the creation of a rural business unit. This would enable diversified agricultural businesses preparing consolidated accounts to submit a single tax return covering activities that support the core farming business.

Reporting and compliance

Making Tax Digital (MTD) for Income Tax was introduced for the self-employed and property landlords with income in excess of £50,000 (measured by reference to the tax year 2024-25) from 6 April 2026, requiring them to keep digital records and submit quarterly returns of income and expenditure. It is therefore too early to assess whether quarterly reporting is working as intended.

However, stakeholders expressed concern that small businesses in particular would find the transition more challenging, particularly where they perceived they were reporting the same information in a different format while also having to invest in software. Many questioned what practical benefits the changes would deliver. For that reason, we recommend a post-implementation review before extending MTD to those with turnover above £20,000 from April 2028. This should include an assessment of how many businesses at that level have profits exceeding the personal allowance.

On payroll, stakeholders questioned the resilience of the government's Real Time Information system, citing examples of where a single error could result in an entire batch of submissions being rejected. We therefore recommend reviewing the system's resilience, particularly its ability to cope with the added pressure of mandatory payrolling of benefits in kind from April 2027.

We also recommend reviewing the trivial benefits exemption, which has remained unchanged since its introduction, to determine whether it continues to meet current working practices. This should include considering whether reimbursements, in line with the recent changes for eye tests and vaccinations, should be brought within its scope.

Similarly, the £2 million de minimis for the corporate interest restriction has remained unchanged since its introduction, when interest rates were just 0.25%. More generally, consideration should be given to whether such limits ought to be uprated periodically in line with inflation.

Small enterprises

We heard that the fixed flat-rate expenses for unincorporated businesses were very useful. The motor mileage rates were increased from April 2026, and stakeholders also called for the flat rate for business use of the home and private use of business premises to be increased, as they have remained unchanged since their introduction in 2013.

It was disappointing that in HMRC's research and analysis paper 'Understanding experiences of dealing with corporation tax', published on 24 April 2025, the second most common reason given for incorporation was 'don't know' (14%). This suggests that HMRC's guidance on incorporation would benefit from clearer signposting.

We therefore recommend that improving guidance on incorporation forms part of HMRC's Small Business Journey review, announced in June 2026.

We also suggest revisiting disincorporation relief, enabling assets to be transferred back to proprietors without tax acting as a barrier. In addition, extending the cash basis to one-person companies merits further consideration.

HMRC support

We encourage HMRC to 'think small first' by continuing to recruit and train compliance staff with expertise in small business issues. Stakeholders told us that difficulties in communicating with HMRC and obtaining timely responses undermine confidence in the tax system and contribute to the tax gap.

Regarding statutory clearances, we received critical comments on the difficulty of obtaining rulings from HMRC, leaving clients and businesses uncertain about the tax consequences of a transaction. VAT was identified as a particular area where clearances were sought but not given, echoing a finding in the 2014 OTS report. Those looking to invest, particularly in R&D, found HMRC's compliance focus could negatively affect their need for certainty.

Taken together, these findings reinforce the importance of building a culture that provides businesses with greater certainty and more constructive engagement with HMRC. While achieving this will take time, we believe it is essential to improving confidence in the UK's tax system.

Other taxes

VAT is another area that was frequently raised during our stakeholder discussions. In addition to concerns about the difficulties in obtaining HMRC clearances, we heard there was confusion surrounding the correct tax rate to be applied. We therefore recommend introducing a mechanism to assess whether any proposed tweaks to the VAT rates are worth the additional complexity caused.

Stakeholders also highlighted the Extended Producer Responsibility (EPR) levy and the Packaging Waste Recycling Note (PRN) system as examples of administrative complexity. Businesses cited uncertainty over EPR charges when setting prices, while the PRN regime often required engagement across multiple parties in the supply chain, increasing compliance costs and the need for specialist advice.

In conclusion

The annex to the report reviews research into the impact of tax complexity, which shows that it can reduce business growth and value, with compliance burdens falling disproportionately on smaller businesses.

Our own findings reinforce that evidence. Stakeholders have consistently told us that complexity reduces certainty, undermines confidence in the tax system and can discourage investment.

The report's 35 recommendations provide practical, evidence-based steps towards reducing administrative burdens, improving certainty and strengthening the competitiveness of the UK's tax system. We hope they will receive serious consideration from policymakers.

The full report can be accessed at: http://bura.brunel.ac.uk/handle/2438/33569

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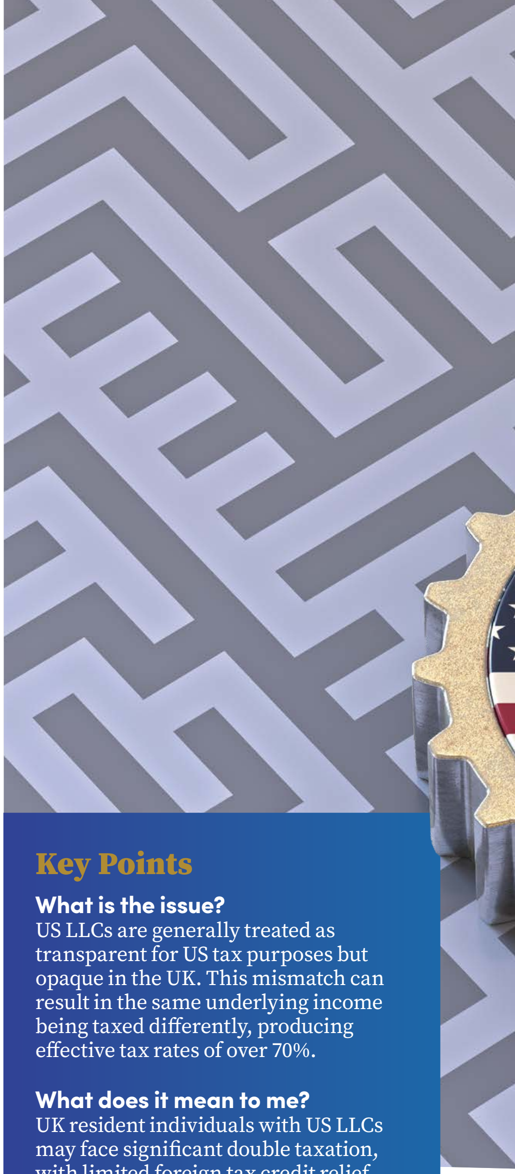

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Caught between systems US LLC taxation

US LLCs can create significant double taxation for UK residents, but proposed reforms could align the two countries' tax treatment.

by Melissa La Venia and Michelle Robinson

US limited liability companies (LLCs) are widely used by US resident individuals for business, investment and personal purposes. However, they can create significant tax problems when their owners become UK resident.

Where an individual with an interest in an LLC is taxable in both the US, due to residence or citizenship, and in the UK, the two countries can treat the same entity and its income differently. This can result in high effective tax rates, with little or no relief from double taxation.

The government has consulted on reforming the taxation of UK resident individuals with interests in US LLCs and other 'reverse hybrids'. HMRC is currently analysing responses before publishing the consultation outcome. Changes may therefore be on the horizon, although there is not yet a date for when any changes would take effect.

Why Americans use LLCs

US LLCs are widely used by US residents for both business and personal matters. They may be used as a business entity or investment structure, as well as for privacy and asset protection. They can also offer administrative advantages, including ease of set-up and limited annual filing requirements, and tax efficiencies arising from their transparent tax treatment in the US.

Americans who come to the UK, or are considering doing so, may therefore already have LLCs within their business, investment or personal asset structures. However, mismatches between the US and UK tax systems can result in an effective tax rate of over 70% when US federal, state and local taxes and UK taxes are taken into account.

The US-UK tax mismatch

The mismatch arises because the UK and US generally treat LLCs differently for tax purposes. In the US, LLCs are transparent by default: where an LLC has a sole owner, its income and expenses are generally treated as those of the owner directly (known as a 'disregarded entity'), while an LLC with multiple owners is generally treated as a partnership. An election can instead be made for corporate tax treatment.

Where an LLC is treated as disregarded or as a partnership, its income is attributed to its owners regardless of whether corresponding distributions are made to them during the tax year. In the UK, by contrast, LLCs are typically treated as opaque, meaning that they are treated as corporations and UK resident individuals pay tax on distributions they receive as though they were dividends.

This means that the two countries determine the taxable income, and the timing of that income, under very different sets of rules. Relief from double taxation is limited, with foreign tax credits available only in a small number of situations where the type and timing of income align sufficiently closely. Double taxation can therefore arise even though, economically, the same underlying income is being taxed in each country.

The US tax position

The default transparent nature of LLCs means that, for US tax purposes, all income and expenses flow through to the owners of the entity. Where there is more than one owner, partnership tax rules apply. This means that where a US citizen residing in the UK owns an income-producing LLC, they must report the net income on their annual US income tax return and pay tax, regardless of whether that income is distributed or reinvested in the LLC. Similarly, non-US persons who use an LLC to own rental property or businesses in the US are subject to annual US tax filing requirements and tax on the income arising within the LLC.

The highest marginal US federal tax rate that may apply to individuals is 37%, or 20% on long-term capital gains and qualified dividends. For US citizens and residents, an additional 3.8% Net Investment Income Tax (NIIT) may also apply at the federal level, resulting in a possible top US federal tax rate of 40.8% on investment income.

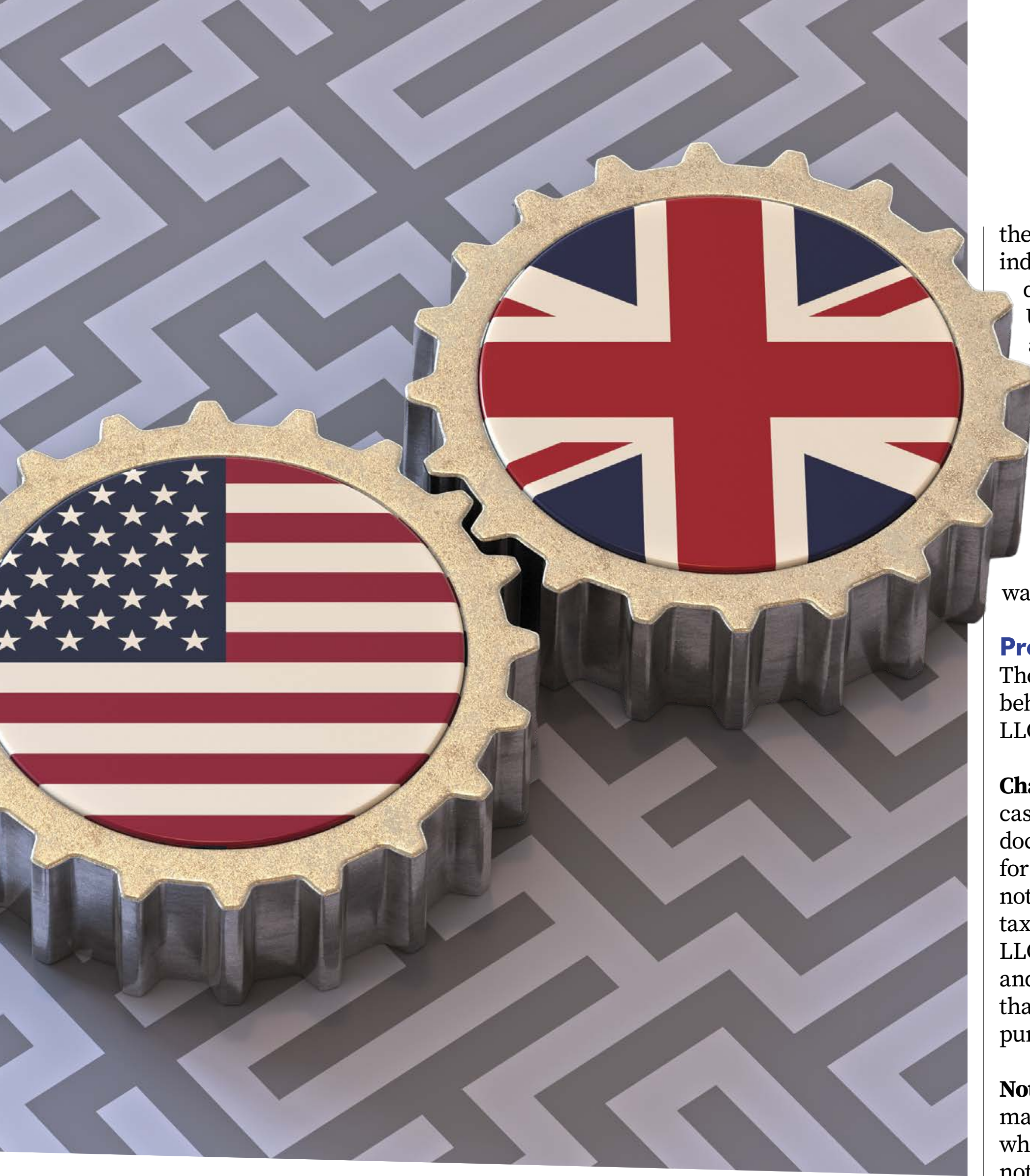
Depending on where activity occurs within the LLC, or where the owners reside, state and local taxes may also apply. For example, individuals subject to New

Key Points

What is the issue?
US LLCs are generally treated as transparent for US tax purposes but opaque in the UK. This mismatch can result in the same underlying income being taxed differently, producing effective tax rates of over 70%.

What does it mean to me?
UK resident individuals with US LLCs may face significant double taxation, with limited foreign tax credit relief. Advisers need to understand how the LLC is classified and the consequences of receiving or deferring distributions.

What can I take away?
The government is considering reforms that could align UK taxation more closely with overseas treatment, potentially reducing double taxation. However, important questions remain over elections and transitional rules, so advisers should watch developments closely.



York State tax may pay up to an additional 10.9% tax (where income exceeds $25 million) on net income arising from New York activities. The applicable income tax rate depends on the type of income and the individual's total income. For example, where an individual earns net rental income via an LLC from property located in New York State, the total top marginal tax rate may be as high as 51.7%.

Where the owners of the LLC have elected to treat it as a corporation for US tax purposes, the entity itself is subject to corporate income tax rates at the federal and state levels. Distributions from an LLC that has elected corporate status are treated as dividends and subject to tax when issued to the owners of the LLC.

The UK tax position

For UK tax purposes, whether an LLC is transparent or opaque depends on its legal documents and the applicable US state law.

HMRC's view is that 'almost all' US LLCs are opaque for UK tax purposes. See HMRC's International Manual INTM180030 for the foreign entity classification guidance and the recent 'Consultation on reform to taxation of UK-resident members of LLCs and other reverse hybrids' (see tinyurl.com/b2xazfh2) for an explanation of 'almost all'. In our experience, HMRC sets a high bar for accepting that a particular US LLC is transparent for UK tax purposes. Where a US LLC is treated as opaque for UK tax purposes, UK resident individuals can pay income tax at up to 39.35% on distributions received from the LLC.

UK tax on a transparent basis

The UK does not currently allow taxpayers to choose whether an entity should be taxed as transparent or opaque. UK resident individuals are therefore unable to make an election for an LLC to be taxed transparently in the UK, as they can in the US.

A UK resident individual may nevertheless be taxed on the income and gains of a legally opaque LLC as they arise where UK anti-avoidance legislation applies. This includes the transfer of assets abroad provisions for income tax and the Taxation of Chargeable Gains Act (TCGA) 1992 s 3 for capital gains tax. However, these provisions only apply if there is a UK tax avoidance motive and, in practice, Americans typically have LLCs in place for business or personal reasons rather than UK tax reasons.

In practice, HMRC commonly accepts that there is no UK tax avoidance motive and that the anti-avoidance provisions therefore do not apply. UK resident individuals must instead pay tax on distributions received, without relief for US taxes paid on the underlying income and gains.

This unusual circumstance, in which a taxpayer may prefer to pay tax under anti-avoidance provisions, arose in *Anson v HMRC* [2015] UKSC 44. The taxpayer could not choose to opt out of the motive defence, with the result that the anti-avoidance provisions did not apply and no relief was available for US taxes paid.

Practical impact

The high effective tax rate can affect the behaviour of UK resident individuals with LLCs. Responses we encounter include:

Changing the legal documents: In some cases, it is possible to change the legal documents so that the LLC is transparent for UK tax purposes. However, this is often not feasible for business, personal or US tax reasons. As HMRC expects 'almost all' LLCs to be opaque, it can also be difficult and time consuming to agree with HMRC that a given LLC is transparent for UK tax purposes.

Not making distributions: Individuals may decide not to receive distributions while UK resident, so that UK tax does not arise and only US tax applies. In some cases, this can mean that Americans spend less in the UK than they otherwise would have done.

Making distributions while the foreign income and gains (FIG) regime for new arrivers applies: This may be feasible where funds have already accumulated and are readily available for distribution. However, not everyone will be able to receive distributions during the four-year FIG period. The LLC may not have funds available for distribution, or the business may be in a growth phase requiring funds to be reinvested for a set period or until specified metrics are met.

Not moving to the UK: Americans with LLCs may decide not to move to the UK because of the high effective tax rate or the perceived complexity of the tax position. These considerations are relevant both to individuals and to their advisers, who may not include the UK among the jurisdictions they recommend when clients are considering where to move.

Consultation on changing the UK tax rules

Against this background, in summer 2026 the government held a consultation on the taxation of UK resident individual members of US LLCs and other reverse hybrids (see 'Consultation on reform to taxation of UK-resident members of LLCs and other reverse hybrids' at tinyurl.com/bdfx4d5s).

The consultation document focuses on high effective tax rates that arise for individuals due to entity classification mismatches between the UK and overseas jurisdictions. US LLCs are given detailed consideration and views were sought on the impact of these high effective tax rates on individuals and businesses, as well as on proposals to change the legislation to mitigate the issue.

Several proposals were put forward. One is to tax UK resident individuals with interests in overseas entities in a way that matches the tax treatment in the overseas jurisdiction. For US LLCs that are transparent in the US, this would mean taxing UK resident individuals on the income and gains of the LLC as they arise, whether or not any distributions are received, but with the potential for relief from double taxation through foreign tax credits or treaty relief where applicable. For many US individuals, this could be simpler than the present system and could result in a lower overall effective tax rate across the two jurisdictions.

There are important details still to work out in relation to the proposals, including:

- whether taxpayers should be taxed in the same way as in the overseas jurisdiction automatically or only where an election is made; and
- transitional rules, both on the introduction of the new rules and where there is subsequently a change in tax position. This could include, for example, an individual who already owns a US LLC becoming UK resident, or a change in the tax treatment in the overseas jurisdiction.

While these points of detail are important, the headline proposal to make the taxation of US LLCs and other foreign entities simpler, while reducing the potential for double taxation, is a positive direction of travel.

Conclusion

It is common for Americans to have US LLCs for a variety of personal and business reasons. The mismatch between the UK and US tax treatment, and the resulting high effective tax rates and differing reporting requirements, can discourage Americans from moving to the UK or remaining here long term.

Reform that simplifies the tax treatment and reduces the potential for double taxation could therefore make the UK more attractive to Americans considering relocation, although the detail of any changes will be important.

HOW US AND UK TAX INTERACT

The following example shows the estimated overall tax and net cash position for a UK resident US citizen who is subject to US federal and New York State taxes. The individual has sufficient other income for all the LLC income to be taxed at the highest marginal rates. The LLC receives £100,000 of rental income, which is fully distributed in the tax year.

	£	£
Gross income		100,000
US taxes		
US federal tax at 37%	37,000	
Net Investment Income Tax (NIIT) at 3.8%	3,800	
New York State tax at 10.9%	10,900	
Total US taxes		51,700
Distribution		
Available to distribute:		
£100,000 less £51,700		48,300
UK tax on distribution		
UK income tax at 39.35%		19,006
Total UK and US taxes		
£51,700 plus £19,006		**70,706**
Net cash		
£100,000 less £70,706		**29,294**

For comparison, had the individual been taxed in the UK on a transparent basis, UK tax on the £100,000 of LLC profits would have been £45,000, assuming that the profits were subject to the 45% additional rate of income tax.

However, assuming that, for this example, the US has primary taxing rights, the UK would allow a tax credit for US federal income tax and NIIT under the UK-US Double Taxation Treaty, while unilateral relief would be available for eligible state and local taxes (see HMRC Double Taxation Relief Manual DT19851). Assuming full UK relief for the US taxes paid, the £51,700 US tax calculated above would exceed the maximum UK tax liability. The overall tax liability would therefore be £51,700, or 51.7%, rather than 70.7%.

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US pension lump sums

Navigating the 'Saving Clause'

HMRC's revised interpretation of the UK/US Double Taxation Agreement changes the taxation of US pension lump sums and affects compliance, planning and reporting.

by Emma McDermott

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Key Points

What is the issue?
HMRC's revised interpretation of the UK/US DTA means certain lump sum withdrawals from US pension schemes may now be subject to UK tax. We explore the role of the 'Saving Clause' and the practical consequences for UK-resident taxpayers.

What does it mean to me?
Advisers with clients holding US pension arrangements should review withdrawal strategies, ensure the correct UK tax treatment is applied and consider foreign tax credit relief where both the UK and US assert taxing rights.

What can I take away?
We highlight the importance of understanding HMRC's revised guidance, distinguishing between lump sums and periodic payments, and recognising planning opportunities, while ensuring compliance through timely reporting or correction of any historic errors.

For many years, the UK tax treatment of lump sum withdrawals from US pension schemes was widely regarded as settled. HMRC's revised interpretation of the UK/US Double Taxation Agreement (DTA) has changed that position, fundamentally altering the retirement planning landscape for UK-resident holders of non-government US pension arrangements such as 401(k) plans and Individual Retirement Accounts (IRAs).

This article considers the issue from a UK tax perspective only, together with its practical implications for advisers. US tax and Internal Revenue Service (IRS) interpretation of the DTA are outside its scope, and separate advice should be sought from a US tax adviser where appropriate.

Previously, HMRC's published guidance reflected the view that qualifying lump sum withdrawals were only taxable in the US, meaning UK-resident recipients were not generally subject to UK income tax on those payments.

However, in March 2025, HMRC significantly altered its interpretation of these rules by asserting that the UK also has the right to tax US pension lump sums. As a result, UK-resident recipients may now face a UK income tax liability alongside any US tax due, subject to relief available under the UK/US DTA.

Article 17(2): the previous position

HMRC's revised interpretation is best understood in the context of the position that had governed these assets for the past 20 years. Article 17(2) of the UK/US DTA provides that:

> 'a lump-sum payment derived from a pension scheme established in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in the first-mentioned State.'

Where a payment met the definition of a lump sum, the DTA was remarkably clear:

- the source state (the US) had the right to tax the pension; and
- the residence state (the UK) was prohibited from taxing that same distribution.

For UK residents with US pension arrangements, this created a highly efficient tax route, as a one-time lump sum withdrawal from a US pension scheme was exempt from UK income tax. In practice, the overall tax liability was therefore limited to any US federal and, where applicable, state taxes. As a result, many expatriates and returning UK nationals were able to repatriate significant portions of their US retirement savings without incurring an additional UK income tax charge.

HMRC's revised interpretation

In March 2025, HMRC updated its guidance in International Manual at INTM163160, stating that, despite the wording of Article 17(2), the UK is also permitted to tax its own residents in these circumstances.

The rationale for this change is rooted in anti-avoidance. From HMRC's perspective, the ability of a UK resident to receive a significant pension distribution entirely free of UK tax was an unintended consequence of the treaty that facilitated tax avoidance. As such, it has moved to close this 'loophole' by asserting that the UK now has a concurrent right to tax these distributions.

The legal mechanism: the 'Saving Clause'

How can HMRC simply ignore a specific provision in an international treaty? The answer lies in Article 1(4) of the UK/US DTA, commonly referred to as the 'Saving Clause'. This provides that, notwithstanding any other provision of the treaty, each contracting state may tax its own residents (and, in the case of the US, its citizens) as though the DTA had not entered into force, subject to specified exceptions.

Historically, the Saving Clause was seen primarily as a mechanism allowing the IRS to tax its citizens wherever they reside. However, HMRC is now suggesting that this same provision also enables the UK to bypass the exemptions found in Article 17(2) and so to tax UK-resident recipients of qualifying US pension lump sums.

By invoking Article 1(4), HMRC's stance will be as follows:

- This individual is a UK resident under domestic law.
- Article 1(4) allows the UK to tax its residents as if the DTA was not in place.

Therefore, the exemption in Article 17(2) can be disregarded by the UK authorities and does not prevent the UK from taxing the lump sum.

It is important to note, however, that Article 1(4) is not definitive. It provides that a country 'may' tax its residents, which does not create a strict obligation on HMRC to do so in every case. The extent to which HMRC's interpretation will be tested or developed through future litigation remains to be seen.

What is a 'lump sum'?

Neither the UK/US DTA nor UK tax legislation defines the term 'lump sum' for these purposes.

HMRC's guidance in INTM163160 explains that, for these purposes, a lump sum means 'any non-periodic, irregular or abnormal payment of a pension'. It also sets out the factors HMRC considers relevant in determining whether a particular payment should be treated as a lump sum.

According to HMRC's guidance, a withdrawal is likely to be regarded as a lump sum where it represents at least 20% of the pension pot's market value; and is an irregular, non-periodic payment. In other words, there should be no clear pattern to the timing of withdrawals (for example, monthly or annually) or to the amounts withdrawn. (A payment of £50,000 every two years, for example, would indicate a regular pattern rather than a lump sum.)

If a payment does not qualify as a lump sum, it falls within Article 17(1) of the UK/US DTA rather than Article 17(2). In that case, the UK has long taken the view that, as the recipient's state of residence, it has the primary right to tax the payment.

Mitigating double taxation: foreign tax credits

Where both the US and the UK assert taxing rights over the same pension lump sum, the principal concern is the potential for double taxation. If both the US and the UK are now claiming taxing rights on the same US pension lump sum, how do taxpayers avoid a combined tax rate that could exceed 60% or 70%?

To mitigate double taxation, relief is generally available through the UK's foreign tax credit rules. Broadly, this process operates as follows:

- The full amount of the US pension distribution is reported on the individual's UK tax return.
- The UK tax liability is calculated at the taxpayer's marginal rate in the normal way.
- Credit is then claimed for any qualifying US federal tax already paid on the same income, reducing the UK liability accordingly.

Note that while this prevents double taxation, the taxpayer will effectively pay whichever rate is higher. As UK income tax rates are frequently higher than US federal rates, most UK residents will remain liable for the difference and face an additional 'top up' tax bill in the UK.

Moving forward

HMRC's revised interpretation may have a significant impact on retirement planning for UK residents with US pension arrangements. Individuals who had expected qualifying lump sum withdrawals to be free from UK income tax may now receive substantially lower net proceeds than anticipated once any UK tax liability has been taken into account.

It should also be noted that, unlike the UK, the US does not provide an equivalent to the UK's pension commencement lump sum (PCLS), amounting to a 25% tax-free lump sum withdrawal. Consequently, larger withdrawals from traditional US pension arrangements may result in higher marginal tax rates in the US, as well as giving rise to UK tax considerations.

In light of this, it may be more tax-efficient to take smaller, periodic distributions over several years, rather than taking a single large distribution that falls into the 45% additional rate band for UK income tax.

Article 17(1)(b) of the UK/US DTA also provides favourable treatment for Roth Individual Retirement Accounts (Roth IRAs). Unlike traditional IRAs, Roth IRAs are funded from post-tax income, meaning qualifying withdrawals are generally exempt from US tax. The DTA broadly requires the UK to mirror that treatment, so qualifying Roth IRA withdrawals are also generally exempt from UK tax.

For individuals with both traditional and Roth IRA holdings, there may therefore be opportunities to manage withdrawals more tax-efficiently. For example, an individual could withdraw up to £50,270 from a traditional IRA, making use of the 0% and 20% UK income tax bands, before meeting any additional cash requirements through tax-free withdrawals from a qualifying Roth IRA. The most appropriate strategy will depend on the individual's wider tax position in both the UK and the US.

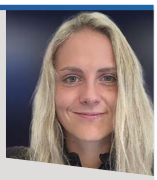
How to ensure compliance

From a compliance perspective, taxpayers should ensure that US pension lump sum withdrawals are reported in accordance with HMRC's current guidance. Where an incorrect treatment has already been applied, there are generally two routes to correcting the position.

The first is to amend the relevant Self Assessment tax return. This is possible for up to one year after the original filing deadline. For example, a 2025/26 tax return may be amended online until 31 January 2028.

Where the amendment window has closed, taxpayers may instead be able to make a disclosure through HMRC's Worldwide Disclosure Facility (WDF). For offshore matters, HMRC can in some circumstances look back up to 12 years. For example, in the 2026/27 tax year, a disclosure could potentially be made in respect of liabilities arising as far back as 2014/15.

Whichever route is appropriate, identifying and correcting any errors at an early stage is likely to reduce the risk of additional interest and penalties and help ensure compliance with HMRC's current interpretation of the UK/US DTA.



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Technical newsdesk

WELCOME

Emma Rawson

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October Technical newsdesk

The summer may feel like only yesterday, but the shortening days are no doubt making readers' thoughts turn towards autumn. In the ATT, CIOT and LITRG teams, thoughts are moving away from summer's bumper crop of consultations towards the upcoming Budget on 28 October.

Future editions of Technical Newsdesk will contain our usual commentary on the various measures announced by the new Chancellor and the details contained in the subsequent Finance Bill. In the meantime, this month we run through our latest consultation responses, covering topics as diverse as foreign permanent establishments, VAT on social housing and recovery of low value debts.

A significant number of public consultations were held over the summer – by my count, 14 were announced on Tax Update Day on 23 June and a further four on 'Legislation Day' on 13 July. However, at the time of writing, the longer-term future of formal consultations appears to be in the balance.

In the Chancellor's 'Growth Speech 2026', delivered on 7 September, he announced an intention to 'take an axe to the thicket of consultation, litigation and administration that has a stranglehold too often on private investment' and 'end the consultation culture at the Treasury and beyond'.

Although the Chancellor's initial remarks seemed more focused on ensuring that key investment and infrastructure projects were not delayed, they were followed by a letter to all ministers from the Chancellor, First Secretary of State and Attorney General, which expressed concern that 'consultation culture has turned a sensible mechanism for sourcing external input into an industry of dither and delay' (tinyurl.com/2jzk7dee). The letter went on to assert that 'formal consultation should only take place where there is a statutory requirement to consult, where it would be conspicuously unfair not to consult, or where ministers believe there is a good case for seeking external input and that the right vehicle for doing so is a formal consultation'.

If we were to move away from the familiar formal consultation process, what might that look like, and what would it mean for the tax profession? The letter to ministers indicates that 'participatory policymaking', involving a wider range of stakeholders at an earlier stage, could be an alternative approach.

There are clear advantages to this – early stakeholder involvement in policy design can have more impact. It is easier, after all, to stop a problem arising than try to fix it after the event. However, if this approach is to work, ensuring that the right stakeholders are 'in the room' will be key. There are also clear risks to transparency and accountability if more engagement takes place behind closed doors.

Exactly what this might mean for HMRC was unclear at the time of writing this column, with further guidance expected to be circulated by the government in due course. However, one thing is for sure – whatever the future looks like, the ATT, CIOT and LITRG technical teams will continue to work towards a better tax system by bringing to the fore the experience and knowledge of our members and ensuring that practical experience from across the profession continues to inform the development and implementation of tax policy in practice.

NEWSDESK ARTICLES

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MANAGEMENT OF TAXES

Proposed offence for reckless untrue statements: CIOT, ATT and LITRG responses

The CIOT, LITRG and ATT have responded to a consultation on 'Introducing a criminal offence for making reckless untrue statements or declarations in direct tax'. The consultation seeks views on proposals to introduce a criminal offence for making reckless untrue statements or declarations in relation to direct tax matters, thus aligning the legal framework with existing offences in indirect tax.

CIOT's response

The CIOT does not support the proposed offence in its current form. Although we generally favour aligning the direct and indirect tax regimes where this reduces complexity, we consider that the case for extending criminal liability has not been made: the evidence base and intended scope and safeguards are unclear. In addition, the proposal risks lowering the threshold for prosecution where dishonesty cannot be proved.

Direct tax frequently involves complex judgments on uncertain law, valuations and reliefs, so compliant taxpayers and advisers must be able to understand clearly which conduct could attract criminal liability. We are also concerned that the measure could undermine trust, voluntary compliance and legal certainty, while adding burdens for responsible advisers.

Any further proposal should demonstrate a clear gap in existing civil and criminal powers, explain how the offence would interact with existing regimes, and include robust legislative safeguards to ensure that only genuinely culpable behaviour is targeted.

The CIOT's full response can be found at: www.tax.org.uk/ref1719.

LITRG's response

LITRG, an initiative of the CIOT, also does not support the introduction of this offence in its proposed form. One of the main arguments advanced by HMRC in favour of the proposal is that it would address an inconsistency between indirect and direct tax offences. We think there needs to be further consideration of why that inconsistency exists, and whether it needs to be addressed, before pursuing this proposal.

One of our key concerns is that the consultation does not make clear how HMRC will distinguish between civil cases of failure to take reasonable care (carelessness) and criminal cases of recklessness.

If HMRC proceed with this measure, we make a number of recommendations aimed at ensuring that the offence applies only to the behaviour it is intended to target. We also feel there is a strong argument that the test for criminal prosecution should remain restricted to those who have, beyond all reasonable doubt, acted dishonestly.

The full response is on the LITRG website at: www.litrg.org.uk/11268.

ATT's response

The ATT's response made it clear that we support legislative alignment between direct and indirect taxes where there is a demonstrable benefit to taxpayers, advisers and HMRC.

However, we do not support the introduction of a new criminal offence for making reckless untrue statements or declarations in relation to direct taxes.

The ATT's view is that the consultation has not established that the existing framework of civil penalties and criminal offences was insufficient to address the behaviours concerned. Rather than filling a genuine gap in HMRC's enforcement powers, the proposal risks creating unnecessary overlap with the existing civil penalties regime and lowering the threshold for criminal liability. It could introduce criminal sanctions in circumstances where dishonesty was neither alleged nor capable of being established.

The ATT's full response found at: tinyurl.com/34vykbvt.

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OMB INDIRECT TAX
LARGE CORPORATE EMPLOYMENT TAX
MANAGEMENT OF TAXES

Requiring payment of VAT and PAYE return liabilities by Direct Debit: CIOT, ATT and LITRG responses

The CIOT, ATT and LITRG have urged the government not to mandate payment of PAYE and VAT return liabilities by Direct Debit at this stage. Most taxpayers already pay the correct amount of tax on time using existing payment methods, including Direct Debit. The benefits of Direct Debit are already available to those who wish to use it voluntarily, and there is currently insufficient evidence that mandation would significantly improve payment compliance.

The CIOT, ATT and LITRG have responded to HMRC's consultation on requiring payment of VAT and PAYE liabilities by Direct Debit (tinyurl.com/yewmyykm).

CIOT's response

The CIOT does not believe that mandating payment of VAT and PAYE liabilities by Direct Debit should be introduced at this time.

While Direct Debit can be a convenient and efficient payment method for many businesses and employers, we do not think that making it mandatory would be a proportionate response to address compliance concerns relating to the small minority who do not pay on time, when most businesses and employers do.

We believe that the method of payment should remain a matter of choice for businesses and employers. In our opinion, mandation would result in a significant shift in control without any compelling evidence that the benefits to HMRC outweigh the risks to businesses and employers. It also risks penalising those that pay on time via other methods.

In relation to VAT, members have reported how time-consuming it can be to rectify payment misallocations and how mandatory Direct Debit would exacerbate the issue. We therefore recommended that instead of mandating Direct Debit for VAT returns, HMRC should focus on upgrading their infrastructure so that businesses, their agents and HMRC staff have the transparency and ability to reconcile online business tax accounts, especially when misallocations arise.

In relation to PAYE, we suggested that upgrades to HMRC's PAYE Real Time Information (RTI) system and related debt management systems are needed before even considering the mandation of Direct Debit collection. PAYE reconciliation issues, delays in resolving disputes and the misallocation of PAYE payments are all common complaints from our members. We believe HMRC's IT infrastructure needs investment and modernisation to address these issues if advisers and employers are to trust that HMRC will collect the correct amounts through Direct Debit.

We also suggested that payment by Direct Debit could be more widely publicised and encouraged by HMRC, and that any mandation should be limited to clearly evidenced risk groups.

The full CIOT submission can be found here: www.tax.org.uk/ref1720.

ATT's response

The ATT raised concerns about proposals to require VAT and PAYE liabilities to be paid by Direct Debit, arguing that the consultation underestimates the complexity of business payment arrangements and the potential impacts of mandation.

In its response to the consultation, the ATT recommends that HMRC should:

- not introduce mandatory Direct Debit payments at this time;
- undertake further research into the causes of late payment to assess whether mandation would address the underlying issues and represent a proportionate solution;
- increase awareness and promotion of voluntary Direct Debit payments and address barriers that currently discourage their voluntary adoption;
- recognise the complexity of business payment arrangements and the risk that businesses may change their behaviour in ways that undermine the policy objective;
- ensure robust safeguards are in place to protect taxpayers where payment failures or other problems arise due to HMRC systems, banking issues or other factors outside the taxpayer's control;
- not introduce penalties solely because a taxpayer chooses an alternative payment method, provided the correct tax is paid in full and on time; and
- consider whether targeted interventions for persistent late payers would be a more proportionate and effective approach than mandating Direct Debit payments for all VAT and PAYE taxpayers.

The full ATT submission can be found here: tinyurl.com/47p9ueb3.

LITRG's response

LITRG does not support making Direct Debit mandatory for VAT and PAYE payments, for many of the same reasons raised by ATT and CIOT colleagues.

Our response focuses on small and micro businesses, voluntary VAT registrants (such as those in the gig economy where registrations can be encouraged or facilitated by intermediaries) and individual employers, such as care and support employers. For these groups, mandatory Direct Debit payments raise a number of issues and questions, including:

- Reduced taxpayer control: taxpayers would have less control over how and when payments are made and the implications of HMRC, in effect, becoming a preferred automated creditor.
- Reduced flexibility: for example, mandatory collections could make it harder for taxpayers to use Time to Pay arrangements where needed.
- Risk of unintended payment failures: automatic payments could fail despite the taxpayer intending to pay, potentially leading to new HMRC compliance action.
- Unclear scope of mandatory collections: it needs to be clear which liabilities would be covered, including whether VAT assessments, as well as self-assessed liabilities, would be collected automatically.
- Risk of incorrect or duplicate collections: delays in refunds or corrections could cause significant financial difficulties for businesses and employers with limited financial resilience.

Our conclusion is that a voluntary payment method that taxpayers actively choose is likely to command greater trust, achieve better compliance and require fewer safeguards than one that is imposed. However, if HMRC decide to proceed, small and micro businesses, voluntary VAT registrants and individual employers should be considered for exemption. We also said that any mandatory scheme would need to be supported by improvements to HMRC's systems and processes and should not be enforced through penalties.

The full LITRG submission can be found here: tinyurl.com/5cakw4nw.

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MANAGEMENT OF TAXES

HMRC's proposed low value debt recovery regime: LITRG and ATT call for stronger safeguards

LITRG and ATT have urged the government to ensure comprehensive safeguards are in place before going ahead with proposals that would allow HMRC to recover lower value tax debts directly from taxpayers' bank accounts using automated processes.

LITRG and ATT have both responded to the HMRC's recent consultation 'Proposals to tackle lower value debt' (tinyurl.com/ypyd8ntv). Both organisations support the overall objective of introducing measures to target tax debts where taxpayers who can pay choose not to engage with HMRC. However, both highlight that the success of the measure depends on HMRC having robust safeguards to ensure they can distinguish between deliberate non-engagement and cases where taxpayers have not responded due to vulnerability, ill health, accessibility needs or because communications have not been received.

LITRG's response

LITRG's principal concern is not the use of automation itself, but the risk that automated processes may fail to identify cases where individual consideration is needed. In its response to the consultation, LITRG recommends that HMRC:

- clearly define the circumstances in which cases must be removed from an automated process and referred for human review, including indicators of vulnerability, affordability concerns, disputed liabilities or uncertainty over whether contact has been successful;
- ensure debts are legally due, accurately calculated and correctly reflected across HMRC systems before recovery action begins;
- strengthen safeguards around data matching and information sharing, particularly where joint or nominee accounts are involved;
- explain how affordability will be assessed and ensure that the assessment takes account of taxpayers' wider financial circumstances;
- introduce a protected minimum account balance;
- extend the proposed 14-day notice period to at least one month;
- provide a clear process for challenging recovery action and accessing alternative debt repayment arrangements such as Time to Pay; and
- consider how the proposals will interact with HMRC's existing debt recovery powers and wider tax administration reforms.

LITRG is also concerned about the proposed £5,000 debt limit applicable to individuals, and its overlap with HMRC's existing Direct Recovery of Debts powers. This could result in taxpayers receiving different levels of protection depending on which recovery mechanism HMRC use. Given the significance of the proposals, LITRG considers that further engagement, impact assessment and scrutiny are needed before legislation is introduced.

LITRG's consultation response can be found at: tinyurl.com/zfecc6ft.

ATT's response

In its response to the consultation, the ATT recommends that HMRC:

- review the wider debt management process, including addressing cases where debts are pursued incorrectly;

PERSONAL TAXATION

Better use of new and improved third-party data: LITRG response

LITRG have responded to a technical consultation on draft legislation, draft notices and guidance in respect of a measure to improve the quality and consistency of third-party data HMRC receive on interest income.

LITRG support the principle of HMRC making smarter use of third-party data with the aim of improving the taxpayer experience and making it easier for taxpayers to get their tax right. In previous submissions to consultations on this topic, we have repeatedly highlighted the need for appropriate safeguards, transparency around data and robust processes for taxpayers to challenge any defects or errors in it.

The consultation covered secondary legislation being made under the regulation-making powers contained in Finance Act 2026 Sch 23.

LITRG note one significant and concerning omission: the draft legislation does not include provisions under the regulation-making powers contained in Finance Act 2026 Sch 23 para 4, concerning the provision of data to persons other than HMRC. We think that providing taxpayers with this data would play a key role in supporting them to get their tax right and understand their tax position. It would also provide a key safeguard by allowing taxpayers to see the information provided about them to HMRC, check its accuracy and provide a starting point if they need to challenge it.

We strongly recommend that the regulation-making powers set out in para 4 are used.

We also take the opportunity to highlight again that, because of the inevitability of errors in third-party data and the possibility of errors in HMRC data-matching, there need to be clear and accessible HMRC-supported mechanisms to enable taxpayers to challenge and correct third-party data.

The full response is on the LITRG website at www.litrg.org.uk/11270.

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- improve communication and access to HMRC, increase awareness of and access to Time To Pay arrangements, and explore whether initiatives such as the Digitising Post Programme could improve existing processes;
- introduce stronger safeguards, including a requirement to 'confirm contact' with taxpayers before they enter the automated deduction process. Where practicable, some form of verified contact should be established before the proposed power can be used;
- extend the proposed 14-day Pre-Deduction Notice period to at least 30 days;
- consider whether a lower 'upper debt value limit' than the proposed £5,000 for individuals and £10,000 for businesses would be more appropriate;
- introduce additional affordability protections, including a protected minimum account balance, and ensure deductions do not place a taxpayer into an overdraft or increased borrowing;
- strengthen protections for joint account holders and only recover funds from joint accounts where ownership can be verified;
- allow taxpayers to request reasonable variations to deduction arrangements without pursuing a formal objection; and
- introduce an independent review stage before appeals reach the tribunal or courts, helping to resolve disputes more quickly and proportionately.

The ATT's consultation response can be found at: tinyurl.com/nwmmsn7n.

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INTERNATIONAL TAX LARGE CORPORATE

Reform of foreign permanent establishment exemption: CIOT comments

The CIOT have submitted comments on the draft Finance Bill legislation that will implement the proposed reform to the foreign permanent establishment exemption.

In May 2026, the government announced a fundamental shift from an elective to a mandatory exemption regime for foreign PEs, with potentially far-reaching consequences for UK-headed multinational groups. This announcement was followed by the publication of draft Finance Bill legislation that will implement the changes. It is currently proposed that the new regime will take effect from 1 January 2027.

In our response, we say that the lack of prior consultation on this measure has prevented the opportunity to consider different ways of addressing the perceived issue, and that there was not sufficient time for the far-reaching consequences to be identified, considered and evaluated. Our response considers some of the likely unforeseen consequences that seem to fall outside the stated policy intention of the measure. We also note that the proposed commencement date provides businesses with little time to assess the impact of the reform and prepare for the change.

We recognise the issue that can arise where multinational groups obtain UK tax relief for overseas losses without paying UK tax on future profits; however, this is a stable part of the UK tax system. Although the issue is addressed by many jurisdictions, the UK does not necessarily need to address it in the manner proposed by these reforms. Different jurisdictions have different regimes for foreign PEs. Also, while the aim is to address the issue of a perceived imbalance, the proposed changes will apply generally and are not limited to situations where corporation tax is not being paid on the profits of an overseas branch.

The CIOT's consultation can be found at: www.tax.org.uk/ref1744.

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INTERNATIONAL TAX LARGE CORPORATE

Simplifying treaty relief from withholding tax on interest paid overseas: CIOT response

The CIOT have submitted comments in response to the consultation on simplifying treaty relief from withholding tax on interest paid overseas.

We welcomed the consultation on 'Simplifying treaty relief from withholding tax on interest paid overseas' (tinyurl.com/mtpxt4da). The CIOT have for many years been asking HMRC to look at their processes for treaty clearance for payments of interest, suggesting the introduction of self-assessment and online processes. We are therefore pleased that the government is now considering this.

Overall, we are supportive of a self-assessment system as a way of reducing the administrative burden on taxpayers and HMRC, and think that a more streamlined or self-certification system would be attractive to taxpayers. We also recognise that HMRC will need to retain sufficient visibility over cross-border financing arrangements to ensure that treaty benefits are only claimed where appropriate.

We also say that it is disappointing that the issues arising from HMRC's ongoing pause of its concessionary treatment are outside the scope of the consultation. The suspension of this concessionary treatment has increased the practical importance of obtaining treaty clearance and has added both cost and administrative complexity to cross-border financing.

The consultation also provided an opportunity to comment on the challenges with the current processes for paying interest gross and without withholding tax where treaty relief is available. We encouraged HMRC to consider these challenges and, where possible, address them while they consult on more substantive changes to the UK rules.

You can read the CIOT's response to the consultation at: www.tax.org.uk/ref1737.

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INDIRECT TAX

Extending online marketplace liability to combat non-compliance: CIOT and LITRG response

CIOT and LITRG have jointly responded to a consultation that considered the VAT rules for trading via online marketplaces.

The VAT rules for trading via online marketplaces were changed in 2021, meaning that the output VAT on sales made by overseas businesses, which were registered for VAT in the UK and selling to UK consumers via an online marketplace, would instead be declared by the online marketplace.

The measure increased revenue collection by reducing VAT losses from overseas missing traders. However, HMRC identified areas where compliance could be further improved and a consultation was published on 23 June 2026 'Extending online marketplace liability to combat non-compliance' (tinyurl.com/ynzte4wd). The CIOT and LITRG jointly responded to the consultation, commenting on the consultation's three key objectives.

Objective 1: Addressing as much of the VAT non-compliance as possible

The CIOT and LITRG supported the anti-fraud measure that proposes to extend the liability for the obligation to declare output VAT to the online marketplace (OMP), meaning that the UK VAT registered seller would only be responsible for declaring VAT for non-OMP sales. This would tackle the increased evasion seen among overseas businesses that have falsely claimed a UK establishment, as well as reducing the loss of VAT arising from deliberate underdeclarations of output VAT by UK businesses, missing traders or dissolving the business before declaring the VAT.

For OMPs that have already updated their systems for the 2021 VAT rule changes, we recommended that HMRC engage with these businesses to establish whether the changes could be achieved in a shorter timeframe than for other OMPs that have only ever operated with UK-established sellers, and may therefore require a longer lead-in time to make the necessary system changes.

We also raised the point that although the OMPs are required to submit an annual digital platform report (tinyurl.com/4w58dm86) to HMRC, the data obtained can only be interrogated in arrears, meaning that there remains a period which could be exploited for the purposes of VAT evasion. More timely data sharing could reduce this opportunity.

Objective 2: Protecting businesses not required to register for VAT

There were two proposals in the consultation to reduce the loss of VAT: the minimum platform threshold (MPT) and the VAT rate relief for non-registered businesses (VRR).

The MPT would work by making OMPs liable to account for VAT on sales by UK businesses with total sales above a specified value per platform. We had concerns about how the MPT, if set at £90,000, would interact with the effective date of VAT registration for businesses liable to register based on the previous 12 months' trading income, as the two sets of rules would not be aligned. We also commented that where sellers trade across multiple OMPs, the MPT would become less effective.

We did not support the VRR as proposed, as the increase in burdens and the consequences for the smallest businesses appeared to be disproportionate.

Objective 3: Funding improvements for the business rates system for high streets

The CIOT, being an apolitical body, is not influenced by how a government chooses to spend additional tax receipts arising from proposed changes to existing tax policy. Spending decisions are a matter for government, so objective 3 did not impact our response to the tax policy points raised.

The joint response can be read at: www.tax.org.uk/ref1714 and www.litrg.org.uk/11274.

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PROPERTY TAX

Scotland: Council tax high value property bands (mansion tax)

The ATT, CIOT and LITRG have made submissions to the Scottish government consultation on the proposed rates for two new council tax bands for high-value residential properties in Scotland, commonly referred to as a 'mansion tax'.

Joint CIOT and LITRG response

The Scottish government is proposing to add two additional council tax bands for residential properties with a value of at least £1 million on 1 April 2026. The intention is for the new bands to take effect from 1 April 2028.

We note that the Scottish government will take account of responses to the consultation on the Future of Council Tax in Scotland (see www.litrg.org.uk/11179 for the joint response submitted by the CIOT and LITRG) when considering broader reforms to the council tax system in Scotland. It will also consider affordability protections and transitional arrangements in respect of the introduction of two new bands for high-value properties.

This proposal demands a targeted revaluation. Concerns are that 99% of valuations are more than 35 years out of date. The introduction of a parallel valuation system may also lead to valuation challenges: most properties are valued as at April 1991, while a few higher-value properties will have values as at April 2026.

The proposal involves the addition of two extra council tax bands. It does not create a separate tax charge. This should make it easier for councils to administer and taxpayers to understand. However, on that basis, we caution against the term 'mansion tax', as it suggests that this is a new tax and separate charge.

The proposals will not address the overall regressive nature of council tax, or various other issues that arise because of the use of outdated valuations. We reiterate that fairness (the rationale for this proposal) is subjective. Our view is that for a tax to be

INDIRECT TAX PROPERTY TAX

VAT treatment of land for social housing: CIOT response

CIOT is pleased to respond to the consultation on VAT treatment of land intended for the construction of new social housing, which considers a proposal that we put forward to the government in 2025.

In October 2025, CIOT wrote to the government about the different tax barriers affecting housing supply and suggested possible solutions (tax.org.uk/ref1538). One of the examples in our paper highlighted how VAT law can create delays and inefficiencies in the building of social housing. We suggested a simplification that would expand zero-rating to the sale of affordable housing sites to housing associations. This would in turn remove the complexity of the 'golden brick' VAT rules, while achieving the same overall VAT position for the supply chain and the Exchequer.

In June 2026, the government published a consultation that considered this proposal, 'VAT treatment of land intended for the construction of new social housing' (tinyurl.com/4kaf6wc8). The CIOT has responded to this.

What does 'golden brick' mean?

'Golden brick' is a term that describes the status of a build that has gone beyond foundation level. This is accepted as being reached once the first brick above the foundations and ground level is laid, hence the term 'golden brick'.

In HMRC's VAT notice 708 (tinyurl.com/3zyhj9v8), the term golden brick is not used. Instead, para 4.7.4 sets out that zero-rating can apply to land 'that will form the site of a building ***provided a building is clearly under construction***' (my emphasis). The VAT construction manual at VCONST03540 (tinyurl.com/3zspf5hu) explains that zero-rating can apply to deposits on sales of land to registered housing associations where 'it is clear from the contract or agreement that what will be supplied at completion, or the time of the grant, will be partly completed dwellings (beyond 'golden brick')'.

What is the problem with the current VAT rules?

The sale of land is normally VAT exempt, meaning that input VAT relating to the supply is normally blocked. If the seller exercises an option to tax, it would become a taxable supply. However, a relevant housing association (RHA) is able to disapply the option to tax by issuing a certificate, leaving the seller with a VAT exempt supply and back to square one (VAT Notice 742A para 3.6 at tinyurl.com/2tupd2cd).

A registered housing association makes supplies of social housing where the rental income is also exempt from VAT, meaning it too is unable to recover input VAT incurred relating to those exempt supplies. The ability to disapply a seller's option to tax is therefore essential. However, the seller can achieve zero-rating where the site has reached golden brick stage, meaning a taxable supply has been made and input VAT can be recovered, while the RHA does not incur irrecoverable input VAT.

It is normally difficult for RHAs to draw down grant funding until they have legal title to a site, with further complications arising from the period in which funding must be spent. Meanwhile, the developer of the site must incur significant upfront costs to develop the site to golden brick status so that the sale can be zero-rated. These arrangements can cause considerable delays and restrict the sale of sites to developers that are able to bear the upfront financial burden of site preparation.

In our consultation response, we supported the proposal to extend zero-rating to the sale of sites for RHAs before they have reached golden brick status. We consider that the current certification process can be easily adapted to accommodate the proposed relief based on the buyer's certified status.

CIOT's response can be read at: tax.org.uk/ref1724.

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fair, it must tax the base that it aims to tax, and the tax base must be accurately valued.

The full response is on the LITRG website at: www.litrg.org.uk/11271.

ATT response

The ATT's response focused on several practical and policy issues. While we did not comment on the specific tax rates proposed for the new Bands I and J, we questioned whether the introduction of only two additional high-value bands is sufficient to achieve the stated objective of fairness. We noted that council tax is based on property values rather than income and that households can be asset rich but cash poor. This may particularly affect homeowners whose properties have increased in value without a corresponding increase in disposable income.

We reiterated our earlier view (see tinyurl.com/4vju5ubt) that local government funding should, where possible, be linked more closely to ability to pay. If the Scottish government continues with a property-based system, we suggested introducing further bands above £2 million, together with graduated increases between all bands, rather than large cliff-edge jumps. We also recommended regular reviews of thresholds to ensure they remain appropriate over time. Where significant jumps between bands remain, we suggested that some form of marginal relief could be considered, provided it is simple to understand and applied automatically by local authorities.

We recommended that householders should have access to valuation evidence, a straightforward appeals process and clear guidance on reliefs, deferral arrangements and payment options before the new bands take effect. We also highlighted concerns about whether Scottish assessors will have sufficient time to complete valuations and deal with appeals before the planned implementation date, and noted the risk that substantially improved properties could be missed where there has been no recent sale or transfer.

The ATT additionally raised concerns about regional inequities. As higher-value properties are concentrated in certain areas, such as Edinburgh, some councils may benefit disproportionately from the additional revenue. Our response questions whether adequate equalisation measures exist to ensure fairness between local authorities. It also argues that decisions on the new bands should be coordinated with wider council tax reform proposals to avoid repeated valuation exercises.

Finally, we call for comprehensive reform of council tax, including possible revaluation of all residential properties, a simpler system linked more closely to ability to pay, and stronger recognition of regional differences in household circumstances and local authority revenues.

The full response is on the ATT website at: tinyurl.com/yyr7nav9.

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GENERAL FEATURE

Scotland: Pre-Budget scrutiny: the affordability and sustainability of Scotland's tax and spending plans

The ATT, CIOT and LITRG have made submissions to the call for views published as part of the Finance and Public Administration Committee's pre-Budget scrutiny for the Scottish Budget 2027-28.

Joint CIOT and LITRG response

The Finance and Public Administration Committee of the Scottish Parliament published a call for views as part of its pre-Budget scrutiny of the Scottish Budget 2027-28. The inquiry focused on five key areas. The joint CIOT and LITRG response concentrated on tax aspects only.

In response to the Committee's invitation for views on actions to grow the tax base, we indicated that more evidence is needed to determine whether the current income tax divergence is causing any behavioural effects and, if so, the extent to which these may affect Scotland's tax revenues over the longer term.

We also considered the complexities faced by taxpayers on lower incomes, due to the interaction of Scottish income tax and universal credit thresholds.

The call for views also requested thoughts on the main risks to devolved tax revenues in Scotland. Our submission noted that it is important that ministers and the Scottish government scrutinise the viability of devolved taxes, particularly new taxes that generate relatively low levels of tax revenue.

We highlighted the importance of trust in the tax system for maintaining voluntary compliance. We also took the opportunity to note the continuing absence of a regular legislative mechanism for the maintenance of devolved tax legislation. This poses a risk to revenues and the credibility of devolved taxes.

The full response is on the LITRG website at: www.litrg.org.uk/11269.

ATT response

The ATT submission drew attention to the need for effective council tax reform in Scotland and suggested that the Committee could play a part in achieving the political consensus needed to make this a reality. We felt that it was important for meaningful reform to take place, rather than simply introducing additional bands or making minor changes to the existing system without addressing the wider issues identified with council tax.

In respect of risks to devolved tax revenues, we drew attention to the impact of complexity in the tax legislation, with particular reference to the three-yearly review process for lease returns under the land and buildings transaction tax (LBTT) legislation. This is a unique feature of LBTT and can result in unintentional non-compliance. We suggested that the findings of the LBTT review working group, on which the ATT was represented, should be considered further.

We also drew attention to the need for greater understanding of the impact that income tax divergence from the rest of the UK may have on Scotland's appeal as a place to live, work and do business.

Along with the CIOT and LITRG, we highlighted the importance of improving scrutiny of devolved taxes in Scotland. A regular Scottish Tax Bill could help to achieve this, but we also recommended that the Scottish government should consider setting up a successor to the Tax Advisory Group and reconvening the Devolved Taxes Legislation Working Group, which has not met for several years.

The full ATT response can be found on our website at: tinyurl.com/ye5txjxd.

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Tax compliance

CIOT issues error correction warning

Legislation designed to strengthen the rules for correcting tax errors needs stronger safeguards, the Institute says.

CIOT has warned that draft legislation intended to modernise the correction of tax errors needs stronger safeguards if it is to work fairly and effectively. Responding to HMRC's summer consultation, CIOT supported the aim of encouraging taxpayers to put mistakes right promptly. However, it said that parts of the proposed rules may not work as intended and could leave uncertainty about when the new duty to correct would arise.

The draft legislation would require taxpayers to take reasonable steps to correct inaccuracies in returns and other documents once they become aware of them. It would also allow HMRC to issue Customer Correction Notices, which would require taxpayers to review their affairs and either correct an identified inaccuracy or explain why no correction is needed.

CIOT is concerned that the legislation does not clearly define when a taxpayer becomes aware of an error, or how certain they must be before the obligation applies. It also wants more clarity on what would count as 'reasonable steps', including notification processes and timescales.

Ellen Milner, Director of Public Policy at CIOT, said: 'We support HMRC's objective of encouraging taxpayers to correct mistakes promptly. However, taxpayers need greater certainty about when the new duty to correct arises and what actions they are expected to take. Awareness of a potential issue should not necessarily amount to knowledge that an error has been made, especially where there is genuine technical uncertainty.'

She warned that the proposals could have significant consequences,

Ellen Milner

with taxpayers who had taken reasonable care potentially exposed to deliberate behaviour penalties and a 20-year assessment time limit if HMRC believed an error should have been disclosed.

CIOT also raised concerns about the potential burden of Customer Correction Notices if they are not used carefully, particularly in more complex cases, and said the commencement provisions should make clear whether the new duty could apply to historic errors still within HMRC's assessment time limits, and how the rules would interact with existing compliance checks.

Roundtable

Institute hosts entrepreneurs discussion

CIOT held a roundtable in September to explore how the tax system can best support entrepreneurs and business growth.

The discussion brought together tax professionals, business representatives and economists, as well as policy officials from HM Treasury and HMRC. The context was the Treasury's recent call for evidence on 'Tax Support for Entrepreneurs', which closed in February and to which the government has yet to respond.

A recurring theme was that the UK tax system is difficult for entrepreneurs and smaller businesses to navigate without professional help. Compliance costs weigh heavily on microbusinesses and owner-managed firms. Participants highlighted cliff edges and detailed eligibility rules as problems. Reliefs such as the Enterprise Investment Scheme and Enterprise Management Incentives were seen as valuable, but a single mistake, or growth just beyond a limit, can mean relief is lost.

Recommendations included simplifying qualifying conditions, reviewing cliff edges and improving guidance so errors are less likely. Participants supported clearer digital guidance, better use of technology and more responsive HMRC support. More broadly, the discussion cautioned against treating all entrepreneurs as if they have identical objectives. High-growth businesses may need incentives to scale and remain in the UK, but small family firms and side-hustles also contribute to employment and tax revenues.

Participants suggested that tax policy should be clearer about the outcomes it is trying to support. A system focused only on 'unicorns' would miss much of the business population, while one that does not support scaling risks losing founders, investment and future ventures. Policy should not only encourage people to start businesses, but also support decisions to keep, grow, pass on or reinvest in them.

Certainty was seen as central to confidence. Repeated changes to reliefs, thresholds and rates make planning harder, and speculation can affect investment, relocation choices and transaction timing.

Tax administration was also described as part of the business environment. Delays, uncertainty and poor communication can affect cash flow and confidence, especially where businesses face long waits for refunds or answers from HMRC. Recommendations included an HMRC enquiry tracking tool, lighter-touch clearances and better use of digital tools.

The value of effective consultation and evaluation was emphasised. Measures should be judged not only by fiscal cost, but also by their effects on confidence, behaviour, access to finance and whether businesses choose to remain in the UK.

CIOT is holding debates at the Labour (28 Sep) and Conservative Party (6 Oct) conferences, in partnership with CenTax, on the question of whether the British tax system backs entrepreneurs and start-ups. Panelists include tax minister James Murray and shadow Treasury minister John Cooper. We are recording both events and making them available online. See www.tax.org.uk/videos-and-audio.

In the news

Coverage of CIOT and ATT in the print, broadcast and online media

'"There have been problems this year where taxpayers have had incorrect accounts put on their record," said Antonia Stokes from the Low Incomes Tax Reform Group. "We've heard cases of little old ladies having to get the bus to a town that's not near them to go into a branch of a bank they do not bank with in order to get the bank manager to write them a letter saying: 'You do not bank with us.'"

The Times, 10 July

'Our concern is people won't know about this, won't do it and will get penalised.'

ATT's Emma Rawson in the Daily Telegraph on HMRC plans to require company directors to report dividend income through MTD, 5 August

'The CIOT said the plans could lead to unfair tax bills, disputes between families and delays because of the extra administration caused to HMRC.'

Daily Telegraph on concerns about proposed inheritance tax changes affecting pensions, 11 August

'The ATT said executors could face difficult cash-flow decisions, particularly if the pension is holding an asset that cannot quickly be sold.'

The Times on inheritance tax proposals and their practical impact on bereaved families, 19 August

'We are concerned that the proposed offence will not create a clear enough distinction between carelessness, recklessness and deliberate conduct. Without that certainty, there is a real risk that compliant taxpayers and advisers could face the threat of criminal investigation for conduct that falls short of dishonesty.'

CIOT's Ellen Milner in the Daily Telegraph, The Sun and other outlets on proposals to criminalise certain tax errors, 21 August

'Joanne Walker, technical officer at LITRG, a charity, said that people without accountants and advisers, particularly those on low incomes, could also be adversely affected if the proposals become law.'

Financial Times on plans to criminalise 'reckless' tax mistakes, 5 September.

Making Tax Digital

Extend penalty easements

ATT has called on the government to extend Making Tax Digital (MTD) penalty easements to taxpayers joining the regime in April 2027, warning that more than a million lower-income sole traders and landlords may otherwise face a difficult transition. In a pre-Budget submission, ATT argues that the second wave of taxpayers entering MTD should benefit from the same soft landing available to those who joined in April 2026, giving them more time to adapt to the new reporting requirements successfully.

Emma Rawson OBE, ATT Director of Public Policy, said: 'Our members have been working incredibly hard to support clients through the first phase and have highlighted the challenges involved in helping people adapt to new digital record-keeping and reporting requirements. Those concerns are likely to become even more acute next year, when many of the taxpayers entering MTD are expected to have lower incomes, less experience of using software and less access to professional advice.

'Extending the current penalty easement would give taxpayers time to understand the new system, get the right support in place and adjust to quarterly reporting without the worry of penalties during the transition.'

Reckless tax statements

New offence blurs line

CIOT has warned that a new criminal offence for 'reckless' tax statements could leave honest taxpayers and advisers facing prosecution for mistakes rather than dishonesty.

In its response to a government consultation, the Institute raised serious concerns about proposals to introduce a new offence for making reckless untrue statements or declarations in direct tax matters. It argues that the proposals risk blurring the line between genuine mistakes and deliberate wrongdoing, creating uncertainty for taxpayers and professional advisers operating in complex areas of tax law.

Ellen Milner, CIOT's Director of Public Policy, said: 'Tax advisers and taxpayers regularly have to make decisions where the law is complex and where reasonable people can disagree. A criminal offence should be reserved for genuinely serious wrongdoing, not situations where someone acting in good faith makes a mistake or reaches a different conclusion from HMRC.'

The Institute is calling for further consultation and engagement before any legislation is brought forward, arguing that taxpayers and advisers must be able to understand clearly what conduct could expose them to criminal liability.

Income tax

Freeze pushes receipts up

HMRC's tax receipts figures show income tax revenues continuing to climb, fresh evidence of the growing impact of frozen tax thresholds, says ATT. Data released in August shows that between April and July 2026, HMRC collected £117.6 billion in income tax, up from £109.8 billion during the same period in 2025.

Emma Rawson OBE, Director of Public Policy at the ATT, said: 'The latest figures provide a clear illustration of how frozen tax thresholds affect taxpayers. There have been persistent rumours that the government could revisit the threshold freeze, but any meaningful change would likely require either tax rises or spending reductions elsewhere. The longer thresholds remain frozen, the more expensive it becomes to reverse the policy. Each passing year brings more taxpayers into the system and increases the gap between current thresholds and where they might otherwise have been.'

Council Member

Adam Rollason CTA

Adam will be co-opted to CIOT Council on 21 October 2026.

Upon leaving school at 16, Adam joined a small accountancy practice on an apprenticeship scheme. He qualified as an Accounting Technician in 2008, before going on to become a member of the Association of Chartered Certified Accountants in 2012.

Having discovered an interest in tax, Adam joined RSM's corporate tax team and subsequently became a member of the CIOT in 2015. Since then, he has undertaken several tax advisory roles within legal and accounting practices, specialising predominantly in the provision of transactional tax advice to owner-managed businesses.

Adam joined PKF's Birmingham office in 2020 to establish a new tax advisory team, before joining the partnership in 2022. He recently joined Crowe UK as the Lead Partner of the firm's Birmingham office.

Adam has been a member of the Institute's Owner Managed Businesses Technical Committee since 2016 and is the current Chair of the Birmingham Branch Committee. He has also previously served as a volunteer for Tax Help for Older People and delivered tax training sessions to school students as part of a local government careers initiative.


Adam Rollason

Outside of work, Adam enjoys travelling and exploring new places with his family. He is a lifelong West Bromwich Albion FC fan and also chairs the Baggies Business Club.

Spotlight

Spotlight on HMRC's Non-Dom Sub-Group

We take a look at HMRC's Non-Dom Sub-Group, one of several engagement forums through which the CIOT and other professional bodies provide feedback on tax legislation and guidance.

The Non-Dom Sub-Group was established in late 2024 to support the implementation of reforms to the taxation of non-UK domiciled (non-dom) individuals. The group sits alongside existing forums such as the Wealthy External Forum and the Capital Taxes Liaison Group, but is time-limited and focused specifically on the non-dom reforms.

As with other HMRC forums, the Non-Dom Sub-Group provides an opportunity for representative bodies to give feedback on draft guidance, highlight practical issues affecting taxpayers and advisers, and help HMRC understand the impact of changes on real-world scenarios.

Between meetings, which take place every few months, members can submit comments via a central HMRC mailbox, allowing for continuous feedback on draft materials and emerging issues.

Along with the minutes, HMRC produces a list of queries received and their status. This allows everyone to see what has already been raised and what action has been taken, such as updates to HMRC guidance to clarify particular points. For practitioners working in this area, the minutes and supporting papers are well worth a read.

What does the Sub-Group discuss?

HMRC provides updates on Budget announcements, draft legislation, formal consultations and other topical items relevant to the group's remit. Professional bodies provide feedback and discuss technical and practical queries raised by their members.

Recent discussions have included clarification of the impact of the foreign income and gains regime on double tax treaties, the format of the residency pages in self-assessment tax returns, and the operation of the temporary repatriation facility. On the latter, CIOT recently had a more detailed exchange with HMRC to understand the effect of the facility on distributions from offshore trusts. This exchange is published alongside the minutes on HMRC's website and can also be found on CIOT's website at tax.org.uk/ref1680.

A key focus has been the development of guidance and supporting materials, including updates to HMRC's manuals. The scope of the changes means additional or amended guidance is needed across manuals covering employment income, PAYE, capital gains and inheritance tax, as well as the entirely new Residence and FIG Regime Manual. HMRC aims to work collaboratively where possible, inviting members of the group to comment on draft or recently published guidance to improve clarity and identify areas where additional support may be required.

Implications for tax advisers

The key takeaway for advisers is that guidance in this area is still evolving and should be monitored closely. Technical details of the new regime, particularly around the operation of the time-limited temporary repatriation facility, remain uncertain in places, warranting careful analysis of the legislation as it applies to specific facts.

Members are encouraged to raise with CIOT any issues they encounter in practice. While we do not provide a technical advisory service and cannot assist with individual cases, we value contributions that can help us work towards a more efficient and less complex tax system for all.

Further information

Further information about the Sub-Group, including its terms of reference, participating bodies and published minutes, can be found on the GOV.UK website at: tinyurl.com/42w4d88e.

Exam results

Students celebrate ADIT and Pillar Two Award success

More than 550 international professionals across 56 countries are celebrating passing exams towards CIOT's ADIT (Advanced Diploma in International Taxation) qualification, while more than 70 corporate tax specialists from around the world have successfully achieved the new ADIT Pillar Two Award following its inaugural exam.

In the June online exams, 570 students passed at least one module towards the main ADIT qualification, with 130 passing their third module and achieving the full qualification. Another three students demonstrated their international tax research proficiency over the last six months by completing ADIT through the extended essay route. Of the new ADIT holders, eight were awarded a distinction grade.

Meanwhile, 75 Pillar Two Award students were successful in the first sitting. The Pillar Two Award consists of a single exam, in which students apply the principles and concepts of the OECD's Pillar Two framework to practical scenarios affecting states and multinational companies.

CIOT President Paul Aplin said: 'I am delighted to extend my congratulations to ADIT students across the world who have successfully passed their recent exams. These results demonstrate the dedication candidates put into their studies, and their commitment in pursuing this qualification alongside their other work and life commitments. I look forward to congratulating as many as possible at a future ADIT Awards Ceremony.

'I'd like to applaud the recipients of our seven medals and prizes from the recent exam session, generously sponsored by tax industry leaders, which recognise those achieving the highest marks in the most popular exams, highlighting their outstanding tax knowledge.

'ADIT achievers are more than familiar with the demands of this qualification, which is widely recognised by employers and members of the international tax community. I look forward to welcoming many graduates who take the further step and join us as International Tax Affiliates, our annual subscription programme that provides additional opportunities to share knowledge and network with other professionals in this domain.'

The ADIT qualification is now held by 2,597 tax practitioners, approximately 500 of whom have chosen to subscribe to CIOT as International Tax Affiliates since achieving the qualification.

These candidates will receive awards for their achievements in June's exams:

- Nigel Puli of Balzan, Malta, who is employed by KPMG in Pieta, is awarded the Heather Self Medal for the best overall performance in Module 1 Principles of International Taxation.
- Daniel Brown of Manchester, who is employed by HMRC in Salford, is awarded the Raymond Kelly Medal for the best overall performance in Module 2.09 United Kingdom option.
- Anna Kaminaridou of Nicosia, Cyprus, who sat Module 2.03 Cyprus option, is awarded the Worshipful Company of Tax Advisers Prize for the best overall performance in Module 2 (all other options).
- Ajay Maru of Dubai, United Arab Emirates is awarded the Tom O'Shea Prize for the best overall performance in Module 3.01 EU Direct Tax option.
- Miruna Cirstea of Bucharest, Romania, who is employed by Forvis Mazars, is awarded the IVA Prize for the best overall performance in Module 3.02 EU VAT option.
- Ryan Witter of Manchester, who is employed by Clyde & Co., is awarded the Croner-i Prize for the best overall performance in Module 3.03 Transfer Pricing option.
- Louisa Carmichael of Marlborough is awarded the Wood Mackenzie Prize for the best overall performance in Module 3.04 Energy Resources option.

Podcast

DITT Talk: exploring the technology reshaping tax

DITT Talk, the CIOT's tax technology podcast, brings together leading voices from across the profession to explore a rapidly evolving area of tax.

What happens when tax expertise meets technology? Developed and hosted by Shan Sun, a CIOT Council member, co-creator of the Diploma in Tax Technology (DITT) and founder of shan.tax, a tax technology consultancy, DITT Talk aims to make fast-moving tax technology issues accessible, relevant and engaging for tax professionals. Shan draws on her experience of tax technology in practice and in-house to facilitate conversations with experts from across the field.

Now in its second series, DITT Talk goes beyond asking what the latest technology can do. Its episodes explore the practical and strategic implications of technology for tax, from the perspective of those building the technology itself to governance and international developments.

That breadth is one of the podcast's strengths. Guests from across the tax technology ecosystem share their expertise and predictions, connecting technical innovation with the realities of tax practice and considering what developments mean for tax professionals and their organisations.

Technology is no longer simply a question for IT teams or specialists. Artificial intelligence, automation, data, blockchain, digital compliance and emerging technologies are increasingly influencing how tax is delivered, how businesses operate and how advisers need to think about their future role.

The podcast complements the DITT but also has a wider purpose: to encourage the profession to engage with technology and understand its implications, whether or not tax technology is currently a core part of their role.

The first series explored topics including blockchain and the tax implications of cryptocurrency. The second series has broadened the conversation to consider themes including technology development, governance and international developments.

Whether you are a tax adviser looking to understand the technologies changing the profession, a tax leader considering their strategic implications, or simply curious about where tax technology is heading, DITT Talk offers an accessible way to stay informed about this rapidly developing field.

DITT Talk: Tax Technology is available on Apple Podcasts and Spotify.

Webinar

Building careers in tax technology

Tax technology is reshaping the skills and roles of tax professionals.
A recent Future of Tax Professionals webinar explored what this means for those building their careers.


Stephen Rimmington


Helen Whiteman


Alex Mann


Makayla Combes

Tax technology is not just changing how tax work is done, but is also impacting the skills, roles and career opportunities available to tax professionals. A Future of Tax Professionals webinar held in September brought together three perspectives on what this means for the profession as it adapts to a changing landscape, and why technological change may bring opportunities as well as challenges.

Hosted by Makayla Combes, Chair of the Future of Tax Professionals Committee, the discussion featured Helen Whiteman, CEO of CIOT, Stephen Rimmington, Tax Technology Senior Manager at Saffery, and Alex Mann, Managing Director at Harvey John.

More than AI

A key theme emerged quickly: tax technology is much bigger than artificial intelligence.

For Helen, AI is part of a technological revolution that has been transforming industries for decades. The real change is in where the boundary between tax knowledge and the business of performing tax is moving. As technology increasingly handles elements of research, compliance, data processing and analysis, knowing the answer is often becoming the easier part. The greater challenge is having the judgement and critical thinking skills to assess whether the answer is right, and being able to explain and stand behind it.

Her analogy of AI as a sat-nav for tax professionals captured this neatly. We can follow the blue dot, but when the sat-nav sends us the wrong way up a one-way street, we need the judgement to recognise the mistake rather than blindly follow it.

> **Technology is raising the bar, making judgement, critical thinking and communication increasingly important.**

For Stephen, the impact is already visible in practice. Automation and AI can undertake some of the heavy lifting in processes such as personal tax returns, while data integration and analytics are transforming how tax teams work. But technology works best when it is applied to the right problem. Sometimes a rules-based automation solution or even a spreadsheet may be more appropriate than AI.

That makes data governance, change management and communication increasingly important skills. Successful technology transformation is as much about bringing people with you as it is about choosing the right technology.

Alex brought the recruitment perspective, describing tax technology as a spectrum rather than a single career or job title. Professionals can move along that spectrum from tax towards technology, while others enter from the technology side and develop tax expertise. New roles are emerging constantly, creating opportunities that simply did not exist a few years ago.

Building the right skills

So what should aspiring tax technologists do? The panel's advice was consistent: be curious, build breadth, develop your technical understanding and don't wait for a job called 'tax technologist' to appear. Stephen encouraged professionals to look for secondments and opportunities to improve existing processes, while Alex emphasised the role of networking and gaining exposure to different environments before specialising. Practical experience was seen as equally important.

Helen's message was equally clear: build skills now and back them up with structured learning. CIOT's Diploma in Tax Technology (www.tax.org.uk/ditt) and AI for Tax course (www.tax.org.uk/ai-for-tax) are designed to help tax professionals understand technology without necessarily becoming technology specialists. Technology is also increasingly being embedded in the future CTA qualification, with more on this to come next month.

The webinar challenged the idea that technology will make tax expertise less important. Instead, it is raising the bar. The tax professional of the future will need to combine technical knowledge with judgement, critical thinking, data awareness, communication and curiosity.

For those willing to embrace that combination, the message from the panel was encouraging: tax technology isn't closing doors, but creating new ones.

Worshipful Company of Tax Advisers

Investing in tax education

The Worshipful Company of Tax Advisers and its charities support tax education at every stage, from introducing schoolchildren to careers in tax to helping students gain tax qualifications.

As many readers will know, the Worshipful Company of Tax Advisers (WCoTA) has two charities, both of which fund tax education. In the charities' financial year to 30 June, 53% of their total income was used to fund tax-related education.

Helping students to qualify

The Tax Advisers' Benevolent Fund (TABF) is committed to the furtherance of tax education. The Fund gives means-tested grants and bursaries to students of the ATT and the CIOT who are studying for professional exams, including the ATT, CTA, DITT and ADIT qualifications. Income supporting this work comes from donations made by members of WCoTA, grants from CIOT and ATT, and income derived from the charities' investments.

If a prospective candidate is unable to obtain financial support from an employer and cannot afford the cost, they can apply to the TABF for financial support. In the case of ATT and CTA qualifications, the TABF will fund registration fees, course fees and exam fees following an assessment of the candidate's personal financial circumstances, undertaken by our Almoner. Generally, funding is provided on a module-by-module basis. Mentoring is also offered, as we want to see our candidates succeed.

One candidate we supported in 2025 illustrates the difference this can make. This applicant came to the UK as a refugee from a war-torn country, having practised as an accountant in their home country. As part of establishing a life in the UK, they decided to study for the ATT exams. While studying, they secured unpaid work at a small practice to gain experience.

The applicant sat exams in November 2025 and the practice offered them a tax apprenticeship in January 2026. Our funding of the ATT course fees was transformative. Alongside the financial support, the applicant also received pro bono mentoring. Their experience demonstrates that giving time can be every bit as valuable as giving money.

Inspiring future tax professionals

Both the TABF and the Tax Advisers' Charitable Trust (TACT) promote the study of the administration and practice of taxation. This includes helping young people to recognise the many career opportunities available in tax.

For several years, in partnership with CIOT and ATT, the Company and its charities have run a stand at the London Careers Fair to showcase tax as a career. We have connected with thousands of primary and secondary school children across London, using interactive exercises and tax related mementos to introduce them to the profession.

The first week of March was particularly busy this year, as it was Careers Week and we also attended Swanlea School's career fair on 5 March 2026. We were brilliantly supported by Stephen Pinhey of ATT, who was also representing CIOT.

For the third year running, we also supported the Future Professionals Summer School run by City St George's, University of London, in July. The free programme, which aims to develop students' skills, offered an insight into many professions, including tax.

We have been developing a relationship with City St. George's for several years because of its focus on business and encouragement of young people to consider careers in the professions. We now sponsor one of the Business Schools' academic prizes focusing on taxation.

Finally, I am delighted to report that we have recently entered into a five-year affiliation agreement with the London Scouts. This fits extremely well with TACT's policies, focusing on children and providing them with skills and opportunities to benefit their communities and enrich their futures. In particular, we have agreed a taxation syllabus that teaches Cubs and Scouts about taxation and enables them to earn a tax badge.

As ever, if you are interested in fellowship with other tax professionals and being involved in charitable works, such as tax education, please come and join us. Giving back to the next generation of professionals is extremely rewarding.

Lorraine Parkin, Chair
Charities' Committee, Worshipful Company of Tax Advisers
www.taxadvisers.org.uk

Obituary

Ralph Ray CTA (Fellow)

Ralph Ray, a leading authority on personal taxation and inheritance tax, had a distinguished legal career spanning more than five decades.

Ralph was born in Berlin on 20 October 1930 and came to the UK in 1938, aged eight, fleeing Nazi Germany. His father, Hans, was killed in the Holocaust.

Educated at St Paul's School in London, where he gained a scholarship, Ralph went on to study at the London School of Economics. He undertook National Service in the army from 1952 to 1953, attaining the rank of Second Lieutenant.

Ralph dedicated his professional life to the law and became a highly respected solicitor. He worked at Theodore Goddard and, for more than 35 years, at Wedlake Saint, becoming senior partner in 1990. He subsequently worked as a consultant for a further 11 years for Shoosmiths and Wilsons, before retiring at 76.

Ralph was a specialist in personal taxation and, in particular, inheritance tax, and was a giant in his field. He lectured across the country, delivering as many as 40 lectures a year. He also wrote several books on personal and inheritance tax, including the leading guide for inheritance tax lawyers that still bears his name, *Ray and McLaughlin's Practical Inheritance Tax Planning*.

He was a founding member of the Society of Trust and Estate Practitioners (STEP) and served on the CIOT Council for 15 years.

Outside his professional life, Ralph enjoyed many hobbies and pastimes, including theatre, painting, travel, motorbikes, walking and stick whittling.

Ralph had five children: Paul, Simon, Emma and twins Henry and Oliver. His eldest son, Paul, is also a lawyer. Ralph also had two stepchildren, Gillian and Roger, and two step-grandchildren. In 2010, Ralph moved to Lichfield to be near Paul and his family. He grew to love the city and died peacefully on 8 June in a care home nearby, aged 95.

Tax education

Celebrating the next generation

CIOT-sponsored university prizes have recognised five students for their achievements in tax, accounting and law, helping to encourage the next generation of tax professionals.

Supporting students at the start of their professional journey is an important part of CIOT's work to raise awareness of tax as a rewarding and varied career. This year, university prizes sponsored by CIOT celebrated academic excellence, progress and achievement across accounting, tax and law courses.

Swansea University

At Swansea University, three final-year accounting students were recognised following their tax studies. Charlotte Morgan received the Best Performing Student award, Morgan Hurley was named Most Improved Student and Ieuan Francis achieved the Best Taxation Score.

The prizes acknowledged not only strong academic performance but also the commitment and progress shown by students developing the knowledge and skills that can lead to a career in tax.


Charlotte Morgan


Ieuan Francis


Anna Sokolova, Salema Hafiz and Stefania Golumbeanu

University of Warwick

CIOT also sponsored two new prizes at the University of Warwick's Law School. Anna Sokolova received the prize for the highest mark in Taxation, Law, Policy and Principles, while Stefania Golumbeanu was recognised for achieving the highest mark in Corporate Law.

The awards were presented by Salema Hafiz, CIOT Head of Business Development and Marketing, as part of the university's graduation celebrations. CIOT was delighted to celebrate with colleagues from the Law School and congratulate both students as they look ahead to further study and careers connected to taxation.

Congratulations to all five prize winners, and thanks to Swansea University and University of Warwick for their support. By working with universities and recognising student achievement, CIOT aims to encourage more talented people to discover the breadth of opportunities available across the tax profession. Their future is bright.

Disciplinary reports

Mr Michael Viney

At its hearing on 15 July 2026, the Disciplinary Tribunal of the Taxation Disciplinary Board determined that Mr Michael Viney, a member of the Association of Taxation Technicians (ATT), was in breach of the Professional Rules and Practice Guidelines 2018 (as amended) (PRPG).

As a result of being given a term of immediate committal to prison for 16 months on 16 May 2025, the Tribunal ordered that Mr Viney be expelled from membership of the ATT. The Tribunal determined that he may apply for readmission after a period of six years, although this does not indicate that any application for readmission would or should succeed.

The Tribunal also ordered that Mr Viney pay the TDB's costs in the sum of £4,345.20.

Mr Samuel Feibel

At its hearing on 31 July 2026, the Disciplinary Tribunal of the Taxation Disciplinary Board determined that Mr Feibel, a member of the Association of Taxation Technicians (ATT), had breached certain provisions of the Professional Rules and Practice Guidelines 2018 (as amended) (PRPG).

The Tribunal found that:

- Mr Feibel failed to submit his 2024 ATT Annual Return by the required deadline of 14 March 2025.
- Having been fined £350 by the ATT on 29 April 2025 for failing to submit the Annual Return, Mr Feibel failed to pay the fine by the required deadline or at all.
- Mr Feibel failed to respond promptly to correspondence from the ATT or the TDB dated 11 February 2025 and 24 February 2025.

The Tribunal ordered that Mr Feibel be censured.

The Tribunal also ordered that Mr Feibel pay the TDB's costs in the sum of £3,350.00.

The Taxation Disciplinary Board (TDB) has recently refreshed its website at tax-board.org.uk.

The new website includes updated guidance for members and complainants, as well as an online complaint form. The Tribunal's decisions and reasons, including outcomes from previous cases, can be found in the Hearings, Findings & Orders section at tax-board.org.uk/hearings-findings-orders.

A MEMBER'S VIEW

Graeme Fox

Senior Tax Manager, Hillier Hopkins LLP

This month's CIOT member spotlight is on Graeme Fox, Senior Tax Manager at Hillier Hopkins LLP.

How did you find out about a career in tax?

I started my career in general practice accounting, where I did a bit of everything, but I always enjoyed the tax aspects of my work. When I was looking to move to a new job, I was offered an interview for a tax-focused role by chance. It sounded exciting to be able to focus on an area I enjoyed. The interview went well and I never looked back.

Why is the CIOT qualification important?

Coming from general practice as a qualified accountant, I felt that I had a good understanding of tax, as I had always been able to deal with the issues I encountered. Once I moved to my current employer, where I was dealing with much larger and more complex issues, I realised that I knew far less than I thought.

The CTA qualification gave me the knowledge to handle more complex issues, brought my skills to a higher level, and gave me the confidence to take on new challenges.

Why did you pursue a career in tax?

It is an area that has always interested me, and once I was given the opportunity to work in tax and study towards the CTA qualification, I knew it was the right fit for me. The work was challenging but rewarding, giving me the opportunity to develop my skills, and it felt like a career path I could follow.

How would you describe yourself in three words?

Dependable, calm and professional.

Who has influenced you in your career so far?

There are a few people, but particularly influential have been a past boss who showed me what not to do; the owner of a business where I previously worked, who allowed me to see up close how to develop a successful business; the tax Principals in my current role, who guide me; and, lastly, my parents and wife, who supported me through job changes, studying for exams, as well as listening to me after the trickier days.

What advice would you give to someone thinking of doing the CIOT qualification?

If you are serious about working in tax, a CIOT qualification will help you tremendously. The exams are not easy and require many hours of dedication, but achieving the qualification will set you up for the rest of your career.

What are your predictions for the tax industry in the future?

There will always be a need for tax advisers, and no one should panic that our profession will disappear. Improvements in bookkeeping software and AI have changed the landscape since I started working in tax, making data gathering and reporting far better than the manual processes of yesteryear. But technology has not removed the role of the trusted adviser.

While taxpayers can handle simpler matters themselves, in my experience there has been minimal impact on more complex issues, particularly when judgement is involved. Many tax issues turn on subjective points that cannot be learnt overnight. How we deliver our advice might change, but as long as we adapt, the role of the tax adviser will remain.

What advice would you give to your future self?

Always keep learning as tax never stands still for long.

Contact

If you would like to take part in A member's view, please contact: Melanie Dragu at: mdragu@ciot.org.uk

Volunteering

Could you bring tax to life for young people?

Most of us can remember a conversation, teacher or careers event that helped us see a new possibility. For many young people, tax is something they come across when they receive their first payslip. ATT members are well placed to change that by helping students understand how tax works, why it matters and where it could take them.

As an educational charity, the ATT has a goal of improving public understanding of tax. Our members can help to make that objective real. By sharing your experience at a careers fair, you can turn an unfamiliar subject into something practical and even inspiring.

A school visit does not need to be complicated. With younger pupils, you might talk about the services tax helps to fund. With older students, you might explain what tax professionals do, the skills they use and different routes into the profession. Often, the most valuable part is simply answering honest questions and showing that tax is not as remote or intimidating as it may first appear.

Careers fairs offer another easy way to make an impact. A brief conversation with a student, parent or teacher can introduce tax as a career that is varied, people-focused and open to those with different strengths and backgrounds. Members' real-life stories are often the best way to bring that message to life.

You will not be on your own. The ATT provides resources to help volunteers prepare, including a Volunteer in Schools Toolkit, classroom materials, handouts and merchandise for events. These are there to give you a starting point, while leaving room for you to adapt the session to suit your audience and your own style.

Members can also find out more about getting involved at our free webinar 'Tax, schools and careers – your profession needs you!' on Tuesday 13 October. We will explain how members can use their tax knowledge to support teachers, inspire students and get involved with schools and careers events.

If you could spare time for a school visit, careers fair or initial conversation, please contact Steven Pinhey, the ATT's Schools Education and Careers Outreach lead, at spinhey@att.org.uk. Your knowledge, enthusiasm and lived experience of the profession could help a young person understand the world of tax, and perhaps even imagine themselves as part of it in the future.

Career development

From tax trainee to director

Employment Tax Director Hayley Perkin explains how the ATT qualification and new opportunities have helped her build a successful career in employment tax.

When I began my career as a tax trainee in 2007, I did not have a fixed route to becoming a Director. What I did have was curiosity, a willingness to volunteer and an ATT qualification that gave me the confidence to pursue new opportunities. It provided practical tax knowledge I could apply immediately and became the foundation for my career.

Early in my career, I managed a mixed portfolio of individuals, partnerships and employers. As my responsibilities grew, I moved from technical delivery towards supervising others, advising clients and taking a broader commercial perspective.

I also volunteered to support the wider tax department and helped guide tax trainees, secondees and students. This strengthened my communication and leadership skills. Progression is not only about technical knowledge; it is also about supporting others.

Throughout my career, I have benefited from the mentoring and support of colleagues and leaders at Azets and KPMG, as well as through my involvement with ATT. Their encouragement to take on new challenges has played an important part in my progression and how I coach others.

Finding a specialism

A turning point came in 2013, when I helped clients prepare for HMRC's introduction of Real Time Information reporting for PAYE. Supporting employers through this significant compliance change deepened my interest in employment taxes and confirmed that I wanted to help clients navigate future developments.

While at Azets, I put myself forward to champion the firm's Employment Taxes Group and invested time in researching technical developments, Budget announcements and draft legislation. This helped me build a specialism that now spans employment tax, payroll compliance, governance, workforce tax strategy and business transformation.

At KPMG, client secondments have strengthened my understanding of governance, controls and operational processes in complex businesses. I have also taken two periods of maternity leave and valued the firm's support on returning to work, including while caring for a one-year-old during the pandemic. This has shown me the value of embracing each stage of a developing career while also growing my family.

Through volunteering with ATT, I have contributed to government consultation responses, draft legislation and stakeholder discussions. In 2015, I became ATT's representative on HMRC's Employment and Payroll Group. I have volunteered with ATT for more than 17 years, including serving as a Council Member and Trustee.

Building skills for the future

Today, I help employers navigate compliance, governance and workforce tax challenges through practical, technology-enabled solutions. Technology does not replace professional judgement; it creates greater capacity to interpret results, challenge risk and design better outcomes. Confidence in data and technology alongside technical expertise can also broaden career opportunities.

Looking back, many of my most valuable opportunities began with asking questions and being willing to learn. My advice is to use ATT as a platform: seek varied assignments, ask for feedback, build relationships, welcome support and volunteer for work that stretches both technical and commercial skills. ATT can open the door, but curiosity, practical experience and continuous learning turn that into a long and rewarding career.

Practical note: claiming professional membership fees

Rather than claiming my professional membership fees through my employer, I claim tax relief online through my Personal Tax Account. This automatically updates my PAYE coding, subject to HMRC eligibility rules and personal circumstances.

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Tax Manager – Glasgow

Are you a Tax Manager who actually enjoys helping business owners? Preparing a tax return is one thing. Genuinely helping a business owner plan for the future, make better decisions, save tax and achieve their goals is something else. At russell + russell, we do things a little differently – in a good way. We work closely with business owners to help them:

- Grow their businesses
- Keep more of what they earn
- Achieve personal goals
- Enjoy the rewards of their hard work
- Plan properly for their future and retirement

And we're looking for an ambitious, commercially-minded Tax Manager who wants to be part of that.

What are we looking for?

Someone who is:

- Straight-talking, with integrity
- Commercially minded and technically strong
- Comfortable building genuine relationships with clients
- Confident explaining complex tax issues without the jargon
- Curious about a client's wider situation – not just the question in the email
- Someone who'd rather pick up the phone and have a conversation than fire off another email

You'll need strong technical knowledge across areas including Corporation Tax, Income Tax, CGT, IHT, VAT, Employment Tax and Trusts, as well as experience with areas such as restructures, acquisitions/disposals, due diligence and HMRC enquiries. You'll be at the coal face, working directly with clients, leading advisory work and helping shape how we deliver our tax services.

The role also offers:

- Salary in the region of £60,000 DOE
- Hybrid working
- Flexible working with core hours of 10am–3pm
- 33 days annual leave
- Private medical insurance
- 5% employer pension contribution
- 20% commission on new client introductions
- CIOT subscriptions paid
- Quarterly Making Lives Better days for charity/community projects
- 35-hour working week
- We're looking for a CIOT member with at least 5 years' post-qualified experience in practice, excellent client-facing skills and someone who wants to make a genuine difference to clients.

Most importantly, you'll need to fit with our values:

- Play your part.
- Be your best self.
- Challenge clients.

If you're commercially minded, client-focused and want to do more than just prepare tax returns, we'd love to hear from you.

Send us a short introductory video (Loom is fine), your CV and covering email to: **mail@russell-russell.co.uk**

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Kyra, Tax Specialist Programme trainee

"

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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.

We're proud to champion our customers; as a relationship driven team, we thrive on building meaningful connections by helping tax professionals shape their careers and supporting them in building high-performing teams.

Our dedicated tax recruitment specialists bring deep expertise across both in-house and professional services. With a wealth of experience and a well-established national network, we offer insightful market guidance across the UK and Ireland.

We'd like to start a conversation and explore how we can support you. If you'd like to learn more, please don't hesitate to get in touch with our experts.

Discover new opportunities today

hays.co.uk/jobs/tax

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Tax Director or Partner
Lemington Spa
£excellent

Our client is a long-standing independent firm. They seek a Tax Director or Partner to join their Tax Team. In this role, you will deal with family businesses and their shareholders, family offices, OMBs and their owners, and HNW individuals. This role is advisory focused, and includes restructuring corporate groups, IHT and estate planning, disclosures of Income Tax/Corporate Tax, UK real estate tax issues and planning opportunities. You will be actively involved in departmental management, staff development and business development. **Call Georgiana Ref; 4000**

Tax Reporting Associate Director
Leeds
£excellent

Our client is the growing corporate tax team of a Top 20 firm. They seek an experienced corporate tax professional to work in a tax reporting role. In this role, you will join a team that reviews and approves corporate tax computations and helps clients to deal with tax accounting and tax assurance reviews. This also includes tax audit work. Would suit someone who has worked in-house or who really enjoys compliance work. Includes managing more junior staff and building long-term relationships with clients. There is scope for progression. Flexible, hybrid and part time working all possible. **Call Georgiana Ref: 3689**

Real Estate Corporate Tax
UK Wide Senior Managers
and Managers

Our client is the Real Estate Tax team of a Top 10 accountancy practice. This successful team grew topline by 30% or more every year for 3 years. They are looking for further team members to help with growth and client management. Their client base is high profile and includes real estate funds, global institutional investors, REITs, private investors and the public sector including universities and charities, on investment into UK and pan-European real estate, providing tax structuring, tax compliance and tax due diligence advice. Hybrid and flexible working available. **Call Georgiana Ref; 3714**

Trust role – law firm
Oxford, Nottingham or Manchester
To £90,000

Our client is a large commercial law firm seeking an experienced Trust Specialist. This role can be based in Nottingham, Oxford or Manchester. This is an exciting opportunity to play a key role in delivering high-quality trust accounting, tax compliance and trust administration services within a thriving national practice as well as wider private client tax and estates compliance. Excellent salary and benefits package. Would suit an experienced manager or senior manager. This is a varied and rewarding position, ideal for someone who enjoys responsibility, technical problem solving and autonomy. **Call Georgiana Ref: 3680**

VAT Assistant Manager or Manager
Manchester
£excellent

Our client is a Top 10 accounting firm seeking a VAT Assistant Manager or Manager to join their VAT team based in Manchester. The ideal candidate will have experience of providing VAT services to a wide range of clients including household names, global multinationals and fast paced privately owned businesses. Some Global VAT knowledge is desired but not essential. You must have significant understanding of and previous experience within UK VAT and in-depth knowledge of recent key updates and areas of focus in the area of VAT. This office work is on a hybrid basis, flexible and part-time working is available. Excellent development prospects. **Call Amy Ref: 3701**

Mixed Tax Manager or Senior Manager
Golders Green
£excellent

Our client is a long-standing independent firm with an excellent client base. They seek an experienced, qualified tax professional (likely CTA, ICAS, ACA or former Inspector of Taxes) to join an advisory focused team and be the 'right hand' of the Tax Partner. The ideal candidate is likely to be an experienced Tax Manager looking for a step up to Senior Manager or a Senior Manager with proven OMB tax technical experience. Our client can offer flexible working, will consider part-time (4 days or 5 days over 4). This is a friendly, long-standing independent practice based in Golders Green. **Call Amy or Georgiana Ref: 3690**

WE'RE HERE TO BE YOUR MATCHMAKER

Whether you are chasing your tail with tax recruitment or sniffing out the perfect career.